3i Group plc

# Annual report and accounts 2018

# In this report

## Overview



## Our business



## Performance, risk and sustainability



## Governance



## Audited financial statements



## Portfolio and other information

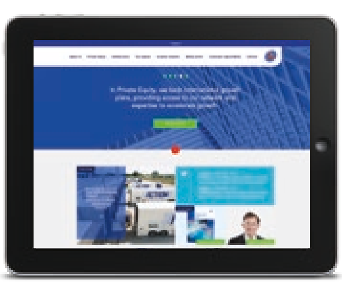


**For definitions of our financial terms, used throughout this report, please see our glossary on pages 154 to 156.**


Strategic report: pages 2 to 56.

Directors' report: pages 58 to 72 and 83 to 90.

Directors' remuneration report: pages 73 to 82.

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

**www.3i.com**

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

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

We provide our shareholders with access to the higher growth potential of mid-market unquoted companies. We use our strong balance sheet and our expertise in specific sectors and geographies to realise this potential and aim to generate mid to high teens returns for our shareholders.

# About 3i Group



## What we do

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

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## Business model and strategy

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

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

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# Performance highlights
for the year to 31 March 2018

**724p**
NAV per share
(31 March 2017: 604p)

**24%**
Total return on equity
(2017: 36%)

**30.0p**
Dividend per share
(2017: 26.5p)

**£11m**
Operating cash profit
(2017: £5m[1])

**£1,323m**
Realised proceeds
(2017: £1,275m[2])

**£587m**
Private Equity cash invested
(2017: £478m)

**£1.1bn**
Advised 3i Infrastructure plc ("3iN") on the disposals of Elenia and Anglian Water Group ("AWG")
(2017: nil)

FY2018 was another successful year for 3i. Our two divisions generated strong returns and we maintained our excellent track record of realisations, generating proceeds of £1,323 million (2017: £1,275 million). Importantly, we completed or announced over £700 million of investment in Private Equity. In addition, we completed our first Infrastructure investment in North America and launched two Infrastructure funds in Europe to complement our mandate for 3iN.

## Market environment

FY2018 was a year dominated by global politics and increasing tensions across the world stage. This, coupled with the expectation of interest rate rises in the US, led to an increase in volatility across capital markets, even though the broad macro-economic picture remained strong. Financing markets remained relatively robust throughout the year, more closely reflecting the healthy macro-economic outlook.

The Group used this strong back-drop to sell a number of significant investments across both divisions, which delivered outstanding investment returns for shareholders. At the same time, the Group's investment teams in key geographies originated attractive new investments while remaining focused on price discipline.

1 Operating cash profit in 2017 is on a continuing basis.

2 Includes proceeds of £270 million from the sale of Debt Management.

Certain financial measures used in our Annual Report, such as operating cash profit, are not defined under IFRS and are therefore termed APMs. Further details on APMs are included on page 43.

## Performance and dividend

The Group's total return for the year was £1,425 million (2017: £1,592 million). Net asset value increased to 724 pence per share (31 March 2017: 604 pence) and our return on opening shareholders' funds was 24% (2017: 36%). We remained net divestors in FY2018, ending the year with net cash of £479 million and liquidity of £1,404 million (31 March 2017: net cash of £419 million and liquidity of £1,323 million). Immediately after the year end, on 3 April 2018, we completed the £135 million investment in Royal Sanders announced in February 2018.

In recognition of the Group's financial performance in FY2018 and the strength of its balance sheet, the Board has recommended a dividend of 22.0 pence (2017: 18.5 pence). This is made up of the balance of the base dividend (8 pence per share, after the 8 pence paid in January 2018) and an additional dividend of 14.0 pence. Subject to shareholder approval, the dividend will be paid to shareholders in July 2018 and makes a total dividend for the year of 30.0 pence (2017: 26.5 pence).

Our policy of paying a base and additional dividend was introduced in May 2012. It has worked well as we reshaped the Group's strategy and simplified our business model. Six years of successful strategic delivery since then have supported an increase in the total dividend from 8.1 pence in FY2013 to 30.0 pence in FY2018.

In light of the Group's continued progress in executing its strategy, we now propose to replace our base and additional dividend policy with a simpler policy. The Board will maintain its conservative balance sheet strategy, which excludes structural gearing at the Group level, and will carefully consider the outlook for investments and realisations and market conditions. Subject to that, the Board will aim to maintain or grow the dividend each year, from the 30.0 pence this year. We will continue to pay an interim dividend, which we expect to set at 50% of the prior year's total dividend, subject to the same considerations.

## Board and management

After last year's changes, this year the composition of the Board was stable. I would like to thank the Board, the management team and all of our employees for their contribution to this year's excellent results.

## Outlook

We enter FY2019 with a high-performing portfolio of investments in both of our divisions and a strong balance sheet. Competition in both private equity and infrastructure remains intense, with high asset prices demanding a disciplined approach to investment. But I remain confident that the Group will be agile and opportunistic as we navigate what looks likely to be another year of significant economic and geo-political uncertainty.

**Simon Thompson**
Chairman



# Chairman's statement

3i delivered another strong all-round performance in FY2018, with NAV per share increasing by 20% to 724 pence (31 March 2017: 604 pence). Unlike FY2017, which included a £297 million gain on currency translation, our total return of £1,425 million (2017: £1,592 million) was after a £16 million loss on currency. This return was 24% of opening shareholders' funds, marking the fourth consecutive year of greater than 20% returns. This was a profitable year for realisations; we received £1.3 billion of cash and announced a further c.£350 million of proceeds which will complete by summer 2018. It was also a good year for new investment, with £827 million invested, including in five new companies. So FY2018 was a very active year and further confirmation of the Group's strategy and return potential.

# Chief Executive's statement

## A strong portfolio in Private Equity

In Private Equity, we have a quality investment portfolio, which is performing strongly overall. Earnings increased in 91% of the portfolio by value in the year (2017: 93%) and generated attractive returns for shareholders.

### Longer-term hold assets

Our largest Private Equity investment, Action, had another strong year. Action's expansion continued at an impressive rate, with 243 net new stores opened in calendar year 2017. Revenue grew by 28% to €3.4 billion, like-for-like sales by 5.3% and EBITDA by 25% to €387 million (2017: €2.7 billion, 6.9% and €310 million). Action now has over 1,100 stores and intends to open more stores in 2018 than 2017. New Action stores become profitable in one year on average and the rapid expansion programme led to another year of strong value growth.

Action's straightforward business model, built on a consistent, one-store format and good quality but inexpensive products, has been proven to work in seven countries so far. However, growth at this pace requires very significant investment in logistics, supply chain, IT, risk management and HR. To manage the enormous volume of goods, Action opened a further two distribution centres ("DCs") in 2018 and commenced building two more. The newer DCs will help support Action's expansion and reduce costs in the future, as those stores that are a long distance from a DC incur materially higher transport costs. Growth on this scale is very challenging to manage and Action encountered its share of issues in logistics and distribution and within certain product categories in 2017. These challenges, together with building a pan-European infrastructure to cope with the medium-term ambition of €10 billion of revenues, will have a dampening effect on the rate of profit growth expected this year, as they did in 2017. But Action is an exceptional business, it is still likely to generate sector-leading sales and profit growth in 2018 and this ongoing investment in logistics and infrastructure will facilitate its considerable medium-term growth potential.

Notwithstanding the above, Action remains very cash generative due to its asset-light model and structurally negative working capital, and the company completed its fifth refinancing in March 2018. The proceeds of the €2.4 billion refinancing supported a return of capital to shareholders, of which 3i received £307 million, taking total distributions to 3i since investment to £834 million, a 7.1x cash return to date.

Our other long-term hold asset, Scandlines, had a significant year. 3i, together with Eurofund V ("EFV"), initially invested €81 million (3i only: £31 million) to acquire a 40% stake in Scandlines in 2007. We purchased a further 10% stake for €43 million (3i only: £21 million) in 2010 before acquiring the final 50% stake for €165 million (3i only: £77 million) in 2013. Scandlines now has two highly efficient ferry routes linking Continental Europe to Scandinavia and as a result of investing in its ferry capacity, increasing the frequency of crossings and investing in its border shops, generates significant and stable cash flows. This characteristic meant that, in July 2017, Scandlines completed an €862 million infrastructure debt refinancing, which substantially reduced its long-term cost of debt.

Together, these initiatives enabled us to announce the sale of Scandlines to funds managed by First State Investments and Hermes Investment Management for an equity value of €1.7 billion in March 2018. This represents a 7.4x money multiple on our total investment, and a 5.8x multiple on our further investment in 2013. 3i remains committed to the business and will reinvest c.€600 million to hold a 35% stake, alongside First State Investments and Hermes Investment Management, as we expect to generate attractive returns and receive regular cash dividends over the medium term. This will provide an important contribution to the Group's operating cash position.

**£307m**
**proceeds from Action refinancing**

**7.4x**
**money multiple on upcoming Scandlines transaction**

# Chief Executive's statement
continued

## Portfolio performance

The portfolio of investments put together between 2013 and 2016 is creating significant value with notable increases from Basic-Fit, Scandlines, Audley Travel and Weener Plastic ("WP"). In addition, we sold ATESTEO for a money multiple of 4.8x in February 2018. As at 31 March 2018, our 2013-2016 vintage had already achieved a money multiple of 2.1x (31 March 2017: 1.7x).

It is inevitable that there will be some challenges in any Private Equity portfolio and our German high street jeweller, Christ, continues to suffer from structural changes in the retail sector such as the heavily discounted Black Friday weekend and the relentless shift to online. Christ saw the largest decline in value of the year at £53 million and we are working with management to develop a medium-term plan to help protect its strong brand as it meets these headwinds.

We have been active investors over the last two years and, because of the competitive environment, we have specifically targeted primary buy-out or family company investments, as well as companies that require a degree of operational improvement. Our agenda on buying these companies can be very intensive in terms of reshaping the business, restructuring finances, improving operational efficiency, investing for growth and changing or professionalising management. These situations often involve significant early cash investment, as well as being operationally disruptive.

This in turn means that returns can be modest in the early years of our ownership but then accelerate rapidly towards exit. Schlemmer, Formel D and BoConcept are good examples of investments which are undergoing this type of radical change programme.

Our proprietary capital model means that we do not have the same pressure to invest capital for the sake of generating fees. Our teams have the time to seek out interesting companies and build relationships with management teams long before any auction process starts.

FY2018 was a good year for investment. We invested £587 million in four companies at sensible prices: Hans Anders, Lampenwelt, Formel D and Cirtec Medical (including a follow-on investment to support its acquisition of Vascotube). Our £135 million investment in Royal Sanders, announced in February 2018, completed in April 2018. We also announced our c.$150 million investment in ICE (International Cruise & Excursions), a leading provider of loyalty and travel solutions in April 2018, which is expected to complete by June 2018.

We have invested in a number of companies in recent years, such as WP, Cirtec Medical ("Cirtec"), Ponroy Santé and Q Holding, which are platform assets that can pursue growth through bolt-on acquisitions or strategic M&A. All of these companies are in sectors with high growth potential where there is significant opportunity to scale up and build value. Recent acquisitions in our portfolio ranged from smaller add-ons for WP to Cirtec's transformative acquisition of Vascotube and Ponroy Santé's acquisition of Aragan.

## An outstanding year for Infrastructure

We have two broad priorities in Infrastructure. First, we are focused on our advisory relationship with 3iN and the delivery of good returns from its portfolio. Second, our expertise in the sector is allowing us to develop complementary fund management initiatives in Europe and North America in order to build the Group's fund management income and contribute to our operating cash position.

Our Infrastructure team had a very strong year. It advised 3iN on its disposals of Elenia and AWG, 3iN's last investments in regulated utilities, generating proceeds of £1.1 billion and returns of 4.5x and 3.3x cost respectively. The value uplifts from these sales were returned to 3iN shareholders via a £425 million special dividend in March 2018, of which 3i received £143 million. In addition, we advised 3iN on six investments in mid-market economic infrastructure businesses totalling £525 million. Our main priority this year will be to ensure that these recent investments deliver good performance. The 3i team, together with the 3iN Board, has done an outstanding job in repositioning 3iN's portfolio away from an increasing level of regulatory risk. The realisations of Elenia and AWG produced excellent financial returns and reinforced 3i's reputation as one of the leading infrastructure investment teams in Europe.

**2.1x**

**money multiple on the 2013-2016 portfolio of investments**

(31 March 2017: 1.7x)

**Four**

**new Private Equity investments**

(2017: 3)

3iN's total return for the year was 29%, the highest since its IPO in 2007 and, for those shareholders who invested in 3iN's £385 million capital raise in June 2016 (including 3i Group), the 31% return on their investment is impressive.

During the year, we raised two new funds, the £700 million 3i Managed Infrastructure Acquisitions LP and the 3i European Operational Projects Fund ("EOPF"). There was strong investor demand for EOPF, which had its final close in April 2018 with €456 million of commitments, ahead of its €400 million target. The team is focused on sourcing assets for the fund and has invested or committed to invest €85 million of that capital so far.

Our new US Infrastructure team completed its first investment in Smarte Carte in November 2017 as a seed for the North America fund management strategy. We made a further investment in January 2018 to support Smarte Carte's acquisition of Aviation Mobility, and the team completed a $225 million refinancing of Smarte Carte in March 2018. Over the last 12 months, we have recruited selectively to build a team in the US and they are now busy with an interesting pipeline of opportunities.

Our Infrastructure platform is an important source of fund management fee income. As a result of the increase in investment activity, we generated £50 million of fee income (2017: £36 million), a performance fee of £90 million from 3iN (2017: £4 million) and closed the year with assets under management of £3.4 billion (31 March 2017: £2.9 billion).

## Proprietary capital model underpinned by our strong balance sheet

We ended the year with net cash of £479 million (31 March 2017: £419 million). FY2018 was an outstanding year for realisations but generally we expect to hold high levels of cash and liquidity to ensure that we can continue to invest without having to accelerate realisations ahead of their full potential.

Our proprietary capital is the cornerstone of the 3i business model, supported by a complementary fund management platform in Infrastructure, which ensures our shareholders benefit from access to our Private Equity investment returns with minimal dilution from the costs of running our business. 3i aims to be the investor of choice in its core sectors of Business and Technology Services, Consumer and Industrial. Our long history of investing in the mid-market with a consistent, local, on the ground, presence in northern Europe and North America gives us a sustainable origination advantage. Our ungeared balance sheet allows us to be competitive and move fast for the right businesses.

To ensure that our proprietary capital model is as efficient as possible, we remain disciplined on firm costs. We closed our Madrid office this year following the sale of Mémora, our last significant Private Equity asset in Spain. Operating cash profit increased to £11 million (2017: £5 million) as advisory income from Infrastructure improved and cash operating expenses declined marginally to £115 million (2017: £116 million).

## Outlook

We enter FY2019 with a good level of momentum across the Group and, while the wider geo-political environment remains challenging, we are confident in our ability to deliver continued strong growth for shareholders together with healthy dividends. We will stay focused on the mid market, maintain our discipline on pricing for new investments and use the rigour of our investment processes to manage our two portfolios actively.

I would like to thank the 3i team for their good work and contribution to yet another strong year for the Group. These excellent results are a further demonstration that 3i's strategy is capable of delivering consistently good returns. Our fund management initiatives, together with our reinvestment into Scandlines, will generate important cash income for the Group while our proprietary capital portfolio remains well positioned to generate top tier capital returns.

**Simon Borrows**
Chief Executive

# Six

**advised 3iN on six investments**

(2017: 6)

# £50m

**of fee income from Infrastructure**

(2017: £36 million)

# Action

**Action is the fastest growing major non-food discount retailer in Europe with stores in seven countries. It now has more than 1,100 stores that are visited by over six million customers a week and offers a surprising, ever changing range of products at incredibly low prices.**

Action has a very straightforward business model. Each store is simple in design and offers over 6,000 products in 14 categories. Only one-third of these products are part of a standard range, the other two-thirds change constantly.

Action can buy large volumes due to its scale and this, together with a very low cost base, means that the savings are passed onto its customers and its prices are kept low.

In 2017, Action added 243 net new stores in seven countries, opened its milestone 1,000th store and opened two DCs in France and Germany. Action entered the Polish market, another important step in its geographic expansion, and intends to open more stores in Poland in 2018. In France, Action passed the 300th store mark within five years of opening its first store in 2012.

In December 2017, Action generated more revenue in France than in the Netherlands for the first time. In Germany, Action opened its 200th store at the end of November 2017. With over 700 stores outside the Netherlands, the company that started in 1993 with one small store in Enkhuizen, the Netherlands, is now a pan-European retailer.

To support this growth, Action employed a further 6,000 people in 2017, taking its total headcount to 41,000. Action has invested heavily in new DCs and hired new managers with particular supply chain expertise. It also implemented a new warehouse system in its new DCs to enable a fast roll-out to new warehouses and lay the foundation for future expansion.

## Store expansion

at 31 December

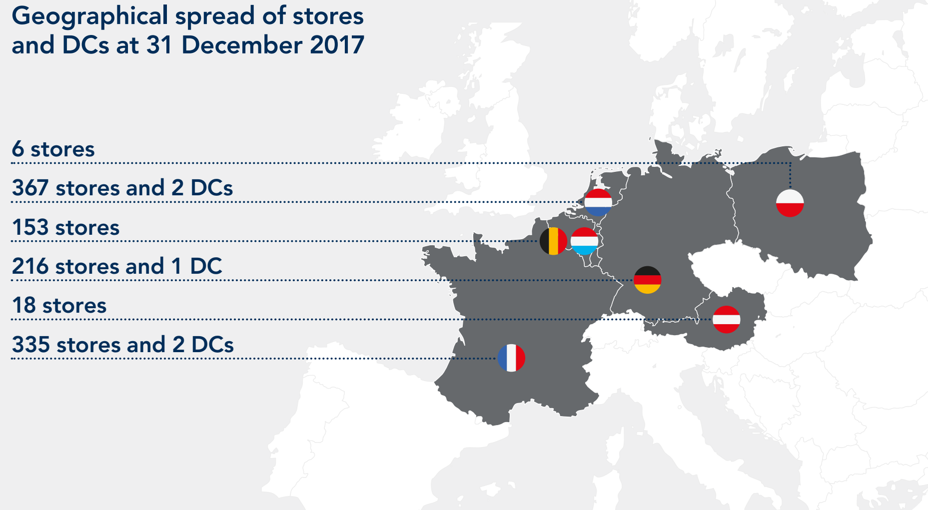

**243** added since 2016

**10** relocated

**3** enlarged

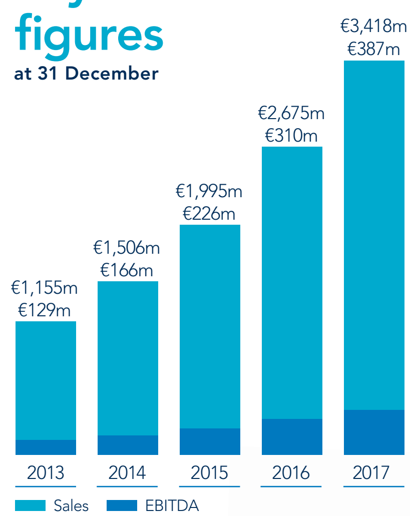
**14** refurbished

### Geographical spread of stores and DCs at 31 December 2017




## Key financial figures

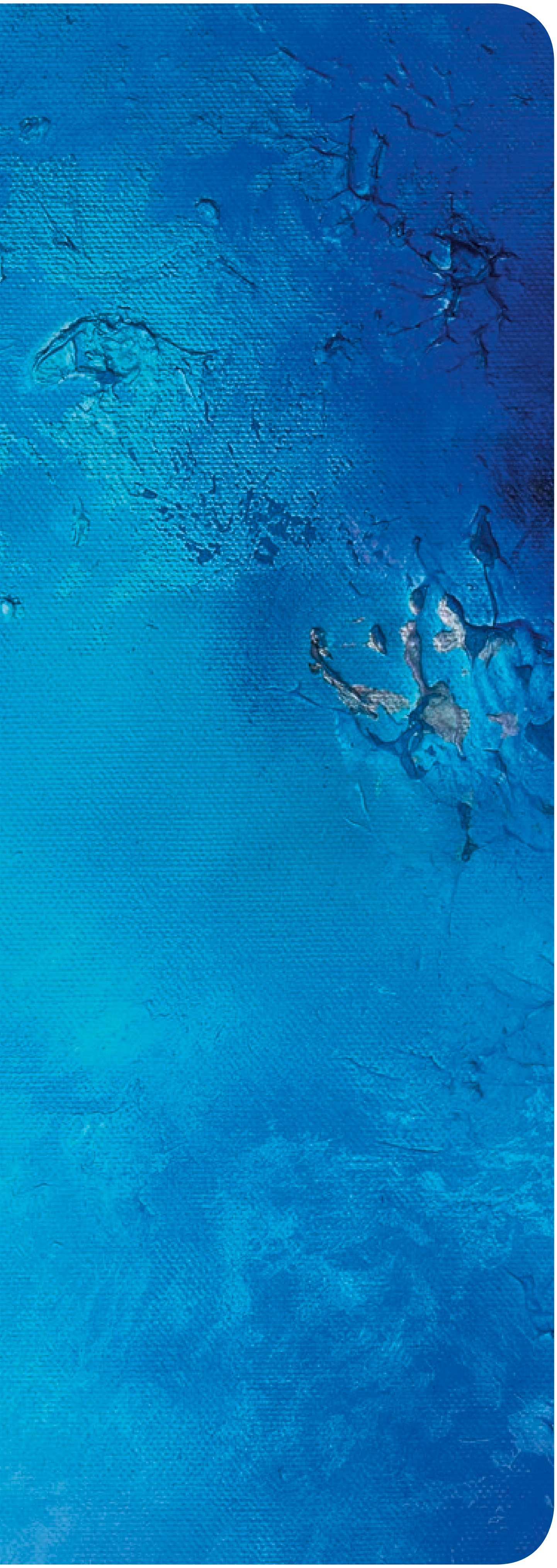
at 31 December




## People

**41,000**
Employees

**6,000**
New employees hired



# Our business

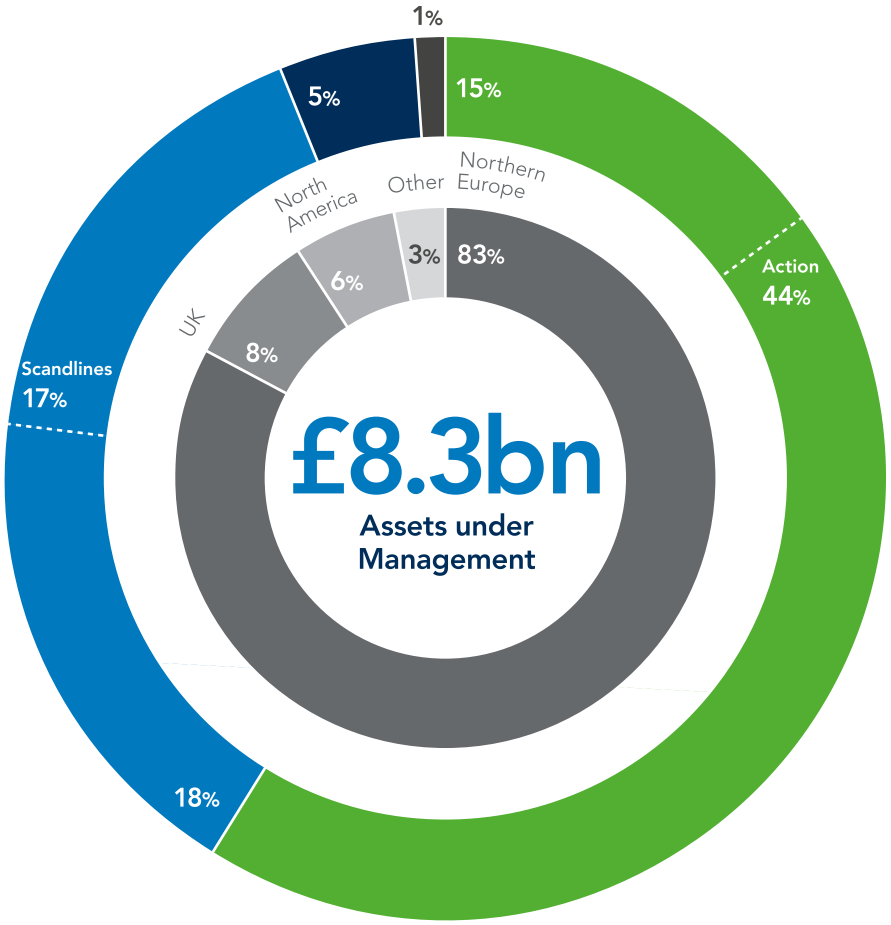
## A summary of our business, how we create value and the strategy that drives our performance

# Our business at a glance

## Private Equity

# £5,825m

Proprietary capital value




### Activity

- Investment and asset management to generate capital returns
- Investing in companies typically with an enterprise value of €100 million–€500 million at acquisition in our core investment markets of northern Europe and North America
- Focused on three sectors: Business and Technology Services, Consumer and Industrial
- Invested in Action and Scandlines for the medium term to generate capital returns and cash income
- Portfolio of 35 unquoted assets and one quoted stake

18 Read more about Private Equity

### AUM breakdown by sector

Consumer Industrial Business and Technology Services Other

## Highlights

### MKM
**Cash money multiple on exit**

# 5.9x

(May 2017)

### ATESTEO
**Cash money multiple on exit**

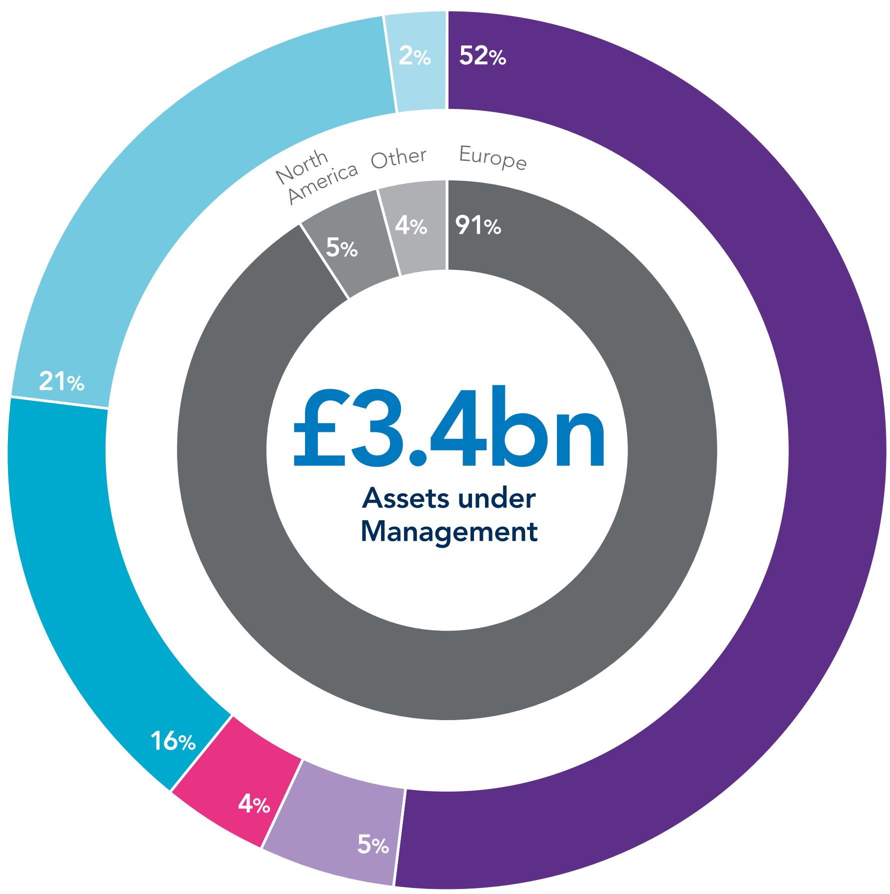
# 4.8x

(February 2018)

# Infrastructure

**£832m**

**Proprietary capital value**




## Activity

- Investment and asset management to generate cash income and capital returns
- Investment Adviser to 3iN, which focuses on economic infrastructure and greenfield project investments in developed economies, principally in Europe
- Manage three European Infrastructure funds and one India Infrastructure fund
- Set up a North American Infrastructure team

25 Read more about Infrastructure

## AUM breakdown by fund

- 3i Infrastructure plc
- US infrastructure
- 3i India Infrastructure Fund
- BIIF Fund
- 3i Managed Infrastructure Acquisitions LP
- 3i European Operational Projects Fund

### Smarte Carte
**Investment**

**£177m**

(November 2017)

smartecarte

### 3iN
**Special dividend**

**£143m**

(March 2018)

3i Infrastructure plc

# Our business model

Our expertise and strong balance sheet differentiate our investment proposition and underpin our capability to deliver growth and returns to shareholders.

## Key resources

### Expert people

Our business is built on the skills of our people and the deep knowledge they have in their core markets and sectors. Where possible, we train our people in-house and our graduate programme is designed to develop world-class investment professionals and business leaders.

### Network

Our well-developed external network of advisers and business leaders assists us to identify and access opportunities, carry out due diligence and provide invaluable resources to our portfolio companies.

### Reputation

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

### Strong balance sheet

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

Investing in opportunities in line with our risk appetite

We reinvest a proportion of our returns to fund new investments

## How we create value

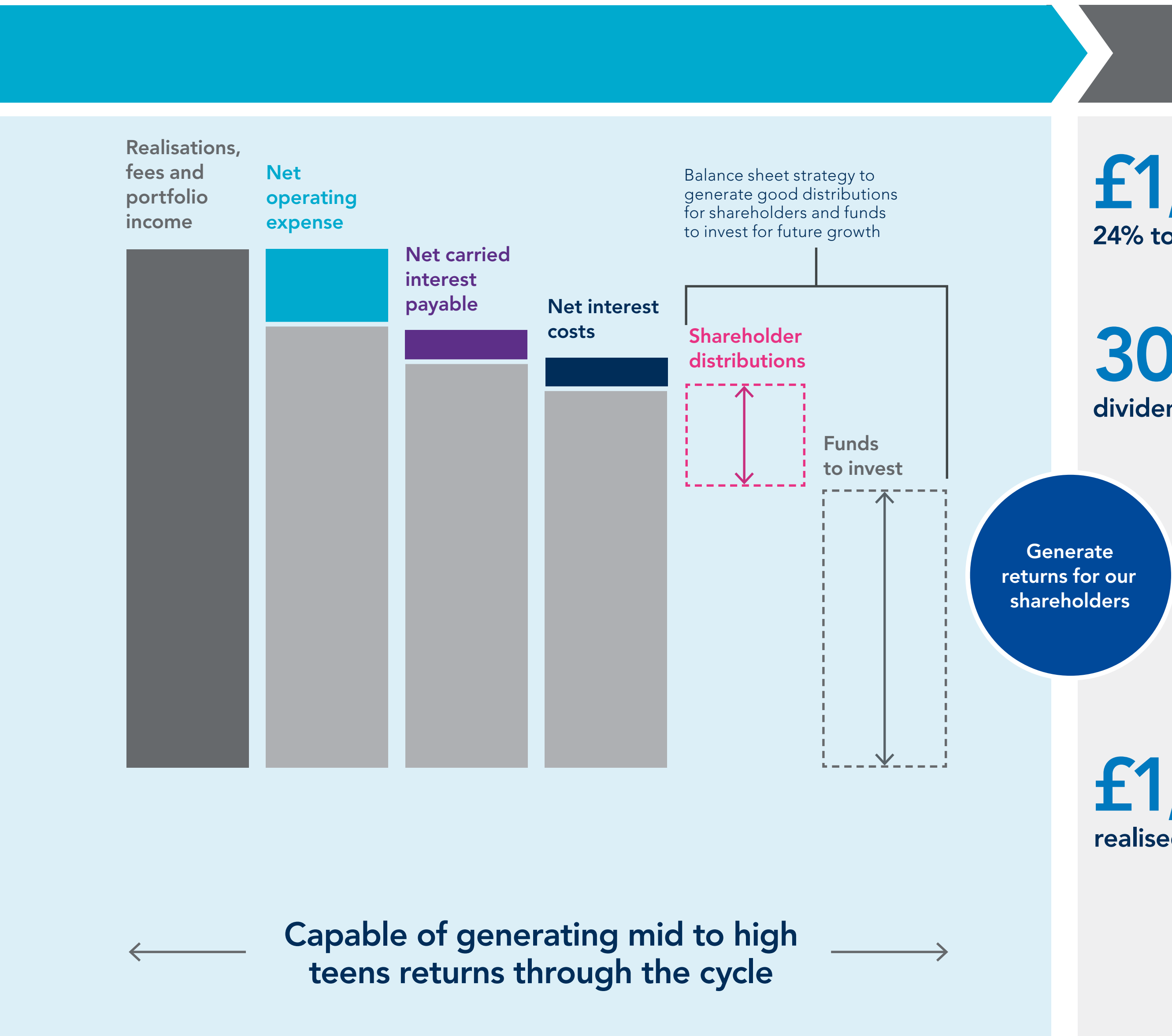
### Disciplined approach

**Our institutional investment platform ensures a consistent approach to making investment and divestment decisions.**

**Fund and portfolio income, together with discipline on costs, avoids dilution of returns.**

### Active management

**Our monthly portfolio monitoring meetings and semi-annual investment reviews enable us to pursue opportunities for growth as well as to identify issues promptly.**




**£1,425m**
24% total return

**30.0p**
dividend per share

**£1,323m**
realised proceeds

Our business

# Our strategic objectives

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

## Grow investment portfolio earnings

## Realise investments with good cash-to-cash returns

## Maintain an operating cash profit

## Use our strong balance sheet

## Increase shareholder distributions

| FY2018 progress | FY2019 outlook | |
|---|---|---|
| **91%** of Private Equity portfolio companies[1] (by value) grew earnings in FY2018 | • Action's growth is expected to continue as it plans to open more stores in 2018 than in 2017<br>• Strong performance from 2013-16 vintage and good potential in the 2016-19 vintage<br>• Close monitoring of potential impact of geo-political and macro-economic uncertainty | 18 For further information see the Private Equity section |
| **£1,002m** Private Equity proceeds<br>**£143m** Special dividend from 3iN | • Scandlines disposal and partial re-investment (net proceeds of c.€350 million) expected to complete in the summer of 2018<br>• Expect realisations to be at least £750 million, subject to market conditions | 18 For further information see the Private Equity section<br>25 For further information see the Infrastructure section |
| **£11m** Operating cash profit[2] | • Increasing cash income expected from Infrastructure and Scandlines<br>• Continue to focus on generating income where appropriate from the remainder of the Private Equity portfolio<br>• Cost discipline will be maintained | 29 For further information see the Financial review |
| **£587m** Invested in Private Equity<br>**£217m** Invested in Infrastructure | • Plan to invest up to £750 million pa of proprietary capital in four to seven Private Equity investments, whilst maintaining discipline on entry prices<br>• Advise 3iN on its recent investments to deliver good returns and source further investment opportunities<br>• Support Infrastructure's fund management initiatives in Europe and North America with new funds | 29 For further information see the Financial review |
| **30.0p** Dividend per share | • The dividend will be subject to the level of investment, realisations and balance sheet strength<br>• Aim to maintain or grow the dividend year-on-year<br>• Expect interim FY2019 dividend to be 50% of FY2018's total dividend of 30.0 pence | 2 For further information see the Chairman's statement |

1 Includes 21 companies valued on an earnings basis, as well as Basic-Fit and Scandlines.

2 Operating cash profit is an APM. Further details are included on page 43.

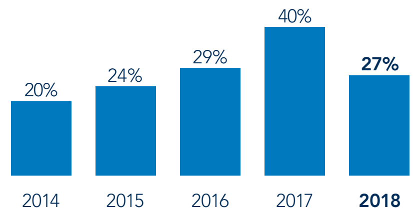
Further information on how these strategic objectives are factored into decisions concerning the Executive Directors' remuneration is included in the Directors' remuneration report on page 73.

# Key performance indicators

**KPI** | **Link to strategic objectives**

## Gross investment return ("GIR")[1,2] as % of opening portfolio value

The performance of the proprietary investment portfolio expressed as a percentage of the opening portfolio value.



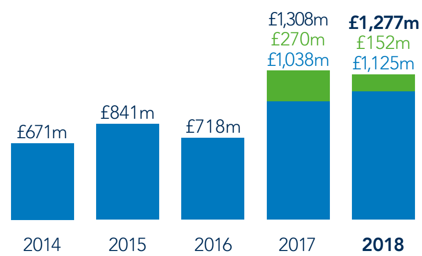

Grow investment portfolio earnings

Realise investments with good cash-to-cash returns

## Cash realisations[1,2]

Support our returns to shareholders, as well as our ability to invest in new opportunities.

- Cash realisations
- Proceeds from the sale of Debt Management/residual Debt Management assets

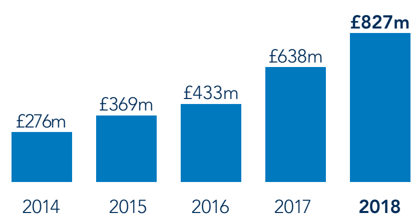



Realise investments with good cash-to-cash returns

Increase shareholder distributions

## Cash investment[1,2]

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.



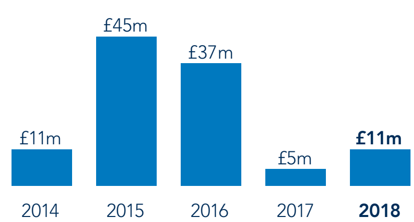

Grow investment portfolio earnings

Use our strong balance sheet

Increase shareholder distributions

## Operating cash profit[1,2,3]

By covering the cash operating cost of running our business with cash income, we reduce the potential dilution of capital returns.

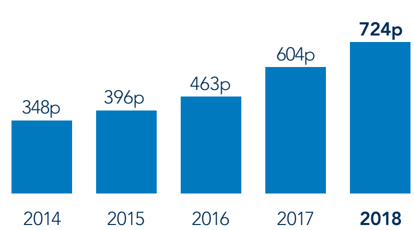



Maintain an operating cash profit

Increase shareholder distributions

## NAV per share

The measure of the fair value per share of our proprietary investments and other assets after the net cost of operating the business.




Grow investment portfolio earnings

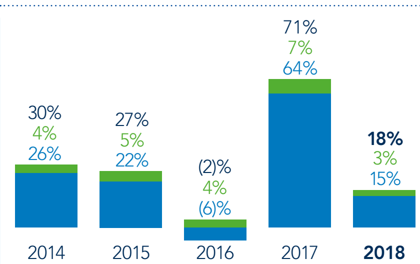
Realise investments with good cash-to-cash returns

Maintain an operating cash profit

## Total shareholder return ("TSR")

The return to our shareholders through the movement in the share price and dividends paid during the year.

- Dividends
- Share price




Increase shareholder distributions

| FY2018 progress | Key risks |
|---|---|
| • Another year of strong performance with a GIR in Private Equity of £1,438 million, or 30% and a Group GIR of £1,552 million, or 27%<br>• Action performed strongly, opening 243 net new stores in calendar year 2017 and generating like-for-like sales growth of 5.3%<br>• Significant uplifts recognised as a result of the highly competitive process for Scandlines and the sale of ATESTEO to a strategic buyer<br>• 2013–16 vintage of investments delivered a GIR of 29% (2017: 29%)<br>• 3iN delivered a TSR of 12% (2017: 16%)<br>• GIR includes an £11 million gain from foreign exchange (2017: £269 million gain) | • Investment rates or quality of new investments are lower than expected<br>• Subdued M&A activity and/or reduced prices in 3i's core sectors could impact timing of exits and cash returns<br>• Operational underperformance in the portfolio companies impacts earnings growth and exit plans<br>• Sterling materially strengthens against the euro and US dollar; at 31 March 2018, 78% of the portfolio was denominated in euros or US dollars |
| • Private Equity generated proceeds of £1,002 million from the disposal of eight companies and the refinancing of three assets<br>• Received a £143 million special dividend from 3iN following the divestments of its holdings in Elenia and AWG<br>• Received proceeds of £152 million from the sale of the residual Debt Management investments<br>• Total proceeds of £1,323 million include £46 million of cash in transit at 31 March 2018 | • Subdued M&A activity in our core sectors reduces investor appetite for our assets<br>• Macro-economic uncertainty limits investor appetite for the private equity and infrastructure asset classes<br>• Debt markets become less supportive of leveraged buyouts or refinancings |
| • Invested £587 million (2017: £478 million) in four new Private Equity investments and two important further investments in Cirtec and Ponroy Santé to support their acquisitions of Vascotube and Aragan respectively<br>• Invested £177 million in our first North American infrastructure investment, Smarte Carte, and supported the launch of two new European Infrastructure funds by investing £40 million | • Competition from other private equity and infrastructure investors, as well as trade and other financial buyers, could make it more challenging to source investments at prices that will meet our return targets<br>• Failure to attract, invest in and retain the right investment executives impacts our ability to originate and manage assets<br>• Failure to maintain and develop our network of advisers and business leaders reduces the quality of potential deal flow |
| • Increasing cash income from Infrastructure replaced cash income previously generated by the Debt Management business<br>• Decision to reinvest in Scandlines to generate cash dividend income for the Group<br>• Remain disciplined over operating cash expenses, which declined marginally to £115 million (2017: £116 million) | • Portfolio performance, and therefore portfolio income, is weak<br>• Reduced ability to generate interest and dividend income in a private equity structure<br>• Infrastructure initiatives do not generate sufficient fee income<br>• Unplanned increase in the cost base; for example legal, compliance or regulatory costs |
| • 20% increase in NAV per share to 724 pence (31 March 2017: 604 pence)<br>• Very strong GIR from Private Equity | • Implications of the UK's decision to leave the EU and the current UK political uncertainty could limit the attractiveness of UK plc<br>• Ongoing geo-political uncertainty further dampens investor sentiment<br>• Wider G20 political and economic uncertainty impacts 3i's portfolio companies and valuations |
| • TSR of 18% driven by a share price increase of 15% in the year, together with the final FY2017 dividend of 18.5 pence and interim FY2018 dividend of 8.0 pence<br>• Net divestment, strong balance sheet and closing net cash support a dividend of 30.0 pence per share | • Lower NAV due to investment underperformance or political and economic uncertainty<br>• Investor appetite for 3i shares could reduce in a volatile macro-economic environment |

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

2 Further information on how these KPIs are factored into decisions concerning the Executive Directors' remuneration is included in the Directors' remuneration report on page 73.

3 Operating cash profit balances up to 2016 include the contribution of the Debt Management business, sold to Investcorp in March 2017.

# Private Equity

Consumer

## Hans Anders

Founded in 1982 and headquartered in the Netherlands, Hans Anders is a market leading, value-for-money optical retailer. The company offers a range of private label and branded spectacles, as well as hearing aids, contact lenses and sunglasses through a network of over 400 stores.

Hans Anders represents an attractive opportunity, is consistent with our consumer strategy and will benefit from long-term growth dynamics including an aging population, and an increasing focus by consumers on the value-for-money segment.

We have extensive experience of investing in the value-for-money segment through Action and Basic-Fit and we think there are significant opportunities for growth in the highly fragmented European optical retail market.

**£172m**

**3i investment**

For more information, visit www.hansanders.nl

# Investments in the year

Industrial

## Formel D

Formel D is a service provider to the automotive and component supply industry, headquartered in Germany and founded in 1993. Through its range of testing and inspection services for individual parts, systems and vehicles, Formel D is an important player in the automotive value chain. Formel D's customers include premium automotive OEMs with whom it has long standing relationships. It has over 7,000 employees and operates more than 80 facilities in 19 countries.

Along with our investment partners, we are working with management to roll out Formel D's existing services to clients in other geographies, expand its client base in Asia and increase its higher value add services such as vehicle test specification and virtual testing.

**£132m**

**3i investment**

For more information, visit www.formeld.com/en

## Industrial

# Cirtec Medical

Cirtec is a leading provider of outsourced medical device design, engineering and manufacturing. Cirtec is headquartered in Minnesota with three facilities across the US and one in Germany. The business has been in operation for over 25 years and has over 500 employees. In December 2017, Cirtec completed a transformational acquisition of Vascotube, a market leading manufacturer of precision engineered tubing based in Germany.

Cirtec specialises in outsourced solutions for active implantables and minimally invasive devices in the areas of neuromodulation, drug delivery, structural heart, interventional cardiovascular and neurovascular and other fast growing, minimally invasive interventional therapeutics.

The medical device outsourcing ("MDO") market is expected to grow at a high single digit to low double digit rate over the next five years, as medical device manufacturers increasingly focus on core competencies of research and development and commercial initiatives. Cirtec is strategically positioned to serve attractive end markets that are set to grow at a rate beyond the broader MDO industry.

We are supporting Cirtec to execute its strategy through internal investment and targeted acquisitions (such as Vascotube) within the highly fragmented MDO market. Utilising our sector experience and international network, we are working with Cirtec to establish a low cost footprint, expand its development and manufacturing capabilities and support the team's growth as the organisation scales.

**£172m**

**3i investment**

**For more information, visit**
**www.cirtecmed.com**

## Consumer

# Lampenwelt

Founded in 2004, Lampenwelt is the leading specialist online retailer of lighting products in Europe. The company is headquartered in Germany from where it distributes own-brand and third-party products to customers in 15 countries across Europe.

Lampenwelt differentiates itself from its competitors through an extensive range of over 45,000 own and branded products, in-depth product knowledge, excellent customer service and high product availability.

We had been following Lampenwelt for some time and during 2016 approached the company to discuss a potential investment in the business. We undertook due diligence outside a formal sales process, with full access to the business and senior management. Lampenwelt's growth plans fit well with our strategy of supporting mid-sized companies to grow internationally.

**£95m**

**3i investment**

**For more information, visit**
**www.lampenwelt.de**
**www.lights.co.uk**

# Private Equity
## Business review

Our Private Equity business generated very strong returns in FY2018 with a GIR of £1,438 million, or 30% on the opening portfolio (2017: £1,624 million, 43%), and realisations of £1,002 million (2017: £982 million). Despite continued political uncertainty and highly competitive markets, assets including Action, Audley Travel and Basic-Fit performed well. The team made investments of £587 million and delivered very strong returns from the realisation of ATESTEO and the upcoming exit of Scandlines.

### Investment activity

We had a very busy year, completing four new investments and a number of further acquisitions. We invested £95 million in Lampenwelt, the largest European online specialist retailer in the lighting space and £172 million in Hans Anders, a value-for-money optical retailer based in the Netherlands. We invested £132 million in Formel D, a service provider to the automotive and component supply industry based in Germany, bringing in CITIC Capital as a co-investor to facilitate Formel D's expansion in China and £103 million in Cirtec, a leading provider of outsourced medical device design, engineering and manufacturing, headquartered in the US.

An important component of our investment strategy is our ability to facilitate transformative M&A in our portfolio companies. In November 2017, we completed a further investment in Cirtec to support its acquisition of Vascotube, an outsourced medical device manufacturer based in Germany. This transaction represented an attractive opportunity to add a European manufacturer whose product is used in the fast-growing minimally invasive sector that Cirtec specialises in. We also invested £10 million in Ponroy Santé to support its acquisition of Aragan, a designer and distributor of premium pharmaceutical food supplements. Finally, together with EFV, 3i acquired £11 million of Action shares from other shareholders.

In addition to the £587 million investment completed in the year to 31 March 2018, our £135 million investment in Royal Sanders, a leading European private label and contract manufacturing producer of personal care products, completed on 3 April 2018.

In April 2018, we also announced a c.$150 million investment in International Cruises and Excursions, a global travel and loyalty company that connects leading brands, travel suppliers and end consumers. The acquisition is expected to complete by June 2018.

**Table 1: Private Equity cash investment** in the year to 31 March 2018

| Investment | Type | Business description | Date | Total investment £m | Proprietary capital investment £m |
|---|---|---|---|---|---|
| Lampenwelt | New | Online lighting specialist retailer | May 2017 | 96 | 95 |
| Hans Anders | New | Value-for-money optical retailer | May 2017 | 173 | 172 |
| Formel D | New | Quality assurance service provider for the automotive industry | July 2017 | 150 | 132 |
| BoConcept | Over-funding | Urban living designer | July 2017 | (11) | (11) |
| Cirtec | New/Further | Outsourced medical device manufacturing | August/November 2017 | 173 | 172 |
| Ponroy Santé | Further (M&A) | Manufacturer of natural healthcare and cosmetics products | November 2017 | 11 | 10 |
| Action | Further | Non-food discount retailer | March 2018 | 19 | 11 |
| Other | n/a | n/a | n/a | 8 | 6 |
| **Total Private Equity investment** | | | | **619** | **587** |

## Realisations activity

Market conditions remained favourable, resulting in some highly competitive exit processes. As a result, we generated proceeds of £603 million from the sale of eight companies, realising an average money multiple of 2.4x (2017: £621 million, 1.8x). The sale of ATESTEO generated proceeds of £278 million and a money multiple on our investment of 4.8x. This is an excellent result from one of our 2013-2016 vintage investments. In addition, we completed the sale of some of our older investments, such as Mémora and MKM, as well as Óticas Carol, our last remaining investment in Brazil. We sold all of our remaining quoted stakes in Dphone and Refresco Gerber.

Where appropriate, we refinance our strongest assets when market conditions and trading performance allow. In July 2017, Scandlines completed an €862 million refinancing, which resulted in £50 million of proceeds for 3i. In November 2017, we completed the second refinancing of ATESTEO, which generated proceeds of £30 million. Action's strong growth and cash flow generation enabled it to de-lever rapidly during 2017, allowing a €2.4 billion refinancing in March 2018, which resulted in a £307 million distribution to 3i. Since our investment in 2011, Action has returned £834 million of refinancing proceeds to 3i, a 7.1x cash return on our investment to date.

In aggregate, we generated total proceeds of £1,002 million (2017: £982 million) and realised profits of £199 million in the year (2017: £38 million).

As at 31 March 2018, the portfolio comprised 35 assets and one quoted stake (31 March 2017: 37 assets and three quoted stakes).

In March 2018, we announced the sale of Scandlines and our partial reinvestment together with funds managed by First State Investments and Hermes Investment Management. The effect of these transactions will be accounted for when the transaction completes, expected to be in the summer of 2018.



**Table 2: Private Equity realisations** in the year to 31 March 2018

| Investment | Country | Calendar year invested | 31 March 2017 value[1] £m | 3i realised proceeds £m | Profit/(loss) in the year[2] £m | Uplift on opening value[2] % | Residual value £m | Money multiple[3] | IRR |
|---|---|---|---|---|---|---|---|---|---|
| **Full realisations** | | | | | | | | | |
| ATESTEO | Germany | 2013 | 130 | 278 | 139 | 100% | – | 4.8x | 51% |
| Mémora | Spain | 2008 | 86 | 119 | 32 | 37% | – | 1.4x | 4% |
| MKM | UK | 2006 | 68 | 70 | 2 | 3% | – | 5.9x | 19% |
| Refresco Gerber | Netherlands | 2010 | 32 | 43 | 10 | 30% | – | 2.0x | 13% |
| Foster and Partners | UK | 2007 | 34 | 33 | (1) | (3)% | – | 1.8x | 9% |
| Óticas Carol | Brazil | 2013 | 19 | 27 | 9 | 50% | – | 1.9x | 15% |
| Dphone | Hong Kong | 2006 | 21 | 26 | 6 | 30% | – | 2.2x | 7% |
| Hobbs | UK | 2004 | 9 | 7 | (2) | (22)% | – | 0.2x | (14)% |
| **Total realisations** | | | **399** | **603** | **195** | **48%** | **–** | **2.4x** | **n/a** |
| **Refinancings[3]** | | | | | | | | | |
| Action | Netherlands | 2011 | 307 | 307 | – | – | 2,064 | 24.5x | 79% |
| Scandlines | Denmark/ Germany | 2007/2013 | 50 | 50 | – | – | 803 | 7.4x | 34% |
| ATESTEO | Germany | 2013 | 30 | 30 | – | – | – | n/a | n/a |
| **Total refinancings** | | | **387** | **387** | **–** | **–** | **2,867** | **n/a** | **n/a** |
| **Partial realisations[1,3]** | | | | | | | | | |
| Other | n/a | n/a | 4 | 6 | – | – | 36 | n/a | n/a |
| **Deferred consideration** | | | | | | | | | |
| Other | n/a | n/a | 1 | 6 | 4 | n/a | – | n/a | n/a |
| **Total Private Equity realisations** | | | **791** | **1,002** | **199** | **25%** | **2,903** | **n/a** | **n/a** |

1 For partial realisations, 31 March 2017 value represents value of stake sold.

2 Cash proceeds realised in the period over opening value.

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

# Private Equity
## Business review
continued

### Portfolio valuation

The strong performance of the portfolio resulted in unrealised value growth of £1,080 million (2017: £1,274 million).

### Performance

The strong performance of the investments valued on an earnings basis resulted in an increase in value of £541 million (2017: £827 million) with the most significant contribution coming from Action.
At 31 March 2018, Action was valued using run-rate earnings at 31 March 2018. Action's post discount run-rate multiple increased to 16.5x (31 March 2017: 16.0x) resulting in a value of £2,064 million (31 March 2017: £1,708 million) after the receipt of £307 million from its refinancing. As the largest Private Equity investment by value, it represented 35% of the Private Equity portfolio (31 March 2017: 35%).

A number of investments in our 2013–2016 vintage such as Audley Travel, Aspen Pumps, Q Holding and WP are delivering good earnings growth, and therefore we recognised good value uplifts on these assets in the year.

Audley Travel is a provider of luxury, tailor-made, holidays to over 80 destinations worldwide, and serves clients principally in the UK and the US. Since our investment in December 2015, Audley has seen two successive years of strong revenue growth in the UK and US and has continued to invest in order to further scale the business. As a result, our £156 million investment was valued at £233 million at 31 March 2018. 3i invested in WP, an innovative plastic packaging manufacturer, in August 2015. The business performed well in 2017, increasing market share. It completed one small acquisition in 2017, as well as two further acquisitions in early 2018. Our investment was valued at £244 million at 31 March 2018 (31 March 2017: £200 million).

The good performance of our strongest assets was partially offset by specific weaknesses in a small number of portfolio companies which are either exposed to the high street retail sector or are undergoing a change programme. Christ, our German jewellery retailer, saw the largest decline in value in the year (£53 million). Consistent with other retailers, Christ is subject to structural changes in the market such as the increasing shift to online shopping. Although Christ is maintaining market share, these changes have impacted earnings.

Schlemmer has undertaken a significant operational reorganisation of its activities in Germany and the US, which have impacted earnings and liquidity this year. BoConcept was acquired in the knowledge that its organisational and retail structure would need careful review and good progress is being made to address this. Finally, Euro-Diesel's growth was lower than expected this year. Notwithstanding this, the company has a strong customer base and a full pipeline of orders for 2018.

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

| | 2018 £m | 2017 £m |
|---|---|---|
| Earnings based valuations | | |
| Performance | **541** | 827 |
| Multiple movements | **144** | 239 |
| Other bases | | |
| Uplift to imminent sale | **3** | 8 |
| Scandlines transaction value | **302** | – |
| Discounted cash flow | **3** | 158 |
| Other movements on unquoted investments | **6** | (1) |
| Quoted portfolio | **81** | 43 |
| **Total** | **1,080** | 1,274 |

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 150 to 151.

Overall, 91% of the assets in the portfolio valued on an earnings basis, together with Scandlines and Basic-Fit, grew their earnings in the year (2017: 93%). One investment was valued using forecast earnings at 31 March 2018 (31 March 2017: one), representing 1% of the portfolio by value (31 March 2017: 2%). Chart 1 shows the earnings growth of our top 20 assets.

Overall, net debt across the portfolio increased to 4.0x earnings (31 March 2017: 3.3x) principally due to the refinancing of Action and Scandlines. Excluding Action and Scandlines, the ratio was 3.3x (31 March 2017: 2.9x). Chart 2 shows the ratio of net debt to earnings by portfolio value at 31 March 2018.

## Multiple movements

The increase in value due to multiple movements was £144 million (2017: £239 million increase). The run-rate multiple used to value Action increased to 16.5x post liquidity discount at 31 March 2018 (31 March 2017: 16.0x) to reflect its continued strong performance and potential for further growth in the seven countries it operates in. Based on the valuation at 31 March 2018, a net 1x movement in Action's post discount multiple would increase or decrease the valuation of 3i's investment by £176 million (31 March 2017: £142 million).

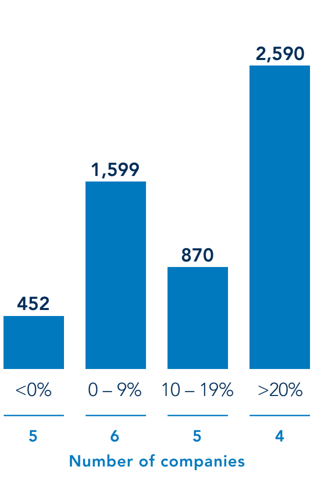
Across the remainder of the portfolio, we increased multiples for a number of assets where their performance or the strength of their sector merited a review. Generally, we consider a number of factors such as relative performance, investment size, comparable recent transactions and exit plans. We also consider the current strength of equity markets and, as a result, we selected multiples that were lower than the comparable set in 14 out of the 21 companies valued on an earnings basis (31 March 2017: 14 out of 22).

Excluding Action, the weighted average EBITDA multiple increased to 11.7x before liquidity discount (31 March 2017: 10.6x) and was 11.0x after liquidity discount (31 March 2017: 9.9x). The increase in the weighted average multiple reflects in part the recent investment in companies in higher rated sectors, such as Cirtec and Lampenwelt, and the sale of assets held at lower multiples.

The pre-discount multiples used to value the portfolio ranged between 8.5x and 17.4x (31 March 2017: 5.0x to 16.8x) and the post discount multiples ranged between 6.3x and 16.5x (31 March 2017: 4.8x to 16.0x).

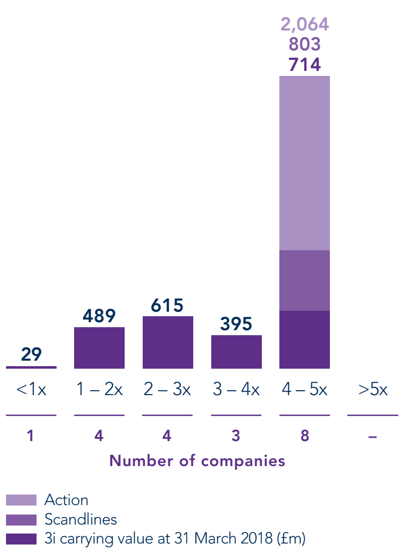


**Chart 1: Portfolio earnings growth of the top 20 Private Equity[1] investments**




1 Includes top 20 Private Equity companies by value. This represents 95% of the Private Equity portfolio by value (31 March 2017: 91%).

**Chart 2: Ratio of net debt to earnings[1]**




1 This represents 88% of the Private Equity portfolio by value (31 March 2017: 87%). Quoted holdings, deferred consideration and companies with net cash are excluded from the calculation.

# Private Equity
## Business review
continued

### Scandlines transaction value

In March 2018, we announced the sale of Scandlines for a total equity value of €1.7 billion (31 March 2017 value: €1.1 billion). 3i valued its stake at £803 million at 31 March 2018 (31 March 2017: £538 million) and we recognised unrealised value growth of £302 million to reflect the value of the transaction, less a 2.5% discount.

At the completion of the sale, 3i will reinvest to hold a 35% stake.

### Quoted portfolio

Basic-Fit generated strong growth in its 2017 financial year with revenue and profit up by 26% and 25% respectively. The business ended the year with 521 clubs and 1.5 million members. This strong performance was reflected in the share price increasing to €23.35 at 31 March 2018 (31 March 2017: €16.27) and resulted in an unrealised value gain of £81 million in the year. 3i's stake was valued at £270 million at 31 March 2018 (31 March 2017: £184 million).

Our quoted holdings in Dphone and Refresco Gerber were sold during the year.

### Assets under management

The value of 3i's proprietary capital increased to £5.8 billion in the year (31 March 2017: £4.8 billion).

The value of the portfolio including third-party capital increased to €9.5 billion (31 March 2017: €8.1 billion).

**Table 4: Quoted portfolio value movement** for the year to 31 March 2018

| Investment | IPO date | Opening value at 1 April 2017 £m | Disposals at opening book value £m | Unrealised value movement £m | Other movements[1] £m | Closing value at 31 March 2018 £m |
|---|---|---|---|---|---|---|
| Dphone | July 2014 | 21 | (21) | – | – | – |
| Refresco Gerber | March 2015 | 32 | (33) | – | 1 | – |
| Basic-Fit | June 2016 | 184 | – | 81 | 5 | 270 |
| **Total** | | 237 | (54) | 81 | 6 | 270 |

1 Other movements include foreign exchange.

**Table 5: Private Equity assets by geography** as at 31 March

| 3i office location | Number of companies | 3i carrying value 2018 £m |
|---|---|---|
| Benelux | 6 | 2,789 |
| France | 2 | 211 |
| Germany | 6 | 1,493 |
| UK | 11 | 632 |
| US | 4 | 497 |
| Other | 7 | 203 |
| **Total** | 36 | 5,825 |

**Table 6: Proprietary capital** as at 31 March

| Vintages | Proprietary capital value 2018 £m | Multiple 2018 | Proprietary capital value 2017 £m | Multiple 2017 |
|---|---|---|---|---|
| Buyouts 2010–2012 | 2,139 | 7.2x | 1,779 | 5.9x |
| Growth 2010–2012 | 33 | 2.2x | 33 | 2.2x |
| 2013–2016[1] | 1,695 | 2.1x | 1,607 | 1.7x |
| 2016–2019[1] | 1,057 | 1.1x | 422 | 1.0x |
| Other | 901 | n/a | 990 | n/a |
| **Total** | 5,825 | | 4,831 | |

1 Assets included in these vintages are disclosed in the glossary on page 154.

# Investments in the year


## Smarte Carte

Headquartered in White Bear Lake, Minnesota, Smarte Carte is a leading concessionaire of essential infrastructure equipment in the airport and leisure industries. The company owns and manages baggage carts as the sole provider in 125 locations (including 49 of the top 50 airports in the US) under long-term contracts. The company also owns and manages lockers and other consumer-rental equipment in amusement parks, fitness clubs, shopping malls and ski resorts, in over 2,500 locations across seven countries.

3i invested in Smarte Carte in November 2017. Smarte Carte completed its first add-on acquisition under 3i's ownership in January 2018 with the purchase of Aviation Mobility LLC, the only pure-play provider of legally mandated wheelchairs for the US commercial aviation sector with a fleet of c.15,000. The team completed a $225 million refinancing of Smarte Carte in March 2018.

3i intends to partner with management to grow Smarte Carte's footprint, especially in Europe through the established track record of its Infrastructure business.

**£177m**

**Total investment funded by 3i**

**For more information, visit www.smartecarte.com**



## Infinis

Further investment in Alkane Energy

Infinis is the largest generator of electricity from landfill gas ("LFG") in the UK, with a portfolio of 121 landfill sites and total installed capacity of over 300MW.

3iN invested an additional £125 million to fund Infinis' acquisition of Alkane Energy, an independent power generator from both coal mine methane ("CMM") and reserve power operations and the largest generator from CMM in the UK. Alkane performs a vital environmental service, extracting methane from abandoned coal mines that would otherwise be released into the atmosphere. In addition, by using the CMM to generate electricity, Alkane supplies distribution networks with a reliable source of baseload power.

The merger of Alkane with Infinis will create a business with significant scale, offer operational improvement opportunities and the potential to further elevate Alkane's generation performance and growth potential.

**£125m**

**Investment funded by 3iN**

**For more information, visit www.infinis.com**

# Infrastructure
## Business review

Infrastructure contributed a gross investment return of £113 million, or 16% on the opening portfolio (2017: £87 million, 17%). This was driven by 3iN's strong share price appreciation together with good levels of dividend and fee income from both 3iN and the other funds managed by the team.

### Investment adviser to 3iN

In its capacity as 3iN's investment adviser, 3i advised on six new investments, including the £186 million further investment to acquire a majority position in Wireless Infrastructure Group and the £125 million follow-on investment in Infinis to support its acquisition of Alkane Energy. We also advised 3iN on its €201 million investment in Attero, announced at the end of March 2018. In total, we advised 3iN on investments and commitments of £525 million in 2018 (2017: £479 million).

We advised 3iN on the realisation of its holdings in Elenia and AWG, generating proceeds of £1,137 million. Elenia, the owner and operator of the second largest electricity distribution business in Finland and a complementary district heating business, was acquired by 3iN in January 2012 as part of a consortium. In December 2017, the consortium partners agreed to sell the business, which resulted in proceeds of £738 million for 3iN.

3iN agreed to sell its stake in AWG, the supplier of water and water recycling services to the east of England and Hartlepool, in December 2017, having held its stake since its IPO in 2007. It received proceeds of £399 million from the transaction in February 2018.

In March 2018, £425 million of the proceeds were returned to shareholders as a special dividend, representing substantially all of the value uplift recorded on Elenia and AWG during the year. As a 34% shareholder, 3i received £143 million of the special dividend.

Overall, the 3iN portfolio continues to perform well and the company generated an excellent total return of 29% in the year (2017: 9%).

Under the terms of the investment advisory agreement, 3iN paid an advisory fee of £34 million to 3i (2017: £25 million), with the increase attributable to new investment activity, and a NAV-based performance fee of £90 million (2017: £4 million). Of this, £67 million is expected to be payable to the Infrastructure team, with £9 million recognised during the year and the balance deferred and expensed over a number of years.

### Infrastructure portfolio performance

#### Quoted

The most significant component of the Group's infrastructure portfolio is its 34% quoted stake in 3iN.

3iN's shares performed well in the year and the share price closed at 214 pence on 31 March 2018 (31 March 2017: 189 pence). 3iN generated £27 million (2017: £23 million) of dividend income as well as a special dividend of £143 million (2017: nil) for 3i.

#### Discounted cash flow

As at 31 March 2018, 3i's largest Infrastructure investment valued on a DCF basis was the investment in Smarte Carte, valued at £167 million (31 March 2017: nil). Following the initial investment in November 2017 as a seed for the North America fund management strategy, 3i supported Smarte Carte's acquisition of Aviation Mobility in January 2018. In March 2018, we completed a $225 million refinancing of Smarte Carte.

3i also has an investment in the 3i India Infrastructure Fund, which the team continues to manage to maximise value for fund investors.

In total, the Infrastructure portfolio generated unrealised value growth of £83 million (2017: £59 million).

**Table 7: Unrealised profits/(losses) on the revaluation of Infrastructure investments[1]** in the year to 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| Quoted | 67 | 63 |
| Discounted cash flow | 8 | (4) |
| Fund NAV | 8 | – |
| **Total** | 83 | 59 |

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 150 to 151.

## Fund Management

We launched two funds in the year to complement our 3iN mandate and generate increased cash income for 3i in the medium term.

In June 2017, we closed the c.£700 million 3i Managed Infrastructure Acquisitions LP and invested £30 million into the fund alongside two pension funds, ATP and APG. The fund holds investments in East Surrey Pipelines, Belfast City Airport, HerAmbiente and a number of discrete PPP projects.

In April 2018, we announced the final close of the 3i European Operational Projects Fund with commitments of €456 million, including a €40 million commitment from 3i. This fund purchased the majority of the PPP assets held by 3i's existing BEIF II fund. The fund has invested and committed to invest approximately €85 million in operational PPP projects across Europe.

## Assets under management and advisory agreement

Infrastructure AUM increased to £3.4 billion (31 March 2017: £2.9 billion) principally due to the new fund management initiatives launched in the year, as well as to 3iN's share price increase.

Our business

**Table 8: Infrastructure portfolio value movement** in the year to 31 March 2018

| Investment | Valuation | Opening value at 1 April 2017 £m | Investment £m | Disposals at opening book value[1] £m | Unrealised value movement £m | Other movements[2] £m | Closing value at 31 March 2018 £m |
|---|---|---|---|---|---|---|---|
| 3iN | Quoted | 655 | – | (137) | 67 | (4) | **581** |
| Smarte Carte | DCF | – | 177 | (11) | 7 | (6) | **167** |
| 3i Managed Infrastructure Acquisitions LP | NAV | – | 30 | (1) | 7 | – | **36** |
| 3i European Operational Projects Fund | NAV | – | 10 | – | 1 | (1) | **10** |
| 3i India Infrastructure Fund | DCF | 41 | – | (1) | 1 | (3) | **38** |
| Other | DCF | 10 | – | (10) | – | – | **–** |
| **Total** | | 706 | 217 | (160) | 83 | (14) | **832** |

1 For Smarte Carte, the disposal is shown at investment value.

2 Other movements include foreign exchange.

**Table 9: Assets under management and advisory agreement** as at 31 March 2018

| Fund | Close date | Fund size | 3i commitment /share | Remaining 3i commitment | % invested at 31 March 2018 | AUM £m | Fee income earned in 2018 £m |
|---|---|---|---|---|---|---|---|
| 3iN[1] | Mar 07 | n/a | £581m | n/a | n/a | **1,731** | **34** |
| 3i Managed Infrastructure Acquisitions LP | Jun 17 | £698m | £35m | £5m | 85% | **707** | **5** |
| 3i European Operational Projects Fund[2] | Nov 17 | €251m | €40m | €29m | 27% | **65** | **–** |
| BIIF | May 08 | £680m | n/a | n/a | 90% | **551** | **5** |
| 3i India Infrastructure Fund | Mar 08 | US$1,195m | US$250m | US$35m | 73% | **139** | **4** |
| Other | various | various | various | n/a | n/a | **167** | **2** |
| **Total** | | | | | | **3,360** | **50** |

1 AUM based on the share price at 31 March 2018.

2 The final close of the 3i European Operational Projects Fund took place on 10 April 2018 with commitments of €456 million. At 10 April 2018, the percentage invested was 15%.

# Performance, risk and sustainability

## An analysis of our financial performance, the principal risks impacting our business and our responsible approach to investing

# Financial review

## Strong financial performance

FY2018 was another year of strong financial performance. We generated a gross investment return of £1,552 million (2017: £1,755 million) and operating profit before carried interest of £1,428 million (2017: £1,675 million).

The performance was driven by strong unrealised value growth from Action, Scandlines and Basic-Fit, and the material uplifts from the disposals of ATESTEO and Mémora in the year.

The Group recognised a loss of £16 million on foreign exchange translation (2017: £297 million gain).

We generated a total return of £1,425 million or a profit on opening shareholders' funds of 24% (2017: £1,592 million or 36%). As a result of the strong performance in the year, the diluted NAV per share at 31 March 2018 increased by 20% to 724 pence (31 March 2017: 604 pence).

**Table 10: Total return** for the year to 31 March

| Investment basis | 2018 £m | 2017 £m |
|---|---|---|
| Realised profits over value on the disposal of investments | 207 | 38 |
| Unrealised profits on the revaluation of investments | 1,163 | 1,342 |
| Portfolio income | | |
| Dividends | 41 | 50 |
| Interest income from investment portfolio | 116 | 50 |
| Fees receivable | 14 | 6 |
| Foreign exchange on investments | 11 | 269 |
| **Gross investment return** | 1,552 | 1,755 |
| Fees receivable from external funds | 57 | 46 |
| Operating expenses | (121) | (117) |
| Interest received | 2 | 2 |
| Interest paid | (37) | (49) |
| Exchange movements | (27) | 28 |
| Other income | 2 | 10 |
| **Operating profit before carried interest** | 1,428 | 1,675 |
| Carried interest | | |
| Carried interest and performance fees receivable | 228 | 279 |
| Carried interest and performance fees payable | (205) | (434) |
| **Operating profit from continuing operations** | 1,451 | 1,520 |
| Income taxes | (26) | 3 |
| Re-measurements of defined benefit plans | – | (22) |
| **Total comprehensive income: continuing operations ("Total return from continued operations")** | 1,425 | 1,501 |
| Total comprehensive income from discontinued operations, net of tax[1] ("Total return from discontinued operations") | – | 91 |
| **Total comprehensive income ("Total return")** | 1,425 | 1,592 |
| **Total return on opening shareholders' funds** | 24% | 36% |

1 Discontinued operations included the results from 3i's Debt Management business, sold to Investcorp in March 2017.

## Alternative performance measures ("APMs")

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

# Financial review
continued

## Realised profits

We generated total proceeds of £1,323 million (2017: £1,005 million) and a profit on disposal of £207 million (2017: £38 million). The majority of the realisations and uplift over opening value were from the Private Equity portfolio, which contributed £1,002 million of proceeds (2017: £982 million). Private Equity realisations included the sales of ATESTEO (£278 million, 100% uplift over opening value) and Mémora (£119 million, 37% uplift over opening value) together with refinancing proceeds of £387 million from Action, Scandlines and ATESTEO.

## Unrealised value movements

We recognised an unrealised value movement of £1,163 million (2017: £1,342 million). Action's continued strong performance contributed £610 million (2017: £911 million) to value growth. Following the announcement of our agreement to sell Scandlines at the end of March 2018, we recognised an unrealised value gain of £302 million (2017: £155 million). The majority of the portfolio continued to perform well, notably Basic-Fit, Audley Travel, Q Holding, WP and AES.

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

## Portfolio income

Portfolio income grew to £171 million during the year (2017: £106 million) principally as a result of an increase in loan interest income receivable following the material increase in investment activity over the last two years. The majority of this interest income is non-cash. We recognised £14 million of fee income (2017: £6 million) due to transaction fees generated from our investment activity and to a reduction in abort costs incurred on prospective transactions. Dividend income reduced to £41 million (2017: £50 million) following the disposal of the remaining Debt Management investments in the year.

## Fees receivable from external funds

Fees receivable increased to £57 million (2017: £46 million) due to increased advisory fee income from 3iN. 3i, as investment adviser, receives a fee for sourcing and completing new investments for 3iN. We advised 3iN on six investments with commitments of £525 million, including the further investments in Wireless Infrastructure Group and Infinis (2017: six investments and £479 million). In addition, we started to generate fee income from the 3i Managed Infrastructure Acquisitions LP, which closed in June 2017.

## Operating expenses

Operating expenses increased to £121 million (2017: £117 million), principally due to a planned increase in staff costs as we invest to support our origination and asset management capability, as well as an increase in the Infrastructure team's share of the 3iN advisory fee income referred to above.

## Operating cash profit

3i generated an operating cash profit of £11 million in the year (2017: £5 million). Cash income increased to £126 million (2017: £121 million) principally due to the increase in third-party capital fees in Infrastructure to £47 million (2017: £37 million).

## Net interest payable

Gross interest payable reduced to £37 million (2017: £49 million), following the repayment of the €331 million bond in March 2017. Interest receivable on cash balances was £2 million (2017: £2 million).

**Table 11: Unrealised profits on revaluation of investments (continuing operations)** for the year to 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| Private Equity | 1,080 | 1,274 |
| Infrastructure | 83 | 59 |
| Other (residual Debt Management) | – | 9 |
| **Total** | **1,163** | 1,342 |

**Table 12: Operating cash profit** for the year to 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| Third-party capital fees | 55 | 47 |
| Cash portfolio fees | 13 | 12 |
| Cash portfolio dividends and interest | 58 | 62 |
| **Cash income from continuing operations** | **126** | 121 |
| Operating expenses from continuing operations | (115) | (116) |
| **Operating cash profit: continuing operations** | **11** | 5 |
| Operating cash profit: discontinued operations | – | 28 |
| **Operating cash profit** | **11** | 33 |

## Carried interest and performance fees

The continued good performance of Action and the announcement of the sale of Scandlines, the largest investments in our Private Equity fund EFV, led to a £136 million increase in carried interest receivable from EFV (2017: £272 million). This was calculated assuming that the portfolio was realised at the 31 March 2018 valuation. The fund's gross multiple was 2.5x at 31 March 2018 (31 March 2017: 2.2x).

In Private Equity, we typically accrue carried interest payable at between 10% and 15% of gross investment return. The majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 31 March 2018 valuation. We accrued carried interest payable of £196 million (2017: £431 million) for Private Equity, of which £77 million relates to the Private Equity team's share of carried interest receivable from EFV (2017: £202 million).

Carried interest is paid to participants when the performance hurdles are passed in cash terms and then only when the cash proceeds are actually received following a realisation, refinancing event or other cash distribution. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants are both current and previous employees of 3i. During the period, £43 million was paid to participants in the Private Equity plans (2017: £127 million).

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high watermark. The continued strong performance of the assets held by 3iN, including the significant uplifts achieved on the sales of Elenia and AWG, resulted in the recognition of £90 million (2017: £4 million) of performance fees receivable. The Infrastructure team receives a share of the performance fee received from 3iN, with the majority of payments deferred and expensed over a number of years. £9 million (2017: £3 million) was accrued as payable to the Infrastructure team during the year out of a total potential payable of £67 million.

Overall, the effect of the income statement charge, the cash movement, as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £870 million (31 March 2017: £685 million) and the receivable increased to £596 million (31 March 2017: £366 million).



**Table 13: Carried interest and performance fees** for the year to 31 March

| Statement of comprehensive income | 2018 £m | 2017 £m |
|---|---|---|
| **Carried interest and performance fees receivable** | | |
| Private Equity | 138 | 275 |
| Infrastructure | 90 | 4 |
| **Total** | 228 | 279 |
| **Carried interest and performance fees payable** | | |
| Private Equity | (196) | (431) |
| Infrastructure | (9) | (3) |
| **Total** | (205) | (434) |
| **Net carried interest receivable/(payable)** | 23 | (155) |

**Table 14: Carried interest and performance fees** at 31 March

| Statement of financial position | 2018 £m | 2017 £m |
|---|---|---|
| **Carried interest and performance fees receivable** | | |
| Private Equity | 505 | 359 |
| Infrastructure | 90 | 4 |
| Other | 1 | 3 |
| **Total** | 596 | 366 |
| **Carried interest and performance fees payable** | | |
| Private Equity | (839) | (650) |
| Infrastructure | (31) | (35) |
| **Total** | (870) | (685) |

# Financial review
continued

## Impact of IFRS 15

Carried interest receivable is within the scope of the new revenue accounting standard, IFRS 15, which 3i will adopt from 1 April 2018. IFRS 15 introduces the concept that variable revenue can only be recognised to the extent that it is highly probable that a significant reversal will not occur. Our calculation of carried interest, being the amount expected if all of the underlying investments were realised at their fair values at the balance sheet date, will remain unchanged. IFRS 15 requires us to then consider if there are any specific constraints to our income recognition. The factors that 3i intends to consider when applying its accounting policy for carried interest receivable will include the remaining duration of the fund, the current position in relation to the cash hurdle, the remaining assets in the fund and the potential for clawback.

The substantial majority of 3i's carried interest receivable is due from EFV which went through its performance hurdle on an accounting basis in FY2017. EFV has been extended to November 2019, when we expect the fund to be closed. Following the announcement of the sale of Scandlines on 26 March 2018, there are only four remaining investments in the fund: Action, Christ, Etanco and OneMed. Carried interest is only payable by the fund when proceeds are received and the cash hurdle is met.

At 31 March 2018, EFV investments had generated proceeds of €3.5 billion, including the proceeds from the upcoming sale of Scandlines, and the fund was over 75% of the way towards its cash hurdle. However, given the relative size and performance of Christ, Etanco and OneMed, the actual payment of carried interest receivable is dependent on the fund's realisation of Action. At 31 March 2018, the EFV investment in Action was valued at €1,815 million (31 March 2017: €1,540 million). Given the strong performance of Action, and its forecast growth profile, and consistent with our investment strategy for and valuation of the asset, our current assessment is that we do not expect the adoption of IFRS 15 to have a material impact on our recognition of carry receivable from EFV.

As at 31 March 2018, the carried interest receivable accrued on 3i's balance sheet from EFV was £484 million (2017: £340 million), with a corresponding £334 million (31 March 2017: £251 million) accrued as payable to the carry plan participants. The overall net impact from EFV carried interest is £150 million (31 March 2017: £89 million) or 15 pence per share (2017: 9 pence per share).

As the Group has no plans to raise a third-party fund in Private Equity in the medium term, the Group is not expected to receive material amounts of carried interest receivable after the closure of EFV.

## Net foreign exchange movements

At 31 March 2018, 77% of the Group's net assets were denominated in euros or US dollars. Following the strengthening of sterling against the US dollar, the Group recorded a total net foreign exchange loss of £16 million (2017: £297 million gain) in the year.

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

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

**Table 15: Net assets and sensitivity by currency** at 31 March 2018

| | FX rate | £m | % | 1% sensitivity £m |
|---|---|---|---|---|
| Sterling | n/a | **1,390** | 20% | **n/a** |
| Euro | 1.1409 | **4,542** | 65% | **45** |
| US dollar | 1.4031 | **862** | 12% | **9** |
| Danish krona | 8.5047 | **137** | 2% | **1** |
| Other | n/a | **93** | 1% | **n/a** |

## Pension

The latest triennial valuation for the Group's UK defined benefit scheme was completed on 25 September 2017, based on the scheme's position at 30 June 2016. The outcome was an actuarial deficit of £50 million but it was agreed with the trustees that it was not necessary for the Group to make any immediate contributions to the plan, taking into account the volatile market conditions at the valuation date (immediately after the UK's referendum to leave the EU), and improvements in market conditions and liability management actions implemented since then. As part of this valuation, the Group has agreed to pay up to £50 million to the scheme if its gearing increases above 20%, gross debt exceeds £1 billion, or net assets fall below £2 billion.

The scheme also benefits from a contingent asset arrangement, details of which are provided in Note 25 of the Financial Statements. If the gearing, net debt or net asset thresholds noted are crossed, the Group may be required to increase the potential cover provided by the contingent arrangement until the gearing, gross debt or net assets improve.

On an IAS 19 basis, there was a £1 million re-measurement gain on the Group's UK pension scheme during the year (March 2017: £22 million loss) and the pension scheme remains in a surplus of £125 million (31 March 2017: £121 million).

The triennial valuation uses assumptions set at 30 June 2016. It considers expected future returns on the Plan's assets against the expected liabilities using a generally more prudent set of assumptions. The IAS 19 accounting valuation compares the 31 March 2018 fair value of plan assets and liabilities, with the liabilities calculated based on the expected future payments discounted using AA corporate bond yields.

## Tax

The Group's parent company has operated in the UK as an approved investment trust company since its listing on the London Stock Exchange in 1994. An approved investment trust is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK.

The Group recognised a corporate tax expense of £26 million for the year (2017: £3 million credit). This is higher than in previous years due to increased levels of taxable income from portfolio companies, reduced interest expenditure following the repayment of a bond in March 2017 and a £90 million performance fee from 3iN. Finally, the use of brought forward losses has been restricted with effect from 1 April 2017.

## Other assets

In March 2017, we sold our Debt Management business to Investcorp. As part of the agreement we retained certain investments, which are detailed in Table 16. We redeemed all of our holdings by 31 December 2017, generating proceeds of £152 million.



**Table 16: Other assets** for the year to 31 March 2018

| Consolidated statement of financial position | Currency | Opening value at 1 April 2017 £m | Investment £m | Divestment £m | Other movement[1] £m | **Closing value at 31 March 2018 £m** |
|---|---|---|---|---|---|---|
| CLO warehouses repaid | € | 1 | – | (1) | – | **–** |
| CLO equity retained | €/US$ | 50 | – | (46) | (4) | **–** |
| Global Income Fund | US$ | 79 | 23 | (97) | (5) | **–** |
| Senior Loan Fund | US$ | 8 | – | (8) | – | **–** |
| **Total** | | 138 | 23 | (152) | (9) | **–** |

1 Other movements include realised losses and foreign exchange.

# Financial review
continued

## Balance sheet

Net cash increased to £479 million (31 March 2017: £419 million) as the Group remained a net divestor in FY2018. The investment portfolio value increased to £6,657 million at 31 March 2018 (31 March 2017: £5,675 million) as unrealised value growth of £1,163 million and cash investment offset the value of realisations in the year. Further information on investments and realisations is included in the Private Equity and Infrastructure business reviews.

## Liquidity

Liquidity remained strong at £1,404 million (31 March 2017: £1,323 million). Liquidity comprised cash and deposits of £1,054 million (31 March 2017: £994 million) and undrawn facilities of £350 million (31 March 2017: £329 million).

## Dividend

The Board has recommended a dividend of 22.0 pence (2017: 18.5 pence). This is made up of the balance of the base dividend (8 pence per share, after the 8 pence paid in January 2018) and an additional dividend of 14.0 pence. Subject to shareholder approval, the dividend will be paid to shareholders in July 2018 and takes the total dividend for the year to 30.0 pence (2017: 26.5 pence).

In light of the Group's continued progress in executing its strategy, we propose to replace our base and additional dividend policy with a simpler policy. The Board will maintain its conservative balance sheet strategy, which excludes structural gearing at the Group level, and will carefully consider the outlook for investments and realisations, and market conditions. Subject to that, the Board will aim to maintain or grow the dividend each year. We will continue to pay an interim dividend, which we expect to set at 50% of the prior year's total dividend, subject to the same considerations.

With net cash of £479 million and liquidity of over £1 billion at 31 March 2018, the Group is well positioned to fund the 22.0 pence dividend. We expect to hold high levels of liquidity to ensure that we can fund new investments without having to either accelerate realisations ahead of plan or dispose of investments when market conditions are not supportive. However, there may be occasions in the future when the cash we hold materially exceeds this need. If that is the case, the Board may consider other methods of shareholder distributions and returns at that time.

**Table 17: Simplified consolidated balance sheet** at 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| **Investment portfolio** | **6,657** | 5,675 |
| Gross debt | **(575)** | (575) |
| Cash | **1,054** | 994 |
| **Net cash** | **479** | 419 |
| Carried interest and performance fees receivable | **596** | 366 |
| Carried interest and performance fees payable | **(870)** | (685) |
| Other net assets | **162** | 61 |
| **Net assets** | **7,024** | 5,836 |
| **Gearing[1]** | **nil** | nil |

1 Gearing is net debt as a percentage of net assets.

## Key accounting judgements and estimates

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

In preparing these accounts, the key accounting estimates are the carrying value of our investment assets, which are stated at fair value, and the calculation of carried interest receivable and payable.

Given the importance of the valuation of investments, the Board has a separate Valuations Committee to review the valuation policy, process and application to individual investments. However, asset valuations for unquoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2018, 87% by value of the investment assets were unquoted (31 March 2017: 84%).

The valuation of the proprietary capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2018 and the underlying investment management agreements.

# Investment basis

## Consolidated statement of comprehensive income

for the year to 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| Realised profits over value on the disposal of investments | 207 | 38 |
| Unrealised profits on the revaluation of investments | 1,163 | 1,342 |
| Portfolio income | | |
| Dividends | 41 | 50 |
| Interest income from investment portfolio | 116 | 50 |
| Fees receivable | 14 | 6 |
| Foreign exchange gain on investments | 11 | 269 |
| **Gross investment return** | 1,552 | 1,755 |
| Fees receivable from external funds | 57 | 46 |
| Operating expenses | (121) | (117) |
| Interest receivable | 2 | 2 |
| Interest payable | (37) | (49) |
| Exchange movements | (27) | 28 |
| Other income | 2 | 10 |
| **Operating profit before carried interest** | 1,428 | 1,675 |
| Carried interest | | |
| Carried interest and performance fees receivable | 228 | 279 |
| Carried interest and performance fees payable | (205) | (434) |
| **Operating profit from continuing operations** | 1,451 | 1,520 |
| Income taxes | (26) | 3 |
| **Profit for the year from continuing operations** | 1,425 | 1,523 |
| Profit for the year from discontinued operations, net of tax | – | 91 |
| **Profit for the year** | 1,425 | 1,614 |
| Other comprehensive income | | |
| Re-measurements of defined benefit plans | – | (22) |
| **Total comprehensive income for the year ("Total return")** | 1,425 | 1,592 |

# Investment basis
continued

## Consolidated statement of financial position
as at 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Investments | | |
| Quoted investments | **851** | 893 |
| Unquoted investments | **5,806** | 4,782 |
| **Investment portfolio** | **6,657** | 5,675 |
| Carried interest and performance fees receivable | **503** | 359 |
| Other non-current assets | **113** | 106 |
| Intangible assets | **12** | – |
| Retirement benefit surplus | **125** | 121 |
| Property, plant and equipment | **4** | 5 |
| **Total non-current assets** | **7,414** | 6,266 |
| **Current assets** | | |
| Carried interest and performance fees receivable | **93** | 7 |
| Other current assets | **60** | 10 |
| Current income taxes | **3** | 2 |
| Deposits | **–** | 40 |
| Cash and cash equivalents | **1,054** | 954 |
| **Total current assets** | **1,210** | 1,013 |
| **Total assets** | **8,624** | 7,279 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Trade and other payables | **(14)** | (29) |
| Carried interest and performance fees payable | **(764)** | (644) |
| Loans and borrowings | **(575)** | (575) |
| Retirement benefit deficit | **(23)** | (22) |
| Deferred income taxes | **(3)** | (1) |
| Provisions | **(1)** | (2) |
| **Total non-current liabilities** | **(1,380)** | (1,273) |
| **Current liabilities** | | |
| Trade and other payables | **(101)** | (125) |
| Carried interest and performance fees payable | **(106)** | (41) |
| Current income taxes | **(12)** | – |
| Provisions | **(1)** | (4) |
| **Total current liabilities** | **(220)** | (170) |
| **Total liabilities** | **(1,600)** | (1,443) |
| **Net assets** | **7,024** | 5,836 |
| **Equity** | | |
| Issued capital | **719** | 719 |
| Share premium | **786** | 785 |
| Other reserves | **5,545** | 4,370 |
| Own shares | **(26)** | (38) |
| **Total equity** | **7,024** | 5,836 |

# Consolidated cash flow statement

for the year to 31 March

| | 2018 £m | 2017 £m |
|---|---|---|
| **Cash flow from operating activities** | | |
| Purchase of investments | (827) | (692) |
| Proceeds from investments | 1,277 | 1,063 |
| Net cash flow from derivatives | (10) | – |
| Portfolio interest received | 17 | 16 |
| Portfolio dividends received | 41 | 66 |
| Portfolio fees received | 13 | 11 |
| Fees received from external funds | 55 | 71 |
| Carried interest and performance fees received | 6 | 39 |
| Carried interest and performance fees paid | (48) | (131) |
| Carried interest held in non-current assets | (27) | (56) |
| Acquisition related earn-out charges paid | – | (1) |
| Operating expenses paid | (115) | (131) |
| Co-investment loans | 3 | 1 |
| Income taxes paid | (12) | (2) |
| Other cash income | – | 2 |
| **Net cash flow from operating activities** | 373 | 256 |
| **Cash flow from financing activities** | | |
| Issue of shares | 1 | 1 |
| Dividends paid | (255) | (230) |
| Interest received | 2 | 2 |
| Interest paid | (36) | (51) |
| Repayment of short-term borrowings | – | (264) |
| Repurchase of short-term borrowings | – | (17) |
| **Net cash flow from financing activities** | (288) | (559) |
| **Cash flow from investing activities** | | |
| Purchase of property, plant and equipment | (2) | (1) |
| Purchase of intangible assets | (13) | – |
| Proceeds from sale of Debt Management business | – | 232 |
| Cash held in sold subsidiaries | – | (4) |
| Net cash flow from deposits | 41 | – |
| **Net cash flow from investing activities** | 26 | 227 |
| **Change in cash and cash equivalents** | 111 | (76) |
| Cash and cash equivalents at the start of year | 954 | 962 |
| Effect of exchange rate fluctuations | (11) | 68 |
| **Cash and cash equivalents at the end of year** | 1,054 | 954 |

# Investment basis
continued

## Background to Investment basis financial statements

The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures ("Investment entity subsidiaries"). It also has other operational subsidiaries which provide services and other activities such as employment, regulatory activities, management and advice ("Trading subsidiaries"). The application of IFRS 10 requires us to fair value a number of intermediate holding companies that were previously consolidated line by line. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the intermediate holding companies.

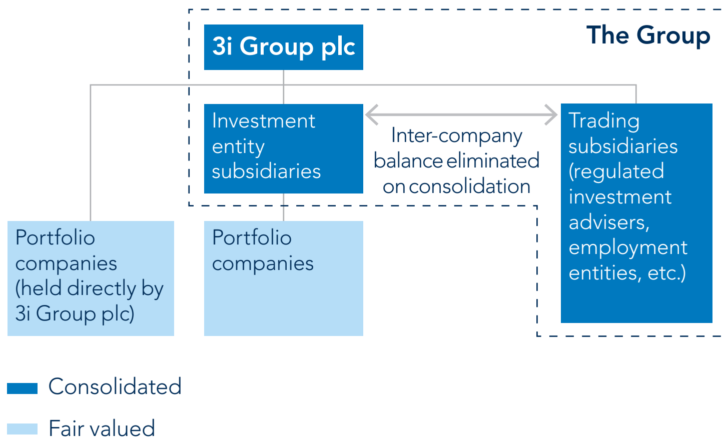
The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in Investment entity subsidiaries are aggregated into a single value. Other items which were previously eliminated on consolidation are now included separately.

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

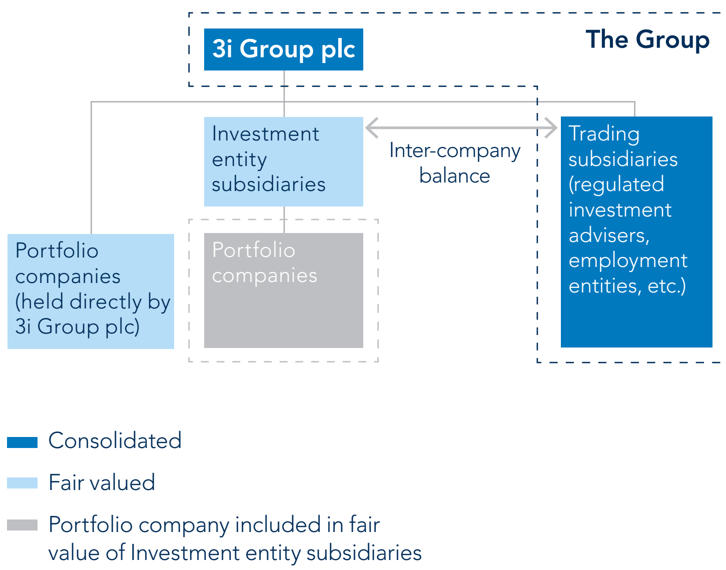
## Reconciliation of Investment basis and IFRS

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

### Investment basis of consolidation




### IFRS 10 basis of consolidation



# Reconciliation of Investment basis and IFRS

## Reconciliation of consolidated statement of comprehensive income

for the year to 31 March

| | Notes | Investment basis 2018 £m | IFRS adjustments 2018 £m | IFRS basis 2018 £m | Investment basis 2017 £m | IFRS adjustments 2017 £m | IFRS basis 2017 £m |
|---|---|---|---|---|---|---|---|
| Realised profits/(losses) over value on the disposal of investments | 1, 2 | 207 | (189) | 18 | 38 | (63) | (25) |
| Unrealised profits on the revaluation of investments | 1, 2 | 1,163 | (777) | 386 | 1,342 | (1,080) | 262 |
| Fair value movements on investment entity subsidiaries | 1 | – | 848 | 848 | – | 1,041 | 1,041 |
| Portfolio income | | | | | | | |
| Dividends | 1, 2 | 41 | (12) | 29 | 50 | (12) | 38 |
| Interest income from investment portfolio | 1, 2 | 116 | (90) | 26 | 50 | (40) | 10 |
| Fees receivable | 1, 2 | 14 | 3 | 17 | 6 | 3 | 9 |
| Foreign exchange on investments | 1, 3 | 11 | (23) | (12) | 269 | (205) | 64 |
| **Gross investment return** | | 1,552 | (240) | 1,312 | 1,755 | (356) | 1,399 |
| Fees receivable from external funds | | 57 | – | 57 | 46 | – | 46 |
| Operating expenses | 1, 4 | (121) | 1 | (120) | (117) | 1 | (116) |
| Interest receivable | | 2 | – | 2 | 2 | – | 2 |
| Interest payable | | (37) | – | (37) | (49) | – | (49) |
| Exchange movements | 1, 3 | (27) | 84 | 57 | 28 | 14 | 42 |
| Other income | | 2 | – | 2 | 10 | – | 10 |
| Income from investment entity subsidiaries | 1 | – | 19 | 19 | – | 18 | 18 |
| **Operating profit before carried interest** | | 1,428 | (136) | 1,292 | 1,675 | (323) | 1,352 |
| Carried interest | | | | | | | |
| Carried interest and performance fees receivable | 1, 4 | 228 | – | 228 | 279 | 1 | 280 |
| Carried interest and performance fees payable | 1, 4 | (205) | 173 | (32) | (434) | 326 | (108) |
| **Operating profit from continuing operations** | | 1,451 | 37 | 1,488 | 1,520 | 4 | 1,524 |
| Income taxes | 1, 4 | (26) | 1 | (25) | 3 | – | 3 |
| **Profit for the year from continuing operations** | | 1,425 | 38 | 1,463 | 1,523 | 4 | 1,527 |
| Profit for the year from discontinued operations | | – | – | – | 91 | 7 | 98 |
| **Profit for the year** | | 1,425 | 38 | 1,463 | 1,614 | 11 | 1,625 |
| Other comprehensive income | | | | | | | |
| Exchange differences on translation of foreign operations | 1, 3 | – | (38) | (38) | – | (4) | (4) |
| Re-measurements of defined benefit plans | | – | – | – | (22) | – | (22) |
| **Other comprehensive expense for the year from continuing operations** | | – | (38) | (38) | (22) | (4) | (26) |
| **Other comprehensive expense for the year from discontinued operations** | | – | – | – | – | (7) | (7) |
| **Total comprehensive income for the year ("Total return")** | | 1,425 | – | 1,425 | 1,592 | – | 1,592 |

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

**Notes:**

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

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, administration expenses, carried interest and tax.

# Reconciliation of Investment basis and IFRS
continued

## Reconciliation of consolidated statement of financial position
as at 31 March

| | Notes | Investment basis 2018 £m | IFRS adjustments 2018 £m | IFRS basis 2018 £m | Investment basis 2017 £m | IFRS adjustments 2017 £m | IFRS basis 2017 £m |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Investments | | | | | | | |
| Quoted investments | 1 | 851 | (506) | 345 | 893 | (503) | 390 |
| Unquoted investments | 1 | 5,806 | (4,055) | 1,751 | 4,782 | (3,466) | 1,316 |
| Investments in investment entity subsidiaries | 1, 2 | – | 4,034 | 4,034 | – | 3,483 | 3,483 |
| **Investment portfolio** | | 6,657 | (527) | 6,130 | 5,675 | (486) | 5,189 |
| Carried interest and performance fees receivable | 1 | 503 | (5) | 498 | 359 | (5) | 354 |
| Other non-current assets | 1 | 113 | (85) | 28 | 106 | (56) | 50 |
| Intangible assets | | 12 | – | 12 | – | – | – |
| Retirement benefit surplus | | 125 | – | 125 | 121 | – | 121 |
| Property, plant and equipment | | 4 | – | 4 | 5 | – | 5 |
| **Total non-current assets** | | 7,414 | (617) | 6,797 | 6,266 | (547) | 5,719 |
| **Current assets** | | | | | | | |
| Carried interest and performance fees receivable | 1 | 93 | – | 93 | 7 | 2 | 9 |
| Other current assets | 1 | 60 | (26) | 34 | 10 | 2 | 12 |
| Current income taxes | | 3 | – | 3 | 2 | – | 2 |
| Deposits | | – | – | – | 40 | – | 40 |
| Cash and cash equivalents | 1 | 1,054 | (82) | 972 | 954 | (23) | 931 |
| **Total current assets** | | 1,210 | (108) | 1,102 | 1,013 | (19) | 994 |
| **Total assets** | | 8,624 | (725) | 7,899 | 7,279 | (566) | 6,713 |
| **Liabilities** | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Trade and other payables | 1 | (14) | 13 | (1) | (29) | 5 | (24) |
| Carried interest and performance fees payable | 1 | (764) | 659 | (105) | (644) | 520 | (124) |
| Loans and borrowings | | (575) | – | (575) | (575) | – | (575) |
| Retirement benefit deficit | | (23) | – | (23) | (22) | – | (22) |
| Deferred income taxes | | (3) | – | (3) | (1) | 1 | – |
| Provisions | | (1) | – | (1) | (2) | – | (2) |
| **Total non-current liabilities** | | (1,380) | 672 | (708) | (1,273) | 526 | (747) |
| **Current liabilities** | | | | | | | |
| Trade and other payables | 1 | (101) | 1 | (100) | (125) | 22 | (103) |
| Carried interest and performance fees payable | 1 | (106) | 51 | (55) | (41) | 18 | (23) |
| Current income taxes | 1 | (12) | 1 | (11) | – | – | – |
| Provisions | | (1) | – | (1) | (4) | – | (4) |
| **Total current liabilities** | | (220) | 53 | (167) | (170) | 40 | (130) |
| **Total liabilities** | | (1,600) | 725 | (875) | (1,443) | 566 | (877) |
| **Net assets** | | 7,024 | – | 7,024 | 5,836 | – | 5,836 |
| **Equity** | | | | | | | |
| Issued capital | | 719 | – | 719 | 719 | – | 719 |
| Share premium | | 786 | – | 786 | 785 | – | 785 |
| Other reserves | 3 | 5,545 | – | 5,545 | 4,370 | – | 4,370 |
| Own shares | | (26) | – | (26) | (38) | – | (38) |
| **Total equity** | | 7,024 | – | 7,024 | 5,836 | – | 5,836 |

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

**Notes:**

1 Applying IFRS 10 to the Consolidated statement of financial position aggregates the line items into the single line item "Investments in investment entity subsidiaries". In the Investment basis we have disaggregated these items to analyse our net assets as if the Investment entity subsidiaries were consolidated. The adjustment reclassifies items in the Consolidated statement of financial position. There is no change to the net assets, although for reasons explained below, gross assets and gross liabilities are different.

The disclosure relating to portfolio companies is significantly reduced by the aggregation, as the fair value of all investments held by Investment entity subsidiaries is aggregated into the "Investments in investment entity subsidiaries" 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 include carried interest and other payables, and the Investment basis presentation again disaggregates these items.

2 Intercompany balances between Investment entity subsidiaries and trading subsidiaries also impact the transparency of our results under the IFRS basis. If an Investment entity subsidiary has an intercompany balance with a consolidated trading subsidiary of the Group, then the asset or liability of the Investment entity subsidiary will be aggregated into its fair value, while the asset or liability of the consolidated trading subsidiary will be disclosed as an asset or liability in the Consolidated statement of financial position for the Group.

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

# Reconciliation of Investment basis and IFRS

continued

## Reconciliation of consolidated cash flow statement

for the year to 31 March

| | Notes | Investment basis 2018 £m | IFRS adjustments 2018 £m | IFRS basis 2018 £m | Investment basis 2017 £m | IFRS adjustments 2017 £m | IFRS basis 2017 £m |
|---|---|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | | | |
| Purchase of investments | 1 | (827) | 357 | (470) | (692) | 358 | (334) |
| Proceeds from investments | 1 | 1,277 | (863) | 414 | 1,063 | (753) | 310 |
| Cash inflow from investment entity subsidiaries | 1 | – | 430 | 430 | – | 246 | 246 |
| Net cash flow from derivatives | | (10) | – | (10) | – | – | – |
| Portfolio interest received | 1 | 17 | (13) | 4 | 16 | (9) | 7 |
| Portfolio dividends received | 1 | 41 | (12) | 29 | 66 | (12) | 54 |
| Portfolio fees received | 1 | 13 | – | 13 | 11 | (2) | 9 |
| Fees received from external funds | | 55 | – | 55 | 71 | – | 71 |
| Carried interest and performance fees received | | 6 | – | 6 | 39 | – | 39 |
| Carried interest and performance fees paid | 1 | (48) | 8 | (40) | (131) | 104 | (27) |
| Carried interest held in non-current assets | 1 | (27) | 27 | – | (56) | 56 | – |
| Acquisition related earn-out charges paid | | – | – | – | (1) | – | (1) |
| Operating expenses paid | 1 | (115) | 1 | (114) | (131) | – | (131) |
| Co-investment loans | 1 | 3 | 2 | 5 | 1 | 1 | 2 |
| Income taxes paid | 1 | (12) | 2 | (10) | (2) | – | (2) |
| Other cash income | | – | – | – | 2 | – | 2 |
| **Net cash flow from operating activities** | | 373 | (61) | 312 | 256 | (11) | 245 |
| **Cash flow from financing activities** | | | | | | | |
| Issue of shares | | 1 | – | 1 | 1 | – | 1 |
| Dividends paid | | (255) | – | (255) | (230) | – | (230) |
| Interest received | | 2 | – | 2 | 2 | – | 2 |
| Interest paid | | (36) | – | (36) | (51) | – | (51) |
| Repayment of short-term borrowings | | – | – | – | (264) | – | (264) |
| Repurchase of short-term borrowings | | – | – | – | (17) | – | (17) |
| **Net cash flow from financing activities** | | (288) | – | (288) | (559) | – | (559) |
| **Cash flow from investing activities** | | | | | | | |
| Purchase of property, plant and equipment | | (2) | – | (2) | (1) | – | (1) |
| Purchase of intangible assets | | (13) | – | (13) | – | – | – |
| Proceeds from sale of Debt Management business | | – | – | – | 232 | – | 232 |
| Cash held in sold subsidiaries | | – | – | – | (4) | – | (4) |
| Net cash flow from deposits | | 41 | – | 41 | – | – | – |
| **Net cash flow from investing activities** | | 26 | – | 26 | 227 | – | 227 |
| **Change in cash and cash equivalents** | 2 | 111 | (61) | 50 | (76) | (11) | (87) |
| Cash and cash equivalents at the start of year | 2 | 954 | (23) | 931 | 962 | (5) | 957 |
| Effect of exchange rate fluctuations | 1 | (11) | 2 | (9) | 68 | (7) | 61 |
| **Cash and cash equivalents at the end of year** | 2 | 1,054 | (82) | 972 | 954 | (23) | 931 |

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

**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 subsidiaries. Cash held within Investment entity subsidiaries will not be shown in the IFRS statements but will be seen in the Investment basis statements.

# Alternative Performance Measures ("APMs")

We assess our performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs.

The APMs that we use may not be directly comparable with those used by other companies. Our Investment basis is itself an APM.

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

The table below defines our additional APMs.

| APM | Purpose | Calculation | Reconciliation to IFRS |
|---|---|---|---|
| Gross investment return as a percentage of opening portfolio value | A measure of the performance of our proprietary investment portfolio.<br><br>For further information see the Group KPIs on page 16. | It is calculated as the gross investment return, as shown in the Investment basis Consolidated statement of comprehensive income, as a % of the opening portfolio value. | The equivalent balances under IFRS and the reconciliation to the Investment basis are shown in the Reconciliation of the consolidated statement of comprehensive income and the Reconciliation of the consolidated statement of financial position respectively. |
| Cash realisations | Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities.<br><br>For further information see the Group KPIs on page 16. | The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement. | The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement. |
| Cash investment | Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns.<br><br>For further information see the Group KPIs on page 16. | The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement. | The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement. |
| Operating cash profit | By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns. | The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 12 of the Financial review. | The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement. |
| Net cash/net debt | A measure of the available cash to invest in the business and an indicator of the financial risk in the Group's balance sheet. | Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position. | The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position. |
| Gearing | A measure of the financial risk in the Group's balance sheet. | Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero. | The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position. |

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

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

## Culture

Integrity, rigour and accountability are central to our values and culture and are embedded in our approach to risk management. Our Investment Committee, which has oversight of the investment pipeline development and approves new investments, significant portfolio changes and divestments, is integral to ensuring a consistent approach across the business. It ensures 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 its high standards of conduct. All employees share the responsibility for upholding 3i's strong control culture and supporting effective risk management. Senior managers, typically those who report to Executive Committee members, are required to confirm their individual and business area compliance annually. In addition, all staff are assessed on how they have demonstrated 3i's values as part of their annual appraisal. Finally, our Remuneration Committee is responsible for ensuring the Group's remuneration culture is weighted towards variable compensation where reward is strictly dependant on performance.

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

## 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 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 66 to 69.

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, and guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly, with the last review in May 2018, and the Chief Executive provides quarterly updates to each Audit and Compliance Committee meeting. Investment Committee ensures a consistent approach to investment processes across the business as described on page 46.

In addition to the above, a number of other Board and Executive committees contribute to the Group's overall risk governance structure, as set out opposite.

## Risk appetite

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

### Investment risk

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

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

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

## Capital management

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

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

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

## Risk governance structure

- Committees of the Board
- Committees of the Chief Executive
- Independent Committees

### Board

- Approves the Group's risk appetite and strategy
- Responsible for ensuring an effective risk management and oversight process across the Group
- Assisted by four Board Committees with specific responsibility for key risk management areas
- Delegates management of the Group to the Chief Executive

### Audit and Compliance Committee

- Responsible for managing financial reporting risk and internal control and the relationship with the external Auditor
- Reviews and challenges risk management reports from Group Finance, Tax, Internal Audit and Compliance
- Chief Executive updates the Committee at each meeting on the output of the latest GRC meeting

### Valuations Committee

- Specific and primary responsibility for the valuation policy and valuation of the Group's investment portfolio
- Provides oversight and challenge of underlying assumptions on the valuation of the unquoted investment portfolio (83% of net assets at 31 March 2018)
- Direct engagement with the external Auditor, including their specialist valuations team

### Remuneration Committee

- Responsible for ensuring a remuneration culture which is weighted towards variable reward and strictly dependent on performance
- Approves variable compensation schemes for our investment professionals that are in line with market practice and enable the Group to attract and retain the best talent
- By excluding Executive Directors from carried interest or performance fee profit schemes, the Committee ensures that their remuneration is more directly aligned with shareholder returns

### Nominations Committee

- Responsible for ensuring that the Board has the necessary, skills, experience and knowledge to enable the Group to deliver its strategic objectives

### Chief Executive

- Delegated responsibility for management of the Group
- Delegated responsibility for investment decisions
- Delegated responsibility for Risk Management

### Executive Committee

- Monitors divisional performance
- Facilitates information sharing between divisions
- Meets monthly

### Conflicts Committee

- Deals with potential conflicts as required

### Treasury Transactions Committee

- Considers specific treasury transactions as required

### Investment Committee

- Principal committee for managing the Group's investment portfolio, its most material risk, and meets as often as required
- Chaired by the Chief Executive
- Strict oversight of each step of the investment lifecycle
- Approves all investment, divestment and material portfolio decisions
- Monitors investments against original investment case
- Ensures investments are in line with the Group's investment policy and risk appetite

### Group Risk Committee

- Assists the Chief Executive with the oversight of risk management across the Group
- Implements the Group's risk appetite policy and monitors performance
- Maintains the Group risk review which details its risk exposure and appropriate mitigations and controls
- Two members of the GRC, the Group Finance Director and General Counsel, form the Risk Management Function as required under AIFMD

# Risk management
continued

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

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 are our two divisions and their respective Managing Partners.
- 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.

## Role of Group Risk Committee in risk management

The quarterly Group risk review process includes the monitoring of key strategic and financial metrics (such as KPIs) considered to be indicators of potential changes in the Group's risk profile. The GRC uses these to identify its principal risks. It then evaluates the impact and likelihood of each risk, with reference to associated measures and key performance indicators. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

A number of focus topics are also agreed in advance of each meeting. In FY2018, the GRC covered the following:

- an update on the Group's Brexit planning process, including the incorporation of an approved Alternative Investment Fund Manager ("AIFM") in Luxembourg;
- a semi-annual update on Environmental, Social, business integrity and corporate Governance ("ESG") issues and themes, especially with respect to its portfolio companies;
- a review of the Group's stress tests to support its Internal Capital Adequacy Assessment Process ("ICAAP") and Viability statement;
- a review of the Group's IT framework including cyber security and business resilience; and
- the proposed risk disclosures in the 2018 Annual report and accounts.

There were no significant changes to the GRC's approach to risk governance or its operation in FY2018 but we continued to refine our framework for risk management where appropriate.

## Role of Investment Committee in risk management

Our Investment Committee is fundamental to the management of investment risk. The Investment Committee is involved in and approves every step of the investment and realisation process.

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

The execution of this investment case is closely monitored:

- our monthly portfolio monitoring reviews current performance against budget and prior year and a set of traffic light indicators and bespoke, forward looking KPIs; and
- both Private Equity and Infrastructure hold semi-annual reviews that focus on the longer-term performance and plan for the investment compared to the original investment case, together with any strategic developments and market outlook.

The monthly portfolio monitoring reviews and the semi-annual reviews are attended by the Investment Committee and the senior members of the investment teams.

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

Individual portfolio company underperformance could have adverse reputational consequences for the Group, even though the value impact may not be material. We review our internal processes and investment decisions in light of actual outcomes on an ongoing basis.

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

# Principal risks and mitigations
## Aligning risk to our strategic objectives

### Business and risk environment in FY2018

Although the business environment over the last 12 months has been challenging, as a result of the ongoing political instability, economic uncertainty and volatile market conditions, there has been no significant change to our risk management approach.

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. We define our principal risks as those that have the potential to impact the delivery of our strategic objectives materially. We also maintain a log of risks which have the potential to become principal risks but are not yet considered to be so. This is called our "watch list". These risks are regularly reviewed to determine if they have the potential to impact the delivery of our strategy. In the year, none of our watch list risks were considered sufficiently material to be classified as a principal risk.

### External

External risks are the risks to our business which are usually outside of our direct control such as political, economic, regulatory and competitor risks. In FY2018, we saw a general deterioration in the geo-political environment, including an increased likelihood of a trade war and an uncertain political backdrop in the UK with the potential to impact investor confidence. We concluded that these risks were not currently material to our portfolio but we will continue to monitor developments closely.

The longer-term implications of the UK's negotiations to leave the EU on 3i's business remains unclear. Therefore, we have implemented an alternative regulatory strategy to ensure continuity of our business across a range of reasonably foreseeable scenarios. This strategy includes permission from the Luxembourg regulator, the CSSF, to establish an AIFM in Luxembourg, received in March 2018. 3i has had a presence in Luxembourg for many years. Currently 68% of our portfolio is invested in northern Europe, and this approval will enable 3i to continue the Group's activities in Europe after March 2019, when the UK is expected to leave the EU.

### Investment

Our overarching objective is to source attractive investment opportunities at the right price and execute our investment plans successfully.

As part of our portfolio monitoring, all of our new Private Equity and Infrastructure investments in the year were subject to rigorous review, including performance against a 180-day plan. We continued to monitor the portfolio actively, and held additional reviews for the small number of Private Equity assets where operational improvements and reorganisation were particularly intense. Investment teams are responsible for origination and asset management and are rewarded with performance-based remuneration.

### Operational

Attracting and retaining key people is our most significant operational risk. Our Remuneration Committee ensures that our variable compensation schemes are in line with market practice. Carried interest is an important incentive and rewards cash-to-cash returns.

In addition, detailed succession plans are in place for each division. The Board last completed its annual review of the Group's organisational capability and succession plans in September 2017. The success of the Group since the 2012 restructuring has led to very modest (8%) levels of staff turnover.

The risk in relation to the new Infrastructure business initiatives has decreased in view of the progress made to date. We continued to enhance our cyber security management and reporting and engaged an external firm to provide a dedicated Chief Information Security Officer service in the year. Due to the nature of our business, cyber security is not considered a principal risk but is included on our watch list and remains under regular review by the GRC and Audit and Compliance Committee.

### Outlook

Competition for the best assets in our sectors remains intense, with an environment of high prices requiring a disciplined approach to investment. We remain focused on executing our strategy as we navigate what looks to be another year of uncertainty.

### Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2021. 3i conducts its strategic planning over a five-year period; this statement is based on the first three years, which provides more certainty over the forecasting assumptions used. 3i's strategic plan, ICAAP and associated principal risks (as set out on pages 48 to 51 of the Strategic report) are the foundation of the Directors' assessment.

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

Our Group strategic plan projects the performance, net asset value and liquidity of 3i over a five-year period and is presented at the Directors' annual strategy away day and updated throughout the year as appropriate.

At the strategy away day, the Directors consider the strategy and opportunities for, and threats to, each business line and the Group as a whole. The outcome of those discussions is included in the next iteration of the strategic plan which is then used to support the viability assessment.

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

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

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

**Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to at least March 2021.**

# Principal risks and mitigations
## Aligning risk to our strategic objectives
continued

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 regularly reviewed by the GRC and the Board, and have the potential to affect materially the achievement of the Group's strategic objectives and impact its financial performance, reputation and brand integrity.

## 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** | Grow investment portfolio earnings<br>Realise investments with good cash-to-cash returns | • Limited growth or reduction in NAV owing to contraction of earnings in our investments in Private Equity or Infrastructure and/or changes in multiples and discount rates used for their valuations<br>• Increases covenant risks or limits ability to refinance our investments<br>• Impacts general market confidence and risk appetite<br>• Leads to reduced M&A volumes, economic instability and lower growth, which impacts realisation levels |
| **Volatility in foreign exchange and capital markets** | Grow investment portfolio earnings<br>Realise investments with good cash-to-cash returns<br>Increase shareholder distributions | • Unhedged foreign exchange rate movements impact total return and NAV<br>• May impact portfolio performance and realisation processes<br>• Increases risks with IPO exit route and bank financing<br>• Potential for large equity market fall to impact valuation |
| **Competitive M&A markets and high pricing in 3i's core sectors** | Realise investments with good cash-to-cash returns<br>Use our strong balance sheet<br>Increase shareholder distributions | • Reduced investment rates in Private Equity and Infrastructure<br>• Increased risk of overpaying for investments, which impacts potential returns<br>• Potential for higher cash realisations on exits |

| Risk management and mitigation | Movement in risk status in FY2018 | FY2018 outcome |
|---|---|---|
| • Regular portfolio company reviews as well as Investment Committee focus on investment strategy, exit processes and refinancing strategies<br>• Monthly portfolio monitoring to identify and address portfolio issues promptly<br>• Valuations Committee monitoring of valuations and application of policy | ⇔ | • GIR strong at 27% with impact from macro-economic and geo-political uncertainty on 3i and its portfolio companies limited by robust performance in largest investments<br>• Gearing remains nil and liquidity strong at £1.4 billion<br>• Approval received from the Luxembourg regulator to establish an AIFM in Luxembourg to ensure the continuity of our business when the UK leaves the EU |
| • Active management of exit strategies by Investment Committee to enable us to adapt to market conditions<br>• Portfolio company reviews focus on investment strategy, exit plans and refinancing strategies<br>• Matching of currency flows from investments and realisations where appropriate<br>• Regular liquidity and currency monitoring and strategic reviews of the balance sheet | ⇔ | • Foreign exchange exposures at the portfolio company level monitored and hedged appropriately<br>• Realised £69 million from continued sales of quoted investments<br>• Quoted asset exposure of 13%, with 9% being 3iN<br>• Policy to adjust multiples to reflect longer-term trends mitigated volatility in FY2018<br>• Successful refinancings of Action and Scandlines reduced money at risk |
| • Central oversight and disciplined approach to investment pipeline<br>• Active management of investments and exit strategies by Investment Committee<br>• Maintenance of our networks facilitates off-market transactions | ⇔ | • Market conditions were favourable in the year and we sold eight Private Equity companies<br>• Invested in four new Private Equity companies and completed a number of further investments to support buy-and-build strategies<br>• Advised 3iN on six investments, including Attero which will complete in FY2019 |

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

# Principal risks and mitigations
## Aligning risk to our strategic objectives continued

## Investment

| Key risk factors | Link to strategic objectives | Potential impact |
|---|---|---|
| Investment rate or quality is lower than expected because we pay the wrong price | Grow investment portfolio earnings<br>Use our strong balance sheet<br>Increase shareholder distributions | • Impacts longer-term returns and capital management and therefore ability to deliver strategic plan<br>• Reduces staff morale and confidence<br>• Cost base may not be sustainable<br>• Poor investment impacts Group's reputation as an investor of proprietary capital, as an adviser to 3iN and as a manager of other funds |
| Underperformance of portfolio companies | Grow investment portfolio earnings<br>Realise investments with good cash-to-cash returns<br>Increase shareholder distributions | • Reduction in NAV and realisation potential, impacting shareholder returns<br>• Higher value concentration in the portfolio increases the potential impact and profile of specific cases of underperformance<br>• Underperformance impacts reputation as an investor of proprietary capital, an adviser to 3iN and manager of other funds |

## Operational

| Key risk factors | Link to strategic objectives | Potential impact |
|---|---|---|
| Failure to recruit, develop and retain key people | Realise investments with good cash-to-cash returns<br>Use our strong balance sheet<br>Increase shareholder distributions | • Restricts our ability to attract the best people<br>• Potential to undermine investor/shareholder confidence<br>• Potential to delay execution of strategic plan |
| New Infrastructure initiatives | Maintain an operating cash profit<br>Use our strong balance sheet<br>Increase shareholder distributions | • Slower growth could impact operating cash profit and potentially dilute capital returns<br>• New initiatives could distract from the 3iN advisory mandate |

| Risk management and mitigation | Movement in risk status in FY2018 | FY2018 outcome |
|---|---|---|
| • Regular monitoring of investment and divestment pipeline<br>• Close oversight by management and early involvement of Investment Committee when key targets are identified<br>• Disciplined approach to sourcing investment opportunities and pricing<br>• Regular review of asset allocation | ↔ | • Completed four new investments and one significant further investment in Private Equity and generated £1,002 million of realisation proceeds<br>• Completed our first US Infrastructure investment<br>• Advised 3iN on six investments, including Attero which will complete in FY2019, and the realisations of AWG and Elenia |
| • Rigorous initial assessment of new investment opportunities to maintain quality of our investment pipeline<br>• Monthly portfolio monitoring to review operating performance, identify weakness and opportunity early and take action as appropriate<br>• Additional monitoring of Action, including 3i Chief Executive membership of the Action board<br>• ESG and governance requirements and monitoring | ↔ | • 91% of the assets valued on an earnings basis grew their earnings over the last 12 months<br>• Responsible Investment/ESG risk evaluation further improved and is reviewed semi-annually at the portfolio company reviews and GRC<br>• Regular portfolio monitoring aims to track performance and, where appropriate, identify assets promptly where a deeper review is needed, such as Christ and Schlemmer |

| Risk management and mitigation | Movement in risk status in FY2018 | FY2018 outcome |
|---|---|---|
| • Specific focus by Remuneration Committee which approves all material incentive arrangements to ensure they reflect market practice<br>• Annual Board review of succession planning<br>• Regular review of resourcing and key man exposures as part of business line reviews and the portfolio company review process | ↔ | • Organisational capability and succession plan reviewed by the Board in September 2017 |
| • Rigorous assessment of new opportunities<br>• Regular business updates and monthly portfolio monitoring<br>• Additional recruitment to ensure no dilution of our focus on the 3iN mandate<br>• Induction and oversight of new hires | ↓ | • Close oversight of performance of new investments<br>• Launched two new Infrastructure funds<br>• Completed our first US Infrastructure investment |

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

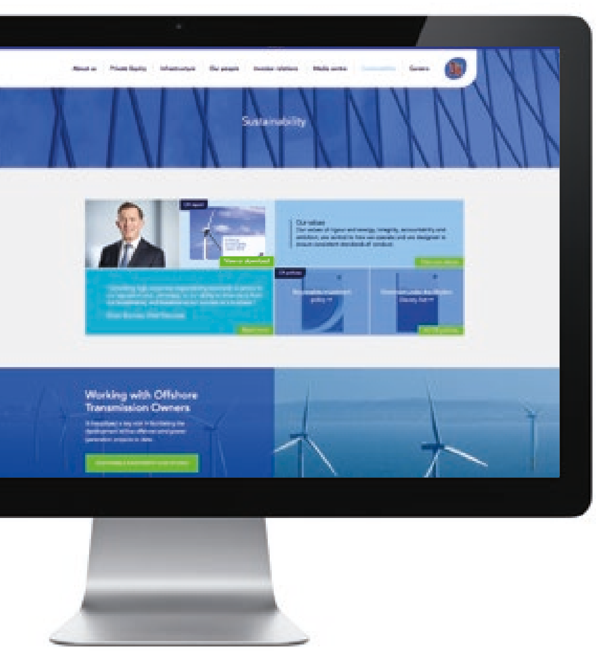
# Sustainability

3i is committed to achieving its strategic and investment objectives while behaving responsibly as an employer, as an investor and as an international corporate citizen. We take responsibility for our actions, carefully consider how others will be affected by our choices and ensure that our values and ethics are integrated into our formal business policies, practices and plans. We believe that encouraging this approach to our portfolio is a driver of long-term outperformance.

## Our sustainability strategy is defined by three key priorities:

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

We are committed to communicating both financial and non-financial performance in a clear, open and comprehensive manner and to maintaining an open dialogue with stakeholders. Accordingly, we welcome the publication of the Recommendations of the Taskforce on Climate-Related Financial Disclosures ("TCFD"). We made our preliminary disclosures under that framework in our Sustainability report 2018, with a view to incorporating relevant aspects in our Annual report from next year.




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

For more information, please see our Sustainability 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.

**For more information, visit www.3i.com/sustainability**


## A responsible employer

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

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

### Human rights

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

We are committed to ensuring that the businesses we invest in comply with all applicable laws in relation to their employees (amongst other things) and, where appropriate, that they work towards meeting relevant international standards (such as the ILO Fundamental Conventions) where those are more stringent. We also encourage our business partners and suppliers to adopt the same standards with respect to human rights.

## Equal opportunity and diversity

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

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

Achieving better gender diversity is important to 3i, and we believe we are making good progress in that respect, within the constraints imposed by being a small organisation with limited staff turnover. At 31 March 2018, 3i had a total of 244 employees of which 158 were employed in the UK. The breakdown by gender was as follows:

| (number) | Total | Male | Female |
|---|---|---|---|
| All 3i employees | 244 | 145 | 99 |
| 3i Group Directors[1] | 8 | 6 | 2 |
| Senior managers[2] | 39 | 29 | 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 23 people who were directors of undertakings included in the consolidated Group accounts, of whom 20 were male and three were female.

## Employee engagement

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

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

We pride ourselves on the engagement and the sense of ownership we have fostered over the years.

84% Participation in UK SIP[1]
8% Unplanned employee turnover rate[2]

1 Proportion of UK-based employees who subscribe to a Share Incentive Plan available to UK employees only.

2 During the year, 3i closed its Madrid operations. The impact of this change is excluded from the calculation of the employee turnover rate.

## Graduate training scheme

Our graduate recruitment scheme, designed to develop our next generation of world-class investment professionals and business leaders, was launched in 2015. We are a small organisation, however we believe this programme is important in fostering a distinctive 3i culture. Our first five graduate analysts joined us in 2015 and we have since been joined by five in September 2016 and three in September 2017. A further three are due to join us in September 2018. Since we started the programme, only 14% of total applications have been from female candidates. However, out of the 16 graduate positions offered since 2015, six, or 37.5% of the total, were offered to women. The top performers on the programme are offered the opportunity to be fast-tracked directly into our business.

Further information on our performance as a responsible employer is available in our Sustainability report 2018.

## A responsible investor

With fewer than 250 employees globally, as a company we have a relatively small direct impact in terms of the environment and other sustainability issues. However, with assets under management of approximately £12 billion we recognise that our decisions as an investor potentially impact a broad range of stakeholders. We are committed to investing responsibly and believe that:

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

We are uniquely well positioned to make a difference as a responsible investor:

- for more than a decade we have carried out our investment activities under our Responsible Investment policy, which is embedded in our investment and portfolio management processes and is considered rigorous by industry standards. We have been signatories of the UN Principles for Responsible investment since 2011;
- we have a medium to long-term investment horizon, typically buying controlling stakes in our portfolio companies and being represented on their boards. We are therefore well placed to drive sustainable growth in our portfolio. This involves the continuous assessment, monitoring and management of ESG risks, as well as making targeted investments through new or existing portfolio companies in opportunities arising from developments such as climate change regulation, changes to consumer preferences in response to environmental issues and the development of business solutions to global sustainability challenges.

# Sustainability
continued

## Our Responsible Investment policy

We have a clear and comprehensive Responsible Investment ("RI") policy which is embedded into our investment and portfolio monitoring processes. In our experience, there is a strong link between companies that have high ESG standards and those that are able to achieve sustainable business growth. This policy sets out the businesses in which 3i will not invest, as well as minimum standards in relation to ESG matters which we expect new portfolio companies to meet, or to commit to meeting over a reasonable time period. The policy applies to all our investments, irrespective of their country or sector.

The Board of Directors is responsible for the RI policy, including for the review and approval of any material changes. The Investment Committee is responsible for the implementation of the RI policy, and for ensuring that it is executed in a meaningful way by 3i's investment teams in all investment and portfolio management processes.

Our RI policy has been integrated into our investment and portfolio management processes and procedures, which are described in the Risk management section on page 46, and is supported by detailed guidance notes, a global network of specialist external advisers and dedicated internal resource.

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

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

**For more information on our approach to responsible investing, please see our Sustainability report. A summary of our Responsible Investment policy is available on www.3i.com**

## A good corporate citizen

As a company, we strive to embed responsible business practices throughout the organisation. Good corporate citizenship is achieved by having robust policies and processes in place and by promoting the right values and culture within our organisation.

All employees are assessed annually against our corporate values of ambition, rigour and energy, integrity and accountability and have a responsibility to be aware of, and abide by, 3i's compliance, behaviour, environmental, ethical and social policies and procedures. For more information on our corporate values, policies and processes, please see our Sustainability report 2018.

### 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. It also meets the high expectations for transparency of our shareholders, fund investors, staff and the media.

### Anti-bribery and corruption

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

## Modern slavery

3i updated its slavery and human trafficking statement for the financial year ending 31 March 2017, as required by section 54 of the Modern Slavery Act 2015, in September 2017. The slavery and human trafficking statement for the financial year ending 31 March 2018 will be published in September 2018. 3i is committed to ensuring that:

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

**Our latest Modern Slavery disclosure is available on our website at www.3i.com/media/3436/modern-slavery-statement.pdf**

## Data protection

We are reviewing our data protection policy and procedures in the light of the General Data Protection Regulation, which comes into effect in May 2018. 3i maintains an Information Security Management System that: (i) ensures that risks to the confidentiality, integrity and availability of information are managed to an acceptable level using a standard risk management framework; (ii) protects information from accidental or intentional damage, loss, unauthorised disclosure or modification; (iii) provides secure and reliable information to enable 3i employees to conduct their jobs effectively; and (iv) ensures compliance with legal and statutory obligations.

## 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 2018, our measured Scope 1 and 2 emissions (location-based) totalled 750.8 $tCO_2e$. This comprised:

| Scope | FY2018 | FY2017 |
|---|---|---|
| 1 | 156.4 | 191.0 |
| 2 Location-based | 594.4 | 768.8 |
| 2 Market-based[1] | 137.4 | 174.8 |

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 3.1 $tCO_2e$ per full-time equivalent employee, based on an average of 241 employees during the year (2017: 3.4 $tCO_2e$; 281 employees). Overall our Scope 1 and 2 emissions decreased by 21.8% in the year due to the sale of our Debt Management business in March 2017 and the full impact of the closure of our Stockholm office.

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

We quantify and report our organisational GHG emissions in alignment with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and in alignment with the Scope 2 Guidance.

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 2018 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 and Luxembourg offices, which account for over 80% of our overall electricity consumption, we purchase all of our electricity from 100% renewable sources.

# Sustainability
continued

### Community

We focus our charitable activities on the disadvantaged, on the elderly, on young people and on education, aiming to equip young people from all backgrounds with the tools and opportunities to pursue a successful career.

The charities we partner with are supported on the basis of their effectiveness and impact. We also support staff giving and sponsorship through matching donations.

Our charitable giving for the year to 31 March 2018 totalled £390,000 (2017: £288,000). Further details of the charities we support are available in our Sustainability report 2018.

Further information on our corporate citizenship performance is available in our Sustainability report 2018.

## External benchmarking

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

### Sustainability indices

We have been a member of the Dow Jones Sustainability Europe Index and of the FTSE4Good Index Series since 2002 and 2011 respectively. In addition, 3i became a member of the Ethibel Sustainability Index (ESI) Excellence Europe in September 2016 and was reconfirmed as a constituent of that index in March 2018.

**For more information, please see**
**www.sustainability-indices.com**
**www.ftse.com/products/indices/FTSE4Good**
**www.forumethibel.org/content/ethibel_sustainability_index_excellence_europe.html**

### Carbon Disclosure Project

CDP (formerly Carbon Disclosure Project) is an international, not-for-profit organisation providing a framework which enables businesses to disclose their greenhouse gas emissions and other metrics voluntarily. 3i has been making annual submissions to CDP since 2006. 3i's score in the 2017 CDP assessment was A-.

For more information, please see **www.cdp.net**

For the purposes of the UK Companies Act 2006, the Strategic report of 3i Group plc comprises pages 2 to 56.

By order of the Board

**Simon Borrows**
Chief Executive
16 May 2018

# Governance

**Sets out how we maintain strong and effective oversight with rigorous controls to ensure the long-term health of the business**

# Chairman's introduction

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

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

The Board is also responsible for ensuring that the Group has the necessary people, resources and structures to deliver the strategy.

S. R. Thompson

**Simon Thompson**
Chairman

### Corporate governance statement

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

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council ("FRC") in September 2016 which is available on the FRC website.

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management to ensure the long-term success of the Company.

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# Leadership
## 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 Rio Tinto plc.

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

### Simon Borrows
Chief Executive

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

**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. Formerly a non-executive Director of the British Land Company PLC and Inchcape plc.

### Julia Wilson
Group Finance Director

Group Finance Director and member of the Executive Committee since 2008. A member of the Investment Committee since 2012. Joined 3i in 2006 as Deputy Finance Director. Also a non-executive director of Legal & General Group Plc.

**Previous experience**
Formerly Group Director of Corporate Finance at Cable & Wireless plc, having previously held a variety of tax and finance roles at Cable & Wireless plc, Hanson plc and Tomkins plc.

### David Hutchison
Non-executive Director

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

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

### Caroline Banszky
Non-executive Director

Non-executive Director since July 2014.

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

### Peter Grosch
Non-executive Director

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

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

## Executive Committee

### Jonathan Asquith
Deputy Chairman

Deputy Chairman since April 2015 and Senior Independent Director since July 2014. Non-executive Director since March 2011. Chairman of the Risk and Audit Committee of Tilney Group Limited and a non-executive Director of CiCap Limited, the parent company of Coller Capital.

**Previous experience**
Formerly Chairman of Citigroup Global Markets Limited, Dexion Capital plc and AXA Investment Managers. Non-executive director of Ashmore Group 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.

### Menno Antal
Managing Partner, Private Equity

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

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

### Kevin Dunn
General Counsel and Company Secretary

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

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

### Stephen Daintith
Non-executive Director

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

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

### Alan Giddins
Managing Partner, Private Equity

A member of the Executive Committee and the Investment Committee since 2010. Also a non-executive director of Hill & Smith Holdings PLC.

**Previous experience**
Joined 3i in 2005. Prior to joining 3i, spent 13 years in investment banking, latterly as a Managing Director at Société Générale. Qualified as a chartered accountant with KPMG and has a degree in economics.

### Phil White
Managing Partner, Infrastructure

A member of the Executive Committee and the Investment Committee since 2014.

**Previous experience**
Joined 3i in 2007. Prior to joining 3i, experience in infrastructure investment, advisory and financing, including roles at Macquarie, WestLB and Barclays. Holds an MBA from London Business School.

# Leadership
## The role of the Board

### How the Board operates

The Board is accountable for the long-term success of the Company by approving the Group's strategic objectives and monitoring performance against those objectives. The Board meets formally on a regular basis, usually in London, and, at each meeting, considers business performance. There is a clearly defined schedule of matters reserved for the Board.

The Board is assisted by various Principal Committees of the Board, which report to it regularly and details of their activity in the year are provided on pages 65 to 82.

Matters delegated by the Board to the Chief Executive include implementation of the Board approved strategy, most investment decisions, day-to-day management and operation of the business, the appointment and remuneration of staff below the Executive Committee and risk management.

Day-to-day management of the Group is the responsibility of the Chief Executive. To assist him in this role, the Chief Executive has established a number of additional management committees, including the Investment Committee, which are outlined in the Risk management section of the Strategic report on page 45.

#### Role of the Chairman

- Leads the Board in setting its agenda, approving strategy, monitoring financial and operational performance, and establishing the Group's risk appetite.
- Organises the business of the Board, ensuring its effectiveness, and maintains 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.
- Chairs the Investment Committee to review the acquisition, management and disposal of investments.
- Leads the Executive Management team to develop and implement the Group's strategy and manage the risk and the internal control framework.
- 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 2017.

# Effectiveness

## Performance and risk management

### What the Board did in FY2018

The Board met formally seven times during FY2018. In addition, the Board held a strategy day in December 2017. A table of individual Board member attendance at the formal Board and Committee meetings is provided below. This shows the number of full meetings of the Board and its Committees attended by each Director in the year together with (in brackets) the number of such meetings they were eligible to attend.

The Board's agenda is set by the Chairman. Board members and, as appropriate, executives from the relevant business areas are invited to present on key items allowing the Board the opportunity to debate and challenge on initiatives directly with the senior management team along with the executives.

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 and Infrastructure businesses;
- regular reports from the Board's Committees;
- remuneration and pension matters including remuneration philosophy and strategy;
- the recommendations of the Valuations Committee on valuations of investments;
- the Annual report and accounts, Half-yearly report and quarterly performance updates;
- dividend policy and dividends;
- reports on regulatory matters including significant regulation affecting the Group;
- review of balance sheet strategy; and
- organisational capability and succession plans.

### Training and advice

The Company has a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company. All Directors are required to keep their skills up-to-date and maintain their familiarity with the Company and its business continually.

On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment or support teams.

The Company has procedures for Directors to take independent legal or other professional advice in relation to the performance of their duties. In addition, Directors have access to the advice and services of the General Counsel and Company Secretary, who advises the Board, through the Chairman, on governance matters.



### Attendance at Board and Committee meetings

Non-executive Directors also attended a number of other Company meetings to increase their understanding of the principal risks in the business and the strength and depth of our people.

| | Independent | Board | Audit and Compliance Committee | Nominations Committee | Remuneration Committee | Valuations Committee |
|---|---|---|---|---|---|---|
| Total meetings held | | 7 | 6 | 3 | 5 | 4 |
| **Number attended:** | | | | | | |
| S R Thompson | On appointment | 7(7) | | 3(3) | | 4(4) |
| S A Borrows | Executive Director | 7(7) | | | | 4(4) |
| J S Wilson | Executive Director | 7(7) | | | | 4(4) |
| J P Asquith | Senior Independent Director | 7(7) | 6(6) | 3(3) | 5(5) | |
| C J Banszky | Independent | 7(7) | 6(6) | 3(3) | 5(5) | |
| S W Daintith | Independent | 7(7) | 6(6) | 2(3) | | 4(4) |
| P Grosch | Not independent[1] | 7(7) | | 3(3) | | 4(4) |
| D A M Hutchison | Independent | 7(7) | | 3(3) | 5(5) | 4(4) |
| M G Verluyten[2] | Independent | 2(2) | 1(1) | 0(0) | | 0(1) |

1 Mr P Grosch is not considered independent because of his links with the Group's Private Equity business including his position as chairman of Euro-Diesel, a company in which the Group is invested. Mr P Grosch receives director's fees and is a shareholder in Euro-Diesel.

2 Retired on 29 June 2017.

# Effectiveness

## Performance and risk management
continued

### Performance and evaluation

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. The evaluation was externally facilitated by Lintstock Limited in 2015/16 and on this occasion the process was conducted internally by the Chairman with support from Lintstock Limited. The Chairman held one-to-one interviews with Directors informed by the results of a questionnaire which had been completed by all Board members and the Company Secretary. The Chairman reported the results of the evaluation to the Board. Overall, the evaluation concluded that the Board continued to perform well. Some areas for additional Board focus were identified including further refinement of the strategic objectives for the medium term.

Following the review the Board identified areas requiring greater time for Board discussion and areas for additional Board reporting. These included updates on longer-term succession planning across the Group and medium-term investment portfolio development.

In his role as Senior Independent Director, Jonathan 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.

### Risk management and internal control

The Board has overall responsibility for risk management and internal control, including the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and ensuring that an appropriate culture has been embedded throughout the organisation.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The GRC is a management committee formed by the Chief Executive. Details of the risk management framework can be found in the Risk management section of the Strategic report on pages 44 to 51.

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 2018.

### Financial reporting

In the context of the Group's internal control and risk management systems, there are specific processes in place in relation to financial reporting, including:

- comprehensive system of key control and oversight processes, including regular reconciliations, line manager reviews and systems' access controls;
- updates for consideration by the Audit and Compliance Committee of accounting developments, including draft and new accounting standards and legislation;
- a separate Valuations Committee which considers the Group's investment valuation policies, application and outcome;
- approval of the Group's budget by the Board and a comprehensive system of financial reporting to the Board, based on the annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance indicators and regular re-forecasting;
- reports from Internal Audit on matters relevant to the financial reporting process, including periodic assessments of internal controls, processes and fraud risk;
- independent updates and reports from the external Auditor on accounting developments, application of accounting standards, key accounting judgements and observations on systems and controls;
- appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities; and
- appropriate Board oversight of external reporting.

**The topics covered by the annual Board evaluation included:**

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

# Nominations Committee report

## Membership during the year

| Name | Membership status |
|---|---|
| Simon Thompson | Member since April 2015 and Chairman since June 2015 |
| Jonathan Asquith | Member since March 2011 |
| Caroline Banszky | Member since July 2014 |
| Stephen Daintith | Member since October 2016 |
| Peter Grosch | Member since November 2015 |
| David Hutchison | Member since November 2013 |
| Martine Verluyten | Member since January 2012 Retired in June 2017 |

60 **Read more about the Composition of the Board**

**Further information on the Nominations Committee's terms of reference can be found on www.3i.com**

## Dear Shareholder

**I am pleased to present the Nominations Committee report for the year ended 31 March 2018. My report explains the role of the Committee as well as its work this year.**

The Committee's principal role is to ensure that the Board has the necessary skills and experience to enable the Group to deliver its current and future strategic objectives. We regularly review the balance and composition of the Board, and develop appropriate succession plans, including contingency plans.

All Directors are subject to reappointment every year. Accordingly, at the AGM to be held on 29 June 2018, 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 2018 Notice of AGM.

## Directors

Directors' biographical details are set out on pages 60 and 61.

Jonathan Asquith served as Senior Independent Director ("SID") throughout the year. The SID supports me and I meet him regularly. He is also available to the Company's shareholders in relation to any concerns that they may not have been able to resolve through me, Simon Borrows or Julia Wilson, or where you, as shareholder, consider these channels are inappropriate.

## Diversity

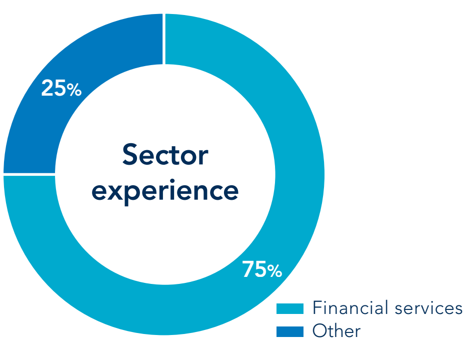
Further to the publication of the Davies Report on Women on Boards, and Code Provision B.2.4, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a diverse Board in terms of gender, industry experience, skills and educational background, and nationality and makes appointments on merit and against objective criteria.

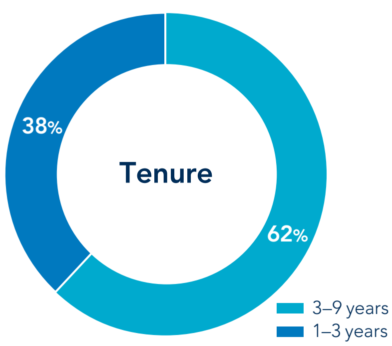
We have a formal, rigorous and transparent process for the appointment of Directors, with the objective of identifying the skills and experience required of new Directors, and identifying and appraising suitable candidates. In the case of non-executive Directors, the appraisal includes an assessment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

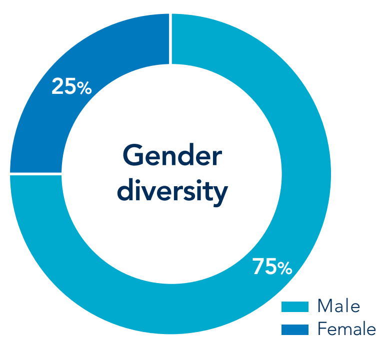
The external search consultancies we engage are instructed to put forward for all Board positions a diversity of candidates. This year we worked with external search consultants Heidrick and Struggles JCA Group although we did not make any recommendations to the Board for appointment. Heidrick and Struggles JCA Group had no other connections with 3i during the year.

**Simon Thompson**
Chairman, Nominations Committee
16 May 2018

## Composition of the Board



# Accountability

## Audit and Compliance Committee report

### Membership during the year

| Name | Membership status |
|---|---|
| Caroline Banszky | Member since July 2014 and Chairman since January 2015 |
| Jonathan Asquith | Member since March 2011 |
| Stephen Daintith | Member since October 2016 |
| Martine Verluyten | Member since November 2015 Retired in June 2017 |

Other regular attendees at the Committee meetings include the following: Group Chairman; Chief Executive; Group Finance Director; Group General Counsel; Group Financial Controller; the Head of Internal Audit; the Head of Compliance; and the external Auditor, Ernst & Young LLP.

**Further information on the Audit and Compliance Committee's terms of reference can be found on our website www.3i.com**

### Dear Shareholder

**I am pleased to present the Audit and Compliance Committee report for the year ended 31 March 2018. My report explains the Committee's work this year.**

We held six meetings this year, four of which were coordinated with 3i's external reporting timetable. In addition to the Committee's usual focus on internal controls and the integrity of the Group's financial reporting, this year we spent time reviewing management's approach to cyber risk, developments in tax reporting, preparations for the audit tender, which will take place this summer, the implementation of IFRS 15 and regulatory challenges arising from Brexit.

In advance of each Committee meeting, I met the Group Finance Director, the Group Financial Controller and the Heads of Compliance and Internal Audit to discuss their reports as well as any relevant issues. I also met privately with the external Auditor.

I regularly meet with the Ernst & Young LLP audit team as part of my ongoing review of their effectiveness. As part of my year end review, I also met Ernst & Young LLP's Head of Audit Quality for UK Financial Services and their Head of Assurance for UK Financial Services to discuss their approach to audit quality and what assurance had been taken in connection with their audit of 3i.

The rest of the report sets out in detail the Committee's activities in the year and is structured into four parts:

- Governance
- Report on the year
- Internal audit
- External audit

I look forward to engaging with you on the work of the Committee.

**Caroline Banszky**
Chairman, Audit and Compliance Committee
16 May 2018

### What the Committee reviewed in FY2018

#### Financial reporting

- Annual and half-year reports
- Quarterly performance updates
- Key accounting judgements and estimates
- Update on the relevant thematic reviews from the FRC
- Update on the Group's proposed implementation of IFRS 15
- Reviewing the Annual report to ensure that it is fair, balanced and understandable
- Update on result of the re-tender of the Group's existing finance outsourcing contract

#### Internal control and risk management

- Review of 3i's system of control and risk management
- External and internal audit reports
- Review of the viability statement and the supporting stress test scenarios
- Update on cyber security
- Update on HMRC's Senior Accounting Officer Certificates
- Review of the ICAAP

#### External audit

- Confirmation of the external Auditor's independence
- Policy and approval for non-audit fees
- The FY2018 Audit plan, including significant audit risks (being the valuation of the unquoted investment portfolio and the calculation of carried interest) as well as the area of audit focus (revenue recognition)
- Audit results report, including the results from testing Key Audit Matters
- Auditor performance and effectiveness
- Upcoming audit tender process

#### Risk reviews

- Valuation reports and recommending the investment portfolio valuation to the Board
- Review of strategy to address Brexit related regulatory challenge
- Regular reviews of compliance with regulatory rules
- Annual tax update, including Investment Trust matters and country by country reporting
- Reports on approach to tax policy and strategy
- Litigation
- Liquidity and going concern
- Update on the Group's Corporate Criminal Sanctions policy

## Governance

All members of the Committee are independent non-executive Directors. The Board believes members have the necessary range of financial, risk, control and commercial experience required to provide effective challenge to management. In particular, the Board is satisfied that Caroline Banszky has the recent and relevant financial experience as outlined in the FRC's Corporate Governance Code. The attendance of members at meetings is shown in the table on page 63.

The Committee meets privately for part of its meetings and also has regular private meetings with the external Auditor, the Group Finance Director, the Head of Internal Audit and the Head of Compliance in the absence of other management.

## Report on the year

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

### Accounting policies and practices

The Committee discussed a report from management on the new accounting standard IFRS 15 (Revenue Recognition), which is effective for 3i from 1 April 2018. The Committee discussed the key technical decisions and interpretations required, and 3i's approach to these, together with the Group's disclosure on the expected impact of IFRS 15 in the Financial review and page 99 of the financial statements.

### Financial reporting regulators

The Committee considered comment letters and papers from the FRC, including their Year End Advice Letter to Audit Committee Chairs and Finance Directors and their published thematic reviews. The Committee reviewed a paper prepared by management which detailed how they had taken due account of the matters raised and the enhancements they proposed to relevant disclosures in the Annual report and accounts 2018. In particular, as 3i presents its results under its non-GAAP Investment basis as well as preparing IFRS financial statements, the Committee specifically reviewed management's assessment of the FRC's thematic review on APMs and management's consideration of its recommendations.

### Taxation

The Committee received an annual update from the Head of Tax on the Group's taxation status together with a more general update on the status of current and upcoming legislative and regulatory changes. This year's reports covered tax transparency initiatives that have come into force, such as country by country reporting and the publication online of 3i's tax approach and strategy, as required by new UK tax rules for large businesses.

### Going concern and viability

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

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

### Areas of accounting judgement and control focus

The Committee pays particular attention to matters it considers to be important by virtue of their size, complexity, level of judgement and potential impact on the financial statements and wider business model. Significant areas of focus considered by the Committee are detailed in the table on the following page, alongside the actions taken by the Committee (with appropriate challenge from the external Auditor) to address them.

# Accountability
## Audit and Compliance Committee report
continued

| Area of significant attention | What the Committee reviewed and concluded |
|---|---|
| **Valuation of the proprietary capital investment portfolio** | |
| The most material area of judgement in the financial statements, and noted as a significant risk and Key Audit Matter by the external Auditor, relates to the valuation of the unquoted Proprietary Capital investment portfolio, which at 31 March 2018 was £5,806 million, or 83% of net assets, under the Investment basis.<br><br>In recognition of the importance of this area, the Board has a Valuations Committee to review the valuations policy, process and application to individual investments. This Committee provides quarterly oral reports to the Audit and Compliance Committee and the Board. | On behalf of the Board, the Committee received quarterly reports from the Chairman of the Valuations Committee and the external Auditor, with particular focus on the assumptions supporting the unquoted asset investments, any valuation uncertainties and the proposed disclosure in the financial statements. Members of the Committee also attend the Valuations Committee meetings.<br><br>The detail on the key valuation considerations and the review and challenge undertaken in the year is included in the Valuations Committee report on pages 70 to 72. |
| **Carried interest payable and receivable** | |
| The valuation of the proprietary capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2018.<br><br>We are through the hurdle to recognise carried interest receivable from EFV on an accounting basis. Carried interest receivable will be recognised in accordance with IFRS 15 from 1 April 2018.<br><br>We are also through the hurdle to pay carried interest to investment teams on 3i's proprietary capital invested in the 2010-2012 vintage. | Internal Audit reviews the carried interest balances and carry plan distributions made to plan participants before the payments are made. Summaries of the work done are included in updates to the Committee.<br><br>The Committee reviewed the carried interest payable and receivable as part of the overall summary prepared by management to support the Annual report and accounts 2018.<br><br>In advance of the year end, the Committee reviewed a paper from management on the Group's proposed accounting policy for carried interest under IFRS 15, and the carried interest receivable from EFV in particular, and the proposed disclosure in the Annual report and accounts 2018. |
| **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.<br><br>The Group prepares the non-GAAP Investment basis financial statements to ensure that its results remain understandable. | The Committee reviewed the Half-yearly and Annual financial statements as well as the Quarterly Performance Updates with management, focusing on the integrity and clarity of disclosure and enabling the Board to provide the fair, balanced and understandable confirmation to shareholders in the Annual report and accounts 2018.<br><br>A report summarising the considerations for the Annual report and accounts 2018 was reviewed by the Committee in advance of the year end and a summary of the detailed procedures undertaken was prepared alongside the Annual report and accounts 2018.<br><br>The external Auditor also confirmed that the inclusion of the Investment basis remained consistent with the prior year. |

## Internal audit

The Committee continued to monitor the scope, activity, and resources of the Group's internal audit function, including approving the internal audit plan and whether the operating model remained effective. The Committee monitors Internal Audit activity quarterly, covering change management and other areas of identified higher risk and reviewed Internal Audit's self-assessment of quality in the year. The Committee concluded that the Internal Audit function remained appropriate.

### Risk and internal control reviews

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

As highlighted on page 44 in the Risk management section, a report summarising each quarterly GRC meeting, along with the risk report considered, is provided to the Committee for review and discussion. In addition, the Head of Internal Audit prepares a report on internal controls for presentation to the Committee. The review documents the components of the internal control framework and highlights the key developments in the year. A commentary on the operation of the internal control framework over the year is also independently prepared by Internal Audit. Additional information can be found on page 64 of the Corporate Governance report.

## External audit

The Committee has responsibility for making recommendations to the Board on the reappointment of the external Auditor, determining their independence from the Group and its management and agreeing the scope and fee for the audit.

### Auditor independence

The Group has a policy for setting out what non-audit services can be purchased from the firm appointed as external Auditor. The aim of the policy is to support and safeguard the objectivity and independence of the external Auditor and to comply with the FRC's Ethical Standards for auditors.

It also ensures that where fees for approved non-audit services are greater than a pre-determined limit, they are subject to the Committee Chairman's prior approval.

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

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

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

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

### Audit and non-audit fees

The total audit fee for the year was £1.9 million (2017: £1.9 million). Non-audit fees paid to the external Auditor were £0.4 million (2017: £1.3 million). The Committee concluded that all of these fees fell within its criteria for engaging Ernst & Young LLP and does not believe they pose a threat to the Auditor's independence or objectivity.

### Assessing external audit effectiveness

The Committee reviews the effectiveness of Ernst & Young LLP through the use of questionnaires completed by management, by considering the extent of their contribution at its meetings throughout the course of the year, and in one-to-one meetings.

The FY2018 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 staff turnover within the Ernst & Young LLP audit team. The Committee concluded that the audit was effective and that there should be a resolution to shareholders to recommend the reappointment of Ernst & Young LLP at the 2018 AGM.

### Audit tender

Ernst & Young LLP (including its predecessor firms) has been the Group's external Auditor since November 1973. In line with the Competition and Markets Authority Statutory Audit Services Order, the Group must appoint a new Auditor for its year ending 31 March 2021. As noted in the FY2017 report, the Committee delayed the rotation of the current auditor to no later than 2020 due to the scale of the current engagements across the Group and its portfolio companies with the firms that may participate in any tender, as well as the complexities around how the rules on non-audit services would apply, for example, to private equity investments.

In May 2018, the Committee decided to put the Group's audit out to tender. Based on its current timetable, it intends to recommend an alternative audit firm by September 2018. Due to the time a new auditor will take to become independent, the Committee currently expects that Ernst & Young LLP will be retained as auditor until at least the end of FY2019 but that a new auditor will be in place ahead of the deadline of 1 April 2020.

3i is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, in the year ended 31 March 2018.

# Accountability
## Valuations Committee report

### Membership during the year

| Name | Membership status |
|---|---|
| David Hutchison | Chairman and Member since December 2013 |
| Simon Thompson | Member since June 2015 |
| Stephen Daintith | Member since October 2016 |
| Peter Grosch | Member since January 2016 |
| Martine Verluyten | Member since December 2013 Retired in June 2017 |
| Simon Borrows | Member since May 2012 |
| Julia Wilson | Member since December 2008 |

Other regular attendees at the Committee meetings include the following: Audit Committee Chairman; Deputy Chairman; Group Financial Controller; Group General Counsel; the Co-Heads of Private Equity; the external Auditor, Ernst & Young LLP

**Further information on the Valuations Committee's terms of reference can be found on our website at www.3i.com**

### Dear Shareholder

**I am pleased to present the Valuations Committee report for the year ended 31 March 2018. My report explains the role of the Committee as well as the work we reviewed this year.**

The Valuations Committee plays an important role in providing the Board with assurance that the valuation process is robust and independently challenged. We review and challenge the assumptions behind management's proposed asset valuations and report to the Audit and Compliance Committee and the Board.

During the year, we met four times as part of the Group's external reporting timetable. Our principal focus continued to be the Group's Private Equity investments as a high level of judgement is required to value the unquoted portfolio. This accounts for 95% of 3i's proprietary capital invested in Private Equity. The valuation of the Group's principal Infrastructure investment, its quoted holding in 3i Infrastructure plc, requires limited oversight given that it is a listed company. However, we devoted more time to Infrastructure in the second half of the year following the Group's first US Infrastructure investment, Smarte Carte and the Group's investments in the 3i Managed Infrastructure Acquisitions LP and the 3i European Operational Projects Fund.

At each meeting we received a detailed report from the Group Finance Director recommending the proposed valuation of the Group's investment portfolio. This report highlights the main drivers of value movement analysed between performance, multiple movements and other factors. At each meeting we also reviewed selected assets for detailed discussion; examples of such assets covered during the year included Action, ATESTEO, Audley Travel, Christ, Euro-Diesel, Ponroy Santé, Scandlines, Schlemmer and Smarte Carte.

I met the Group Finance Director and the Group Financial Controller in advance of each meeting to discuss the key valuation assumptions. I also met the external Auditor privately to discuss the results of their quarterly reviews. In February 2018, the external Auditor and I discussed their approach to the year-end audit and the assets that their specialist valuations team intended to select for their in-depth review.

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 Committee, attended a significant proportion of the meetings held in September 2017 and March 2018 and were represented at the reviews of the five largest Private Equity portfolio company investments.

The rest of this report sets out in more detail what the Committee did in the year.

**D A M Hutchison**
Chairman, Valuations Committee
16 May 2018

The Committee focused on the following significant issues in the FY2018:

| Area of judgement | What the Committee did |
|---|---|
| **Earnings and multiple assumptions** | |
| The majority (68%) 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". We also apply a liquidity discount to the enterprise value using factors such as our alignment with management and other shareholders and our investment rights in the company.<br>There is also a significant degree of judgement in selecting the set of comparable quoted companies to determine the appropriate multiple to generate an enterprise value. Multiples are selected by reference to the market valuation of quoted comparable companies, M&A transactions and input in certain cases from corporate finance advisers. We also take into account growth profile, geographic location, business mix, degree of diversification and leverage/ refinancing risk. The multiple implied by the quoted comparables may be adjusted if, in certain cases, the longer-term view (cycle or exit plan) supports the use of a different multiple. This has been a particularly important exercise in light of the movement in the quoted equity markets over the period under review.<br>Private Equity assets are typically valued using a multiple of earnings. However, alternative valuation methodologies, such as Discounted Cash Flow ("DCF") valuations, may be considered as an alternative benchmark for potential values as a cross check relative to the earnings based value. | Earnings data is received monthly from Private Equity portfolio companies and monitored closely by management. Actual earnings may then be adjusted in management's proposed valuations, for example, to reflect a full year's trading of an acquired business, removing profit from discontinued activities, any forecast uncertainty or to exclude exceptional transaction costs. Material adjustments are highlighted to the Committee in the quarterly report for review and approval.<br>Management continued to adjust a significant proportion of multiples used where the longer-term view (of the exit or multiple) supports the use of a different, typically lower, multiple. Notable changes in multiples in a quarter are presented to the Committee and adjustments are reviewed by the Committee at each meeting.<br>The Committee reviewed the work done by management on the potential use of a DCF valuation for Action and agreed with management's assessment that, while providing an informative reference point, the earnings based approach remained the most appropriate. |
| **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 the decisions on the appropriate discount rates. | Material assumptions in the DCF valuations and changes to these assumptions are reviewed by the Committee. This may include third-party support if available. Sensitivity to assumptions is also noted.<br>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.<br>The Committee reviewed the particular valuation methodology and assumptions behind the valuation of the Group's investment in Smarte Carte. |
| **Imminent sale assets** | |
| At any point in time it is likely that a number of potential exit processes from the portfolio are underway. Judgement is applied by management as to the likely eventual exit proceeds and certainty of completion. This means that in some cases an asset may not be moved to an imminent sales basis until very shortly before completion; in other cases the switch may occur on signing. However, as a general rule an asset moves to an imminent sale basis only when a process is materially complete and the remaining risks are estimated to be small, given the amount of completion risk around unquoted equity transactions. | 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 in a sales process which the Committee reviews.<br>Although not an area of valuation judgement, the Committee actively reviews the results of the back-testing that management prepares on all assets disposed in each quarter to reconcile the price achieved with the carrying value at the last balance sheet date. Typically, differences are due to increased earnings, the unwind of the liquidity discount and the circumstances of the buyer or the competitiveness of the sales process. This review acts as an important hindsight test of the fair value applied to assets in the quarters up to disposal.<br>The Committee focused on the disposal of ATESTEO and upcoming sale of Scandlines, which were at significant uplifts to the opening valuation and benefited in each case from the competitiveness of the auction process. |

# Accountability
## Valuations Committee report
continued

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

- considered the management information provided to support the Committee's review of the valuations, including management's responses to any challenges raised by the Committee members or the external Auditor;
- sought assurance from the external Auditor as to whether and how they had considered each of these areas;
- reviewed the consistency of the views of management and the external Auditor; and
- reviewed any differential between carrying values and those implied by the floating multiple of comparable quoted companies.

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

In addition, the Committee is responsible for keeping the Group's valuation policy under review and recommending any changes to the policy to the Audit and Compliance Committee and the Board. The policy is reviewed at least annually, with the last update in January 2018.

More information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 150 and 151.

### External audit

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

### Portfolio trends

At least annually the Committee Chairman and management conduct a review of the valuation outcomes in the portfolio over the preceding three years. The Committee Chairman and Group Finance Director reported to the Board in May 2018 on the key observations.

# Directors' remuneration report

## Dear Shareholder

**As Remuneration Committee Chairman, I am pleased to introduce the Directors' remuneration report for the financial year 1 April 2017 to 31 March 2018 ("the year") and to provide some details of the background against which the Committee's decisions have been taken in the year. References to "FY2019" relate to the financial year 1 April 2018 to 31 March 2019.**

At our 2017 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, other than minor clarification of the Malus and Clawback policy, which now reads as set out on page 81.

**The policy is available on our website www.3i.com**

## Performance in the year

I am pleased to report that this has been another successful year with a total return on equity of 24%. The results and the Committee's decisions concerning the Executive Directors' remuneration are underpinned by a balanced scorecard of both financial and strategic measures agreed by the Committee. While the facts driving our assessment of performance against that balanced scorecard are available elsewhere in this Annual report, we have summarised them here for ease of reference.

### Portfolio return

The Private Equity portfolio generated an excellent gross investment return of £1,438 million or 30% of opening portfolio value, supported by good growth in unrealised profits in the portfolio and a number of realisations at significant uplifts. Our investment in 3iN produced an outstanding performance during the year. 3iN generated a total return of 29%, assisted by high prices achieved in the sales of Elenia and AWG.

### Investment

Investment levels within our Private Equity business demonstrated that the team is working very effectively with £502 million invested in four new investments, including £172 million and £132 million invested in Hans Anders and Formel D respectively, and £80 million in three add-on investments including Vascotube (Cirtec) and Aragan (Ponroy Santé). Our new North American Infrastructure business completed its first investment in Smarte Carte and the European Infrastructure business advised 3iN on £525 million of investment and commitments.

### Operating profit

Our continued disciplined approach to cost management and the important developments in the Infrastructure business resulted in an operating cash profit of £11 million, notwithstanding the significant reduction in fee income resulting from the sale of the Debt Management business in FY2017.

### Strategy and people

We continue to focus our resources on our core markets. In the year, we reviewed the coverage of each of our businesses, which led to the decision to close our Madrid office following the disposal of Mémora. With the sale of our Debt Management business, our fund management focus has switched to the development of the Infrastructure business, with two new European funds closed during FY2018, and our North American Infrastructure business continues to grow.

### Conclusion

In light of the strong performance across the Group the Remuneration Committee has set annual bonuses for each Executive Director at 92.5% of maximum. Furthermore, the last three years have delivered exceptional shareholder returns resulting in the maximum hurdle on the LTIP being materially exceeded as detailed later in this report.

# Directors' remuneration report
continued

## FY2019 implementation

The Executive Directors will be awarded a 3% salary increase effective 1 July 2018, in line with Group-wide salary increases. There are no proposed changes to the rest of the remuneration package. The Board and the Remuneration Committee have reviewed the level and structure of the non-executive Director and Company Chairman fees respectively. The non-executive Directors fees were last set in 2014 as an annual cash fee (of £50k) plus a fixed number (3,000) of 3i shares. Since then, the 3i share price has grown from 475p to 859p (29 March 2018), increasing the value of the share component of non-executive Director fees from c.£14k to c.£27k. The Board has decided that, with effect from FY2019, non-executive Director share awards will be reduced to the share equivalent of £15k, effectively rebasing this component of annual remuneration to its 2014 level. The Committee also reviewed the Company Chairman's fees, and decided to change the proportions paid in cash and shares to align with the new structure for non-executive Director pay. Accordingly, from 2019 the Chairman will be paid £240k in cash and £70k in shares (2018: £280k and £30k respectively).

To further emphasise shareholder alignment at the Board level, it has also been agreed that for FY2019 the non-executive Directors and the Chairman will be subject to a shareholding target requiring them to build up over time and thereafter maintain a shareholding in the Company's shares equivalent to at least 1x their respective annual base fees (cash and shares).

## Changes in the year

The Committee continues to review the level of disclosure it makes through the annual performance metrics and their impact on remuneration. The FY2018 scorecard, which the Committee has used as a prompt and guide to judgement of performance, has been further improved with more than half of the scorecard now being directly linked to quantitative measures (Portfolio returns and Operating performance). As shown on page 76, these metrics have been set with threshold and maximum levels.

## Looking back

Looking back over the last 5 years, it is striking that the Executive Directors have performed sufficiently well in each of them to merit annual bonus awards in the 85-95% range, while their trailing three year performance since 2015 has been sufficiently strong to ensure LTIP payouts in the 90-100% range. It is natural to ask, with the benefit of hindsight, whether the targets set for them were sufficiently ambitious.

The Executive Directors' remuneration is significantly weighted towards the variable components of annual bonus and LTIP, and vests over a number of years. As detailed elsewhere in this report, variable awards are judged in relation to a range of KPIs including absolute and relative multi-year TSRs, portfolio returns and cash discipline. All of the LTIP and 80% of the annual bonus are delivered in the form of shares, ensuring strong alignment with shareholders.
All awards are capped on the upside, so that in the years in which performance targets are exceeded there is no further uplift in remuneration.

The Executive Directors have led the transformation of the Group since its restructuring plan was put in place in 2012. FY2018 marks the fourth year in succession in which Group Total Returns have exceeded 20%, registering a compound growth of 22% over the last 5 years. This growth has been mirrored in a compound TSR for investors in the Group of some 27% over the same period. As a result of the performance of the business over the last five years, the growth in returns to shareholders has far exceeded the increase in rewards to the executive directors, whose maximum fixed plus variable packages at grant have risen by 3% per annum.

20% annual compound growth in value is a challenging target for a company in the FTSE 100 by any standards, not least in a low inflation and low interest rate environment. The Committee is of the view that the fact that it has been regularly exceeded at 3i over recent years reflects the strength of the management team's performance during the period, rather than any weakness in the targets set.

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

**Jonathan Asquith**
Chairman, Remuneration Committee
16 May 2018

## The Annual report of remuneration (Implementation report)

During FY2018, we continued to operate under the remuneration policy approved at the 2017 AGM, which can be found on our website at **www.3i.com**.

### Director remuneration for the year

Single total figure of remuneration for each Director

| £'000 | Salary/ fees | Benefits | Pension | Annual bonus | LTIP | Total | Salary/ fees | Benefits | Pension | Annual bonus | LTIP | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **FY2018** | | | | | | FY2017 | | | | | |
| S A Borrows | 615 | 15 | 16 | 2,290 | 3,911 | 6,847 | 597 | 14 | 16 | 2,284 | 4,633 | 7,544 |
| J S Wilson | 447 | 16 | 47 | 1,041 | 1,778 | 3,329 | 434 | 17 | 46 | 1,011 | 2,106 | 3,614 |
| S Thompson | 310 | – | – | – | – | 310 | 295 | – | – | – | – | 295 |
| J P Asquith | 139 | – | – | – | – | 139 | 131 | – | – | – | – | 131 |
| C J Banszky | 107 | – | – | – | – | 107 | 108 | – | – | – | – | 108 |
| S W Daintith | 95 | – | – | – | – | 95 | 42 | – | – | – | – | 42 |
| P Grosch | 175 | – | – | – | – | 175 | 250 | – | – | – | – | 250 |
| D A M Hutchison | 107 | – | – | – | – | 107 | 99 | – | – | – | – | 99 |
| M G Verluyten | 23 | – | – | – | – | 23 | 87 | – | – | – | – | 87 |

- 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 £47k respectively. These supplements were in line with pension contributions for the Group's employees generally.
- Annual bonus awards made in respect of the year are delivered as 60% payable in 3i Group plc shares deferred for four years, and the remaining 40% being half as a cash payment immediately and half as 3i Group plc shares which are subject to a six-month retention period. All annual bonus awards are subject to the malus/clawback policy. Those shares deferred for four years are released in four equal annual instalments over the four years commencing June 2019 and all share awards carry the right to receive dividends and other distributions.
- In the case of Ms Banszky, the sum shown for FY2017 includes an amount of £69k (including VAT) paid to her then principal employer, the Law Debenture Corporation p.l.c., which released her to serve as a non-executive Director.
- In the case of Mr P Grosch, the sum shown includes €100k of fees paid to him by Euro-Diesel (a 3i portfolio company) for his role as Executive Chairman (2017: €200k).
- In addition to the table above, dividends or dividend equivalents on unvested deferred share awards were paid during the year (Mr Borrows: £133k, Mrs Wilson: £56k).
- The values shown in the LTIP column represent the performance shares vesting from the 2015 LTIP, together with the value of accrued dividends on those shares. The shares have been valued using the 29 March 2018 closing share price (859 pence). Further detail is provided on page 77.
- The fees shown for the non-executive Directors include fees used to purchase shares in the Company. Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. The Group meets the associated tax cost.
- In addition to the fees shown above, Mr Borrows retained directors' fees of £21k from The British Land Company PLC, and Mrs Wilson retained directors' fees of £115k from Legal and General Group plc.

# Directors' remuneration report
continued

## FY2018 performance

The Committee has continued to review the level of disclosure it makes through the annual performance metrics and has increased the proportion that is directly linked to quantitative measures this year (from 50% to 60%).

### Formulaic performance measures (60% of total)

| Area of strategic focus | Weighting | Metric | Threshold | Maximum | Performance | Payout |
|---|---|---|---|---|---|---|
| Portfolio returns | 45% | Private Equity Gross investment return (% of opening portfolio value) | 10% | 20% | 30% | 100% |
| Portfolio returns | 5% | 3iN total return | 8%[1] | 10%[1] | 29% | 100% |
| Operating performance | 10% | Manage operating expenses | £133m | £128m | £121m | 100% |

### Qualitative performance measures (40% of total)

| Area of strategic focus | Weighting | Metric | Target/Expectation | | Performance | Comments |
|---|---|---|---|---|---|---|
| Investment Management | 30% | New capital invested in Private Equity | E | €800m | €825m | Another year of increased investment levels in Private Equity, while maintaining a disciplined and selective approach to new investments. |
| | | New 3iN capital committed in Core/PPP | E | £250m–£325m | £525m | A strong year of investment activity, well above expectation, with 6 investments made or committed by 3iN. |

Investment benefited from a targeted approach around our key sectors and themes, with our focus on targets that were not being sold in more broadly-based processes resulting in a good hit rate. There was also a significant increase in strategic acquisitions and bolt-ons for existing portfolio companies in both PE and Infrastructure.

| Area of strategic focus | Weighting | Metric | Comments |
|---|---|---|---|
| Strategy and people | 10% | Achievement of strategy and people targets is measured against a balanced scorecard of objectives set by the Remuneration Committee | Good progress on refocusing the Group's fund management strategy following the sale of the Debt Management in FY2017, including the further development of the North American Infrastructure team and the successful close of two new European Infrastructure funds.<br>Designing and obtaining regulatory approval for a new corporate structure in Europe to manage potential regulatory risks posed by Brexit.<br>Closure of the Madrid office and continued consolidation of the Infrastructure and Private Equity teams, including through key hires, internal development and promotions.<br>Consistent shareholder support for the Group's performance and strategy and a further broadening of the shareholder base.<br>Development, retention and succession plans for the Group's key talent and leadership team progressing according to plan. |

1 The threshold and maximum return targets are set in line with 3iN's public return objectives.

T = Target E = Expectation

Consistent with last year, the Board did not set a threshold to maximum range for all metrics and set expectations rather than targets for some metrics. This is because the timing of investments and realisations is highly sensitive to market conditions, and a more prescriptive approach would run the risk of creating perverse incentives for executives. For example, setting a target level of realisations may result in the earlier sale of assets than would otherwise be appropriate, and setting a target level of investments may result in investing at inflated prices. In relation to Operating performance, the continued tight focus on managing operating costs is emphasised by specifying a narrow range of acceptable outcomes rather than a single numerical target. Operating costs as a percentage of assets under management compares favourably with other investment groups.

### Chief Executive and Group Finance Director annual bonus outcomes

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 FY2018 of £2,290,411 (being 92.5% of his maximum bonus opportunity), and awarded Mrs Wilson a bonus in respect of FY2018 of £1,041,095 (being 92.5% of her maximum bonus opportunity). In each case, 20% of the award will be paid in cash immediately, 20% will be delivered as shares with a retention period of six months and the remaining 60% will be deferred into the Company's shares vesting in equal instalments over four years. Annual bonus awards are subject to the malus/clawback policy.

## Share awards vesting in 2018 subject to performance conditions

### 2015 Long-term incentive award

The long-term incentive awards granted in June 2015 to Mr Borrows and Mrs Wilson were subject to performance conditions based on absolute and relative Total Shareholder Return over the three financial years to 31 March 2018. The table below shows the achievement against these conditions and the resulting proportion of the awards which will vest in June 2018.

| | Weighting | Threshold | | Maximum | | Actual | |
|---|---|---|---|---|---|---|---|
| Total Shareholder Return Measure | % | Performance | % vesting | Performance | % vesting | Performance | % vesting |
| Absolute Total Shareholder Return | 50% | 10% pa | 20% | 18% p.a. | 100% | 29.6% | 100% |
| Relative Total Shareholder Return (as measured against the FTSE 350 Index) | 50% | Median | 25% | Upper quartile | 100% | Above Upper Quartile | 100% |

The table below shows the grants made to each Executive Director on 25 June 2015 at a share price of 541.1 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 2018 closing share price of 859 pence.

| | Basis of award at grant | Face value at grant | Number of shares awarded at 541.1p per share | % vesting | Number of shares vesting | Value of share vesting at 859p per share |
|---|---|---|---|---|---|---|
| S A Borrows | Face value award of 4 times base salary of £567k | £2,266k | 418,768 | 100% | 418,768 | £3,597k |
| J S Wilson | Face value award of 2.5 times base salary of £412k | £1,030k | 190,349 | 100% | 190,349 | £1,635k |

The proportion of the award vesting will be released 50% in June 2018, 25% in June 2019 and 25% in June 2020 together with the value of dividends that would have been received during the period from grant to the release date.

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

The table below shows the percentage change in remuneration awarded to the Chief Executive and employees as a whole, between the year to 31 March 2017 and the year to 31 March 2018.

| | Salary | Benefits | Bonus |
|---|---|---|---|
| Chief Executive | 3% | 0% | 0% |
| All other employees | 6% | 0% | 2% |

## Details of share awards granted in the year

### LTIP

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

| | |
|---|---|
| Description of award | A performance share-based award, which releases shares, subject to satisfying the performance conditions, 50% on the third anniversary of grant and 25% on the fourth and fifth anniversaries. |
| Face value | Chief Executive – 400% of salary, being 287,800 shares.<br>Group Finance Director – 250% of salary, being 130,818 shares.<br>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 2017 annual results (835.3p). |
| Performance period | 1 April 2017 to 31 March 2020. |
| Performance targets | 50% of the award is based on absolute TSR measured over the performance period, and vests:<br>• 0% vesting below 10% pa TSR;<br>• 20% vesting at 10% pa TSR;<br>• Straight-line vesting between 10% and 18% pa TSR; and<br>• 100% vesting at 18% pa TSR.<br>50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests:<br>• 0% vesting for below median performance against the index;<br>• 25% vesting for median performance against the index;<br>• 100% vesting for upper quartile performance against the index; and<br>• 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. |

# Directors' remuneration report
continued

## Deferred bonuses awarded in FY2018

The two Executive Directors are considered to be AIFMD Identified Staff and, as such, 60% of their annual bonuses will be delivered in 3i Group plc shares deferred for four years (and which vest one quarter per annum over those four years). The remaining 40% will be delivered half as a cash bonus and half in 3i Group plc shares which are subject to a six-month retention period. The following awards were made on 10 June 2017 in respect of FY2017 performance:

| | 60% of FY2017 bonus deferred for four years | | | 20% of FY2017 delivered as shares subject to a six-month retention period | | |
|---|---|---|---|---|---|---|
| | Face value at grant | Number of shares awarded at 835.3p per share | Vesting | Face value at grant | Number of shares awarded at 835.3p per share | Released |
| S A Borrows | £1,370,280 | 164,046 | Four equal instalments annually from 1 June 2018 | £456,760 | 54,682 | At the expiry of the six-month retention period |
| J S Wilson | £606,462 | 72,604 | | £202,154 | 24,201 | |

These face values were reported in the FY2017 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 2017 (18 May 2017 to 24 May 2017), which was 835.3 pence. These awards are not subject to further performance conditions.

## Share Incentive Plan

During the year, Mrs Wilson participated in the HMRC approved Share Incentive Plan which allowed employees to invest up to £150 per month from pre-tax salary in ordinary shares ("partnership shares"). For each partnership share, the Company grants two free ordinary shares ("matching shares") which are normally forfeited if employment ceases within three years of grant. Dividends are reinvested in further ordinary shares ("dividend shares").

During the year, Mrs Wilson purchased 198 partnership shares, and received 396 matching shares and 464 dividend shares at prices ranging between £7.995 and £9.535 per share, with an average price of £9.089.

## Hedging of share awards

As a matter of policy the Group ensures that it holds the maximum potential number of shares granted under the LTIP, Deferred Share Plan and Share Incentive Plan from the date of grant. Shares are purchased in the market as and when required to ensure that coverage is maintained.

## Pension arrangements

Mr Borrows and Mrs Wilson receive pension benefits on the same basis as other employees of the Company. During the year, they received salary supplements in lieu of pension of £16k and £47k respectively.

## Payments to past Directors

Mr Queen, who resigned as Chief Executive on 16 May 2012, retained interests in arrangements relating to his previous roles as Managing Partner, Infrastructure and Managing Partner, Growth Capital. During the year, he received payments under those arrangements totalling £5k together with a return of a capital commitment of €9k. It is anticipated that he will receive further payments of €101k from these arrangements.

## Payments for loss of office

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

## Statement of Directors' shareholding and share interests

The Company's share ownership and retention policy requires Executive Directors to build up over time and thereafter maintain a shareholding in the Company's shares equivalent to at least 3.0 times gross salary in the case of the Chief Executive and 2.0 times gross salary for the Group Finance Director. In addition, shareholding targets have been introduced for other members of the Executive Committee at 1.5 times their gross salaries and for partners in the Group's businesses at 1.0 times their gross salaries.

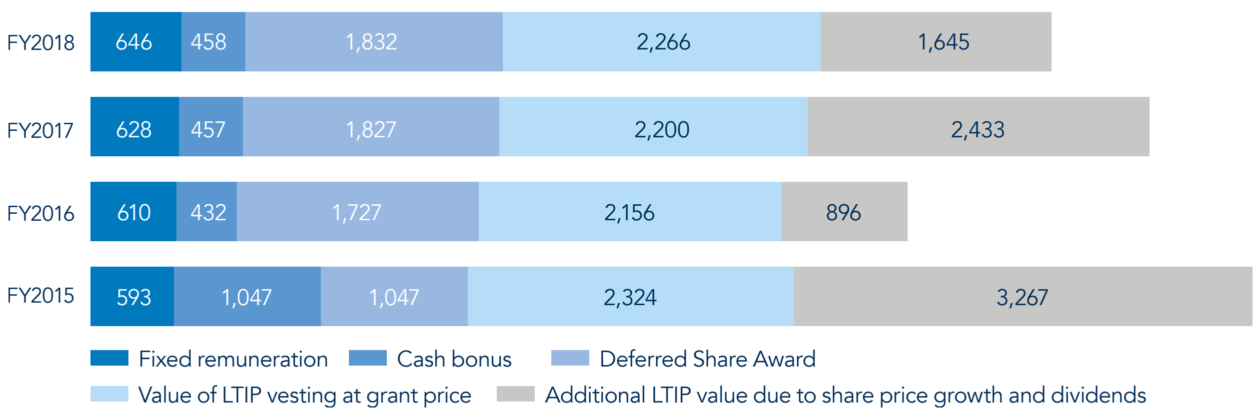
Details of Directors' interests (including interest of their connected persons) in the Company's shares as at 31 March 2018 are shown in the table opposite. The closing share price on 29 March 2018 was £8.59.

| | Owned outright[1] | Deferred shares[2] | Subject to performance | Shareholding requirement | Current shareholding (% salary) |
|---|---|---|---|---|---|
| S A Borrows[3] | 12,933,394 | 1,354,132 | 739,508 | 300% | 17,947% |
| J S Wilson[3] | 645,791 | 606,773 | 336,140 | 200% | 1,232% |

| | Shares owned outright |
|---|---|
| S Thompson[3] | 48,558 |
| J P Asquith[3] | 46,001 |
| C Banszky[3] | 15,995 |
| S Daintith[3] | 4,241 |
| P Grosch[3] | 7,249 |
| D Hutchison[3] | 62,966 |

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 shares shown includes the 2015 Performance Share award. The performance target has been met with 100% of the shares being released as described on page 77.
3 Directors are restricted from hedging their exposure to the 3i share price.
4 From 1 April 2018 to 1 May 2018, Mrs Wilson became interested in a further 17 shares overall outright (SIP Partnership Shares) and a further 34 deferred shares (SIP Matching Shares). There were no other changes to Directors' share interests in that period.

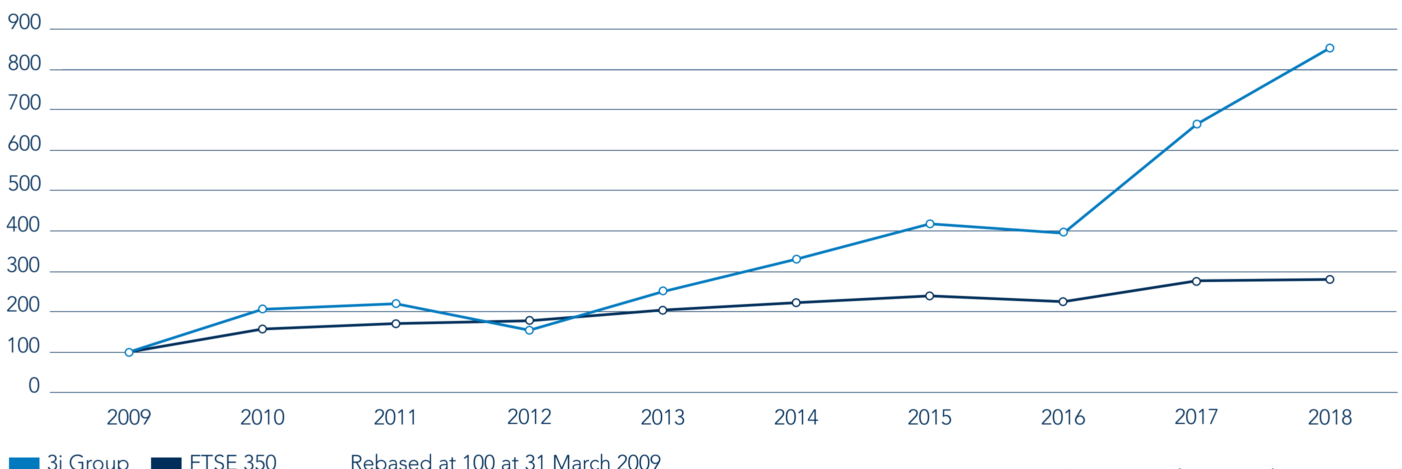
## Chief Executive's single figure remuneration history (£'000)




## Performance graph – TSR graph

This graph compares the Company's total shareholder return for the nine financial years to 31 March 2018 with the total shareholder return of the FTSE 350 Index. The FTSE 350 Index is considered to be an appropriate comparator as it reflects both the variety of the Company's portfolio of international investments as well as the diverse currencies in which those investments are denominated.

## 3i total shareholder return vs FTSE 350 total return over the nine years to 31 March 2018



# Directors' remuneration report
continued

## Performance table

### 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 |
|---|---|---|---|---|
| FY2018 | S A Borrows | 6,847 | 92.5% | 100% |
| FY2017 | S A Borrows | 7,544 | 95% | 100% |
| FY2016 | S A Borrows | 5,821 | 92.5% | 98% |
| FY2015 | S A Borrows | 8,278 | 92.5% | 90.85% |
| FY2014 | S A Borrows | 3,222 | 92.5% | 0% |
| FY2013[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

| | FY2018 | FY2017 | Change % |
|---|---|---|---|
| Remuneration of all employees | £83m | £88m | (6)% |
| Dividends paid to shareholders | £255m | £230m | 11% |

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

The table below sets out how the Committee intends to operate the remuneration policy in FY2019.

| Policy element | Implementation of policy during FY2019 |
|---|---|
| **Base salary** | A Group-wide 3% increase to salaries will take place in FY2019, which will also be applied to Executive Director salaries. Effective from 1 July 2018, salaries for the Executive Directors will therefore be as follows:<br>• Chief Executive: £637,601 (+3%)<br>• Group Finance Director: £463,709 (+3%) |
| **Pension** | No changes to the current arrangements are proposed for FY2019. The Executive Directors will continue to receive a pension contribution or salary supplement as follows:<br>• Chief Executive: £16k<br>• Group Finance Director: 12% of salary |
| **Benefits** | No changes to the current arrangements are proposed for FY2019.<br>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 FY2019 will remain unchanged, in line with the remuneration policy, as follows:<br>• Chief Executive: 400% of salary<br>• Group Finance Director: 250% of salary<br>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.<br>Measures for the FY2019 scorecard are based 90% on financial measures (65% portfolio return, 20% investment management and 5% operating performance) and 10% on strategic and people objectives. They are calibrated to current business strategy and evolve year-on-year as the Group's situation and priorities develop.<br>The Committee considers that the specific targets and expectations contained within the FY2019 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 out-turns.<br>At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years.<br>Awards are subject to the Company's malus and clawback policy. |

| Policy element | Implementation of policy during FY2019 |
|---|---|
| **Long-term incentive plan** | Awards under the long-term incentive plan in FY2019 will remain unchanged and be made as follows:<br>• Chief Executive: 400% of salary<br>• Group Finance Director: 250% of salary<br>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:<br>• 50% of the award is based on absolute TSR measured over the performance period, and vests:<br>• 0% vesting below 10% pa TSR;<br>• 20% vesting at 10% pa TSR;<br>• straight-line vesting between 10% and 18% pa TSR; and<br>• 100% vesting at 18% pa TSR.<br>50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests:<br>• 0% for below median performance against the index;<br>• 25% for median performance against the index;<br>• 100% for upper quartile performance against the index; and<br>• straight-line vesting between median and upper quartile performance.<br>Awards are subject to the Company's malus and clawback policy. |
| **Shareholding requirements** | Shareholding requirements will be as follows:<br>• Chief Executive: 300% of salary<br>• Group Finance Director: 200% of salary<br>• non-executive Directors (including the Company Chairman): 100% of base fee |
| **Non-executive Director fees** | The fees for the Non-executive Directors for FY2019 will be:<br>**Chairman fee:** £240,000 plus £70,000 in 3i shares<br>**Non-executive Directors:**<br>Board membership base fee: £50,000 plus £15,000 in 3i shares<br>Deputy Chairman (including SID fee): £40,000<br>Senior independent director fee: £10,000<br>Committee chairman: £20,000<br>Committee member: £8,000<br>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 taking into account an individual's role and responsibilities. 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, inappropriate values or behaviour.<br>In exceptional circumstances (and on such basis as the Committee considers fair, reasonable and proportionate taking into account an individual's role and responsibilities), 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. In arriving at its decision, the Committee will take into consideration such evidence as it may reasonably consider relevant including as to the impact of the affected individual's conduct, values or behaviours on the material misstatement or material loss, as the case maybe. |

# Directors' remuneration report
continued

## 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 | 5 | 5 |
| C J Banszky | Non-executive Director | Member since November 2015 | 5 | 5 |
| D A M Hutchison | Non-executive Director | Member since December 2013 | 5 | 5 |

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 LLP are members of the Remuneration Consultants Group and as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. During the year, Deloitte LLP also provided 3i with certain tax advisory services. The Committee has reviewed the advice provided during the year and is satisfied that it has been objective and independent. The total fees for advice during the year were £27,400 (excluding VAT) (2017: £44,350 (excluding VAT)).

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

## Result of voting at the 2017 AGM

At the 2017 AGM, shareholders approved the Remuneration report that was published in the 2017 Annual report and accounts. At the 2017 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 2017 AGM | 693,120,571 | 24,658,579 | 717,779,150 | 1,071,340 |
| | (96.56%) | (3.44%) | | |
| Approval of the Directors' remuneration policy at the 2017 AGM | 684,177,712 | 33,578,863 | 717,756,575 | 1,094,463 |
| | (95.32%) | (4.68%) | | |

The Remuneration policy is available on 3i's website **www.3i.com**

## Audit

The tables in this report (including the Notes thereto) on pages 75 to 80 have been audited by Ernst & Young LLP.

By order of the Board

**Jonathan Asquith**
Chairman, Remuneration Committee
16 May 2018

# Relations with shareholders

| May | June | July | Sept | Nov | Feb | March |
|---|---|---|---|---|---|---|
| **Full-year results** 18.05.17 **Road shows** from 19.05.17 | **AGM** 29.06.17 | **Performance update** 26.07.17 | **Capital markets seminar** 18.09.17 | **Half-year results** 16.11.17 **Roadshows** from 16.11.17 | **Q3 Performance update** 01.02.18 | **Capital markets seminar** 09.03.18 |

## 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 seeks to engage with major shareholders on corporate governance, strategy and management once a year, and is available more often as required. Non-executive Directors 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. The Board also receives periodic feedback from existing shareholders and potential investors through 3i's corporate brokers, Bank of America Merrill Lynch and Barclays.

## Investor Relations programme

### Meetings with principal shareholders

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

### Meetings with potential investors

During the year, the Executive Directors and the Investor Relations team held regular meetings with potential investors, as part of arranged UK and international roadshows, to communicate the strategy and performance of 3i.

### Annual and half-yearly results presentations

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

### Industry conferences

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

### Capital markets seminars

3i held three capital markets seminars in London in FY2018, including two on Action, 3i's largest investment, and one on four other assets in the Private Equity portfolio. The two Action capital markets seminars, held in May 2017 and in March 2018, consisted of presentations to significant shareholders and analysts by the 3i Chief Executive and the management team of Action. These events focused on Action's business model and strategy and on its financial performance. Recordings of the seminars and the presentation materials used were made available on 3i's website. The Private Equity capital markets seminar, held in September 2017, involved presentations on four of our most recent Private Equity investments: Aspen Pumps, ATESTEO, Ponroy Santé and Q Holding. The presentations were delivered by the Private Equity investment partners responsible for those investments. The presentation materials used during the seminar were made available on 3i's website.

### 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.

### Annual General Meeting

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are generally made by the Chairman and the Chief Executive. The Chairmen of the Remuneration, Audit and Compliance, and Nominations Committees are generally available to answer shareholders' questions. Business to be discussed at the Meeting is notified to shareholders in advance through the Notice of Meeting and covers matters such as the annual election of Directors, the appointment of the Auditor and the dividend declaration. During the Meeting, shareholders are also asked to approve the financial statements and reports of the Directors and the Auditor. In addition, shareholders are asked to approve the Directors' remuneration report. The 2017 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.

### 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.

# Additional statutory and corporate governance information

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

## Investment policy

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. The Board has taken the view that the investment policy required clarification as to how the maximum exposure limit would apply in cases where 3i makes an investment in an existing portfolio business as part of a reorganisation or restructuring of its investment in that existing portfolio business. The Board has therefore amended the investment policy to clarify that the cost of any such investment, for the purposes of determining the maximum exposure limit under the policy, will be the cost of the existing investment prior to the reorganisation or restructuring, rather than the cost of that investment at the time of the reorganisation or restructuring.

The Board believes that this clarification will provide greater certainty on the applicable exposure limit treatment when 3i restructures existing investments. The Board also considers that the amendment to the investment policy is non-material. Consequently, the amendment does not require shareholder approval. The revised investment policy is set out in the box below.

### Investment policy

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity and infrastructure returns. Currently, its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds in Europe, Asia and the Americas. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.
- 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio.
- Although 3i does not set maximum exposure limits for asset allocations, it does have a maximum exposure limit that, save as mentioned below, no investment will be made unless its cost[1] 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 portfolio business provided the aggregate cost of that investment and of all other unrealised investments in that portfolio business 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.

1 Where 3i makes an investment in an existing portfolio business as part of a restructuring or reorganisation of its investment in that existing portfolio business (which restructuring or reorganisation may involve, without limitation, 3i disposing of all or part of its existing investment in the relevant portfolio business and re-investing all or part of the proceeds into a different entity which acquires or holds the relevant portfolio business or a substantial part thereof), the cost of that investment, for the purposes of determining the maximum exposure limit under this policy, shall, to the extent that the investment does not increase 3i's exposure to the relevant portfolio business, be deemed to be the cost of 3i's existing investment in the relevant portfolio business (or, in the case of a partial re-investment, the pro-rated cost of 3i's existing investment in the relevant portfolio business) immediately prior to the restructuring or reorganisation. If 3i's investment includes a further investment, such that 3i increases its overall exposure to the relevant portfolio business as part of the restructuring or reorganisation, the cost of any such further investment at the date of such investment shall be added to the cost of the investment in the existing portfolio business as determined pursuant to the previous sentence.

Previously, the third bullet point of the Investment policy, set out in the box opposite, read as follows:

"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."

## Corporate governance

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the "Code") published by the FRC in September 2016 and which is available on the FRC website.

The Group's internal control and risk management systems including those in relation to the financial reporting process are described on page 64.

## Directors

Directors' biographical details are set out on pages 60 and 61. The Board currently comprises the Chairman, five non-executive Directors and two Executive Directors. Mr S R Thompson, Mr J P Asquith, Ms C J Banszky, Mr S A Borrows, Mr S W Daintith, Mr P Grosch, Mr D A M Hutchison, and Mrs J S Wilson served as Directors throughout the year under review. Ms M G Verluyten served as a Director during the year until 29 June 2017.

## 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. Shareholders can also remove any Director by ordinary resolution of which special notice has been given.

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

## The Board's responsibilities and processes

The composition of the Board and its Committees as well as the Board's key responsibilities and the way in which it and its Committees work are described on pages 60 to 82. The Board is responsible to shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Articles of Association and any directions given by special resolution of the shareholders. The Articles of Association empower the Board to offer, allot, grant options over or otherwise deal with or dispose of the Company's shares as the Board may decide.

The Companies Act 2006 authorises the Company to make market purchases of its own shares if the purchase has first been authorised by a resolution of the Company.

The Board's diversity policies in relation to Directors are described in the Nominations Committee report on page 65 and such policies in relation to staff are described on page 88.

At the AGM in June 2017, 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 2018 AGM are set out in the 2018 Notice of AGM.

# Additional statutory and corporate governance information

continued

## Matters reserved for the Board

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include matters such as the Group's overall strategy, strategic plan and annual operating budget; approval of the Company's financial statements and changes to accounting policies or practices; changes to the capital structure or regulated status of the Company; major capital projects or changes to business operations; investments and divestments above certain limits; policy on borrowing, gearing, hedging and treasury matters; and adequacy of internal control systems.

## Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2018 is set out below.

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

Holders of ordinary shares are entitled to attend, speak and vote at general meetings and to appoint proxies and, in the case of corporations, corporate representatives to attend, speak and vote at such meetings on their behalf. To attend and vote at a general meeting a shareholder must be entered on the register of members at such time (not being earlier than 48 hours before the meeting) as stated in the Notice of general meeting. On a poll, holders of ordinary shares are entitled to one vote for each share held.

Holders of ordinary shares are entitled to receive the Company's Annual report and accounts, to receive such dividends and other distributions as may lawfully be paid or declared on such shares and, on any liquidation of the Company, to share in the surplus assets of the Company after satisfaction of the entitlements of the holders of any shares with preferred rights as may then be in issue.

There are no restrictions on the transfer of fully paid shares in the Company, save as follows. The Board may decline to register: a transfer of uncertificated shares in the circumstances set out in the Uncertificated Securities Regulations 2001; a transfer to more than four joint holders; a transfer of certificated shares which is not in respect of only one class of share; a transfer which is not accompanied by the certificate for the shares to which it relates; a transfer which is not duly stamped in circumstances where a duly stamped instrument is required; or a transfer where in accordance with section 794 of the Companies Act 2006 a notice (under section 793 of that Act) has been served by the Company on a shareholder who has then failed to give the information required within the specified time.

In the latter circumstances the Company may make the relevant shares subject to certain restrictions (including in respect of the ability to exercise voting rights, to transfer the shares validly and, except in the case of a liquidation, to receive the payment of sums due from the Company).

There are no shares carrying special rights with regard to control of the Company. There are no restrictions placed on voting rights of fully paid shares, save where in accordance with Article 12 of the Company's Articles of Association a restriction notice has been served by the Company in respect of shares for failure to comply with statutory notices or where a transfer notice (as described below) has been served in respect of shares and has not yet been complied with. Where shares are held on behalf of former or current employees under employee share schemes, those participants can give instructions to the holder of such shares as to how votes attached to such shares should be exercised.

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

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

## Share capital and debentures

The issued ordinary share capital of the Company as at 1 April 2017 was 972,808,424 ordinary shares and at 31 March 2018 was 972,897,006 ordinary shares of $73^{19}/_{22}$ pence each. It increased over the year by 88,582 ordinary shares on the issue of shares to the trustee of the 3i Group Share Incentive Plan.

At the Annual General Meeting ("AGM") on 29 June 2017, the Directors were authorised to repurchase up to 97,000,000 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 15 May 2017) until the Company's AGM in 2018 or 28 September 2018, if earlier. This authority was not exercised in the year. Details of the authorities which the Board will be seeking at the 2018 AGM are set out in the 2018 Notice of AGM.

As detailed in Note 16 to the Accounts, as at 31 March 2018 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme.

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

## Major interests in ordinary shares

The table below shows notifications of major voting interests in the Company's ordinary share capital (notifiable in accordance with Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules or section 793 Companies Act 2006) which had been received by the Company as at 31 March 2018 and 1 May 2018.

## Portfolio management and voting policy

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

## Tax and investment company status

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

Where appropriate, the Company looks to the provisions included within the Association of Investment Companies SORP.

## 3i Investments plc

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

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

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

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 96. 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.



### Major interests in ordinary shares

| | As at 31 March 2018 | % of issued share capital | As at 1 May 2018 | % of issued share capital |
|---|---|---|---|---|
| BlackRock, Inc | 81,545,008 | 8.38 | 81,694,106 | 8.40 |
| Artemis Investment Management LLP | 52,625,885 | 5.41 | 52,637,910 | 5.41 |
| Threadneedle Asset Management Ltd | 36,939,402 | 3.80 | 34,161,832 | 3.51 |

# Additional statutory and corporate governance information
continued

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 £40 million was fixed remuneration and £43 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.

## Dividends

An interim dividend of 8.0 pence per ordinary share in respect of the year to 31 March 2018 was paid on 10 January 2018. The Directors recommend a dividend of 22.0 pence per ordinary share (comprising a base dividend of 8 pence and an additional dividend of 14 pence) be paid in respect of the year to 31 March 2018 to shareholders on the Register at the close of business on 15 June 2018.

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

## Directors' conflicts of interests and Directors' indemnities

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

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

## Directors' employment contracts

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

## Employment

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

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

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

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

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

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

Where appropriate, employees are eligible to participate in 3i share schemes to encourage employees' involvement in 3i's performance. Investment executives in the Private Equity business line may also participate in carried interest schemes, which allow executives to share directly in future profits on investments. Similarly, investment executives in the Infrastructure business line 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 2018 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 2018, 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 a number of other banks. The Company is required to notify Barclays Bank PLC, as agent bank, within five days, of a change of control. This opens a 20-day negotiation period to determine if the Majority Lenders (as defined in the agreement) are willing to continue the facility. Failing agreement, amounts outstanding would be repayable and the facility cancelled.

## Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2018.

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

The Viability statement is included on page 47.

## 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.

## Information required by Listing Rule 9.8.4

Information required by Listing Rule 9.8.4 not included in this section of the Directors' report may be found as set out below:

| Topic | Location |
|---|---|
| Capitalised interest | Portfolio income on page 30 |
| Share allotments | Note 19 on page 121 |

## Information included in Strategic report

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

The Directors' viability statement is also shown in the Strategic report on page 47.

# Additional statutory and corporate governance information
continued

## 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.

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 on pages 60 and 61.

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

## Directors' report

For the purposes of the UK Companies Act 2006, the Directors' report of 3i Group plc comprises the Governance section on pages 58 to 90 other than the Directors' remuneration report on pages 73 to 82.

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
16 May 2018

Registered Office:
16 Palace Street
London SW1E 5JD

# Audited financial statements

**Includes the detailed IFRS financial performance, accounting policies and notes to explain the accounts**

# Consolidated statement of comprehensive income

for the year to 31 March

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| Realised profits/(losses) over value on the disposal of investments | 2 | 18 | (25) |
| Unrealised profits on the revaluation of investments | 3 | 386 | 262 |
| Fair value movements on investment entity subsidiaries | 11 | 848 | 1,041 |
| Portfolio income | | | |
| Dividends | | 29 | 38 |
| Interest income from investment portfolio | | 26 | 10 |
| Fees receivable | | 17 | 9 |
| Foreign exchange on investments | | (12) | 64 |
| **Gross investment return** | | **1,312** | 1,399 |
| Fees receivable from external funds | | 57 | 46 |
| Operating expenses | 4 | (120) | (116) |
| Interest received | | 2 | 2 |
| Interest paid | | (37) | (49) |
| Exchange movements | | 57 | 42 |
| Income from investment entity subsidiaries | | 19 | 18 |
| Other income | | 2 | 10 |
| Carried interest | | | |
| Carried interest and performance fees receivable | 13 | 228 | 280 |
| Carried interest and performance fees payable | 14 | (32) | (108) |
| **Operating profit before tax** | | **1,488** | 1,524 |
| Income taxes | 7 | (25) | 3 |
| **Profit for the year from continuing operations** | | **1,463** | 1,527 |
| Profit for the year from discontinued operations, net of tax | | – | 98 |
| **Profit for the year** | | **1,463** | 1,625 |
| | | | |
| Other comprehensive expense that may be reclassified to the income statement | | | |
| Exchange differences on translation of foreign operations | | (38) | (4) |
| Other comprehensive expense that will not be reclassified to the income statement | | | |
| Re-measurements of defined benefit plans | 26 | – | (22) |
| **Other comprehensive expense for the year from continuing operations** | | **(38)** | (26) |
| **Other comprehensive expense for the year from discontinued operations** | | **–** | (7) |
| **Total comprehensive income for the year ("Total return")** | | **1,425** | 1,592 |
| | | | |
| Earnings per share from continuing operations | | | |
| Basic (pence) | 8 | 151.7 | 159.0 |
| Diluted (pence) | 8 | 151.0 | 158.3 |
| | | | |
| Earnings per share | | | |
| Basic (pence) | 8 | 151.7 | 169.2 |
| Diluted (pence) | 8 | 151.0 | 168.4 |
| | | | |
| Dividend per share | | | |
| Interim dividend per share paid (pence) | 9 | 8.0 | 8.0 |
| Dividend per share (pence) | 9 | 22.0 | 18.5 |

The Notes on pages 104 to 138 form an integral part of these financial statements.

# Consolidated statement of financial position

as at 31 March

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | | | |
| Quoted investments | 10 | **345** | 390 |
| Unquoted investments | 10 | **1,751** | 1,316 |
| Investments in investment entity subsidiaries | 11 | **4,034** | 3,483 |
| **Investment portfolio** | | **6,130** | 5,189 |
| Carried interest and performance fees receivable | 13 | **498** | 354 |
| Other non-current assets | 15 | **28** | 50 |
| Intangible assets | | **12** | – |
| Retirement benefit surplus | 26 | **125** | 121 |
| Property, plant and equipment | | **4** | 5 |
| **Total non-current assets** | | **6,797** | 5,719 |
| **Current assets** | | | |
| Carried interest and performance fees receivable | 13 | **93** | 9 |
| Other current assets | 15 | **34** | 12 |
| Current income taxes | | **3** | 2 |
| Deposits | | **–** | 40 |
| Cash and cash equivalents | | **972** | 931 |
| **Total current assets** | | **1,102** | 994 |
| **Total assets** | | **7,899** | 6,713 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 18 | **(1)** | (24) |
| Carried interest and performance fees payable | 14 | **(105)** | (124) |
| Loans and borrowings | 16 | **(575)** | (575) |
| Retirement benefit deficit | 26 | **(23)** | (22) |
| Deferred income taxes | 7 | **(3)** | – |
| Provisions | 17 | **(1)** | (2) |
| **Total non-current liabilities** | | **(708)** | (747) |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **(100)** | (103) |
| Carried interest and performance fees payable | 14 | **(55)** | (23) |
| Current income taxes | | **(11)** | – |
| Provisions | 17 | **(1)** | (4) |
| **Total current liabilities** | | **(167)** | (130) |
| **Total liabilities** | | **(875)** | (877) |
| **Net assets** | | **7,024** | 5,836 |
| **Equity** | | | |
| Issued capital | 19 | **719** | 719 |
| Share premium | | **786** | 785 |
| Capital redemption reserve | | **43** | 43 |
| Share-based payment reserve | | **32** | 30 |
| Translation reserve | | **(8)** | 218 |
| Capital reserve | | **4,700** | 3,390 |
| Revenue reserve | | **778** | 689 |
| Own shares | 20 | **(26)** | (38) |
| **Total equity** | | **7,024** | 5,836 |

The Notes on pages 104 to 138 form an integral part of these financial statements.

**Simon Thompson**
Chairman
16 May 2018

# Consolidated statement of changes in equity

for the year to 31 March

| 2018 | 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 | 785 | 43 | 30 | 218 | 3,390 | 689 | (38) | 5,836 |
| Profit for the year | – | – | – | – | – | 1,318 | 145 | – | 1,463 |
| Exchange differences on translation of foreign operations | – | – | – | – | (38) | – | – | – | (38) |
| **Total comprehensive income for the year** | – | – | – | – | (38) | 1,318 | 145 | – | 1,425 |
| Share-based payments | – | – | – | 17 | – | – | – | – | 17 |
| Release on exercise/forfeiture of share options | – | – | – | (15) | – | – | 15 | – | – |
| Exercise of share awards | – | – | – | – | – | (12) | – | 12 | – |
| Ordinary dividends | – | – | – | – | – | (83) | (71) | – | (154) |
| Additional dividends | – | – | – | – | – | (101) | – | – | (101) |
| Issue of ordinary shares | – | 1 | – | – | – | – | – | – | 1 |
| Transfer from translation reserve to capital reserve[1] | – | – | – | – | (188) | 188 | – | – | – |
| **Total equity at the end of the year** | 719 | 786 | 43 | 32 | (8) | 4,700 | 778 | (26) | 7,024 |

1 Transfer relates to the translation reserve for Investment entity subsidiaries that was not reclassified on adoption of IFRS 10.

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

The Notes on pages 104 to 138 form an integral part of these financial statements.

# Consolidated cash flow statement

for the year to 31 March

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Purchase of investments | | **(470)** | (334) |
| Proceeds from investments | | **414** | 310 |
| Cash inflow from investment entity subsidiaries | 11 | **430** | 246 |
| Net cash flow from derivatives | | **(10)** | – |
| Portfolio interest received | | **4** | 7 |
| Portfolio dividends received | | **29** | 54 |
| Portfolio fees received | | **13** | 9 |
| Fees received from external funds | | **55** | 71 |
| Carried interest and performance fees received | 13 | **6** | 39 |
| Carried interest and performance fees paid | 14 | **(40)** | (27) |
| Acquisition related earn-out charges paid | | **–** | (1) |
| Operating expenses paid | | **(114)** | (131) |
| Co-investment loans received | | **5** | 2 |
| Other cash income | | **–** | 2 |
| Income taxes paid | | **(10)** | (2) |
| **Net cash flow from operating activities** | | **312** | 245 |
| **Cash flow from financing activities** | | | |
| Issue of shares | | **1** | 1 |
| Dividend paid | 9 | **(255)** | (230) |
| Repayment of short-term borrowings | | **–** | (264) |
| Repurchase of short-term borrowings | | **–** | (17) |
| Interest received | | **2** | 2 |
| Interest paid | | **(36)** | (51) |
| **Net cash flow from financing activities** | | **(288)** | (559) |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of Debt Management business | | **–** | 232 |
| Cash held in disposed subsidiaries | | **–** | (4) |
| Purchases of property, plant and equipment | | **(2)** | (1) |
| Purchase of intangibles | | **(13)** | – |
| Net cash flow from deposits | | **41** | – |
| **Net cash flow from investing activities** | | **26** | 227 |
| **Change in cash and cash equivalents** | | **50** | (87) |
| Cash and cash equivalents at the start of the year | | **931** | 957 |
| Effect of exchange rate fluctuations | | **(9)** | 61 |
| **Cash and cash equivalents at the end of the year** | | **972** | 931 |

The Notes on pages 104 to 138 form an integral part of these financial statements.

# Company statement of financial position

as at 31 March

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | | | |
| Quoted investments | 10 | **345** | 390 |
| Unquoted investments | 10 | **1,751** | 1,295 |
| **Investment portfolio** | | **2,096** | 1,685 |
| Carried interest and performance fees receivable | 13 | **539** | 358 |
| Interests in Group entities | 22 | **4,112** | 3,542 |
| Other non-current assets | 15 | **20** | 21 |
| **Total non-current assets** | | **6,767** | 5,606 |
| **Current assets** | | | |
| Carried interest and performance fees receivable | 13 | **3** | 1 |
| Other current assets | 15 | **2** | 4 |
| Deposits | | **–** | 40 |
| Cash and cash equivalents | | **939** | 887 |
| **Total current assets** | | **944** | 932 |
| **Total assets** | | **7,711** | 6,538 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Carried interest and performance fees payable | | **–** | (16) |
| Loans and borrowings | 16 | **(575)** | (575) |
| **Total non-current liabilities** | | **(575)** | (591) |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **(527)** | (506) |
| **Total current liabilities** | | **(527)** | (506) |
| **Total liabilities** | | **(1,102)** | (1,097) |
| **Net assets** | | **6,609** | 5,441 |
| **Equity** | | | |
| Issued capital | 19 | **719** | 719 |
| Share premium | | **786** | 785 |
| Capital redemption reserve | | **43** | 43 |
| Share-based payment reserve | | **32** | 30 |
| Capital reserve | | **5,015** | 3,874 |
| Revenue reserve | | **40** | 28 |
| Own shares | 20 | **(26)** | (38) |
| **Total equity** | | **6,609** | 5,441 |

The Company profit for the year to 31 March 2018 is £1,405 million (2017: £1,650 million).

The Notes on pages 104 to 138 form an integral part of these financial statements.

**Simon Thompson**
Chairman
16 May 2018

# Company statement of changes in equity

for the year to 31 March

| 2018 | Share capital £m | Share premium £m | Capital redemption reserve £m | Share-based payment reserve £m | Capital reserve £m | Revenue reserve £m | Own shares £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|
| Total equity at the start of the year | 719 | 785 | 43 | 30 | 3,874 | 28 | (38) | 5,441 |
| Profit for the year | – | – | – | – | 1,337 | 68 | – | 1,405 |
| **Total comprehensive income for the year** | – | – | – | – | 1,337 | 68 | – | 1,405 |
| Share-based payments | – | – | – | 17 | – | – | – | 17 |
| Release on exercise/forfeiture of share options | – | – | – | (15) | – | 15 | – | – |
| Exercise of share awards | – | – | – | – | (12) | – | 12 | – |
| Ordinary dividends | – | – | – | – | (83) | (71) | – | (154) |
| Additional dividends | – | – | – | – | (101) | – | – | (101) |
| Issue of ordinary shares | – | 1 | – | – | – | – | – | 1 |
| **Total equity at the end of the year** | 719 | 786 | 43 | 32 | 5,015 | 40 | (26) | 6,609 |

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

The Notes on pages 104 to 138 form an integral part of these financial statements.

# Company cash flow statement

for the year to 31 March

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Purchase of investments | | **(468)** | (274) |
| Proceeds from investments | | **395** | 307 |
| Distributions from subsidiaries | | **1,002** | 1,241 |
| Drawdowns by subsidiaries | | **(624)** | (763) |
| Net cash flow from derivatives | | **(10)** | – |
| Portfolio interest received | | **4** | 6 |
| Portfolio dividends received | | **25** | 30 |
| Portfolio fees paid | | **(2)** | (3) |
| Carried interest and performance fees received | 13 | **4** | 15 |
| Carried interest and performance fees paid | | **(23)** | (28) |
| Acquisition related earn-out charges paid | | **–** | (1) |
| Co-investment loans received | | **5** | 2 |
| **Net cash flow from operating activities** | | **308** | 532 |
| **Cash flow from financing activities** | | | |
| Issue of shares | | **1** | 1 |
| Dividend paid | 9 | **(255)** | (230) |
| Repayment of short-term borrowings | | **–** | (264) |
| Repurchase of short-term borrowings | | **–** | (17) |
| Interest received | | **2** | 2 |
| Interest paid | | **(36)** | (51) |
| **Net cash flow from financing activities** | | **(288)** | (559) |
| **Cash flow from investing activities** | | | |
| Net cash flow from deposits | | **41** | – |
| **Net cash flow from investing activities** | | **41** | – |
| **Change in cash and cash equivalents** | | **61** | (27) |
| Cash and cash equivalents at the start of the year | | **887** | 857 |
| Effect of exchange rate fluctuations | | **(9)** | 57 |
| **Cash and cash equivalents at the end of the year** | | **939** | 887 |

The Notes on pages 104 to 138 form an integral part of these 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 2018 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 Basis of preparation

The Group and Company accounts have been prepared and approved by the Directors in accordance with all relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee for the year ended 31 March 2018, endorsed by the European Union ("EU").

The following standards, amendments and interpretations have been issued and endorsed by the EU, with implementation dates that do not impact on these financial statements:

| Effective for annual periods beginning on or after | | |
|---|---|---|
| IFRS 9 | Financial instruments | 1 January 2018 |
| IFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |

The Group does not anticipate that IFRS 9 will have a material impact on its results. IFRS 16 is expected to result in an increase in the Group's total assets and total liabilities but is not anticipated to have a material impact on net assets or total return.

The Group expects that IFRS 15 will only impact its accounting policy for carried interest and performance fees receivable. This is because IFRS 15 will introduce an assessment of the extent to which it is highly probable that there will not be a significant reversal of carried interest receivable when the uncertainty is resolved. When making our assessment, the following will be considered: remaining duration of the fund, position in relation to the cash hurdle, the number of assets remaining in the fund and the potential for clawback. The substantial majority of the Group's carried interest receivable is from EFV and dependent on the realisation of Action. Given Action's strong performance, its forecast growth profile, and consistent with our investment and expected exit strategy, our current assessment is that we do not expect the adoption of IFRS 15 to have a material impact on the recognition of carried interest receivable in the Group's results. More details on our assessment of IFRS 15 are included on page 32 of the Financial review.

The principal accounting policies applied in the preparation of the Group accounts are disclosed below, but where possible, they have been shown as part of the Note to which they specifically relate in order to assist the reader's understanding. These policies have been consistently applied and apply to all years presented.

The financial statements are prepared on a going concern basis as disclosed in the Directors' report and presented to the nearest million sterling (£m), the functional currency of the Company and the Group.

# Significant accounting policies

continued

## B Basis of consolidation

In accordance with IFRS 10 the Company meets the criteria as an investment entity and therefore is required to recognise subsidiaries that also qualify as investment entities at fair value through profit or loss. It does not consolidate the investment entities it controls. Subsidiaries that 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 recognised at fair value.

Subsidiaries are entities controlled by the Group. Control, as defined by IFRS 10, is achieved when the Group has all of the following:

- power over the relevant activities of the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to affect those returns through its power over the investee.

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.

Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. All intra-group balances and transactions with subsidiaries are eliminated upon consolidation. Subsidiaries are de-consolidated from the date that control ceases.

The Group comprises several different types of subsidiaries. The Group re-assesses the function performed by each type of subsidiary to determine its treatment under the IFRS 10 exception from consolidation on an annual basis. The types of subsidiaries and their treatment under IFRS 10 are as follows:

### General Partners (GPs) – Consolidated

General Partners provide investment management services and do not hold any direct investments in portfolio assets. These entities are not investment entities.

### Investment managers/advisers – Consolidated

These entities provide investment related services through the provision of investment management or advice. They do not hold any direct investments in portfolio assets. These entities are not investment entities.

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

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

### Limited Partnerships and other intermediate investment holding structures – Fair valued

The Group makes investments in portfolio assets through its ultimate parent company as well as through other limited partnerships and corporate subsidiaries which the Group has created to align the interests of the investment teams with the performance of the assets through the use of various carried interest schemes. The purpose of these limited partnerships and corporate holding vehicles, many of which also provide investment related services, is to invest for investment income and capital appreciation. These partnerships and corporate subsidiaries meet the definition of an investment entity and are classified at fair value through profit and loss.

### Portfolio investments – Fair valued

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

### Associates – Fair valued

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the Consolidated statement of financial position at fair value even though the Group may have significant influence over those companies.

Further detail on our application of IFRS 10 can be found in the Reconciliation of Investment basis to IFRS section on pages 38 to 42 of the Strategic report.

## C Critical accounting judgements and estimates

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.

### (a) Critical judgements

In the course of preparing the financial statements, one judgement has been made in the process of applying the Group's accounting policies, other than those involving estimations, that has had a significant effect on the amounts recognised in the financial statements as follows:

### I. Assessment as an investment entity

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.

### (b) Critical estimates

In addition to this significant judgement the Directors have made two estimates, which they deem to have a significant risk of resulting in a material adjustment to the amounts recognised in the financial statements within the next financial year. The details of these estimates are as follows:

### I. Fair valuation of the investment portfolio

The investment portfolio, a material asset of the Group, is held at fair value. Details of valuation methodologies used and the associated sensitivities are disclosed in Note 12 Fair values of assets and liabilities. Further information can be found in Portfolio valuation – an explanation on pages 150 and 151. 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 (including a review of the assumptions made) is included on pages 70 to 72. In addition, sensitivity to a net 1x movement on Action's multiple, the largest investment in our portfolio, is included on page 23 of the Strategic report.

### II. Carried interest receivable and payable

Carried interest receivable and payable are calculated based on the underlying agreements, and assuming all portfolio investments are sold at their fair values at the balance sheet date. The actual amounts of carried interest received and paid will depend on the cash realisations of these portfolio investments and valuations may change significantly in the next financial year. The fair valuation of the investment portfolio is itself a critical estimate, as detailed above. The sensitivity of carried interest to movements in the investment portfolio is disclosed in Notes 13 and 14.

### Valuation of the defined benefit schemes

The Group considered that the required estimate of an appropriate discount rate in accordance with IAS 19 was not sensitive enough to change the valuation of the pension scheme materially and therefore it is no longer considered a critical estimate. The sensitivity to changes in discount rates is shown in Note 26.

# Significant accounting policies

continued

## D Other accounting policies

### (a) Gross investment return

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.
The substantial majority is investment income and outside the scope of IAS 18 (and IFRS 15 from 1 April 2019). It is analysed into the following components with the relevant standard shown where appropriate:

I. Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration in accordance with IFRS 13 received less any directly attributable costs, on the sale of equity and the repayment of interest income from the investment portfolio, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

II. Unrealised profits or losses on the revaluation of investments are the movement in the fair value of investments in accordance with IFRS 13 between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of fair value assessment.

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

IV. Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria in accordance with IAS 18 must be met before the income is recognised:

- Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders' rights to receive payment have been established.
- Interest income from investment portfolio is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.
- 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 in accordance with IAS 21. 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 and non-monetary assets held at fair value denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising are taken to the Consolidated statement of comprehensive income.

The statements of financial position of subsidiaries and associates, which are not held at fair value, denominated in foreign currencies are translated into sterling at the closing rates. The statements of comprehensive income for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to other comprehensive income. Such exchange differences are reclassified to the Consolidated statement of comprehensive income in the period in which the subsidiary or associate is disposed of.

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the Consolidated statement of comprehensive income, where appropriate. No forward foreign exchange contracts were held at the year end.

## (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 and amounts held in money market funds, which are readily convertible into cash and there is an insignificant risk of changes in value. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument. De-recognition occurs when rights to cash flows from a financial asset expire, or when a liability is extinguished.

# Notes to the accounts

## 1 Segmental analysis

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

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

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

The segmental analysis is prepared on the Investment basis to provide the most meaningful information to the reader of the accounts.

| Investment basis<br>Year to 31 March 2018 | Private Equity £m | Infrastructure £m | Other[1] £m | Total £m |
|---|---|---|---|---|
| Realised profits/(losses) over value on the disposal of investments | 199 | 10 | (2) | 207 |
| Unrealised profits on the revaluation of investments | 1,080 | 83 | – | 1,163 |
| Portfolio income | | | | |
| Dividends | 5 | 27 | 9 | 41 |
| Interest income from investment portfolio | 112 | 4 | – | 116 |
| Fees receivable | 14 | – | – | 14 |
| Foreign exchange on investments | 28 | (11) | (6) | 11 |
| **Gross investment return** | **1,438** | **113** | **1** | **1,552** |
| Fees receivable from external funds | 7 | 50 | – | 57 |
| Operating expenses | (75) | (46) | – | (121) |
| Interest receivable | | | | 2 |
| Interest payable | | | | (37) |
| Exchange movements | | | | (27) |
| Other income | | | | 2 |
| **Operating profit before carry** | | | | **1,428** |
| Carried interest | | | | |
| Carried interest and performance fees receivable | 138 | 90 | – | 228 |
| Carried interest and performance fees payable | (196) | (9) | – | (205) |
| **Operating profit** | | | | **1,451** |
| Income taxes | | | | (26) |
| Other comprehensive income | | | | |
| Re-measurements of defined benefit plans | | | | – |
| **Total return** | | | | **1,425** |
| **Net divestment/(investment)** | | | | |
| Realisations[2] | 1,002 | 169 | 152 | 1,323 |
| Cash investment | (587) | (217) | (23) | (827) |
| | 415 | (48) | 129 | 496 |
| **Balance sheet** | | | | |
| Opening portfolio value at 1 April 2017 | 4,831 | 706 | 138 | 5,675 |
| Investment[3] | 674 | 217 | 23 | 914 |
| Value disposed | (803) | (159) | (154) | (1,116) |
| Unrealised value movement | 1,080 | 83 | – | 1,163 |
| Other movement[4] | 43 | (15) | (7) | 21 |
| **Closing portfolio value at 31 March 2018** | **5,825** | **832** | **–** | **6,657** |

1 The Other segment comprises the residual Debt Management portfolio.

2 £46 million in Private Equity relates to cash in transit at year end.

3 Includes capitalised interest and other non-cash investment.

4 Other movement relates to foreign exchange and the provisioning of capitalised interest.

A number of items are not managed by segment by the chief operating decision maker and therefore have not been allocated to a specific segment.

## 1 Segmental analysis continued

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

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

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

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

4 Includes capitalised interest and other non-cash investment.

5 Other movement relates to foreign exchange and the provisioning of capitalised interest.

A number of items are not managed by segment by the chief operating decision maker and therefore have not been allocated to a specific segment.

# Notes to the accounts
continued

## 1 Segmental analysis continued

| Investment basis<br>Year to 31 March 2018 | UK<br>£m | Northern Europe<br>£m | North America<br>£m | Rest of World<br>£m | Total<br>£m |
|---|---|---|---|---|---|
| **Gross investment return** | | | | | |
| Realised profits/(losses) over value on the disposal of investments | 9 | 154 | (5) | 49 | 207 |
| Unrealised profits on the revaluation of investments | 148 | 932 | 67 | 16 | 1,163 |
| Portfolio income | 54 | 104 | 12 | 1 | 171 |
| Foreign exchange on investments | – | 91 | (55) | (25) | 11 |
| | 211 | 1,281 | 19 | 41 | 1,552 |
| **Net divestment/(investment)** | | | | | |
| Realisations | 270 | 782 | 91 | 180 | 1,323 |
| Cash investment | (32) | (434) | (361) | – | (827) |
| | 238 | 348 | (270) | 180 | 496 |
| **Balance sheet** | | | | | |
| **Closing portfolio value at 31 March 2018** | 1,249 | 4,504 | 664 | 240 | 6,657 |

| Investment basis<br>Year to 31 March 2017 | UK<br>£m | Northern Europe<br>£m | North America<br>£m | Rest of World<br>£m | Total<br>£m |
|---|---|---|---|---|---|
| **Gross investment return** | | | | | |
| Realised (losses)/profits over value on the disposal of investments | (33) | 51 | 12 | 8 | 38 |
| Unrealised profits/(losses) on the revaluation of investments | 160 | 1,183 | 12 | (10) | 1,345 |
| Portfolio income/(expense) | 34 | 77 | 15 | (1) | 125 |
| Foreign exchange on investments | 1 | 196 | 43 | 45 | 285 |
| | 162 | 1,507 | 82 | 42 | 1,793 |
| **Net divestment/(investment)** | | | | | |
| Realisations | 239 | 818 | 179 | 39 | 1,275 |
| Cash investment | (131) | (488) | (69) | (1) | (689) |
| | 108 | 330 | 110 | 38 | 586 |
| **Balance sheet** | | | | | |
| **Closing portfolio value at 31 March 2017** | 1,309 | 3,639 | 349 | 378 | 5,675 |

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

| | 2018 Unquoted investments £m | 2018 Quoted investments £m | 2018 Total £m |
|---|---|---|---|
| Realisations | **329** | **85** | **414** |
| Valuation of disposed investments | **(315)** | **(81)** | **(396)** |
| | **14** | **4** | **18** |
| Of which: | | | |
| – profits recognised on realisations | **22** | **4** | **26** |
| – losses recognised on realisations | **(8)** | **–** | **(8)** |
| | **14** | **4** | **18** |

| | 2017 Unquoted investments £m | 2017 Quoted investments £m | 2017 Total £m |
|---|---|---|---|
| Realisations | 266 | 20 | 286 |
| Valuation of disposed investments | (292) | (19) | (311) |
| | (26) | 1 | (25) |
| Of which: | | | |
| – profits recognised on realisations | 23 | 1 | 24 |
| – losses recognised on realisations | (49) | – | (49) |
| | (26) | 1 | (25) |



## 3 Unrealised profits on the revaluation of investments

| | 2018 Unquoted investments £m | 2018 Quoted investments £m | 2018 Total £m |
|---|---|---|---|
| Movement in the fair value of investments | **346** | **40** | **386** |
| Of which: | | | |
| – unrealised gains | **365** | **40** | **405** |
| – unrealised losses | **(19)** | **–** | **(19)** |
| | **346** | **40** | **386** |

| | 2017 Unquoted investments £m | 2017 Quoted investments £m | 2017 Total £m |
|---|---|---|---|
| Movement in the fair value of investments | 224 | 38 | 262 |
| Of which: | | | |
| – unrealised gains | 243 | 38 | 281 |
| – unrealised losses | (19) | – | (19) |
| | 224 | 38 | 262 |

# Notes to the accounts
continued

## 4 Operating expenses

Operating expenses of £120 million (2017: £116 million) recognised in the IFRS Consolidated statement of comprehensive income include the following amounts:

| | 2018 £m | 2017 £m |
|---|---|---|
| Depreciation of property, plant and equipment | 2 | 2 |
| Amortisation of intangible assets | 1 | – |
| Audit fees (Note 6) | 2 | 2 |
| Staff costs (Note 5) | 83 | 78 |
| Redundancy costs | 2 | 2 |

Including expenses incurred in the entities accounted for as investment entity subsidiaries of £1 million (2017: £1 million), the Group's total operating expenses for the year were £121 million (2017: £117 million).

## 5 Staff costs

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

| | 2018 £m | 2017 £m |
|---|---|---|
| Wages and salaries from continuing operations | 63 | 57 |
| Social security costs from continuing operations | 11 | 10 |
| Share-based payment costs from continuing operations (Note 27) | 5 | 7 |
| Pension costs from continuing operations | 4 | 4 |
| **Staff costs from continuing operations** | 83 | 78 |
| Wages and salaries from discontinued operations | – | 9 |
| Social security costs from discontinued operations | – | 1 |
| **Staff costs from discontinued operations** | – | 10 |
| **Total staff costs** | 83 | 88 |

The average number of employees during the year was 241 (2017: 281), of which 159 (2017: 189) were employed in the UK.

Wages and salaries shown above include salaries paid in the year, bonuses and portfolio incentive schemes relating to the year ended 31 March 2018. These costs are included in operating expenses. The table below analyses these costs between fixed and variable elements.

| | 2018 £m | 2017 £m |
|---|---|---|
| Fixed staff costs from continuing operations | 40 | 37 |
| Variable staff costs from continuing operations[1] | 43 | 41 |
| **Staff costs from continuing operations** | 83 | 78 |
| Fixed staff costs from discontinued operations | – | 4 |
| Variable staff costs from discontinued operations[1] | – | 6 |
| **Staff costs from discontinued operations** | – | 10 |
| **Total staff costs** | 83 | 88 |

1 Includes cash bonuses and equity and cash settled share awards.

More detail on this information is included in the Directors' remuneration report on pages 73 to 82.

## 6 Information regarding the Group's Auditor

During the year the Group received 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.

| | | 2018 £m | 2017 £m |
|---|---|---|---|
| **Audit services** | | | |
| Statutory audit | – Company | 1.3 | 1.2 |
| | – UK subsidiaries | 0.5 | 0.5 |
| | – Overseas subsidiaries | 0.1 | 0.2 |
| **Total audit services** | | 1.9 | 1.9 |
| **Non-audit services** | | | |
| Other assurance services | | 0.3 | 0.2 |
| Investment due diligence | | 0.1 | 1.0 |
| Tax services (compliance and advisory services) | | – | 0.1 |
| **Total audit and non-audit services** | | 2.3 | 3.2 |

## 7 Income taxes

### Accounting policy:

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the Consolidated statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt within equity.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

| | | 2018 £m | 2017 £m |
|---|---|---|---|
| **Current taxes** | | | |
| Current year | – UK | 22 | – |
| | – Overseas | 1 | 1 |
| Prior year | – UK | – | – |
| | – Overseas | (1) | (4) |
| **Deferred taxes** | | | |
| Deferred income taxes | | 3 | – |
| **Total income tax charge/(credit) in the Consolidated statement of comprehensive income** | | 25 | (3) |

Audited financial statements

# Notes to the accounts
continued

## 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 19% (2017: 20%), and the differences are explained below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Profit before tax | 1,488 | 1,524 |
| Profit before tax multiplied by rate of corporation tax in the UK of 19% (2017: 20%) | 283 | 305 |
| Effects of: | | |
| Non-taxable capital profits due to UK approved investment trust company status | (257) | (309) |
| Non-taxable dividend income | (9) | (6) |
| | 17 | (10) |
| Other differences between accounting and tax profits: | | |
| Permanent differences – non-deductible items | 2 | – |
| Temporary differences on which deferred tax is not recognised | 4 | 4 |
| Overseas countries taxes | – | (3) |
| Recognition of previously unrecognised deferred tax or losses | 5 | – |
| Excess unutilised tax losses arising in the period | – | 6 |
| Utilisation of brought forward losses | (3) | – |
| **Total income tax charge/(credit) in the Consolidated statement of comprehensive income** | 25 | (3) |

The affairs of the Group's parent company are directed so as to allow it to meet the requisite conditions to continue to operate as an approved Investment Trust company for UK tax purposes. An approved Investment Trust company is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK.

The Group has recognised a current UK corporation tax liability of £22 million (2017: nil) for the year. This is higher than previous years due to increased levels of taxable interest income from portfolio companies, reduced interest expenditure following the repayment of a bond in March 2017, and a £90 million performance fee from 3iN following its disposals of AWG and Elenia in the year. Finally, the use of losses brought forward has been restricted with effect from 1 April 2017.

Including a net tax charge of £1 million (2017: nil) in the fair valued entities, the Group recognised a total tax charge of £26 million (2017: tax credit £3 million) under the Investment basis.

### Deferred income taxes

| | 2018 £m | 2017 £m |
|---|---|---|
| **Opening deferred income tax asset** | | |
| Tax losses | 8 | 7 |
| Income in accounts taxable in the future | (8) | (7) |
| Other | – | 3 |
| | – | 3 |
| **Recognised through Consolidated statement of comprehensive income** | | |
| Tax losses recognised | (5) | 1 |
| Income in accounts taxable in the future | 2 | (1) |
| | (3) | – |
| **Recognised within discontinued operations** | | |
| Deferred tax asset transferred with discontinued operations | – | (3) |
| | – | (3) |
| **Closing deferred income tax liability** | | |
| Tax losses | 3 | 8 |
| Income in accounts taxable in the future | (6) | (8) |
| | (3) | – |

At 31 March 2018, the Group had carried forward tax losses of £1,400 million (31 March 2017: £1,390 million), capital losses of £102 million (31 March 2017: £93 million) and other temporary differences of £83 million (31 March 2017: £94 million). With the additional restrictions on utilising brought forward losses introduced from 1 April 2017, and the uncertainty that the Group will generate sufficient or relevant taxable profits in the foreseeable future to utilise these amounts, 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% (2017: 19%).

## 8 Per share information

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

| | 2018 | 2017 |
|---|---|---|
| **Earnings per share (pence)** | | |
| Basic earnings per share | 151.7 | 169.2 |
| – of which from continuing operations | 151.7 | 159.0 |
| – of which from discontinued operations | – | 10.2 |
| Diluted earnings per share | 151.0 | 168.4 |
| – of which from continuing operations | 151.0 | 158.3 |
| – of which from discontinued operations | – | 10.1 |
| **Earnings (£m)** | | |
| Profit for the year attributable to equity holders of the Company | 1,463 | 1,625 |
| – of which from continuing operations | 1,463 | 1,527 |
| – of which from discontinued operations | – | 98 |

| | 2018 | 2017 |
|---|---|---|
| **Weighted average number of shares in issue** | | |
| Ordinary shares | 972,849,842 | 972,734,609 |
| Own shares | (8,758,180) | (12,580,145) |
| | 964,091,662 | 960,154,464 |
| **Effect of dilutive potential ordinary shares** | | |
| Share options and awards | 4,613,775 | 4,710,808 |
| **Diluted shares** | 968,705,437 | 964,865,272 |

| | 2018 | 2017 |
|---|---|---|
| **Net assets per share (£)** | | |
| Basic | 7.28 | 6.07 |
| Diluted | 7.24 | 6.04 |
| **Net assets (£m)** | | |
| Net assets attributable to equity holders of the Company | 7,024 | 5,836 |

Basic NAV per share is calculated on 965,040,405 shares in issue at 31 March 2018 (31 March 2017: 961,458,801). Diluted NAV per share is calculated on diluted shares of 969,773,150 at 31 March 2018 (31 March 2017: 966,553,549).

## 9 Dividends

| | 2018 pence per share | 2018 £m | 2017 pence per share | 2017 £m |
|---|---|---|---|---|
| **Declared and paid during the year** | | | | |
| Ordinary shares | | | | |
| Final dividend | 18.5 | 178 | 16.0 | 154 |
| Interim dividend | 8.0 | 77 | 8.0 | 76 |
| | 26.5 | 255 | 24.0 | 230 |
| **Proposed dividend** | 22.0 | 212 | 18.5 | 178 |

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

The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules. The distributable reserves of the parent company are £1,941 million (31 March 2017: £1,742 million) and the Board reviews the distributable reserves bi-annually ahead of proposing any dividend. The Board also reviews the proposed dividends in the context of the requirements of being an approved Investment Trust. Details of the Group's continuing viability and going concern can be found on page 47 and 89.

# Notes to the accounts
continued

## 9 Dividends continued

In light of the Group's continued progress in executing its strategy, we now propose to replace our base and additional dividend policy with a simpler policy. Further details are on page 34 of the Financial review.

## 10 Investment portfolio

### Accounting policy:

Investments are recognised and de-recognised on the date when their purchase or sale is subject to a relevant contract and the associated risks and rewards have been transferred. The Group manages its investments with a view to profiting from the receipt of investment income and capital appreciation from changes in the fair value of investments.

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

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

Unquoted investments, including both equity and loans are designated at fair value through profit and loss and are subsequently carried in the Consolidated statement of financial position at fair value. Fair value is determined in line with 3i's valuation policy, which is compliant with the fair value guidelines under IFRS and the International Private Equity and Venture Capital (IPEV) Valuation Guidelines, details of which are available in "Portfolio valuation – an explanation" on pages 150 and 151.

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 2018 £m** | Group 2017 £m | **Company 2018 £m** | Company 2017 £m |
|---|---|---|---|---|
| Opening book value | **1,706** | 1,540 | **1,685** | 1,400 |
| Additions from continuing operations | **481** | 291 | **481** | 306 |
| – of which loan notes with nil value | **–** | (10) | **–** | (10) |
| Additions from discontinued operations | **–** | 70 | **–** | 18 |
| Disposals, repayments and write-offs from continuing operations | **(396)** | (311) | **(375)** | (307) |
| Disposals, repayments and write-offs from discontinued operations | **–** | (191) | **–** | (24) |
| Fair value movement from continuing operations[1] | **386** | 262 | **386** | 256 |
| Fair value movement from discontinued operations | **–** | 3 | **–** | – |
| Other movements and net cash movements from continuing operations[2] | **(81)** | 71 | **(81)** | 65 |
| Other movements and net cash movements from discontinued operations[2] | **–** | (19) | **–** | (19) |
| **Closing book value** | **2,096** | 1,706 | **2,096** | 1,685 |
| Quoted investments | **345** | 390 | **345** | 390 |
| Unquoted investments | **1,751** | 1,316 | **1,751** | 1,295 |
| **Closing book value** | **2,096** | 1,706 | **2,096** | 1,685 |

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

2 Other movements includes the impact of foreign exchange and the transfer of an investment to an investment entity subsidiary.

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the portfolio is classified as non-current. It is not possible to identify with certainty investments that will be sold within one year.

Additions from continuing operations include cash investment of £470 million (2017: £280 million) and £11 million (2017: £11 million) in capitalised interest received by way of loan notes, of which nil (2017: £10 million) has been written down in the period to nil.

## 10 Investment portfolio continued

Included within the Consolidated statement of comprehensive income is £26 million (2017: £10 million) of interest income. This is made up of the £11 million of capitalised interest noted above, £4 million (2017: £4 million) of cash income and the capitalisation of prior year accrued income and non-capitalised accrued income of £11 million (2017: £5 million).

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

## 11 Investments in investment entity subsidiaries

### Accounting policy:

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and loss.

These entities are typically limited partnerships and other intermediate investment holding structures which hold the Group's interests in investments in portfolio companies. The fair value can increase or reduce from either cash flows to/from the investment entity subsidiaries or valuation movements in line with the Group's valuation policy.

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

We determine that in the ordinary course of business, the net asset values of investment entity subsidiaries 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 2018.

| Non-current | Group 2018 £m | Group 2017 £m |
|---|---|---|
| Opening fair value | 3,483 | 2,680 |
| Net cash flow from investment entity subsidiaries | (430) | (246) |
| Fair value movements on investment entity subsidiaries | 848 | 1,041 |
| Transfer of assets from investment entity subsidiaries | 133 | 8 |
| **Closing fair value** | **4,034** | 3,483 |

All investment entity subsidiaries 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 £202 million (31 March 2017: £174 million).

### Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no restrictions on the ability to transfer funds from these subsidiaries to the Group except for a cash balance of £85 million (31 March 2017: £56 million) held on escrow in investment entity subsidiaries for carried interest payable.

### Support

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

# Notes to the accounts
continued

## 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:

| | **Group 2018 Designated at fair value through profit and loss £m** | **Group 2018 Other financial instruments at amortised cost £m** | **Group 2018 Total £m** | Group 2017 Designated at fair value through profit and loss £m | Group 2017 Other financial instruments at amortised cost £m | Group 2017 Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Quoted investments | **345** | **–** | **345** | 390 | – | 390 |
| Unquoted investments | **1,751** | **–** | **1,751** | 1,316 | – | 1,316 |
| Investments in investment entities | **4,034** | **–** | **4,034** | 3,483 | – | 3,483 |
| Other financial assets | **–** | **653** | **653** | – | 425 | 425 |
| **Total** | **6,130** | **653** | **6,783** | 5,189 | 425 | 5,614 |
| **Liabilities** | | | | | | |
| Loans and borrowings | **–** | **575** | **575** | – | 575 | 575 |
| Other financial liabilities | **–** | **261** | **261** | – | 274 | 274 |
| **Total** | **–** | **836** | **836** | – | 849 | 849 |

| | **Company 2018 Designated at fair value through profit and loss £m** | **Company 2018 Other financial instruments at amortised cost £m** | **Company 2018 Total £m** | Company 2017 Designated at fair value through profit and loss £m | Company 2017 Other financial instruments at amortised cost £m | Company 2017 Total £m |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Quoted investments | **345** | **–** | **345** | 390 | – | 390 |
| Unquoted investments | **1,751** | **–** | **1,751** | 1,295 | – | 1,295 |
| Other financial assets | **–** | **564** | **564** | – | 384 | 384 |
| **Total** | **2,096** | **564** | **2,660** | 1,685 | 384 | 2,069 |
| **Liabilities** | | | | | | |
| Loans and borrowings | **–** | **575** | **575** | – | 575 | 575 |
| Other financial liabilities | **–** | **527** | **527** | – | 522 | 522 |
| **Total** | **–** | **1,102** | **1,102** | – | 1,097 | 1,097 |

Within the Company £4,045 million (31 March 2017: £3,483 million) of the Interest in Group entities is held at fair value.

### (B) Valuation

The fair values of the Group's financial assets and liabilities, not held at fair value, are not materially different from their carrying values with the exception of loans and borrowings. The fair value of the loans and borrowings is £718 million (31 March 2017: £741 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2017: £575 million) and accrued interest payable (included within trade and other payables) is £8 million (31 March 2017: £8 million).

## 12 Fair values of assets and liabilities continued

### Valuation hierarchy

The Group classifies financial instruments measured at fair value in the investment portfolio according to the following hierarchy:

| Level | Fair value input description | Financial instruments |
|---|---|---|
| Level 1 | Quoted prices (unadjusted) from active markets | Quoted equity instruments |
| Level 2 | Inputs other than quoted prices included in Level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices) | Fixed rate loan notes |
| Level 3 | Inputs that are not based on observable market data | Unquoted equity instruments and loan instruments |

Unquoted equity instruments and debt instruments are measured in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments can be found in the section Portfolio valuation – an explanation on pages 150 and 151.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2018:

| | Group 2018 Level 1 £m | Group 2018 Level 2 £m | Group 2018 Level 3 £m | Group 2018 Total £m | Group 2017 Level 1 £m | Group 2017 Level 2 £m | Group 2017 Level 3 £m | Group 2017 Total £m |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Quoted investments | **345** | **–** | **–** | **345** | 390 | – | – | 390 |
| Unquoted investments | **–** | **–** | **1,751** | **1,751** | – | – | 1,316 | 1,316 |
| Investments in investment entity subsidiaries | **–** | **–** | **4,034** | **4,034** | – | – | 3,483 | 3,483 |
| **Total** | **345** | **–** | **5,785** | **6,130** | 390 | – | 4,799 | 5,189 |

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

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

| | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Opening book value | **1,316** | 1,243 | **1,295** | 1,103 |
| Additions from continuing operations | **481** | 213 | **481** | 228 |
| – of which loan notes with nil value | **–** | (10) | **–** | (10) |
| Additions from discontinued operations | **–** | 70 | **–** | 18 |
| Disposals, repayments and write-offs from continuing operations | **(315)** | (292) | **(293)** | (288) |
| Disposals, repayments and write-offs from discontinued operations | **–** | (191) | **–** | (24) |
| Fair value movement from continuing operations[1] | **346** | 224 | **346** | 218 |
| Fair value movement from discontinued operations | **–** | 3 | **–** | – |
| Other movements and net cash movements from continuing operations[2] | **(77)** | 75 | **(78)** | 69 |
| Other movements and net cash movements from discontinued operations[2] | **–** | (19) | **–** | (19) |
| **Closing book value** | **1,751** | 1,316 | **1,751** | 1,295 |

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

2 Other movements include the impact of foreign exchange and the transfer of an investment to an investment entity subsidiary.

# Notes to the accounts
continued

## 12 Fair values of assets and liabilities continued

On a continuing basis, unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised profits over value on disposal of investment of £14 million (2017: realised loss of £26 million), dividend income of £13 million (2017: £24 million) and foreign exchange losses of £12 million (2017: foreign exchange gains of £63 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2018, classified as Level 3, 40% (31 March 2017: 33%) were valued using a multiple of earnings and the remaining 60% (31 March 2017: 67%) were valued using alternative valuation methodologies. Of the underlying portfolio held by investment entity subsidiaries, 95% (31 March 2017: 96%) were valued using a multiple of earnings and the remaining 5% (31 March 2017: 4%) were valued using alternative valuation methodologies.

Assets move between Level 1 and Level 3 when an unquoted equity investment lists on a quoted market exchange. There were no transfers in or out of Level 3 during the year.

**Valuation multiple** – The valuation multiple is the main assumption applied to a multiple of earnings based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and then adjusted for factors including liquidity risk, growth potential and relative performance. They are also adjusted to represent our longer term view of performance through the cycle or our exit assumptions. The value weighted average post discount earnings multiple used when valuing the portfolio at 31 March 2018 was 11.7x (31 March 2017: 10.2x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2018 decreased by 5%, the investment portfolio would decrease by £43 million (31 March 2017: £18 million) or 2% (31 March 2017: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative impact of £270 million (31 March 2017: £224 million) or 6% (31 March 2017: 6%).

If the multiple increased by 5% then the investment portfolio would increase by £35 million (31 March 2017: £16 million) or 2% (31 March 2017: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive impact of £260 million (31 March 2017: £215 million) or 6% (31 March 2017: 5%).

**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 inputs that are used, are given in the Portfolio valuation – an explanation section on pages 150 and 151.

Each methodology is used for a proportion of assets by value, and at year end the following techniques were used under an IFRS basis: 5% DCF (31 March 2017: 41%), nil broker quotes (31 March 2017: 4%), 45% imminent sale (31 March 2017: 2%), 7% industry metric (31 March 2017: 10%) and 3% other (31 March 2017: 10%).

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 £53 million (31 March 2017: £44 million) or 3% (31 March 2017: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have an impact of £10 million (31 March 2017: £7 million) or 0.3% (31 March 2017: 0.2%).

## 13 Carried interest and performance fees receivable

### Accounting policy:

The Group earns a share of profits ("carried interest and performance fees receivable") from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions.

Carried interest and performance fees receivable include amounts receivable from Private Equity and Infrastructure. Each scheme is separately reviewed at the balance sheet date, and an accrual for carried interest receivable is made once the performance conditions would be achieved if the remaining assets in that fund were realised at fair value.

Fair value of the assets is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

The performance fee receivable from 3iN is based on 3iN's most recently published NAV subject to a performance hurdle and a high water mark.

## 13 Carried interest and performance fees receivable continued

| | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Opening carried interest and performance fees receivable | **363** | 117 | **359** | 87 |
| Carried interest and performance fees receivable recognised in the statement of comprehensive income during the year from continuing operations | **228** | 280 | **183** | 276 |
| Carried interest and performance fees receivable recognised in the statement of comprehensive income during the year from discontinued operations | **–** | 1 | **–** | 4 |
| Cash received in the year from continuing operations | **(6)** | (35) | **(4)** | (14) |
| Cash received in the year from discontinued operations | **–** | (4) | **–** | (1) |
| Carried interest receivable transferred with discontinued operations | **–** | (5) | **–** | – |
| Other movements[1] | **6** | 9 | **4** | 7 |
| **Closing carried interest and performance fees receivable** | **591** | 363 | **542** | 359 |
| **Of which: receivable in greater than one year** | **498** | 354 | **539** | 358 |

1 Other includes the impact of foreign exchange.

A 5% movement in the valuation of all individual assets in the underlying investment portfolio would result in a £22 million movement in the carried interest receivable balance. As there is only £5 million of carried interest receivable included within investment entity subsidiaries, there is no material difference when carried interest receivable within investment entity subsidiaries is included.

## 14 Carried interest and performance fees payable

### Accounting policy:

The Group offers investment executives the opportunity to participate in the returns from investments subject to certain performance conditions. "Carried interest and performance fees payable" is the term used for amounts payable to executives on these investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest plans. Carried interest payable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that plan were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest plan, discounted to reflect the likely actual cash payment date, which may be materially later than the time of the accrual.

The Infrastructure performance fee is accrued based on the expected award. A significant proportion of the amount awarded is deferred over time and may be granted in either 3i Group plc or 3i Infrastructure plc shares. This is recognised over the vesting period in line with the requirements of IFRS 2 or IAS 19 depending on the type of award.

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 2018, £710 million of carried interest payable was recognised in the Consolidated statement of financial position of these investment entity subsidiaries (31 March 2017: £538 million).

# Notes to the accounts
continued

## 14 Carried interest and performance fees payable continued

| | Group 2018 £m | Group 2017 £m |
|---|---|---|
| Opening carried interest and performance fees payable | 147 | 105 |
| Carried interest and performance fees payable recognised in the Consolidated statement of comprehensive income during the year from continuing operations[1] | 19 | 98 |
| Carried interest and performance fees payable recognised in the Consolidated statement of comprehensive income during the year from discontinued operations | – | – |
| Cash paid in the year from continuing operations | (40) | (25) |
| Cash paid in the year from discontinued operations | – | (2) |
| Carried interest payable transferred with discontinued operations | – | (3) |
| Other movements[2] | 34 | (26) |
| **Closing carried interest and performance fees payable** | **160** | **147** |
| **Of which: payable in greater than one year** | **105** | **124** |

1 The carry payable charge in the table above does not include £13 million (2017: £10 million) associated with the share-based payment charge arising from related carry schemes. The total carried interest and performance fee payable recognised in the Consolidated statement of comprehensive income is £32 million (2017: £108 million). See Note 27 Share-based payments for further details.

2 Other includes the impact of foreign exchange and a transfer from trade and other payables.

A 5% increase in the valuation of all individual assets in the underlying investment portfolio (including those portfolio investments held by investment entity subsidiaries) would result in a £4 million increase in carried interest payable. Including carried interest payable recognised in investment entity subsidiaries it would result in a £45 million increase.

A 5% decrease in the valuation of all of individual assets in the underlying investment portfolio would result in a £4 million decrease in carried interest payable. Including carried interest payable recognised in investment entity subsidiaries it would result in a £35 million decrease.

## 15 Other assets

### Accounting policy:

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in the Consolidated statement of comprehensive income.

| | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Prepayments | 3 | 2 | – | – |
| Other debtors | 59 | 60 | 21 | 24 |
| Amounts due from subsidiaries | – | – | 1 | 1 |
| **Total other assets** | **62** | **62** | **22** | **25** |
| **Of which: receivable in greater than one year** | **28** | **50** | **20** | **21** |

At 31 March 2018, there were no amounts that were past due or impaired for the Group or the Company (31 March 2017: nil for the Group or the 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 2018 £m | Group 2017 £m |
|---|---|---|
| Loans and borrowings are repayable as follows: | | |
| Within one year | – | – |
| Between the second and fifth year | 200 | – |
| After five years | 375 | 575 |
| | 575 | 575 |

Principal borrowings include:

| | Rate | Maturity | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|---|---|
| **Issued under the £2,000 million note issuance programme** | | | | | | |
| Fixed rate | | | | | | |
| £200 million notes (public issue) | 6.875% | 2023 | 200 | 200 | 200 | 200 |
| £375 million notes (public issue) | 5.750% | 2032 | 375 | 375 | 375 | 375 |
| | | | 575 | 575 | 575 | 575 |
| **Committed multi-currency facilities** | | | | | | |
| £350 million | LIBOR+0.60% | 2021 | – | – | – | – |
| | | | – | – | – | – |
| **Total loans and borrowings** | | | 575 | 575 | 575 | 575 |

There has been no change in total financing liabilities for the Group or the Company during the year as the cash flows relating to the financing liabilities are equal to the income statement expense. Accordingly, no reconciliation between the movement in financing liabilities and the cash flow statement has been presented.

The maturity of the Company's £350 million (31 March 2017: £329 million) syndicated multi-currency facility is September 2021. 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 £718 million (31 March 2017: £741 million), determined with reference to their published market prices. The loans and borrowings are included in Level 2 of the fair value hierarchy.

In accordance with the FCA Handbook (FUNDS 3.2.2. R and Fund 3.2.6. R), 3i Investments plc, as AIFM of the Company is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with this formula, leverage for the Group is 111% (31 March 2017: 115%) and the Company is 105% (31 March 2017: 107%) under both the gross method and the commitment method. The leverage for 3i Investments plc is 100% (31 March 2017: 100%) under both the gross method and the commitment method.

Under the Securities Financing Transactions Regulation ("SFTR") and AIFMD, 3i is required to disclose certain information relating to the use of securities financing transactions ("SFTs") and total return swaps. At 31 March 2018, 3i was not party to any transactions involving SFTs or total return swaps.

# Notes to the accounts
continued

## 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.

| | Group 2018 Property £m | Group 2018 Redundancy £m | Group 2018 Restructuring £m | Group 2018 Total £m |
|---|---|---|---|---|
| Opening balance | 3 | 3 | – | 6 |
| Charge for the year | – | – | – | – |
| Utilised in the year | (1) | (3) | – | (4) |
| **Closing balance** | 2 | – | – | 2 |
| **Of which: payable in greater than one year** | 1 | – | – | 1 |

| | Group 2017 Property £m | Group 2017 Redundancy £m | Group 2017 Restructuring £m | Group 2017 Total £m |
|---|---|---|---|---|
| Opening balance | 2 | 5 | 1 | 8 |
| Charge for the year | 1 | 2 | – | 3 |
| Utilised in the year | – | (4) | (1) | (5) |
| **Closing balance** | 3 | 3 | – | 6 |
| **Of which: payable in greater than one year** | 2 | – | – | 2 |

The provision for redundancy related to staff reductions communicated prior to 31 March 2017. The provision was fully utilised during the 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 two years. The property provision also includes an estimate of the costs required to restore leased property to its original condition at the end of the lease term.

## 18 Trade and other payables

### Accounting policy:

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

| | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Amounts due to subsidiaries | – | – | 519 | 477 |
| Trade and other payables | 101 | 127 | 8 | 29 |
| **Total trade and other payables** | 101 | 127 | 527 | 506 |
| **Of which: payable in greater than one year** | 1 | 24 | – | – |

## 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 | **2018 Number** | **2018 £m** | 2017 Number | 2017 £m |
|---|---|---|---|---|
| Ordinary shares of 73 19/22p | | | | |
| Opening balance | **972,808,424** | **719** | 972,661,444 | 719 |
| Issued on exercise of share options and under employee share plans | **88,582** | **–** | 146,980 | – |
| **Closing balance** | **972,897,006** | **719** | 972,808,424 | 719 |

The Company issued 88,582 ordinary shares to the Trustee of the 3i Group Share Incentive Plan for a total cash consideration of £809,378 at various prices from 799.50 pence to 953.50 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 £65,430.

## 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.

| | **2018 £m** | 2017 £m |
|---|---|---|
| Opening cost | **38** | 54 |
| Awards granted and exercised | **(12)** | (16) |
| **Closing cost** | **26** | 38 |

## 21 Capital structure

The capital structure of the Group consists of shareholders' equity and net debt or cash. 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 2018 £m** | Group 2017 £m | **Company 2018 £m** | Company 2017 £m |
|---|---|---|---|---|
| Cash and deposits | **972** | 971 | **939** | 927 |
| Borrowings and derivative financial liabilities | **(575)** | (575) | **(575)** | (575) |
| Net cash[1] | **397** | 396 | **364** | 352 |
| Total equity | **7,024** | 5,836 | **6,609** | 5,441 |
| Gearing (net debt/total equity) | **nil** | nil | **nil** | nil |

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

### Capital constraints

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory/regulatory obligations. No significant constraints (apart from those shown in Note 11) have been identified and the Group has been able to distribute profits as appropriate.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm regulated by the FCA, and the Group's Audit and Compliance Committee. In addition, the Group's Internal Capital Adequacy Assessment Process (ICAAP) report is updated as appropriate and reviewed by the Board of 3i Investments plc and the Audit and Compliance Committee. The Group complies with the Individual Capital Guidance as agreed with the FCA and operates with a significant consolidated regulatory capital surplus, well in excess of the FCA's prudential rules. The Group's Pillar 3 disclosure document can be found on **www.3i.com**.

# Notes to the accounts
continued

## 22 Interests in Group entities

### Accounting policy:

The Company has controlling equity interests in, and makes loans to, both consolidated and fair valued Group entities. Investment entities are all held at fair value and all other subsidiaries are held at cost less impairment in the Company's accounts. The net assets of these entities are deemed to represent fair value.

| | Company 2018 Equity investments £m | Company 2018 Loans £m | Company 2018 Total £m |
|---|---|---|---|
| Opening book value | 2,139 | 1,403 | 3,542 |
| Additions | 23 | 361 | 384 |
| Share of profits from partnership entities | – | 532 | 532 |
| Disposals and repayments | (7) | (792) | (799) |
| Fair value movements | 262 | 180 | 442 |
| Exchange movements | – | 11 | 11 |
| **Closing book value** | **2,417** | **1,695** | **4,112** |

| | Company 2017 Equity investments £m | Company 2017 Loans £m | Company 2017 Total £m |
|---|---|---|---|
| Opening book value | 1,240 | 1,608 | 2,848 |
| Additions | 93 | 405 | 498 |
| Share of profits from partnership entities | – | 373 | 373 |
| Disposals and repayments | (12) | (1,139) | (1,151) |
| Fair value movements | 818 | 63 | 881 |
| Exchange movements | – | 93 | 93 |
| Closing book value | 2,139 | 1,403 | 3,542 |

Details of significant Group entities are given in Note 30.

## 23 Operating leases

### Accounting policy:

The Group leases its office space. Future minimum payments due under non-cancellable operating lease rentals are shown in the table below. The Company held no operating leases during the year.

### Leases as lessee

| | Group 2018 £m | Group 2017 £m |
|---|---|---|
| Within one year | 5 | 7 |
| Between the second and fifth year | 18 | 19 |
| After five years | 9 | 13 |
| | 32 | 39 |

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

During the year to 31 March 2018, £4 million (2017: £5 million) was recognised as an expense in the Consolidated statement of comprehensive income in respect of operating leases. There was nil impact (2017: 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 £1 million (2017: £3 million).

## 24 Commitments

### Accounting policy:

Commitments represent amounts the Group has contractually committed to pay third parties but do not yet represent a charge or asset. This gives an indication of committed future cash flows. Commitments at the year end do not impact the Group's financial results for the year.

| | Group 2018 due within 1 year £m | Group 2018 due between 2 and 5 years £m | Group 2018 due over 5 years £m | Group 2018 Total £m | Group 2017 due within 1 year £m | Group 2017 due between 2 and 5 years £m | Group 2017 due over 5 years £m | Group 2017 Total £m |
|---|---|---|---|---|---|---|---|---|
| Equity and loan investments | 166 | 1 | – | 167 | 393 | 2 | – | 395 |

| | Company 2018 due within 1 year £m | Company 2018 due between 2 and 5 years £m | Company 2018 due over 5 years £m | Company 2018 Total £m | Company 2017 due within 1 year £m | Company 2017 due between 2 and 5 years £m | Company 2017 due over 5 years £m | Company 2017 Total £m |
|---|---|---|---|---|---|---|---|---|
| Equity and loan investments | 85 | 1 | – | 86 | 190 | 2 | – | 192 |

The amounts shown above include £135 million and £54 million of commitments made by the Group and Company respectively, to invest in one Private Equity company (31 March 2017: £272 million and £109 million in two companies). The Group and Company were contractually committed to this investment as at 31 March 2018, and it completed on 3 April 2018.

Operating lease commitments are detailed in Note 23.

## 25 Contingent liabilities

### Accounting policy:

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the Consolidated statement of financial position.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012, the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc) as defined by the agreement to a wholly-owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets held by this subsidiary at 31 March 2018 was £237 million (31 March 2017: £265 million). As part of the latest triennial valuation of the Plan, the Company has agreed to pay up to £50 million to the Plan if the Group's gearing increases above 20%, gross debt above £1 billion or net assets fall below £2 billion. In addition, if the gearing, gross debt or net assets limits noted are reached, the Group may also be required to increase the potential cover provided by the contingent asset arrangement until the gearing, gross debt or net assets improve.

At 31 March 2018, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

# Notes to the accounts
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## 26 Retirement benefits

### Accounting policy:

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

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Interest on the net defined benefit asset/liability, 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 (2017: £3 million), which represents the contributions paid to these defined contribution plans. There were no outstanding payments due to these plans at the balance sheet date.

### (ii) Defined benefit plans

The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK ("the Plan"). The Plan is approved by HMRC for tax purposes and is operated separately from the Group and managed by an independent set of Trustees, whose appointment and powers are determined by the Plan's documentation.

Membership of the Plan has not been offered to new employees joining 3i since 1 April 2006. The Plan was closed to the future accrual of benefits by members with effect from 5 April 2011, although the final salary link is maintained on existing accruals. Members of the Plan have been invited to join the Group's defined contribution plan with effect from 6 April 2011. The defined benefit plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees. The Trustees are responsible for managing and investing the Plan's assets and for monitoring the Plan's funding position. As the Plan is now closed to future accrual, measures have been taken to de-risk the Plan, including 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 2018.

Employees in Germany and Spain are entitled to a pension based on their length of service. The future liability calculated by German and Spanish actuaries is £24 million (31 March 2017: £23 million). The Spanish branch of 3i Europe plc contributes to individual investment policies for its employees and has agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of these investment policies intended to cover pension liabilities is £1 million (31 March 2017: £1 million). There was no expense (2017: £1 million expense) recognised in the Consolidated statement of comprehensive income for the year and a £1 million loss (2017: nil) in other comprehensive income for these schemes.

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

| | 2018 £m | 2017 £m |
|---|---|---|
| Present value of funded obligations | **782** | 869 |
| Fair value of the Plan assets | **(975)** | (1,055) |
| Asset restriction | **68** | 65 |
| Retirement benefit surplus in respect of the Plan | **(125)** | (121) |
| Retirement benefit deficit in respect of other defined benefit schemes | **23** | 22 |

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.

## 26 Retirement benefits continued

The amounts recognised in the Consolidated statement of comprehensive income in respect of the Plan are as follows:

| | 2018 £m | 2017 £m |
|---|---|---|
| **Included in interest payable** | | |
| Interest income on net defined benefit asset | – | (3) |
| **Included in other income** | | |
| Reduction in past service cost | – | (6) |
| **Included in other comprehensive income** | | |
| Re-measurement (gain)/loss | (2) | 30 |
| Asset restriction | 1 | (8) |
| **Total re-measurement (gain)/loss and asset restriction** | (1) | 22 |
| **Total** | (1) | 13 |

The total re-measurement loss recognised in other comprehensive income is nil (2017: £22 million). There was a £1 million loss on our overseas schemes (2017: nil), as noted above.

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

| | 2018 £m | 2017 £m |
|---|---|---|
| Opening defined benefit obligation | 869 | 789 |
| Interest on Plan liabilities | 20 | 26 |
| Re-measurement (gain)/loss: | | |
| – gain from change in demographic assumptions | (5) | – |
| – loss from change in financial assumptions | 5 | 210 |
| – experience gains | (3) | (31) |
| Benefits paid | (104) | (119) |
| Reduction in past service costs | – | (6) |
| **Closing defined benefit obligation** | 782 | 869 |

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

| | 2018 £m | 2017 £m |
|---|---|---|
| Opening fair value of the Plan assets | 1,055 | 992 |
| Interest on Plan assets | 22 | 32 |
| Actual return on Plan assets less interest on Plan assets | (1) | 149 |
| Employer contributions | 3 | 1 |
| Benefits paid | (104) | (119) |
| **Closing fair value of the Plan assets** | 975 | 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:

| | 2018 £m | 2017 £m |
|---|---|---|
| Equities | 150 | 237 |
| Corporate bonds | 160 | 150 |
| Gilts | 474 | 474 |
| Annuity contract | 174 | 182 |
| Other | 17 | 12 |
| | 975 | 1,055 |

# Notes to the accounts
continued

## 26 Retirement benefits continued

The Plan's assets are predominantly invested with Legal and General Investment Management in quoted and liquid funds. The annuity contract is provided by Pension Insurance Corporation as a result of a buy-in transaction completed by the 3i Pension Plan Trustees during FY2017. The buy-in, which is a bulk annuity purchase, reduces member longevity risk for those pensioners covered while improving investment returns over the assets used to fund the purchase. This contract provides an exact match for the member benefits insured and covers two in five pensioners. The fair value of the insurance policy is calculated using the same assumptions and methodology as used to calculate the value of the pension liability as at 31 March 2018.

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:

| | 2018 £m | 2017 £m |
|---|---|---|
| Opening asset restriction | 65 | 71 |
| Interest on asset restriction | 2 | 2 |
| Re-measurements | 1 | (8) |
| **Closing asset restriction** | **68** | 65 |

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

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 2.5% | 2.5% |
| Expected rate of salary increases | 5.8% | 5.8% |
| Expected rate of pension increases | 0% to 3.4% | 0% to 3.4% |
| Retail Price Index (RPI) inflation | 3.3% | 3.3% |
| Consumer Price Index (CPI) inflation | 2.3% | 2.3% |

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 2018 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 21 years.

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2018 is 80% of the S2NA Light tables allowing for improvements in line with the CMI 2015 core projections with a long-term annual rate of improvement of 1.75% (31 March 2017: 80% of S1NA Light tables allowing for improvements in line with the CMI 2012 core projections with a long-term annual rate of improvement of 1.5%). The life expectancy of a male member reaching age 60 in 2038 (31 March 2017: 2037) is projected to be 34.0 (31 March 2017: 33.7) years compared to 31.3 (31 March 2017: 31.4) years for someone reaching 60 in 2018.

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

| | | Impact on retirement benefit surplus | |
|---|---|---|---|
| | Change in assumption | 2018 | 2017 |
| Discount rate | Decrease by 0.1% | Decrease by £9 million | Decrease by £10 million |
| Retail Price Index (RPI) inflation | Increase by 0.1% | Decrease by £8 million | Decrease by £7 million |
| Life expectancy | Increase by 1 year | Decrease by £17 million | Decrease by £13 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.

## 26 Retirement benefits continued

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 and during FY2017 it purchased an annuity contract that is an exact match for a proportion of the Plan's liabilities. |
| **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 members, 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 latest triennial valuation for the Plan was completed on 25 September 2017, based on the position at 30 June 2016. The outcome was an actuarial deficit of £50 million. This valuation is produced for funding purposes and is calculated on a different basis to the IAS 19 valuation net asset of £125 million which is shown in the Note above. The actuarial funding valuation is as at 30 June 2016 and considers expected future returns on the Plan's assets against the expected liabilities, using a more prudent set of assumptions. The IAS 19 accounting valuation compares the 31 March 2018 fair value of plan assets and liabilities, with the liabilities calculated based on the expected future payments discounted using AA corporate bond yields.

As part of the triennial valuation it was agreed that it was not necessary for the Group to make any immediate contributions to the Plan, taking into account the volatile market conditions at the valuation date (immediately after the UK's referendum to leave the EU), and improvements in market conditions and liability management actions implemented since then. The Group has agreed to pay up to £50 million to the Plan if its gearing increases above 20%, gross debt exceeds £1 billion, or net assets fall below £2 billion. The Plan also benefits from a contingent asset arrangement, details of which are provided in Note 25. If the gearing, net debt or net asset limits noted are reached, the Group may be required to increase the potential cover provided by the contingent arrangement until the gearing, gross debt or net assets improve. The next triennial funding valuation will be based on the Plan's position as at 30 June 2019.

## 27 Share-based payments

### Accounting policy:

The Group has equity-settled and cash-settled share-based payment transactions with certain employees. Equity-settled schemes are measured at fair value at the date of grant, which is then recognised in the Consolidated statement of comprehensive income over the period that employees provide services, generally the period between the start of performance period and the vesting date of the shares. The number of share awards expected to vest takes into account the likelihood that performance and services conditions included in the terms of the award will be met.

Fair value is measured by use of an appropriate model which takes into account the exercise price of the option (if any), the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and any other relevant factors. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the year. The movement in cumulative charges since the previous balance sheet is recognised in the Consolidated statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash-settled share-based payment transactions are recognised in the Consolidated statement of comprehensive income over the vesting period. They are fair valued at each reporting date. The cost of cash-settled share-based payment transactions is adjusted for the forfeitures of the participants' rights that no longer meet the plan requirements as well as for early vesting.

Share-based payments are in certain circumstances made in lieu of annual cash bonuses or carried interest payments. The cost of the share-based payments is allocated either to operating expenses (bonuses) or carried interest depending on the original driver of the award. Executive Director Long-Term Incentives are allocated to operating expenses.

# Notes to the accounts
continued

## 27 Share-based payments continued

The total cost recognised in the Consolidated statement of comprehensive income is shown below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Share awards included as operating expenses[1,2] | 8 | 11 |
| Share awards included as carried interest[1] | 9 | 7 |
| Cash-settled share awards included within discontinued operations | – | 2 |
| Cash-settled share awards[3] | 8 | 5 |
| | 25 | 25 |

1 Credited to equity.

2 For the year ended 31 March 2018, £5 million is shown in Note 5 (2017: £7 million), which is net of a £3 million (2017: £4 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 Directors' remuneration report on pages 73 to 82. 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 2018 is £10 million (31 March 2017: £6 million).

For the share-based awards granted during the year, the weighted average fair value of those options at 31 March 2018 was 753 pence (31 March 2017: 436 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 |
|---|---|---|---|---|---|---|
| Monte Carlo model | 916p | – | 26% | 3 | – | 0.25% |
| Black Scholes | 931p | – | 31% | 0.5-4 | 2.8% | 1.27% |

Expected volatility was determined by reviewing share price volatility for the expected life of each option up to the date of grant.

### Movements in share awards

The number of share-based awards outstanding as at 31 March are as follows:

| | 2018 Number | 2017 Number |
|---|---|---|
| Outstanding at the start of the year | 10,113,875 | 11,653,772 |
| Granted | 1,957,521 | 3,929,354 |
| Exercised | (3,907,171) | (5,360,537) |
| Lapsed | (85,779) | (108,714) |
| **Outstanding at the end of year** | 8,078,446 | 10,113,875 |
| **Weighted average remaining contractual life of awards outstanding in years** | 1.9 | 2.8 |
| **Exercisable at the end of the year** | 60,254 | 109,266 |

The weighted average market price at the date of exercise was 919 pence (2017: 574 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 2018 was 8 million (31 March 2017: 11 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 859 pence (31 March 2017: 750 pence) was £67 million (31 March 2017: £85 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 management section on pages 44 to 51. This Note provides further detail on financial risk management, cross-referring to the Risk management section where applicable, and includes quantitative data on specific financial risks.

The Group is a highly selective investor and each investment is subject to an individual risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework set out in the Risk section. The risk management processes of the Company are aligned with those of the Group and both the Group and the Company share the same financial risks.

### Financial risks

#### Concentration risk

3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio. Although 3i does not set maximum limits for asset allocation, it does have a maximum exposure limit for the cost of new investments. This is detailed in the Investment policy on page 84 in the Governance section. Quantitative data regarding the concentration risk of the portfolio across geographies can be found in the Segmental analysis in Note 1 and in the 20 large investments table on pages 148 and 149.

#### Credit risk

The Group is subject to credit risk on its unquoted investments, cash and deposits. The maximum exposure is the balance sheet amount. The Group's cash is held with a variety of counterparties with 93% of the Group's surplus cash held on demand in AAA rated money market funds (31 March 2017: 85%).

The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. Further detail can be found in the Price risk – market fluctuations disclosure in this Note and the sensitivity disclosure to changes in the valuation assumptions is provided in the valuation section of Note 12.

#### Liquidity risk

The liquidity outlook is monitored monthly by management and regularly by the Board in the context of periodic strategic reviews of the balance sheet. The new investment pipeline and forecast realisations are closely monitored and assessed against our vintage control policy, as described on page 44 of the Risk management section. The table on the next page analyses the maturity of the Group's gross contractual liabilities.

# Notes to the accounts
continued

## 28 Financial risk management continued

### Financial liabilities

| As at 31 March 2018 | 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 | **35** | **35** | **306** | **590** | **966** |
| Committed multi-currency facility | **1** | **1** | **1** | **–** | **3** |
| Carried interest and performance fees payable within one year | **55** | **–** | **–** | **–** | **55** |
| Trade and other payables | **100** | **–** | **1** | **–** | **101** |
| **Total** | **191** | **36** | **308** | **590** | **1,125** |

Gross commitments include principal amounts and interest and fees where relevant. Carried interest and performance fees payable greater than one year of £105 million (31 March 2017: £124 million) have no stated maturity as they result from investment related transactions and it is not possible to identify with certainty the timing of when the investments will be sold. Carried interest and performance fees payable greater than one year are shown after discounting which has an impact of £1 million (31 March 2017: £4 million).

| As at 31 March 2017 | 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 | 35 | 35 | 106 | 825 | 1,001 |
| Committed multi-currency facility | 1 | 1 | 2 | – | 4 |
| Carried interest and performance fees payable within one year | 23 | – | – | – | 23 |
| Trade and other payables | 103 | 2 | 1 | 21 | 127 |
| **Total** | 162 | 38 | 109 | 846 | 1,155 |

### Forward foreign exchange contracts

At 31 March 2018, there were no forward foreign exchange contracts in place (31 March 2017: none).

The Company disclosures are the same as those for the Group with the following exceptions; carried interest and performance fees payable within one year is nil (31 March 2017: nil) and trade and other payables within one year is £527 million (31 March 2017: £506 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.

## 28 Financial risk management continued

### (i) Interest rate risk

On the liability side, the direct impact of a movement in interest rates is limited to any drawings under the committed multi-currency facility as the Group's outstanding debt is fixed rate. The sensitivities below arise principally from changes in interest receivable on cash and deposits.

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 £11 million (2017: £10 million increase) for the Group and £9 million (2017: £9 million) for the Company. In addition, the Group and Company have indirect exposure to interest rates through changes to the financial performance and the valuation of portfolio companies caused by interest rate fluctuations.

### (ii) Currency risk

The Group's net assets in euro, US dollar, Danish krone 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.

The Group considers currency risk on specific investment and realisation transactions. Further information on how currency risk is managed is provided on page 44.

| As at 31 March 2018 | Sterling £m | Euro £m | US dollar £m | Danish krone £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| Net assets | **1,390** | **4,542** | **862** | **137** | **93** | **7,024** |
| **Sensitivity analysis** | | | | | | |
| Assuming a 10% movement in exchange rates against sterling: | | | | | | |
| Impact on net assets | **n/a** | **454** | **86** | **14** | **9** | **563** |

| As at 31 March 2017 | Sterling £m | Euro £m | US dollar £m | Danish krone £m | Other £m | Total £m |
|---|---|---|---|---|---|---|
| Net assets | 1,420 | 3,373 | 751 | 147 | 145 | 5,836 |
| **Sensitivity analysis** | | | | | | |
| Assuming a 10% movement in exchange rates against sterling: | | | | | | |
| Impact on net assets | n/a | 337 | 75 | 15 | 14 | 441 |

### (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 provided on page 46 in the Risk management section. A 15% change in the fair value of those investments would have the following direct impact on the Consolidated statement of comprehensive income:

| Group | Quoted investment £m | Unquoted investment £m | Investment in investment entity subsidiaries £m | Total £m |
|---|---|---|---|---|
| **At 31 March 2018** | **52** | **263** | **605** | **920** |
| At 31 March 2017 | 59 | 197 | 522 | 778 |

| Company | Quoted investment £m | Unquoted investment £m | Total £m |
|---|---|---|---|
| **At 31 March 2018** | **52** | **263** | **315** |
| At 31 March 2017 | 59 | 194 | 253 |

Audited financial statements

# Notes to the accounts
continued

## 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 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Carried interest receivable | 138 | 276 | 183 | 276 |
| Fees receivable from external funds | 29 | 26 | – | – |

| Statement of financial position | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Carried interest receivable | 500 | 356 | 541 | 356 |

#### Investments

The Group makes investments in the equity of unquoted and quoted investments where it does not have control but may be able to participate in the financial and operating policies of that company. IFRS presumes that it is possible to exert significant influence when the equity holding is greater than 20%. The Group has taken the investment entity exception as permitted by IFRS 10 and has not equity accounted for these investments, in accordance with IAS 28, but they are related parties. The total amounts included for investments where the Group has significant influence but not control are as follows:

| Statement of comprehensive income | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Realised profit over value on the disposal of investments | 7 | – | 11 | – |
| Unrealised profits on the revaluation of investments | 36 | 57 | 36 | 51 |
| Portfolio income | 9 | 17 | 5 | 7 |
| Profit for the year from discontinued operations | – | 21 | – | 4 |

| Statement of financial position | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Unquoted investments | 380 | 429 | 380 | 407 |

### 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 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Realised profit over value on the disposal of investments | 4 | – | 4 | – |
| Unrealised profits on the revaluation of investments | 40 | 38 | 40 | 38 |
| Fees receivable from external funds | 29 | 21 | – | – |
| Performance fees receivable | 90 | 4 | – | – |
| Dividends | 16 | 14 | 16 | 14 |

| Statement of financial position | Group 2018 £m | Group 2017 £m | Company 2018 £m | Company 2017 £m |
|---|---|---|---|---|
| Quoted equity investments | 345 | 390 | 345 | 390 |
| Performance fees receivable | 90 | 4 | – | – |

## 29 Related parties and interests in other entities continued

### 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 (2017: £13 million) from 3i plc, a fellow subsidiary, 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 £90 million (2017: £89 million) for this service.

### Key management personnel

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

| Statement of comprehensive income | Group 2018 £m | Group 2017 £m |
|---|---|---|
| Salaries, fees, supplements and benefits in kind | 4 | 5 |
| Cash bonuses | 2 | 4 |
| Carried interest and performance fees payable | 25 | 43 |
| Share-based payments | 9 | 12 |
| Termination payments | – | 1 |

| Statement of financial position | Group 2018 £m | Group 2017 £m |
|---|---|---|
| Bonuses and share-based payments | 15 | 14 |
| Carried interest and performance fees payable within one year | 15 | 4 |
| Carried interest and performance fees payable after one year | 80 | 68 |

No carried interest was paid or accrued for the Executive or non-executive Directors (2017: nil). Carried interest paid in the year to other key management personnel was £1 million (2017: £12 million).

### Unconsolidated structured entities

The application of IFRS 12 requires additional disclosure on the Group's exposure to unconsolidated structured entities.

The Group has exposure to a number of unconsolidated structured entities as a result of its investment activities across its Private Equity and Infrastructure business lines. 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.

#### Closed-end limited partnerships

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

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

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

| | Carrying amount | | | |
|---|---|---|---|---|
| Balance sheet line item of asset or liability | Assets £m | Liabilities £m | Net £m | Maximum loss exposure £m |
| Carried interest receivable | 500 | – | 500 | 500 |
| **Total** | 500 | – | 500 | 500 |

At 31 March 2017, the carrying amount of assets and maximum loss exposure of carried interest receivable was £356 million. The carrying amount of liabilities was nil.

At 31 March 2018, the total assets under management relating to these entities was £3.9 billion (31 March 2017: £3.0 billion). The Group earned fee income of £29 million (2017: £26 million) and carried interest of £138 million (2017: £276 million) in the year.

# Notes to the accounts
continued

## 29 Related parties and interests in other entities continued

### Regulatory information relating to fees

3i Investments plc acts as the AIFM of 3i Group plc. In performing the activities and functions of the AIFM, the AIFM or another 3i company may pay or receive fees, commissions or non-monetary benefits to or from third parties of the following nature:

#### Transaction fees

3i companies receive monitoring and directors' fees from portfolio companies. The amount is agreed with the portfolio company at the time of the investment but may be re-negotiated. Where applicable, 3i may also receive fees on the completion of transactions such as acquisitions, refinancings or syndications either from the portfolio company or a co-investor. Transaction fees paid to 3i are included in portfolio income.

#### Payments for third-party services

3i companies may retain the services of third-party consultants; for example for an independent director or other investment management specialist expertise. The amount paid varies in accordance with the nature of the service and the length of the service period and is usually, but not always, paid/reimbursed by the portfolio companies. The payment may involve a flat fee, retainer or success fee. Such payments, where borne by 3i companies, are usually included in portfolio income.

#### Payments for services from 3i companies

One 3i company may provide investment advisory services to another 3i company and receive payment for such services.

## 30 Subsidiaries and related undertakings

IFRS 10 deems control, as opposed to equity ownership, as the key factor when determining what meets the definition of a subsidiary. If a group is exposed to, or has rights to, variable returns from its involvement with the investee, then under IFRS 10 it has control. This is inconsistent with the UK's Companies Act 2006, where voting rights being greater than 50% is the key factor when identifying subsidiaries.

Under IFRS 10, 23 of the Group's portfolio company investments are considered to be accounting subsidiaries. As the Group applies the investment entity exception available under IFRS 10, these investee companies are classified as investment entity subsidiaries.

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings. Related undertakings are subsidiaries, joint ventures, associates and other significant holdings. In this context, significant means either a shareholding greater than or equal to 20% of the nominal value of any class of shares or a book value greater than 20% of the Group's assets.

The Company's related undertakings at 31 March 2018 are listed below:

| Description | Holding/share class | Footnote |
|---|---|---|
| **Subsidiaries** | | |
| 3i Holdings plc | 100% ordinary shares | 1 |
| 3i Investments plc | 100% ordinary shares | 1 |
| 3i plc | 100% ordinary shares | 1 |
| 3i International Holdings | 100% ordinary shares | 1 |
| Investors in Industry plc | 100% ordinary shares/cumulative preference shares | 1 |
| Mayflower GP Limited | 100% ordinary shares | 1 |
| 3i Assets LLP | 100% partnership interest | 1 |
| 3i General Partner No 1 Limited | 100% ordinary shares | 1 |
| 3i Corporation | 100% ordinary shares | 2 |
| 3i DM US (SLF) LP | 100% partnership interest | 3 |
| 3i Deutschland Gesellschaft für Industriebeteiligungen mbH | 100% ordinary shares | 4 |
| Gardens Nominees Limited | 100% ordinary shares | 1 |
| Gardens Pension Trustees Limited | 100% ordinary shares | 1 |
| 3i DM GIF 2015 GP Limited | 100% ordinary shares | 1 |
| 3i DM Europe Limited | 100% ordinary shares | 1 |
| 3i Europe plc | 100% ordinary shares | 1 |
| 3i Nominees Limited | 100% ordinary shares | 1 |
| 3i PVLP Nominees Limited | 100% ordinary shares | 1 |
| 3i Group Investments LP | 100% partnership interest | 1 |
| 3i APTech Nominees Limited | 100% ordinary shares | 1 |
| 3i APTech GP Limited | 100% ordinary shares | 1 |
| Mayflower LP | 100% partnership interest | 5 |

## 30 Subsidiaries and related undertakings continued

| Description | Holding/share class | Footnote |
|---|---|---|
| 3i Osprey GP Limited | 100% ordinary shares | 1 |
| 3i Investments GP Limited | 100% ordinary shares | 1 |
| 3i IIF GP Limited | 100% ordinary shares | 5 |
| 3i Nordic plc | 100% ordinary shares | 1 |
| 3i GP 2004 Limited | 100% ordinary shares | 3 |
| 3i Networks Finland Limited | 100% ordinary shares | 1 |
| 3i Ademas LP | 100% partnership interest | 1 |
| The 3i Group Employee Trust | n/a | 6 |
| 3i International Services plc | 100% ordinary shares | 1 |
| 3i EFIV Nominees Limited | 100% ordinary shares | 1 |
| 3i EFV Nominees A Limited | 100% ordinary shares | 1 |
| 3i EFV Nominees B Limited | 100% ordinary shares | 1 |
| 3i India Private Limited | 100% ordinary shares | 7 |
| 3i Sports Media (Mauritius) Limited | 90% ordinary shares | 8 |
| 3i Asia Limited | 100% ordinary shares | 8 |
| 3i EFV GP Limited | 100% ordinary shares | 1 |
| 3i EF4 GP Limited | 100% ordinary shares | 1 |
| 3i srl | 100% ordinary shares | 9 |
| 3i Infraprojects (Mauritius) Limited | 100% ordinary shares | 8 |
| 3i Research (Mauritius) Limited | 100% ordinary shares | 8 |
| IIF SLP GP Limited | 100% ordinary shares | 3 |
| 3i Buyouts 2010 A LP | 82% partnership interest | 1 |
| 3i Buyouts 2010 B LP | 75% partnership interest | 1 |
| 3i Buyouts 2010 C LP | 50% partnership interest | 1 |
| GP CCC 2010 Limited | 100% ordinary shares | 3 |
| 3i GC GP Limited | 100% ordinary shares | 1 |
| 3i GP 2010 Limited | 100% ordinary shares | 1 |
| 3i Growth Capital A LP | 100% partnership interest | 1 |
| 3i Growth Capital G LP | 100% partnership interest | 1 |
| 3i Growth Capital (USA) D L.P. | 100% partnership interest | 5 |
| 3i Growth 2010 LP | 85% partnership interest | 1 |
| 3i Growth USA 2010 L.P. | 83% partnership interest | 5 |
| 3i Growth Capital (USA) P L.P. | 100% partnership interest | 5 |
| 3i GC Holdings Ref 2 s.a.r.l | 50% ordinary shares | 10 |
| Strategic Investments FM (Mauritius) Alpha Limited | 70% ordinary shares | 8 |
| 3i GC Nominees A Limited | 100% ordinary shares | 1 |
| 3i GC Nominees B Limited | 100% ordinary shares | 1 |
| Ebrain 1 Limited | 100% ordinary shares | 36 |
| Ebrain 2 Limited | 100% ordinary shares | 36 |
| Ebrain 3 Limited | 100% ordinary shares | 36 |
| 3i India Infrastructure B LP | 99% partnership interest | 1 |
| 3i Pan European Growth Capital 2005-06 LP | 80% partnership interest | 1 |
| 3i Asia Pacific 2004-06 LP | 100% partnership interest | 1 |
| 3i UK Private Equity 2004-06 LP | 80% partnership interest | 1 |
| 3i Pan European Buyouts 2004-06 LP | 79% partnership interest | 1 |
| 3i 2004 GmbH & Co KG | 100% partnership interest | 4 |
| 3i General Partner 2004 GmbH | 100% ordinary shares | 4 |
| Pan European Buyouts Co-invest 2006-08 LP | 100% partnership interest | 1 |
| Pan Euro Buyouts (Dutch) A Co-invest 2006-08 LP | 100% partnership interest | 1 |

# Notes to the accounts
continued

## 30 Subsidiaries and related undertakings continued

| Description | Holding/share class | Footnote |
|---|---|---|
| 3i US Growth Partners LP | 94% partnership interest | 5 |
| 3i US Growth Corporation | 100% ordinary shares | 11 |
| Global Growth Co-invest 2006-08 LP | 100% partnership interest | 5 |
| Pan European Growth Co-invest 2006-08 LP | 100% partnership interest | 1 |
| Pan European Growth (Dutch) A Co-invest 2006-08 LP | 100% partnership interest | 1 |
| US Growth Co-invest 2006-08 LP | 72% partnership interest | 1 |
| Asia Growth Co-invest 2006-08 LP | 100% partnership interest | 1 |
| 3i GP 2006-08 Limited | 100% ordinary shares | 1 |
| Pan European Buyouts (Nordic) Co-invest 2006-08 LP | 100% partnership interest | 1 |
| Pan European Growth (Nordic) Co-invest 2006-08 LP | 100% partnership interest | 1 |
| 3i Buyouts 08-10 A LP | 99% partnership interest | 1 |
| 3i Buyouts 08-10 B LP | 98% partnership interest | 1 |
| 3i Buyouts 08-10 C LP | 98% partnership interest | 1 |
| 3i Growth 08-10 LP | 99% partnership interest | 1 |
| GP CCC 08-10 Limited | 100% ordinary shares | 3 |
| 3i GP 08-10 Limited | 100% ordinary shares | 1 |
| 3i Growth (Europe) 08-10 LP | 99% partnership interest | 1 |
| 3i PE 2013-16A LP | 100% partnership interest | 1 |
| 3i PE 2013-16C LP | 100% partnership interest | 1 |
| 3i GP 2013 Ltd | 100% ordinary shares | 1 |
| GP 2013 Ltd | 100% ordinary shares | 3 |
| 3i BIFM Investments Limited | 100% ordinary shares | 1 |
| BIIF GP Limited | 100% ordinary shares | 1 |
| BEIF II Limited | 100% ordinary shares | 1 |
| BAM General Partner Limited | 100% ordinary shares | 1 |
| BEIF Management Limited | 100% ordinary shares | 1 |
| 3i BIIF GP LLP | 100% partnership interest | 1 |
| 3i BEIF II GP LLP | 100% partnership interest | 1 |
| 3i PE 2016-19 A LP | 100% partnership interest | 1 |
| 3i Managed Infrastructure Acquisitions GP (2017) LLP | 100% partnership interest | 1 |
| 3i Managed Infrastructure Acquisitions GP Limited | 100% ordinary shares | 1 |
| 3i 2016 Gmbh & Co. KG | 100% partnership interest | 4 |
| 3i European Operational Projects GmbH & Co. KG | 100% partnership interest | 4 |
| Crown Bidco B.V. | 100% ordinary shares | 12 |
| Crown Holdco B.V. | 100% ordinary shares | 12 |
| Crown Midco B.V. | 100% partnership interest | 12 |
| GP 2016 Limited | 100% ordinary shares | 3 |
| 3i GP 2016 Limited | 100% ordinary shares | 1 |
| 3i European Operational Projects GP s.a.r.l | 100% ordinary shares | 10 |
| 3i SCI Holdings Limited | 100% ordinary shares | 1 |
| 3i North America Infrastructure, LLC | 80% partnership interest | 38 |
| 3i Abaco ApS | 100% ordinary shares | 39 |

## 30 Subsidiaries and related undertakings continued

| Description | Holding/share class | Footnote |
|---|---|---|
| **Associates** | | |
| 3i Growth Carry A LP | 25% partnership interest | 3 |
| 3i Growth Carry B LP | 25% partnership interest | 3 |
| 3i GC Holdings Ref 1 S.a.r.l | 36% ordinary shares | 10 |
| Moon Topco GmbH | 49% ordinary shares | 13 |
| Layout Holdco A/S | 49% ordinary shares | 14 |
| Fuel Holdco SA | 43% ordinary shares | 10 |
| Boketto Holdco Limited | 47% ordinary shares | 15 |
| Klara HoldCo S.A. | 47% ordinary shares | 10 |
| Colorado Holdco Limited | 48% ordinary shares | 16 |
| Shield Holdco LLC | 49% ordinary shares | 17 |
| Q Holdco Ltd | 26% ordinary shares | 18 |
| 3i Infrastructure plc | 34% ordinary shares | 19 |
| ACR Capital Holdings Pte Ltd | 25% ordinary shares | 20 |
| Peer Holding 1 BV | 43% ordinary shares | 21 |
| AES Engineering Ltd | 43% ordinary shares | 22 |
| Chrysanthes 1 S.a.r.l | 49% ordinary shares | 10 |
| Mito Holdings S.a.r.l | 47% ordinary shares | 10 |
| Carter Thermal Industries Limited | 34% ordinary shares | 23 |
| Echezeaux Investissement SA | 40% ordinary shares | 10 |
| Harper Topco Limited | 42% ordinary shares | 24 |
| MDY Healthcare Limited | 27% ordinary shares | 25 |
| OneMed AB | 29% ordinary shares | 26 |
| Orange County Fundo de Investmento EM Particpacoes | 39% equity units | 27 |
| Permali Gloucester Limited | 32% ordinary shares | 28 |
| Scandlines Holding ApS | 48% ordinary shares | 29 |
| SLR Management Limited | 21% ordinary shares | 30 |
| Tato Holdings Limited | 27% ordinary shares | 31 |
| Lilas 1 SAS | 49% ordinary shares | 32 |
| Indiareit Offshore Fund (Mauritius) | 20% partnership interest | 33 |
| Nimbus Communications Ltd | 30% ordinary shares | 34 |
| Artisan du Luxe Holding Limited | 26% ordinary shares | 35 |
| Asia Strategic MedTech Holdings (Mauritius) Limited | 36% ordinary shares | 8 |
| Aurela TopCo Gmbh | 43% ordinary shares | 37 |
| Retina Holdco BV | 49% ordinary shares | 41 |
| C Medical Holdco, LLC | 49% ordinary shares | 2 |
| 3i India Infrastructure Holdings Ltd | 21% ordinary shares | 8 |
| Pearl Group Holdings Limited | 44% ordinary shares | 40 |
| Racing Topco GmbH | 49% ordinary shares | 42 |

# Notes to the accounts
continued

## 30 Subsidiaries and related undertakings continued

There are no joint ventures or other significant holdings. The 20 large portfolio companies by fair value are detailed on pages 148 and 149. The combination of the table above and that on pages 148 and 149 is deemed by the Directors to fulfil the requirements under IFRS 12 on the disclosure of material subsidiaries.

| Footnote | Address |
|---|---|
| 1 | 16 Palace Street, London, SW1E 5JD, UK |
| 2 | 1 Grand Central Place East, 42nd Street, Suite 4100 New York, NY 10165, USA |
| 3 | 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK |
| 4 | OpernTurm, Bockenheimer Landstresse 2-4, 60306 Frankfurt am Main, Germany |
| 5 | Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey |
| 6 | Computershare, Queensway House, Hilgrove Street, St Helier, JE1 1ES, Jersey |
| 7 | Level 7, The Capital B-Wing, Bandra Kurla Complex, Bandra East, Mumbai, 400051, India |
| 8 | Ebene Esplanade, 24 Cybercity, Ebene, Mauritius |
| 9 | Via Orefici 2, 20123 Milan, Italy |
| 10 | 9 Rue Sainte Zithe, L-2763 Luxembourg, Grand Duchy of Luxembourg |
| 11 | 2711 Centervilla Road, Suite 4000, Wilmington, DE 19808, New Castle, USA |
| 12 | Cornelis Schuytstraat 72, 1071JL Amsterdam, Netherlands |
| 13 | Gruber Str. 48, 85586 Poing, Germany |
| 14 | Mørupvej 16 Mørup 7400 Herning, Denmark |
| 15 | New Mill, New Mill Lane, Witney, Oxfordshire, OX29 9SX, UK |
| 16 | Aspen Building, Apex Way, Hailsham, East Sussex, BN27 3WA, UK |
| 17 | 400 Madison Avenue, Suite 9C, New York, NY 10017, USA |
| 18 | Berger House (2nd Floor), 36-38 Berkeley Square, London, W1J 5AE, UK |
| 19 | 12 Castle Street, St Helier, JE2 3RT, Jersey |
| 20 | 6 Temasek Blvd, Singapore 038986, Singapore |
| 21 | Perenmarkt 15, Zwaagdijk East, 1681PG, Netherlands |
| 22 | Bradmarsh Business Park, Mill Close, Rotherham, South Yorkshire, S60 1BZ, UK |
| 23 | Redhill Rd, Birmingham, B25 8EY, UK |
| 24 | 5th Floor, 6 St Andrew Street, London, EC4A 3AE, UK |
| 25 | First Floor, Quay 2, 139 Fountainbridge, Edinburgh, EH3 9QG, UK |
| 26 | Svärdvägen 3 B, Danderyd, 182 33, Sweden |
| 27 | Av. Ataulfo de Paiva, 1.100, 7th Floor, Leblon, Rio de Janeiro, RJ 22440-035, Brazil |
| 28 | Bristol Rd, Gloucester, GL1 5TT, UK |
| 29 | 35 Great St Helen's, London, EC3A 6AP, UK |
| 30 | 7 Wornal Park Menmarsh Road, Worminghall, Aylesbury, Buckinghamshire, HP18 9JX, UK |
| 31 | Thor Group Ltd, Bramling House, Bramling, Canterbury, Kent, CT3 1NB, UK |
| 32 | Park a Eco Vendee Sud Loire, 85600, Bouffere, France |
| 33 | IFS Court, TwentyEight, Cybercity, Ebene, Mauritius |
| 34 | 44 Oberoi Complex, Andthei (West), Mumbai, India |
| 35 | 42 KCS Chambers, PO BOX 4051, Road Town, Tortola, British Virgin Islands |
| 36 | 47 Esplanade, St Helier, JE1 0BD, Jersey |
| 37 | Seelbüde 13, 36110 Schlitz, Germany |
| 38 | 1209 Orange Street, Wilmington, Delaware 19801, USA |
| 39 | Holbergsgade 14, 2tv, 1057, Copenhagen, Denmark |
| 40 | 1 Georges Square, Bath Street, Bristol, BS1 6BA, UK |
| 41 | Papland 21, 4206CK Gorinchem, Netherlands |
| 42 | Hunsrückstraße 1, 53842 Frankfurt am Main, Germany |

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

## Opinion

### In our opinion:

- 3i Group plc's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 March 2018 and of the Group's 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of 3i Group plc which comprise:

| Group | Parent company |
|---|---|
| Consolidated statement of comprehensive income for the year to 31 March 2018 | Company statement of financial position as at 31 March 2018 |
| Consolidated statement of financial position as at 31 March 2018 | Company statement of changes in equity for the year to 31 March 2018 |
| Consolidated statement of changes in equity for the year to 31 March 2018 | Company cash flow statement for the year to 31 March 2018 |
| Consolidated cash flow statement for the year to 31 March 2018 | |
| Significant accounting policies | |
| Related notes 1 to 30 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.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 47 to 51 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 47 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 directors' statement set out on page 89 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;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 47 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.

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

## Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Incorrect valuation of unquoted proprietary investments.<br>• Incorrect calculation of carried interest.<br>• Incorrect recognition of portfolio income and of realised profits on disposal of investments.<br>The first two risks are considered to be significant risks, consistent with the 2017 audit. |
| 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 seven international offices, which are primarily responsible for deal origination and investment portfolio monitoring.<br>• The Group comprises 87 consolidated subsidiaries and 62 investment entity subsidiaries. Monitoring and control over the operations of these subsidiaries, including those located overseas, is centralised in London.<br>• The London based Group audit team performed direct audit procedures on all items material to the Group financial statements. Our audit sample covered 99% of the investment portfolio and 99% of carried interest accruals.<br>This approach is consistent with the 2017 audit. |
| Materiality | • Overall Group materiality is £70m (2017: £58m) which represents 1% of net assets.<br>This approach is consistent with the 2017 audit. |

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| Risk | Our response to the risk |
| --- | --- |
| **Group and Parent company risk**<br>**Incorrect valuation of unquoted proprietary investments (£5,806m, PY comparative £4,782m)**<br>*Refer to the Audit and Compliance Committee report (pages 66 to 69); Significant accounting policies (page 101); and Notes 10, 11 and 12 of the financial statements (pages 112 to 116)*<br>The proprietary investment portfolio comprises a number of unquoted securities. In the Consolidated statement of financial position these are shown both as Investments (which are held directly by consolidated subsidiaries of the Group and Parent Company), and as Investments in investment entities (which are typically limited partnerships and other holding structures). In the Company statement of financial position these are shown both as investments (which are held directly by the Parent Company), and as Investments in investment entities (which are included within the Interests in Group entities line item).<br>The Group adopts a valuation methodology based on the International Private Equity and Venture Capital Valuation 2015 (IPEV) guidelines, in conformity with IFRS 13 – Fair Value Measurements (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 judgments to be made by management. The exit value will be determined by the market at the time of realisation and therefore despite the valuation policy adopted and judgments made by management, the final sales value may differ materially from the valuation at the year end date.<br>There is the risk that inaccurate judgments made in the assessment of fair value, in particular in respect of; earnings multiples, the application of liquidity discounts, calculation of discount rates and the estimation of future maintainable earnings, could lead to the incorrect valuation of the unquoted proprietary investment portfolio. In turn, this could materially misstate the value of the Investment portfolio in the Consolidated 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.<br>There is also the risk that management may influence the significant judgments and estimations in respect of unquoted proprietary investment valuations in order to meet market expectations of the overall Net asset value of the Group.<br>The risk has neither increased nor decreased in the current year. | Our procedures extended to testing 99% of the related balance.<br>We obtained an understanding of management's processes and controls for 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 have identified key controls in the process, assessed the design adequacy and tested the operating effectiveness of those controls. We were able to rely on controls over portfolio company and comparable company data used in the valuation of unquoted investments.<br>We compared management's valuation methodology to IFRS and the IPEV guidelines. We sought explanations from management where there were judgments applied in its application of the guidelines and assessed their appropriateness.<br>With the assistance of our valuations specialists, we formed an independent range for the key assumptions used in the valuation of a sample of unquoted investments, with reference to the relevant industry and market valuation considerations. We derived a range of fair values using our assumptions and other qualitative risk factors. We compared these ranges with management's assumptions, and discussed our results with both management and the Valuations Committee.<br>With respect to unquoted investments in the private equity business line, on a sample basis we corroborated key inputs in the valuation models, such as earnings and net debt to source data. We also performed the following procedures on key judgments made by management in the calculation of fair value:<br>• assessed the suitability of the comparable companies used in the calculation of the earnings multiples;<br>• challenged management on the applicability of adjustments made to earnings multiples by obtaining rationale and supporting evidence for adjustments made;<br>• performed corroborative calculations to assess the appropriateness of discount rates; and<br>• discussed with management the adjustments made to calculate future maintainable earnings and corroborated this to supporting documentation.<br>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.<br>We discussed with management 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.<br>We performed a site visit, accompanied by our Valuations Specialists, to the most material asset in the portfolio, which enabled us to corroborate our understanding of, and gain specific insights into, the asset. |

**Key observations communicated to the Audit and Compliance Committee:**
The valuation of the unquoted proprietary investment portfolio is determined to be within a reasonable range of fair values. All valuations tested are materially in accordance with IFRS and the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) – December 2015. Reasonable inputs to the valuations were used. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

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

| Risk | Our response to the risk |
|---|---|
| **Group and Parent company risk**<br>**Incorrect calculation of carried interest (carried interest and performance fees receivable £596m, PY comparative £366m; carried interest and performance fees payable £870m, PY comparative £685m)**<br>*Refer to the Audit and Compliance Committee report (pages 66 to 69); Significant accounting policies (page 101); and Notes 13 and 14 of the financial statements (pages 116 to 118)*<br>Carried interest receivable is an accrual of the share of the profits from funds managed by the Group on behalf of third parties. Carried interest payable is an accrual of amounts payable to investment executives in respect of the returns on successful investments both from Group proprietary capital and third-party capital. Carried interest is only paid on realisation of investments.<br>Carried interest receivable and payable is calculated as a percentage of the profits that would be achieved, if the investments within each fund or scheme were realised at fair value at the year-end date, subject to the relevant hurdle rates or performance conditions being met.<br>Judgment is required in determining the fair value of the investment portfolio (as described in the preceding risk section) and therefore, whether hurdles or performance conditions have been achieved.<br>There are multiple carried interest arrangements in place and investment executives may participate in more than one scheme. These arrangements have been structured over multiple periods and include different pools of investments. The process of calculating carried interest receivable and payable relies on manual calculations.<br>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.<br>Carried interest is recorded in the Consolidated statement of financial position as Carried interest and performance fees receivable or Carried interest and performance fees payable, and is also recorded within Investments in investment entity subsidiaries.<br>The risk has neither increased nor decreased in the current year. | Our procedures extended to testing 99% of the related balance.<br>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. We adopted a substantive approach to our testing.<br>We agreed a sample of calculation methodologies to their respective terms and conditions set out in the underlying agreements.<br>Our audit procedures on the fair value of the underlying investments are described in the preceding risk section. We performed analytical procedures comparing the performance of the reference investments in each fund or scheme, taking into account the investment realisations, to the related accruals in the financial statements.<br>On a sample basis we:<br>• recalculated the returns on the fund or scheme to test that hurdles or performance conditions had been met where carried interest was being accrued;<br>• 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;<br>• determined the reasonableness of investment exit dates with reference to our audit work on the fair value of the investment portfolio and our understanding of the life cycle of the relevant investments, and then compared this against the anticipated payment dates used to discount the carried interest accrual; and<br>• ensured the resulting cash flow was as a result of a triggering event such as a realisation or a re-finance by verifying the cash flow to bank statements (and in the case of carry payable to award letters sent to investment executives). |

**Key observations communicated to the Audit and Compliance Committee:**
Our audit procedures did not identify any matters regarding the recognition of carried interest in accordance with IFRSs as adopted by the EU. All calculations tested have been performed materially in accordance with contractual terms. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

| Risk | Our response to the risk |
| --- | --- |
| **Group and Parent company risk**<br>**Incorrect recognition of portfolio income and of realised profits on disposal of investments (£364m, PY comparative £138m)**<br>*Refer to the Audit and Compliance Committee report (pages 66 to 69); Significant accounting policies (page 102); and Note 2 of the financial statements (page 107)*<br>Portfolio income is directly attributable to the return from investments. This includes: dividends from investee companies and interest income from the investment portfolio.<br>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.<br>Market expectations and revenue based targets may place pressure on management to influence the recognition of portfolio income or realised gains. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations.<br>Where income is recorded in a consolidated subsidiary, in the Consolidated statement of comprehensive income it is recorded as Portfolio Income and Realised profits/(losses) over value on the disposal of investments. Where the income is recorded in an investment entity subsidiary, it is recorded as Fair value movements on investment entity subsidiaries.<br>The risk has neither increased nor decreased in the current year. | Our procedures extended to testing 81% of the related amount.<br>We obtained an understanding of the processes and controls around accounting for portfolio income and realised gains by performing walkthroughs of the processes. We identified key controls in the processes, assessed design adequacy and tested the operating effectiveness of those controls.<br>We performed detailed testing on a sample of transactions in order to confirm whether they had been appropriately recorded in the Consolidated statement of comprehensive income.<br>For portfolio income, on a sample basis, we:<br>• agreed dividends from investee companies to the dividend notice; and<br>• recalculated interest income based on the terms of the underlying agreements.<br>For all samples selected for testing we verified that revenue is recognised when the rights to receive the income have been established.<br>For realised gains, on a sample basis, we:<br>• analysed the contract and terms of the sale to determine whether the Group has met the stipulated requirements, confirming that the net proceeds and therefore the realised profits over opening value can be reliably measured; and<br>• 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.<br>For all samples selected for testing we verified that revenue is recognised when the significant risks and rewards of ownership have been transferred.<br>In order to address the risk of cut-off, we performed enquiries of management, read minutes of meetings throughout the year and subsequent to the year end, and performed journal entry testing in order to address the risk of management override of controls to overstate or defer revenue recognition. |

**Key observations communicated to the Audit and Compliance Committee:**
Our audit procedures did not identify any material matters regarding the recognition of portfolio income and of realised profits on disposal of investments. All transactions tested have been materially recognised in accordance with contractual terms and IFRSs as adopted by the EU. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

In the prior year, our auditor's report included a key audit matter in relation to incorrect accounting treatment of the sale of the Debt Management business and calculation of the profit on disposal. This key audit matter is no longer applicable for the current year, as the Debt Management business was sold during the prior year and there are no discontinued operations as at 31 March 2018.

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

The investment portfolio balance is the most material part of the Consolidated statement of financial position. Monitoring and control over the valuation of investments is exercised by management centrally in London, and as such is audited wholly by the London based Group audit team. Monitoring and control over the operations of the subsidiaries within the Group, including those located overseas, is centralised in London. The Group audit team performed all the work necessary to issue the Group and Parent company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified above.

### Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

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

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £70 million (2017: £58 million), which is 1% (2017: 1%) of net assets. We believe that net assets provides us with a consistent year on year basis for determining materiality, and is the most relevant measure to the stakeholders of the entity.

*We determined materiality for the Parent Company to be £66 million (2017: £41 million), which is 1% (2017: 1%) of net assets.*

We calculated materiality during the planning stage of the audit and then during the course of our audit, we reassessed initial materiality based on 31 March 2018 net asset value, and adjusted our audit procedures accordingly

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2017: 50%) of our planning materiality, namely £35m (2017: £29m). We have set performance materiality at this percentage due to the judgmental nature of the valuations in the Consolidated statement of financial position and the relative value of transactions recorded in the other primary statements, to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality of £70m.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit and Compliance Committee that we would report to them all uncorrected audit differences in excess of £3.5m (2017: £2.9m), 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.

## Other information

The other information comprises the information included in the annual report (set out on pages 1 to 90 and 147 to 156), including the Strategic report (including sections on: Introduction, Performance highlights, Chairman's statement, Chief Executive's statement, Action, Our business at a glance, Our business model, Our strategic objectives, Key performance indicators, Private Equity, Infrastructure, Financial review, Investment basis, Reconciliation of Investment basis and IFRS, Alternative Performance Measures, Risk management, Principal risks and mitigations and Sustainability), Directors' report (including sections on: Chairman's introduction, Board of Directors and Executive Committee, Nominations Committee report, Audit and Compliance Committee report, Valuations Committee report, Relations with shareholders and Additional statutory and corporate governance information), Directors' remuneration report and Portfolio and other information (including sections on: 20 Large investments, Portfolio valuation – an explanation, Information for shareholders and Glossary) sections, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (set out on page 90)** – the statement given by the directors 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 Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting (set out on pages 66 to 69)** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code (set out on page 85)** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

## Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 90, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS as adopted by the EU, the Companies Act 2006 and UK Corporate Governance Code) and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority and relevant FCA rules and regulations.
- We understood how 3i Group plc is complying with those frameworks by making enquiries of senior management, including the General Counsel and Company Secretary, Group Finance Director, Head of Compliance, Head of Internal Audit and also Non-Executive Directors including the Chairmen of the Audit and Compliance Committee and Valuations Committee. We corroborated our understanding through our review of board minutes, papers provided to the Audit and Compliance Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by management to manage net asset value per share or the total return on equity. We considered the controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management; and focused testing, as referred to in the key audit matters section above.
- The FCA has regulatory oversight over 3i Group plc and certain other entities within the Group.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Other matters we are required to address

- We were appointed by the board on 5 November 1973 to audit the financial statements of the Parent company for the period ending 31 March 1974 and subsequent financial periods. Our appointment was subsequently ratified at the annual general meeting of the Parent company on 6 August 1974.
- Our total uninterrupted period of engagement is 45 years, covering periods from our appointment through to the period ending 31 March 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company and we remain independent of the Group and the Parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

**Julian Young (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 May 2018

**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

**Includes details of our 20 Large investments, a glossary of terms and other useful shareholder information**

# 20 Large investments

The 20 investments listed below account for 93% of the portfolio at 31 March 2018 (31 March 2017: 89%). For each of our investments we have assessed whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

The UK Companies Act defines a subsidiary based on voting rights, with a greater than 50% majority of voting rights resulting in an entity being classified as a subsidiary. IFRS 10 applies a wider test and, if a group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee then it has control, and hence the investee is deemed an accounting subsidiary. Controlled subsidiaries under IFRS are noted below. None of these investments are UK Companies Act subsidiaries.

In accordance with Part 5 of The Alternative Investment Fund Managers Regulations 2013 ("the Regulations"), 3i Investments plc, as AIFM, requires all controlled portfolio companies to make available to employees an annual report which meets the disclosure requirements of the Regulations. These are available either on the portfolio company's website or through filing with the relevant local authorities.

| **Investment**<br>Description of business | Business line<br>Geography<br>First invested in<br>Valuation basis | Residual cost[1] March 2017 £m | **Residual cost March 2018 £m** | Valuation March[2] 2017 £m | **Valuation March[2] 2018 £m** | Relevant transactions in the year |
|---|---|---|---|---|---|---|
| **Action***<br>Non-food discount retailer | Private Equity<br>Netherlands<br>2011<br>Earnings | 1 | **12** | 1,708 | **2,064** | Refinancing returned £307m of proceeds |
| **Scandlines***<br>Ferry operator between Denmark and Germany | Private Equity<br>Denmark/Germany<br>2007/2013<br>Imminent sale | 114 | **114** | 538 | **803** | Refinancing returned £50m of proceeds in July 2017, sale announced in March 2018 |
| **3i Infrastructure plc***<br>Quoted investment company, investing in infrastructure | Infrastructure<br>UK<br>2007<br>Quoted | 399 | **310** | 655 | **581** | Special dividend returned £143m of proceeds |
| **Basic-Fit**<br>Discount gyms operator | Private Equity<br>Netherlands<br>2013<br>Quoted | 11 | **11** | 184 | **270** | |
| **WP***<br>Supplier of plastic packaging solutions | Private Equity<br>Netherlands<br>2015<br>Earnings | 161 | **175** | 200 | **244** | |
| **Audley Travel***<br>Provider of experiential tailor-made travel | Private Equity<br>UK<br>2015<br>Earnings | 177 | **195** | 185 | **233** | |
| **Q Holding***<br>Manufacturer of precision engineered elastomeric components | Private Equity<br>US<br>2014<br>Earnings | 162 | **162** | 222 | **229** | |
| **Cirtec Medical***<br>Outsourced medical device manufacturing | Private Equity<br>US<br>2017<br>Earnings | – | **172** | – | **190** | New investment |
| **Hans Anders***<br>Value-for-money optical retailer | Private Equity<br>Netherlands<br>2017<br>Earnings | – | **186** | – | **189** | New investment |

| Investment<br>Description of business | Business line<br>Geography<br>First invested in<br>Valuation basis | Residual cost[1] March 2017 £m | **Residual cost March 2018 £m** | Valuation March[2] 2017 £m | **Valuation March[2] 2018 £m** | Relevant transactions in the year |
|---|---|---|---|---|---|---|
| **Smarte Carte***<br>Provider of self-serve vended luggage carts, electronic lockers and concession carts | Infrastructure<br>US<br>2017<br>DCF | – | **166** | – | **167** | New investment |
| **Schlemmer Group***<br>Manufacturer of cable management solutions for the automotive industry | Private Equity<br>Germany<br>2016<br>Earnings | 162 | **174** | 154 | **152** | |
| **Ponroy Santé***<br>Manufacturer of natural healthcare and cosmetics products | Private Equity<br>France<br>2017<br>Earnings | 123 | **139** | 122 | **145** | |
| **AES Engineering**<br>Manufacturer of mechanical seals and support systems | Private Equity<br>UK<br>1996<br>Earnings | 30 | **30** | 113 | **139** | |
| **BoConcept***<br>Urban living designer | Private Equity<br>Denmark<br>2016<br>Earnings | 140 | **142** | 146 | **137** | |
| **Formel D***<br>Quality assurance provider for the automotive industry | Private Equity<br>Germany<br>2017<br>Earnings | – | **138** | – | **133** | New investment |
| **ACR**<br>Pan-Asian non-life reinsurance | Private Equity<br>Singapore<br>2006<br>Industry metric | 105 | **105** | 135 | **129** | |
| **Tato**<br>Manufacturer and seller of speciality chemicals | Private Equity<br>UK<br>1989<br>Earnings | 2 | **2** | 112 | **114** | |
| **Lampenwelt***<br>Online lighting specialist retailer | Private Equity<br>Germany<br>2017<br>Earnings | – | **98** | – | **111** | New investment |
| **Aspen Pumps***<br>Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry | Private Equity<br>UK<br>2015<br>Earnings | 78 | **86** | 88 | **108** | |
| **Euro-Diesel***<br>Manufacturer of uninterruptible power supply systems | Private Equity<br>Belgium<br>2015<br>Earnings | 57 | **62** | 95 | **82** | |
| | | 1,722 | **2,479** | 4,657 | **6,220** | |

* Controlled in accordance with IFRS.

1 Residual cost includes capitalised interest.

2 Numbers shown on an Investment basis.

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 and Infrastructure investment valuations. Valuations of the investment portfolio of the Group and its subsidiaries are performed at each quarter end.

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2015). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement.

The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date. The majority of the portfolio, however, is represented by unquoted investments.

## Private Equity unquoted valuation

To arrive at the fair value of the Group's unquoted Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. We then apportion that enterprise value between 3i, other shareholders and lenders.

### Determining enterprise value

The enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment.

Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions, and trading updates from our portfolio.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a liquidity discount. The liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are 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 unquoted 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.

| Methodology | Description | Inputs | Adjustments | % of investment basis portfolio valued on this basis |
|---|---|---|---|---|
| **Earnings (Private Equity)** | Most commonly used Private Equity valuation methodology<br>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<br>**Earnings**<br>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<br>Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA")<br>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<br>**Earnings multiples**<br>The earnings multiple is derived from comparable listed companies or relevant market transaction multiples<br>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<br>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 | **68%** |
| **Quoted (Infrastructure/ Private Equity)** | Used for investments in listed companies | Closing bid price at balance sheet date | No adjustments or discounts applied | **13%** |
| **Imminent sale (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 | **12%** |
| **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 | **4%** |
| **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 | We create a set of comparable listed companies and derive the implied values of the relevant metric<br>We track and adjust this metric for relative performance, as in the case of earnings multiples<br>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 | **2%** |
| **NAV (Private Equity/ Infrastructure)** | 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 | **1%** |
| **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 | **–%** |

Consistent with IPEV guidelines, all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

# Information for shareholders

## Financial calendar

| | |
|---|---|
| Ex-dividend date | Thursday 14 June 2018 |
| Record date | Friday 15 June 2018 |
| Annual General Meeting* | Thursday 28 June 2018 |
| FY2018 dividend to be paid | Friday 20 July 2018 |
| Half-year results (available online only) | November 2018 |
| Interim dividend expected to be paid | January 2019 |

* The 2018 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 28 June 2018 at 11.00am. For further details please see the Notice of Annual General Meeting 2018.

## Information on ordinary shares

Shareholder profile: Location of investors at 31 March 2018

| | |
|---|---|
| UK | 59.4% |
| North America | 24.9% |
| Continental Europe | 11.7% |
| Other international | 4.0% |

## Share price

| | |
|---|---|
| Share price at 31 March 2018 | 859.0p |
| High during the year (31 August 2017) | 969.5p |
| Low during the year (3 April 2017) | 736.5p |

## Dividends paid in the year to 31 March 2018

| | |
|---|---|
| FY2017 Final dividend, paid 21 July 2017 | 18.5.p |
| FY2018 Interim dividend, paid 10 January 2018 | 8.0p |

## Balance analysis summary

| | Number of holdings individuals | Number of holdings corporate bodies | Balance as at 31 March 2018 | % |
|---|---|---|---|---|
| 1–1,000 | 12,048 | 379 | 5,531,176 | 0.57 |
| 1,001–10,000 | 4,978 | 601 | 13,000,089 | 1.34 |
| 10,001–100,000 | 146 | 494 | 23,836,983 | 2.45 |
| 100,001–1,000,000 | 17 | 335 | 126,484,523 | 13.00 |
| 1,000,001–10,000,000 | – | 123 | 351,784,545 | 36.16 |
| 10,000,001–highest | – | 16 | 452,259,690 | 46.48 |
| **Total** | **17,189** | **1,948** | **972,897,006** | **100.00** |

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2018.

## The Common Reporting Standard

New tax legislation under the Organisation for Economic Co-operation and Development ("OECD") Common Reporting Standard for Automatic Exchange of Financial Account Information was introduced on 1 January 2016. The legislation requires investment trust companies to provide personal information about certain investors who hold shares in investment trusts to HMRC. As an investment company, 3i Group plc is therefore required to provide information annually to the local tax authority on certain certificated shareholders and corporate entities. This information includes country of tax residency as well as details of shares held and dividends received. The local tax authority to which the information is initially passed may in turn exchange the information with the tax authorities of another country or countries in which the shareholder may be tax resident, where those countries (or tax authorities in those countries) have entered into agreements to exchange financial account information. Certain shareholders have been and will in future be sent a certification form for the purposes of collecting required information.

## 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 2018 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).

# Glossary

**2013-2016 vintage** includes Aspen Pumps, Audley Travel, Basic-Fit, Dynatect, Euro-Diesel, ATESTEO, JMJ, Q Holdings, WP, Scandlines further (completed in December 2013), Christ, Geka, Óticas Carol and Blue Interactive.

**2016-2019 vintage** includes BoConcept, Cirtec, Formel D, Hans Anders, Lampenwelt, Ponroy Santé and Schlemmer.

**Alternative Investment Funds ("AIFs")** At 31 March 2018, 3i Investments plc as AIFM, managed five AIFs. These were 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V, 3i Managed Infrastructure Acquisitions LP and 3i European Operational Projects Fund.

**Alternative Investment Fund Manager ("AIFM")** is the regulated manager of AIFs. Within 3i, this is 3i Investments plc.

**Approved Investment Trust Company** This is a particular UK tax status maintained by 3i Group plc, the parent company of 3i Group. An approved Investment Trust company is a UK company which meets certain conditions set out in the UK tax rules which include a requirement for the company to undertake portfolio investment activity that aims to spread investment risk and for the company's shares to be listed on an approved exchange. The "approved" status for an investment trust must be agreed by the UK tax authorities and its benefit is that certain profits of the company, principally its capital profits, are not taxable in the UK.

**Assets under management ("AUM")** A measure of the total assets that 3i has to invest or manages on behalf of shareholders and third-party investors for which it receives a fee. AUM is measured at fair value. In the absence of a third-party fund in Private Equity, it is not a measure of fee generating capability.

**Automatic Exchange of Information ("AEOI")** regulation covers the combined legislative requirements of Common Reporting Standards ("CRS") and the Foreign Account Tax Compliance Act ("FATCA"). Both sets of rules require financial groups to identify investors and report details to their local authority who will then exchange the information with other relevant tax authorities.

**Board** The Board of Directors of the Company.

**Capital redemption reserve** is established in respect of the redemption of the Company's ordinary shares.

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

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

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

**Collateralised Loan Obligation ("CLO")** A form of securitisation where payments from multiple loans are pooled together and passed on to different classes of owners in various tranches.

**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 with their head office tax authority. This provides information about the activities of the entities in the Group, on a country-by-country basis, across the countries in which the Group operates. This new requirement applied to the Group from 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.

**Discontinued operations** are comprised of the assets and liabilities associated with the Group's Debt Management business sold to Investcorp in March 2017.

**Dividend income from CLO capital** is recognised in the Statement of comprehensive income when the shareholders' rights to receive payment have been established.

**EBITDA** is defined as earnings before interest, taxation, depreciation and amortisation and is used as the typical measure of portfolio company performance.

EBITDA multiple Calculated as the enterprise value over EBITDA, it is used to determine the value of a company.

Executive Committee The Executive Committee is responsible for the day-to-day running of the Group and comprises: the Chief Executive, Group Finance Director, the Managing Partners of the Private Equity and Infrastructure businesses and the Group's General Counsel.

Fair value movements on investment entity subsidiaries The movement in the carrying value of Group subsidiaries, classified as investment entities under IFRS 10, between the start and end of the accounting period converted into sterling using the exchange rates at the date of the movement.

Fair value through profit or loss ("FVTPL") is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains and losses on assets and liabilities measured as FVTPL are recognised directly in the Statement of comprehensive income.

Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

Fees receivable from external funds are fees received by the Group, from third parties, for the management of private equity and infrastructure funds.

Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction. At each subsequent reporting date, investments are translated to sterling at the exchange rate ruling at that date.

Gross investment return ("GIR") includes profit and loss on realisations, increases and decreases in the value of the investments we hold at the end of a period, any income received from the investments such as interest, dividends and fee income and foreign exchange movements. GIR is measured as a percentage of the opening portfolio value.

Interest income from investment portfolio is recognised as it accrues. When the fair value of an investment is assessed to be below the principal value of a loan, the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.

International Financial Reporting Standards ("IFRS") are accounting standards issued by the International Accounting Standards Board ("IASB"). The Group's consolidated financial statements are required to be prepared in accordance with IFRS, as endorsed by the EU.

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.

OEM is an original equipment manufacturer.

Operating cash profit is the difference between our cash income (consisting of portfolio interest received, portfolio dividends received, portfolio fees received and fees received from external funds as per the Investment basis Consolidated cash flow statement) and our operating expenses (as per the Investment basis Consolidated cash flow statement).

Operating profit includes gross investment return, management fee income generated from managing external funds, the costs of running our business, net interest payable, movements in the fair value of derivatives, other losses and carried interest.

# Glossary
continued

**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** Shareholders' capital which is available to invest to generate profits.

**Public Private Partnership ("PPP")** is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

**Realised profits or losses over value on the disposal of investments** The difference between the fair value of the consideration received, less any directly attributable costs, on the sale of equity and the repayment of 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 intrasegment 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.

**SORP** means the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts.

**Total return** comprises operating profit less tax charge less movement in actuarial valuation of the historic defined benefit pension scheme.

**Total shareholder return ("TSR")** is the measure of the overall return to shareholders and includes the movement in the share price and any dividends paid, assuming that all dividends are reinvested on their ex-dividend date.

**Translation reserve** comprises all exchange differences arising from the translation of the financial statements of international operations.

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

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on a box canvas.

3i Group plc

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