19 May 2016

3i Group plc announces full year results to 31 March 2016

Another year of strong performance

- Total return of **£824m / 22%** (FY2015: £659m / 20%) and NAV per share of **463 pence** (FY2015: 396 pence)
- Private Equity gross investment return of **£1,011m**, or **32%**, underpinned by a strong performance from a number of our key investments such as Action, Scandlines, Basic-Fit and ATESTEO (formerly GIF)
- Momentum in Private Equity realisations continues with proceeds of **£743m** and a further **c.£224m** announced in April 2016. Maintained a disciplined approach to investment and invested **£365m** in three new portfolio companies; Audley Travel, Weener Plastic and Euro-Diesel
- Good progress in Infrastructure with a **13%** total shareholder return from 3i Infrastructure plc ("3iN") and a significant increase in origination activity. 3i will support 3iN's fundraising to maintain its 34% investment in 3iN
- Debt Management delivered a solid performance, raising **£1.5bn** of AUM from 4 CLOs and launching the Global Income Fund
- Robust balance sheet with net cash of **£165m** and nil gearing at 31 March 2016
- Proposed final dividend of **16.0** pence per share, bringing the total dividend for FY2016 to **22.0** pence per share, subject to shareholder approval

Simon Borrows, 3i's Chief Executive, commented:

"These strong FY2016 results demonstrate 3i's continued momentum in the face of challenging macro-economic conditions. We enter FY2017 firmly focused on delivering our clear and consistent strategy and generating good returns and distributions for our shareholders."

Financial highlights

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

1 Uplift over opening book value excludes refinancings.

2 Operating profit for the Proprietary Capital and Fund Management activities excludes carried interest and performance fees payable/receivable, which is not allocated between these activities.

3 Cash investment includes £4 million of Debt Management investment awaiting settlement at 31 March 2016 (31 March 2015: nil).

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

ENDS

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For further information regarding the announcement of 3i's annual results to 31 March 2016, including a live videocast of the results presentation at 10.00am, please visit www.3i.com.

Notes to editors

3i is a leading international investment manager focused on mid-market Private Equity, Infrastructure and Debt Management. Our core investment markets are northern Europe and North America. For further information, please visit: www.3i.com.

Notes to the announcement of the results

Note 1

All of the financial data in this announcement is taken from the Investment basis financial statements. The statutory accounts are prepared under IFRS for the year to 31 March 2016 and have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2015 have been delivered to the Registrar of Companies. The auditors' reports on the statutory accounts for these years are unqualified and do not contain any matters to which the auditor drew attention by way of emphasis or any statements under section 498(2) or (3) of the Companies Act 2006. This announcement does not constitute statutory accounts.

Note 2

Copies of the Report and accounts 2016 will be distributed to shareholders on or soon after 31 May 2016.

Note 3

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

Note 4

Subject to shareholder approval, the proposed final dividend is expected to be paid on 22 July 2016 to holders of ordinary shares on the register on 17 June 2016.

Chairman’s statement

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

Overview

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

Market environment

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

Performance and dividend

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

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

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

Outlook

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

Simon Thompson
Chairman

Chief Executive's review

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

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

Another year of resilient financial performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fragile market conditions create challenges and opportunities

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

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

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

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

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

Well positioned to deliver good returns to shareholders

We are navigating these challenging market conditions with a conservative and well-funded balance sheet. Our capital allocation approach is unchanged since we announced our strategy in 2012 and the progress.

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

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

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

Outlook

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

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

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

Simon Borrows
Chief Executive

Action highlights

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

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

Our strategic objectives

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

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

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

Key performance indicators

How we performed

For definitions, please see our glossary

<table>
<tr><th colspan="4">Rationale</th><th colspan="4">Rationale</th><th colspan="4">Rationale</th></tr>
<tr><td colspan="4">Gross investment return (“GIR”) as % of opening portfolio value
GIR is how we measure the performance of the proprietary investment portfolio expressed as a percentage of the opening portfolio value.</td><td colspan="4">Cash realisations (£m)
Cash proceeds representing our proprietary share of investment realisations completed during the year support our returns to shareholders, as well as our ability to invest in new opportunities.</td><td colspan="4">Cash investment (£m)
Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group’s ability to deliver attractive returns. We also invest further capital in existing investments.</td></tr>
<tr><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td></tr>
<tr><td>19%</td><td>20%</td><td>23%</td><td>28%</td><td>£606m</td><td>£677m</td><td>£841m</td><td>£771m</td><td>£149m</td><td>£337m</td><td>£474m</td><td>£453m</td></tr>
<tr><td colspan="4">2016 progress
– Strong performance in Private Equity with GIR of 32% particularly from Action, Scandlines, ATESTEO (formerly GIF) and Basic-Fit
– Following two years of substantial foreign exchange translation losses, the weakening of sterling against the euro led to £188m of foreign exchange translation gains on our investment portfolio
– Infrastructure and Debt Management contributed valuable cash income to the Group</td><td colspan="4">2016 progress
– Realised proceeds of £743m (2015: £831m) from the disposal of 12 Private Equity companies, the refinancing of two assets and selling down holdings in four quoted stakes
– Received a £51m special dividend from 3iN following its sale of Eversholt Rail</td><td colspan="4">2016 progress
– Invested £365 million of proprietary capital (2015: £369m), in three new Private Equity investments in our core industrial and consumer sectors, as well as a further investment in ATESTEO
– Supported the launch of four CLOs by investing £60m in CLO equity
– Provided US$75m of seed capital to Debt Management to launch its Global Income Fund</td></tr>
<tr><td colspan="4">Key risks
– Investment rates or quality are lower than expected
– Subdued M&A activity and/or reduced prices in 3i’s core sectors could impact timing of exits and cash returns
– Operational underperformance in the portfolio companies impacts earnings growth and exit plans
– Inability to invest in the right people to support our operations
– Sterling materially strengthens against the euro and US dollar</td><td colspan="4">Key risks
– Subdued M&A activity in our core sectors reduces investor appetite for our assets
– Uncertainty around Brexit limits willingness to invest</td><td colspan="4">Key risks
– High prices reduce the attractiveness of potential investment opportunities
– Failure to attract, invest in and retain the right investment executives
– Failure to develop our Business Leaders Network
– Market volatility, particularly in buyouts, reduces available liquidity to support investment</td></tr>
<tr><td colspan="4">Link to strategic objectives: 1,2</td><td colspan="4">Link to strategic objectives: 2,5</td><td colspan="4">Link to strategic objectives: 1, 4, 5</td></tr>
</table>

Key performance indicators continued

Rationale	Rationale	Rationale
Operating cash profit (£m) By covering the annual cost of running our business with annual cash income, we eliminate the potential dilution of capital returns.	**Net asset value ("NAV") per share (pence)** NAV per share is the measure of the fair value of our proprietary investments after the net costs of operating the business.	**Total shareholder return ("TSR") (%)** TSR measures the return to our shareholders through the movement in the share price and the dividends paid during the year.

2013	2014	2015	**2016**
£(8)m	£5m	£28m	**£37m**

2013	2014	2015	**2016**
311	348	396	**463**

	2013	2014	2015	**2016**
TSR	54%	30%	27%	**(2)%**
Share price	50%	26%	22%	**(6)%**
Dividend	4%	4%	5%	**4%**

2016 progress	2016 progress	2016 progress
– Continued improvement in operating cash profit to £37m driven by increase in operating cash income across the business lines – Good levels of dividend income in Private Equity more than offset reduced levels of fee income from managed funds – Increased AUM and CLO equity in Debt Management – Disciplined approach to costs, which remain at 1% of AUM	– Good progression in NAV per share to 463p, up 17% in the year – Strong gross investment return contribution from Private Equity – Due in part to concerns over a potential Brexit, sterling materially weakened against the euro	– TSR of (2)% as the final FY2015 dividend of 14.0p paid in July 2015 and the interim FY2016 dividend of 6.0p paid in January 2016 were offset by the fall in the share price to 456p at 31 March 2016 (31 March 2015: 482p) – Our continued net divestment activity and strong balance sheet, including a closing net cash position, supported a full year dividend of 22.0p per share (2015: 20.0p)

Key risks	Key risks	Key risks
– Portfolio performance, and therefore portfolio income, is weak – Unplanned increase in the cost base; for example legal, regulatory or compliance costs – Reduction in assets under management in Debt Management – Ability to generate interest and dividends in a Private Equity structure – Investor appetite in a volatile macro-economic environment	– Brexit creates uncertainty and further dampens investor sentiment – Wider G20 political and economic uncertainty impacts 3i's portfolio companies and valuations	– Lower NAV due to investment underperformance or political and economic uncertainty – Investor appetite in a volatile macro-economic environment
Link to strategic objectives: 3,5	**Link to strategic objectives:** 1, 2, 3	**Link to strategic objectives:** 5

Business review

Private Equity

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

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

Business performance

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

Investment activity

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

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

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

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

Realisations activity

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

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

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

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

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

1 For partial realisations, 31 March 2015 value represents value of stake sold.

2 Cash proceeds in the period over opening value realised inclusive of foreign exchange.

3 Cash proceeds over cash invested. For partial realisations and refinancings, valuations of any remaining investment are included in the multiple. The sterling multiple includes the impact of foreign exchange, where appropriate.

Assets under management

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

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

Outlook

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

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

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

1 All funds are beyond their investment period.

2 Gross money multiple is the cash returned to the fund plus remaining value as at 31 March 2016, as a multiple of cash invested.

Infrastructure

"Infrastructure had a busy year in terms of business activity, demonstrating our ability to access attractive investment opportunities in a competitive market."

Ben Loomes and Phil White
Managing Partners and Co-heads of Infrastructure

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

Investment Adviser to 3iN

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

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

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

Business performance

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

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

Assets under management

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

Outlook

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

Table 4: Infrastructure assets under management at 31 March 2016

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

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

Debt Management

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

Jeremy Ghose
Managing Partner and CEO, 3i Debt Management

Business performance

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

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

Fund raising activity

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

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

Proprietary Capital investment

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

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

Table 5 details cash investment in the year.

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

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

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

Outlook

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

Risk management

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

Understanding our risk appetite and culture

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

In order to support its institutional asset management capability, 3i's risk appetite policy is built on rigorous and comprehensive investment procedures and conservative capital management.

Culture

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

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

Risk appetite

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

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

- Return objective: individually assessed but subject to a target 2x money multiple over three to five years
- Geographic focus: core markets of northern Europe and North America
- Sector expertise: focus on Business Services, Consumer and Industrials
- Vintage: invest c.€500 million–€750 million per annum in four to seven new investments in companies with an enterprise value range of €100 million–€500 million at investment

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

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

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

Risk management

Approach to risk governance

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

Non-executive oversight is also exercised through the Audit and Compliance Committee which focuses on upholding standards of integrity, financial reporting, risk management, going concern and internal control.

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly and the Chief Executive provides quarterly updates to each Audit and Compliance Committee meeting where the Committee members contribute views and raise questions. The last risk review was completed in May 2016.

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

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

Assurance over the robustness of the Group's valuation policy is provided by the Valuations Committee.

Risk management framework

The Group's risk management framework is designed to support the delivery of the Group's strategic objectives. The key principles that underpin risk management in the Group are:

- The Board and the Executive Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner; and

- The over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns.

Managing the Group's Environmental, Social and Governance ("ESG") risks is central to how we do business and a key part of our risk management framework. It also forms part of our half-yearly portfolio company reviews as described in the Valuations Committee report in the Annual report 2016.

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

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

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

Risk review process

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

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

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

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

A number of focus topics are also agreed in advance of each meeting. In FY2016, the GRC covered the update to the Group's IT strategy; 3i's approach to ESG especially with respect to its portfolio companies; business continuity and cyber security; an update on the implementation of Infrastructure's revised strategy, as well as the changes to the UK Corporate Governance Code and relevant risks for 3i associated with the UK EU referendum.

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

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

Review of principal risks

The disclosures on the following pages are not an exhaustive list of risks and uncertainties faced by the Group, but rather a summary of those principal risks which are under active review by the GRC and Board, and are believed to have the potential to affect materially the achievement of the Group's strategic objectives and impact its financial performance, reputation and brand integrity.

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

External
The external environment remains difficult. There has been a significant amount of uncertainty in the Eurozone and the wider emerging markets' economies fuelled by a challenging global macro-economic context and ongoing geo-political tensions, including the UK referendum on EU membership. In addition, there is also some evidence of softening of US and Eurozone growth rates. The Group continues to monitor all of these events closely.

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

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

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

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

Private Equity
Regular and robust portfolio monitoring procedures remain critical given the volatile economic backdrop and as the investment portfolio becomes more concentrated. The Private Equity partners hold a detailed monthly portfolio monitoring meeting that is attended by the Group Chief Executive and the Group Finance Director. In addition, the Valuations Committee review the valuation assumptions of our more material assets quarterly. Individual portfolio company failures could have adverse reputational consequences for the Group, even though the value impact may not be material.

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

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

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

The Board also received regular updates on ESG risks and whether our investors' skill sets and business development capabilities could support the Group's strategic delivery. Detailed resource plans are in place at the business line level and the Board conducts an annual review of the Group's organisational capability and succession plans (which include contingencies against loss of key staff). The last review was conducted in September 2015.

Financial review

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

Julia Wilson
Group Finance Director

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

Table 6: Summary financial data

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

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

Basis

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

Total return

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

Table 7: Total return for the year to 31 March

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

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

Proprietary capital returns

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

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

Realised profits

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

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

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

Unrealised value movements

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

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

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

Private Equity unrealised value growth

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

Performance

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

Table 9: Portfolio earnings growth weighted by March 2016 carrying values[1]

Last 12 months' (LTM) earnings growth	3i carrying value at 31 March 2016 (£m)
<(20)%	**35**
(20) - (11)%	**70**
(10) - (1)%	**373**
0 - 9%	**832**
10 - 19%	**302**
20 - 30%	**421**
>30%	**942**

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

Table 10: Ratio of debt to EBITDA – Private Equity portfolio weighted by March 2016 carrying values[1] (£m)

Ratio of net debt to EBITDA	3i carrying value at 31 March 2016 (£m)
<1x	**550**
1 - 2x	**406**
2 - 3x	**339**
3 - 4x	**691**
4 - 5x	**1,724**
5 - 6x	**5**
>6x	**-**

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

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

Forecast earnings, used when the outlook is lower than the last 12 months' data, were used for only two investments at 31 March 2016, representing 7% of the portfolio by number and 3% by value (31 March 2015: two, 6% by number and 3% by value). Table 9 shows the earnings growth rates across the portfolio.

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

We took the opportunity to refinance the debt of Action and Geka, both increasing and extending the maturity of portfolio debt, with 82% of the overall portfolio debt now repayable in 2018 or later (31 March 2015: 81% in 2017 or later). Table 10 shows the ratio of net debt to EBITDA weighted by portfolio value.

Multiple movements

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

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

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

Imminent sale

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

Discounted cash flow

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

Quoted portfolio

The Private Equity quoted portfolio, including IPOs completed in the year, generated an unrealised value reduction of £7 million (2015: £46 million gain) principally driven by our holding in Hong Kong listed Dphone. Table 11 details the movement in the year and closing quoted portfolio.

Infrastructure unrealised value movement

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

Debt Management unrealised value movement

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

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

Table 11: Quoted portfolio movement for the year to 31 March 2016

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

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

Portfolio income

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

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

Net foreign exchange movements

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

The net assets of the Group by currency and the sensitivity for further currency movements are shown in Table 12 below.

Table 12: Net assets of the Group by currency and sensitivity at 31 March 2016

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

Proprietary Capital costs

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

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

Net interest payable

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

The current gross debt position is detailed further in the Balance sheet section of this Financial review and in Note 7 of the financial statements.

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

Fund Management returns

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

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

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

Table 13: Fund Management profit for the year to 31 March

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

Table 14: Carried interest and performance fees by business line for the year to 31 March

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

Carried interest and performance fees payable

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

We pay carried interest to our investment teams on proprietary capital invested and share a proportion of carried interest receivable from third-party funds. In Private Equity, we typically accrue carried interest payable at between 10–15% of gross investment return. The improved performance over the last 12 months means that the majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 31 March 2016 valuation. We accrued carried interest payable of £171 million (2015: £103 million) for Private Equity in the year, of which £48 million relates to the team's share of carry receivable from Eurofund V (2015: nil).

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

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

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

Pension

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

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

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

Tax

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

Operating cash profit

Table 15: Operating cash profit for the year to 31 March

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

1 Operating expenses are stated on an accrual basis.

2 Operating cash profit in FY16 has not been adjusted for restructuring costs.

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

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

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

Cash flow

Investment and realisations

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

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

Table 16: Investment activity – Proprietary Capital and Third-party Capital for the year to 31 March

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

Balance sheet

Table 17: Simplified balance sheet as at 31 March

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

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

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

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

Liquidity

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

Foreign exchange hedging

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

Diluted NAV

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

Dividend

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

Key accounting judgements and estimates

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

Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. However, asset valuations for non-quoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2016, 85% of the investment assets were non-quoted (31 March 2015: 80%).

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

Investment basis

Consolidated statement of comprehensive income

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

Investment basis

Consolidated statement of financial position

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

Investment basis

Consolidated cash flow statement

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

Reconciliation of Investment basis to IFRS

Background to Investment basis financial statements

The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures ("Investment entity subsidiaries"). It also has other operational subsidiaries which provide services and other activities such as employment, regulatory activities, management and advice ("Trading subsidiaries"). The application of IFRS 10 requires us to fair value a number of intermediate holding companies that were previously consolidated line by line. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the intermediate holding companies. The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in Investment entity subsidiaries are aggregated into a single value. Other items which were previously eliminated on consolidation are now included separately.

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

Reconciliation between Investment basis and IFRS

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

Reconciliation of consolidated statement of comprehensive income

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

Notes:

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

2 Realised profits, unrealised profits, and portfolio income shown in the IFRS accounts only relate to portfolio companies that are held directly by 3i Group plc and not those portfolio companies held through Investment entity subsidiaries. Realised profits, unrealised profits, and portfolio income in relation to portfolio companies held through Investment entity subsidiaries are aggregated into the single "Fair value movement on investment entity subsidiaries" line. This is the most significant reduction of information in our IFRS accounts.

3 Foreign exchange movements have been reclassified under the Investment basis as foreign currency asset and liability movements. Movements within the Investment entity subsidiaries are included within "Fair value movements on investment entities".

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

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

Reconciliation of consolidated statement of financial position

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

The Notes relating to the table above are below.

Reconciliation of consolidated statement of financial position continued

Notes:

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

The disclosure relating to portfolio companies is significantly reduced by the aggregation, as the fair value of all investments held by Investment entity subsidiaries is aggregated into the “Investments in investment entities” line. We have disaggregated this fair value and disclosed the underlying portfolio holding in the relevant line item, ie, quoted equity investments or unquoted equity investments.

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

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

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

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

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

Reconciliation of consolidated cash flow statement

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

Notes:

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

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

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

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

List of Directors and their functions

The Directors of the Company and their functions are listed below:

Simon Thompson, Chairman and Chairman of the Nominations Committee
Simon Borrows, Chief Executive and Executive Director
Julia Wilson, Group Finance Director and Executive Director
Jonathan Asquith, non-executive Director, Deputy Chairman and Chairman of the Remuneration Committee
Caroline Banszky, non-executive Director and Chairman of the Audit and Compliance Committee
Peter Grosch, non-executive Director
David Hutchison, non-executive Director and Chairman of the Valuations Committee
Martine Verluyten, non-executive Director

By order of the Board
K J Dunn
Company Secretary
18 May 2016
Registered Office: 16 Palace Street, London SW1E 5JD

Consolidated statement of comprehensive income

for the year to 31 March

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

Consolidated statement of financial position
as at 31 March

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

Simon Thompson
Chairman
18 May 2016

Consolidated statement of changes in equity

for the year to 31 March

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

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

Consolidated cash flow statement
for the year to 31 March

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

Significant accounting policies

Reporting entity

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The Consolidated financial statements ("the Group accounts") for the year to 31 March 2016 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

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

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

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

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

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

Effective for annual periods beginning on or after		
IFRS	Annual improvements 2012 to 2014	1 January 2016
IAS 7	Disclosure initiative (amendments to IAS 7 – Statement of Cash Flows)	1 January 2017
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

The impact of future standards and amendments on the financial statements is being assessed by the Group and the Company.

B Basis of preparation

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

C Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control, as defined by IFRS 10, is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

3i Group plc is an investment entity and, as such, does not consolidate the investment entities it controls. Most of the Group's interests in subsidiaries are recognised at fair value through profit or loss. Those subsidiaries which provide investment related services, such as advisory, management or employment services, are not classified at fair value through profit and loss and continue to be consolidated unless they are deemed investment entities, in which case they are fair valued.

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

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

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

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

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

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

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

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

Portfolio investments – Fair valued
Under IFRS 10, the test for accounting subsidiaries has been altered to take wider factors of control as well as actual equity ownership into account. At 31 March 2016, the Group had 26 investments which were classified as accounting subsidiaries. In accordance with the investment entity exception, these entities have been held at fair value with movements in fair value being recognised in the Consolidated statement of comprehensive income. With one exception (Palace Street I Limited) none of these subsidiaries are UK Companies Act subsidiaries.

Structured entities – Fair valued
The Group has interests in a number of unconsolidated structured entities, their current carrying value and a description of their activities is included in Note 8.

D Critical accounting estimates and judgements

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

The judgements, assumptions and estimates involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are the fair valuation of the investment and the assessment regarding investment entities. The investment portfolio is held at fair value. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee is included in the Governance section of the Annual report.

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

(a) Assessment as an investment entity
Entities that meet the definition of an investment entity within IFRS 10 are required to account for most investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit and loss.

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

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

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

E Other accounting policies

(a) Revenue recognition
Gross investment return is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs and includes foreign exchange movements in respect of the investment portfolio. Investment income is analysed into the following components:

i. Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

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

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

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

- Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders' rights to receive payment have been established. Income received on the investment in the most junior ranked level of CLO capital is recognised as a dividend. £31 million was received in the year (2015: £16 million).
- Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value. Income received on the instruments in the most junior level of CLO capital is recognised as a dividend as detailed above. £31 million was received in the year (2015: £16 million).
- Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

v. Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction. At each subsequent reporting date investments are translated to sterling at the exchange rate ruling at that date.

(b) Foreign currency translation

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

The balance sheets of subsidiaries and associates denominated in foreign currencies are translated into sterling at the closing rates. The Statements of comprehensive income for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to other comprehensive income. Such exchange differences are reclassified to the Consolidated statement of comprehensive income in the period in which the subsidiary or associate is disposed of.
Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the Consolidated statement of comprehensive income. During the year, a £14 million loss (2015: £12 million gain) was recognised in exchange movements in relation to forward foreign exchange contracts.

(c) Treasury assets and liabilities

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

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

Notes to the accounts

1 Segmental analysis

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

The Chief Executive, who is considered to be the chief operating decision maker, managed the Group on two bases throughout the year. Firstly, as business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. Secondly, he considers separate Proprietary Capital and Fund Management businesses focused on investment returns and Fund Management profits respectively. A description of the activities, including products and services offered by these divisions and the allocation of resources, is given in the Strategic report. For the geographical segmental split, revenue information is based on the locations of the assets held.

The segmental information that follows is presented on the Investment basis which is the basis used by the Chief Executive to monitor the performance of the Group. The remaining Notes are prepared on the IFRS basis.

1 Segmental analysis continued

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

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

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

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

4 Includes capitalised interest and other non-cash investment.

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

1 Segmental analysis continued

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

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

2 Includes capitalised interest and other non-cash investment.

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

1 Segmental analysis continued

Year to 31 March 2016	UK £m	Northern Europe £m	North America £m	Rest of World £m	Total £m
Gross investment return					
Realised profits over value on the disposal of investments	**8**	**49**	**4**	**11**	**72**
Unrealised profits/(losses) on the revaluation of investments	**11**	**707**	**(50)**	**1**	**669**
Portfolio income	**59**	**66**	**12**	**3**	**140**
Foreign exchange on investments	**2**	**175**	**11**	**–**	**188**
	80	**997**	**(23)**	**15**	**1,069**
Net divestment/(investment)					
Realisations	**62**	**586**	**96**	**52**	**796**
Cash Investment	**(121)**	**(272)**	**(60)**	**–**	**(453)**
	(59)	**314**	**36**	**52**	**343**
Balance sheet					
Closing portfolio value at 31 March 2016	**1,240**	**2,498**	**385**	**374**	**4,497**

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

2 Realised profits over value on the disposal of investments

	2016 Unquoted investments £m	2016 Quoted investments £m	2016 Total £m
Realisations	**176**	**60**	**236**
Valuation of disposed investments	**(166)**	**(59)**	**(225)**
	10	**1**	**11**
Of which:			
– profits recognised on realisations	**12**	**2**	**14**
– losses recognised on realisations	**(2)**	**(1)**	**(3)**
	10	**1**	**11**

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

3 Unrealised profits on the revaluation of investments

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

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

4 Income taxes

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

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

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

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

The main rate of UK corporation tax is to be reduced from 20% to 19% from 1 April 2017, and further to 18% from 1 April 2020. These changes will affect future UK corporate taxes payable and the rate at which deferred tax assets are expected to reverse.

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

4 Income taxes continued

Reconciliation of income taxes in the Consolidated statement of comprehensive income
The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 20% (2015: 21%), and the differences are explained below:

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

The affairs of the Group's parent company are directed so as to allow it to meet the requisite conditions to continue to operate as an approved investment trust company for UK tax purposes. Approved investment trust companies are used as investment fund vehicles. The tax exemption for capital profits which they benefit from allows them to ensure that investors do not ultimately suffer double taxation of their investment returns, i.e. once at the level of the investment fund vehicle and then again in the hands of the investors.

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

Deferred income taxes

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

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

5 Per share information

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

As at 31 March	**2016**	2015
Earnings per share (pence)		
Basic	**85.6**	73.9
Diluted	**85.2**	72.9
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	**817**	700

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

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

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

6 Dividends

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

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

The distribution policy covers the Group's total annual dividend, which is split between a base dividend (8.1 pence per share) and an additional dividend (2016: 13.9 pence per share). The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules which state that at least 85% of revenue must be distributed by the Company.

7 Loans and borrowings

Accounting policy:
All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Financial liabilities are derecognised when they are extinguished.

	Group 2016 £m	Group 2015 £m
Loans and borrowings are repayable as follows:		
Within one year	**262**	–
In the second year	**–**	240
In the third year	**–**	–
In the fourth year	**–**	–
In the fifth year	**–**	–
After five years	**575**	575
	837	815

Principal borrowings include:

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

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

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group.

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

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

8 Related parties and interests in other entities

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio (including unconsolidated subsidiaries), its advisory arrangements and its key management personnel. In addition, the Company has related parties in respect of its subsidiaries. Some of these subsidiaries are held at fair value (unconsolidated subsidiaries) due to the treatment prescribed in IFRS 10.

Related parties

Limited partnerships

The Group manages a number of external funds which invest through limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

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

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

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

Investments

The Group makes investments in the equity of unquoted and quoted investments where it does not have control but may be able to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. The Group has taken the investment entity exception as permitted by IFRS 10 and has not equity accounted for these investments, in accordance with IAS 28, but they are related parties. The total amounts included for investments where the Group has significant influence but not control are as follows:

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

Statement of financial position	**Group 2016 £m**	Group 2015 £m
Unquoted investments	**480**	560

From time to time, transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or refinancing of an investee company. These transactions are made on an arm's length basis.

Advisory arrangements

The Group acts as an adviser to 3i Infrastructure plc, which is listed on the London Stock Exchange. The following amounts have been included in respect of this advisory relationship:

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

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

8 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 (2015: £13 million) for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £69 million (2015: £145 million) for this service.

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

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

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

Carried interest paid in the year to key management personnel was £3 million (2015: £3 million). Acquisition related earn-out charges paid in the year to key management personnel was £19 million (2015: £8 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, Infrastructure and Debt Management business lines. These structured entities fall into four categories, namely CLO's, debt management warehouses, closed end limited partnerships (Private Equity and Infrastructure funds) and investments in certain portfolio investments.

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

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

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

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

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

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

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

Warehouse structured entities

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

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

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

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

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

Closed-end limited partnerships

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

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

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

Balance sheet line item of asset or liability	Carrying amount Assets £m	Liabilities £m	Net £m	Maximum loss exposure £m
Carried interest receivable	87	–	87	87
Total	**87**	**–**	**87**	**87**

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

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

Investments that are structured entities

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

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

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

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

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

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

Regulatory information relating to fees:

Under AIFMD, 3i Investments plc acts as an Alternative Investment Fund Manager ("AIFM") to 3i Group plc. In performing the activities and functions of the AIFM, the AIFM or another 3i company may pay or receive fees, commissions or non-monetary benefits to or from third parties of the following nature:

– **Transaction fees**: 3i companies receive monitoring and Directors' fees from portfolio companies. The amount is agreed with the portfolio company at the time of the investment but may be re-negotiated. Where applicable, 3i may also receive fees on the completion of transactions such as acquisitions, refinancings or syndications either from the portfolio company or a co-investor. Transaction fees paid to 3i are included in portfolio income.

– **Payments for third party services**: 3i companies may retain the services of third party consultants; for example for an independent director or other investment management specialist expertise. The amount paid varies in accordance with the nature of the service and the length of the service period and is usually, but not always, paid/reimbursed by the portfolio companies. The payment may involve a flat fee, retainer or success fee. Such payments, where borne by 3i companies, are usually included in portfolio income.

– **Payments for services from 3i companies**: One 3i company may provide investment advisory services to another 3i company and receive payment for such service.

Portfolio and other information

25 Large investments

The 25 investments listed below account for 79% of the portfolio at 31 March 2016 (2015: 81%). This table does not include two investments that have been excluded for commercial reasons. For each of our investments we have assessed whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

The UK Companies Act defines a subsidiary based on voting rights, with a greater than 50% majority of voting rights resulting in an entity being classified as a subsidiary. IFRS 10 applies a wider test and, if a Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee then it has control, and hence the investee is deemed an accounting subsidiary. Controlled subsidiaries under IFRS within the 25 large investments below are noted. None of these investments are UK Companies Act subsidiaries.

In accordance with Section 29 of the Alternative Investment Fund Manager Directive ("AIFMD"), 3i Investments plc, as AIFM, encourages all controlled portfolio companies to make available to employees and investors an Annual report which meets the disclosure requirements of the Directive. These are available either on the portfolio company's website or through filing with the relevant local authorities.

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

25 Large investments continued

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

* Controlled in accordance with IFRS.
1 Residual cost includes capitalised interest

Glossary

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

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

Alternative Investment Fund Manager ("AIFM") is the regulated manager of AIFs. Within 3i, this is 3i Investments plc.

Approved Investment Trust Company This is a particular UK tax status maintained by 3i Group plc, the parent company of 3i Group. An approved investment trust company is a UK company which meets certain conditions set out in the UK tax rules which include a requirement for the company to undertake portfolio investment activity that aims to spread investment risk and for the company's shares to be listed on an approved exchange. The "approved" status for an investment trust must be agreed by the UK tax authorities and its benefit is that certain profits of the company, principally its capital profits, are not taxable in the UK.

Assets under management ("AUM") A measure of the total assets that 3i has to invest or manages on behalf of shareholders and third-party investors for which it receives a fee.

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

Base Erosion and Profit Shifting ("BEPS") Project is an OECD initiative that was launched in 2013, at the request of the G20 countries, to develop specific, detailed proposals, rules and instruments required to equip governments and tax authorities to address the BEPS challenge and the proposals were delivered to and approved by the G20 leaders in November 2015. Countries are now in the process of considering and implementing changes to their domestic tax laws and international tax treaties to give effect to the recommendations made by the BEPS project team.

Board The Board of Directors of the Company.

Capital redemption reserve is established in respect of the redemption of the Company's ordinary shares.

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

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

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

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

"CLO" – Collateralised Loan Obligation A form of securitisation where payments from multiple loans are pooled together and passed on to different classes of owners in various tranches.

Common Reporting Standard ("CRS") imposes obligations on financial groups and entities to identify and report details, relating to the foreign investors investing in such groups and entities, to the local tax authority who then exchanges the information with the other relevant tax authorities.

Company 3i Group plc.

Country by Country reporting ("CbC Reporting") refers to a requirement for large multinational groups, operating in different countries, to file an annual report detailing certain information about the activities of the entities in the Group, on a country by country basis, covering the countries in which the Group entities operate. This new requirement will apply to the Group for its accounting periods beginning after 1 April 2016.

Discounting The reduction in present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money.

Dividend income from equity investments and CLO capital is recognised in the Statement of comprehensive income when the shareholders’ rights to receive payment have been established.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) EBITDA is defined as earnings before interest, taxation, depreciation and amortisation and is used as the typical measure of portfolio company performance.

EBITDA multiple Calculated as the enterprise value over EBITDA, it is used to determine the value of a company.

Executive Committee The Executive Committee is responsible for the day-to-day running of the Group and comprises: the Chief Executive, Group Finance Director, the Managing Partners of the Private Equity, Infrastructure and Debt Management businesses and the Group’s General Counsel.

Fair value movements on investment entity subsidiaries The movement in the carrying value of Group subsidiaries, classified as investment entities under IFRS 10, between the start and end of the accounting period converted into sterling using the exchange rates at the date of the movement.

Fair value through profit or loss (“FVTPL”) is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains and losses on assets and liabilities measured as FVTPL are recognised directly in the Statement of comprehensive income.

Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

Fees receivable from external funds are fees received by the Group, from third parties, for the management of private equity, infrastructure and debt management funds.

Foreign Account Tax Compliance Act (“FATCA”) is US tax legislation aimed at preventing offshore tax avoidance by US persons. The rules impose obligations on non-US financial groups and entities to identify and report details relating to US investors who have invested in those groups and entities.

Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction. At each subsequent reporting date investments are translated to sterling at the exchange rate ruling at that date.

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

Fund Management Operating profit comprises fee income from third parties as well as a synthetic fee received from the Proprietary Capital business less operating expenses incurred by the Fund Management business.

Gross investment return (“GIR”) includes profit and loss on realisations, increases and decreases in the value of the investments we hold at the end of a period, any income received from the investments such as interest, dividends and fee income and foreign exchange movements. GIR is measured as a percentage of the opening portfolio value and is the principal tool for assessing our Proprietary Capital business.

Income from loans and receivables is recognised as it accrues. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.

International Financial Reporting Standards (“IFRS”) are accounting standards issued by the International Accounting Standards Board (“IASB”). The Group’s consolidated financial statements are required to be prepared in accordance with IFRS.

Investment basis Accounts prepared assuming that IFRS 10 had not been introduced. Under this basis, we fair value portfolio companies at the level we believe provides the most comprehensive financial information.

The commentary in the Strategic report refers to this basis as we believe it provides a more understandable view of our performance.

Key Performance Indicators (“KPI”) is a measure by reference to which the development, performance or position of the Group can be measured effectively.

Money multiple is calculated as the cumulative distributions plus any residual value divided by paid-in capital.

Net asset value ("NAV") is a measure of the fair value of our proprietary investments and the net costs of operating the business.

Operating cash profit Defined as the difference between our cash income (cash fees from managing third-party funds and cash income from our proprietary capital portfolio) and our operating expenses, excluding restructuring costs.

Operating profit Includes gross investment return, management fee income generated from managing external funds, the costs of running our business, net interest payable, movements in the fair value of derivatives, other losses and carried interest.

Portfolio income is that which is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. It is comprised of dividend income, income from loans and receivables and fee income.

Proprietary Capital A segment of the business focused on generating profits from shareholders' capital which is available to invest.

Proprietary Capital operating profit Comprises gross investment return, operating expenses, a fee paid to the Fund Management business and balance sheet funding expenses such as interest payable.

Public Private Partnership ("PPP") is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

Realised profits or losses over value on the disposal of investments The difference between the fair value of the consideration received, less any directly attributable costs, on the sale of equity and the repayment of loans and receivables and its carrying value at the start of the accounting period, converted into sterling using the exchange rates at the date of disposal.

Revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.

Segmental reporting Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive who is considered to be the Group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with 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.

Synthetic fee Internal fee payable to the Fund Management business for managing our proprietary capital.

Total return Comprises operating profit less tax charge less movement in actuarial valuation of the historic defined benefit pension scheme.

Total shareholder return ("TSR") is the measure of the overall return to shareholders and includes the movement in the share price and any dividends paid, assuming that all dividends are reinvested on their ex-dividend date.

Translation reserve Comprises all exchange differences arising from the translation of the financial statements of international operations.

Underlying fund management profit Calculated as fee income minus operating expenses related to Fund Management activities, excluding restructuring and amortisation costs.

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

Value weighted earnings growth The growth in last 12 month earnings, when comparing to the preceding 12 months. This measure is a key driver of our private equity portfolio performance.