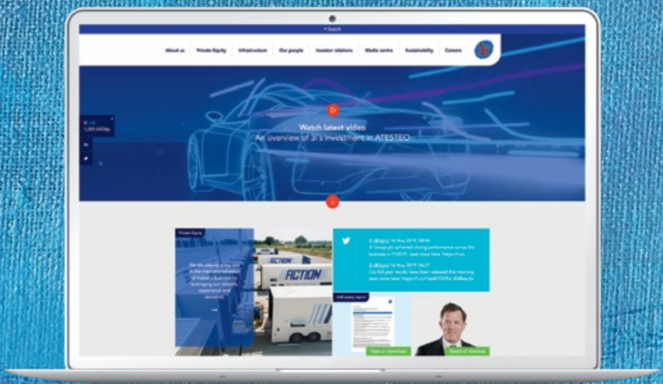
3i Group plc

Annual report and accounts 2019

Our purpose is to generate attractive returns for our shareholders and fund investors by investing in private equity and infrastructure assets. As proprietary capital investors we have a long-term approach. We create value through thoughtful origination, disciplined investment and active stewardship of our assets, driving sustainable growth in our investee companies.

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

www.3i.com



For definitions of our financial terms, used throughout this report, please see our glossary on pages 161 and 162.

Consistent with our approach since the introduction of IFRS 10 in 2014, the financial data presented in the Strategic report is taken from the Investment basis financial statements. The Investment basis (which is unaudited) is an alternative performance measure ("APM") and is described on page 39 and the differences from, and the reconciliation to, the IFRS audited financial statements are detailed on pages 40 to 42.

Disclaimer

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

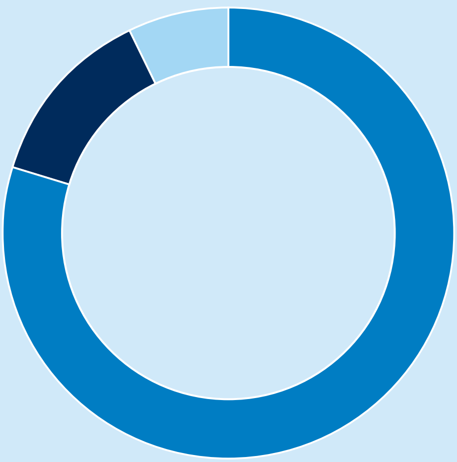
The Strategic report on pages 4 to 59, the Directors' report on pages 61 to 78 and 90 to 95, and the Directors' remuneration report on pages 79 to 89 have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by that law. This Annual report may contain statements about the future, including certain statements about the future outlook for 3i Group plc and its subsidiaries ("3i" or "the Group"). 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.

At a glance

Group

Proprietary capital value

£7,553m
(2018: £6,657m)



£6,023m Private Equity
£1,001m Infrastructure
£529m Corporate Assets

Top 10 investments

1 ACTION	6 Cirtec MEDICAL
2 3i Infrastructure plc	7 HANS ANDERS
3 Scandlines	8 HOLDING COMPANY when precision matters
4 AUDLEY	9 WPW innovative packaging
5 BASIC-FIT	10 smartecarte

Private Equity

Assets under management

£8.3bn
(2018: £8.3bn)

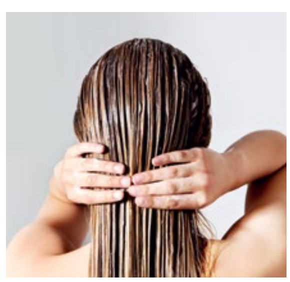
- **73%** Consumer (Action: 58%)
- **11%** Industrial
- **9%** Healthcare
- **7%** Business and Technology Services

- **80%** Northern Europe
- **8%** UK
- **9%** North America
- **3%** Other

Overview

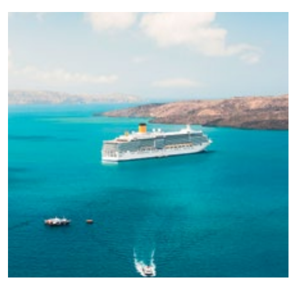
- Investment and asset management to generate capital returns
- Investing in companies typically with an enterprise value of €100 million – €500 million at acquisition in our core investment markets of northern Europe, the UK and North America
- Focused on four sectors: Business and Technology Services, Consumer, Industrial and Healthcare
- Portfolio of 31 unquoted assets and one quoted stake

New investment highlights



Royal Sanders
Investment

£135m



ICE
Investment

£110m

See Royal Sanders p22 and ICE p23 of the Business review

Infrastructure

Assets under management

£4.2bn
(2018: £3.4bn)

- **53%** 3i Infrastructure plc ("3iN")
- **4%** US infrastructure
- **3%** 3i India Infrastructure Fund
- **18%** 3i Managed Infrastructure Acquisitions LP
- **13%** BIIF
- **2%** 3i European Operational Projects Fund
- **7%** 3i managed accounts

- **93%** Europe
- **4%** North America
- **3%** Other

Overview

- Investment and asset management to generate income yield and capital returns
- Investment Manager for 3iN, which invests in economic infrastructure and greenfield project investments in developed economies, principally Europe
- Manage three other European Infrastructure funds and one India Infrastructure fund, as well as other managed accounts
- Established an Infrastructure team in North America, with one investment and a second announced in April 2019

New investment highlights

Attero
3iN and 3i managed accounts investment

£176m

Tampnet
3iN and 3i managed accounts investment

£375m

See Attero p26 and Tampnet p27 of the Business review

Corporate Assets

Assets under management

£529m
(2018: nil)

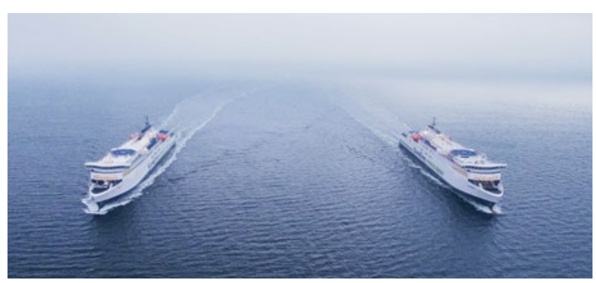
- **100%** Scandlines

- **100%** Northern Europe

Overview

- Corporate Assets is a new segment set up in FY2019 to hold longer-term assets that are not managed in our Private Equity or Infrastructure businesses
- The Group's reinvestment in Scandlines is the first investment managed as a Corporate Asset
- Scandlines is held to generate cash income with the potential for further capital returns

Highlights



Scandlines
Reinvestment

£529m

See Scandlines p28 of the Business review

Performance highlights

815p
NAV per share
(31 March 2018: 724p)

18%
Total return[1] on equity
(2018: 24%)

35.0p
Dividend per share
(2018: 30.0p)

£46m
Operating cash profit
(2018: £11m)

£1,242m
Realised proceeds[2]
(2018: £1,323m)

£332m
Private Equity cash invested
(2018: £587m)

33%
3iN Total shareholder return
(2018: 12%)

£529m
Scandlines reinvestment

1 Total return is defined as Total comprehensive income for the year, under both the Investment basis and the IFRS basis. See page 31 for the Investment basis Total return statement.
2 FY2019 realised proceeds of £1,242 million or £713 million net of £529 million reinvestment in Scandlines. Realised proceeds does not include £19 million received during the year, which was recognised as realised proceeds in FY2018.

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

Chairman's statement

> A clear strategy and consistent execution has delivered strong returns.

Against a volatile political and economic backdrop, 3i delivered another strong performance in FY2019. Private Equity performed well, driven by good portfolio earnings growth, the effective implementation of our buy-and-build strategy, and a favourable market for realisations. 3iN delivered strong returns, with a solid performance from its core European portfolio and another excellent realisation.

Market environment

FY2019 was characterised by continuing political and economic uncertainty, fuelled by the protracted trade war between the US and China, the ongoing lack of clarity on the UK's future relationship with the European Union, and slowing growth in the Eurozone. While we were not immune to the influence of these uncertainties, our diversified portfolio and long-term, rigorous approach to new investments and asset management limited the impact on the Group's performance.

Despite the economic uncertainties, debt markets remained available throughout the year and high demand for private equity and infrastructure investments enabled us to sell a number of assets at attractive exit valuations, delivering strong returns for our shareholders and other investors. At the same time, our deal teams maintained a cautious approach to new business, completing a number of new investments and bolt-on acquisitions at disciplined entry prices.

Performance and dividend

The Group's total return[1] for the year was £1,252 million (2018: £1,425 million). Net asset value ("NAV") increased to 815 pence per share (31 March 2018: 724 pence) and our return on opening shareholders' funds was 18% (2018: 24%). We remained net divestors in FY2019, ending the year with net cash of £495 million and liquidity of £1,420 million (31 March 2018: net cash of £479 million and liquidity of £1,404 million).

Last year we announced a revised dividend policy, with the aim of maintaining or growing our dividend year on year, subject to balance sheet strength and investment and realisation levels. In line with the revised policy, and in recognition of the Group's financial performance and robust balance sheet, the Board has recommended a second FY2019 dividend of 20.0 pence (2018: 22.0 pence). Together with the first FY2019 dividend of 15 pence per share paid in January 2019, this takes the total dividend to 35.0 pence (2018: 30.0 pence). The recommendation reflects the Board's confidence in the future prospects of the Group as we continue to execute our clear and consistent strategy.

Board and management

I am pleased to welcome Coline McConville, who joined the Board on 1 November 2018, as a non-executive Director. Coline brings extensive commercial experience in a variety of relevant sectors and considerable board experience. She has joined the Remuneration, Audit and Compliance and Nominations Committees.

Outlook

We enter FY2020 with a strong balance sheet and a diversified portfolio of assets that position the Group well in the current uncertain environment, with significant growth potential combined with good defensive characteristics. The Board is confident that the Group's clear strategy, experienced investment teams, and disciplined but opportunistic approach to business will continue to deliver superior returns for shareholders.

S. R. Thompson

Simon Thompson
Chairman

Chief Executive's statement

"Our results for the year, against a backdrop of geo-political uncertainty and market volatility, highlight the resilience of the Group and its capabilities to generate attractive, sustainable returns for investors through the cycle."

Simon Borrows
Chief Executive

We generated a total return on shareholders' funds of £1,252 million, or 18% (2018: £1,425 million, or 24%), ending the year with NAV per share of 815 pence (31 March 2018: 724 pence). Realised proceeds, were strong at £1,242 million (31 March 2018: £1,323 million) or £713 million after the £529 million reinvestment into Scandlines. In the current competitive environment for new investment we remained selective and cautious on price, investing £245 million in two new Private Equity investments and we focused heavily on bolt-on acquisitions for our portfolio companies where we could achieve synergies. We were successful in completing a total of eight such bolt-on acquisitions for our Private Equity portfolio as well as three for the 3iN portfolio.

A high quality, diverse portfolio in Private Equity

Our Private Equity portfolio is performing well. Our top 20 Private Equity assets account for 98% of the Private Equity portfolio value. Overall, 93% of our Private Equity assets by value delivered earnings growth in the year. We have remained selective and price disciplined in both making new investments and completing bolt-on acquisitions for our existing portfolio companies, in a market where competition for private assets remains very strong. We did, however, capitalise on record levels of dry powder by exiting some of our long-standing 2008 and 2011 assets at good recovery values. The result is a leaner, stronger and well diversified portfolio, which continues to generate attractive returns for shareholders in an uncertain environment.

Action

Action, our largest Private Equity investment, had another strong year. In 2018, revenue grew by 23% to €4.2 billion, like-for-like ("LFL") sales by 3.2% and EBITDA by 16% to €450 million (2018: €3.4 billion, 5.3% and €387 million). These results were achieved despite a challenging year for the broader European retail industry and operational supply chain issues in France.

Action is an exceptional business and, to achieve its full potential of international growth, it is investing significantly in its commercial, stock planning, distribution and supply chain capabilities. During 2018, Action recruited a new planning team and added further resource to its buying and supply chain teams. It is accelerating the roll-out of its distribution centre ("DC") network. It opened two new DCs earlier this year and a further three are due to open over the next 18 months, increasing the network to 10 DCs across Europe. This investment will facilitate further store roll-out in France, Germany, Poland, Austria and new countries. It will also mitigate the effect of the DC performance and product availability issues that Action has experienced over the last 12 months, particularly in France. The DC expansion is being accompanied by the roll-out of new IT systems to support stock planning and

DC organisation, in order to manage better the increasing complexity inherent in the end-to-end supply chain planning, given the rapid roll-out of Action stores and DCs across Europe.

The supply chain improvements resulted in strong performance in France and elsewhere in the final months of 2018. LFL sales growth increased in the final quarter of 2018 to a healthy 4.4% overall, above the rate seen in the previous three quarters, with higher and more stable stock availability seen across the French network of stores. Strong LFL sales growth has continued during the first four months of 2019.

The pace of store roll-outs remains impressive with 230 net new stores in calendar year 2018, even after Action decided to defer 20 new store openings in France to 2019 to help manage the supply chain issues. Action had 1,361 stores across seven countries as at 31 March 2019. In Poland, the success of Action's six store pilot, which started in 2017, led to the opening of an additional 19 stores in 2018. In 2019, Action will continue with its store roll-out programme in France and Germany and will accelerate its store growth rate in Poland. Action also accelerated its store renewal programme in the Netherlands and Belgium: 48 stores were refurbished, enlarged or relocated in 2018, compared to 27 the year before, improving the customer experience and EBITDA contribution of those stores.

Exceptional weather conditions in 2018 adversely affected customer footfall across European retail and also contributed to the delayed opening of two of Action's most recent DCs; Belleville near Lyon and Peine in Germany. Both of these DCs became operational in Q1 2019.

3i owns 44.3% of Action and also manages Eurofund V ("EFV"), which owns 33.2% of the company. Action is one of two remaining companies in EFV. The final extension of EFV is scheduled to end in November this year. As a result, 3i is working closely with the team at Action to facilitate a transaction that will allow those investors who wish to realise their interest in Action by November 2019 to do so. 3i intends to maintain its current level of exposure in Action and we expect that a number of other investors are likely to retain a substantial part of their holdings.

Private Equity portfolio performance

Since the strategic review in 2012, 3i's Private Equity portfolio has changed significantly. The portfolio has been reduced from 124 companies to 32 companies and, excluding Action, 86% of the remaining Private Equity portfolio value is from our 2013-16 and 2016-19 vintages. We are conscious of the challenging external environment and concerns that some form of market correction is coming. Our strategy of taking a long-term view on the multiples used to value our portfolio companies means we are able to reduce the impact of volatility on our return, which increases 3i's resilience to market corrections.

Our 2013-16 vintage is performing strongly, generating significant cash returns. In September 2018, we sold 24% of our shareholding in Basic-Fit at €30.50 per share, generating proceeds of £89 million. We retain an 18% stake in the business, valued at £254 million. We completed the refinancing of Aspen Pumps, returning cash of £49 million to the Group. Aspen Pumps' underlying business is performing strongly through a combination of organic growth, with strong performance in its core pumps division, together with bolt-on acquisitions helping to consolidate its position as a global leader in the condensate pump manufacturing market. Audley Travel had another good year and we received a cash distribution of £25 million. Investment in its US operation is now generating strong earnings growth. We invested £1.1 billion in the 2013-16 vintage and that portfolio is already standing at over a 2x vintage multiple with significant potential growth ahead of it.

At 31 March 2019, the 2016-19 vintage reached the end of its investment period, with the Group's total proprietary capital committed totalling c.£1.4 billion. In FY2019, we invested and committed to invest c.£450 million in a combination of new investments and bolt-on acquisitions. In the first quarter we completed proprietary capital investments in Royal Sanders of £135 million and ICE of £110 million. We also completed further bolt-on acquisitions for both assets; in November 2018 we completed the acquisition of McBride's European personal care liquids business for Royal Sanders and, in February 2019, we invested a further £19 million of proprietary capital in ICE's merger with SOR Technology ("SOR").

We focused on originating acquisition opportunities for our portfolio companies in FY2019, as prices for new investments remained high. Over the last 12 months we completed a £50 million proprietary capital further investment in 'eyes + more' for Hans Anders, as well as bolt-on acquisitions for Cirtec Medical and Ponroy Santé, both of which required no additional equity contribution from 3i. These bolt-on acquisitions offer good potential for commercial and operational synergies, which we are already beginning to see in both companies.

At the end of March 2019, we announced the final investment in the 2016-19 vintage, Magnitude Software Inc, a leading provider of unified application data management solutions, operating in the US, the Netherlands, the UK, Canada and India. This investment, of c.£139 million, completed at the start of May 2019.

Formel D, the leading international provider of quality services for the automotive industry, was another notable performer of the 2016-19 vintage, generating strong profitability following implementation of a range of initiatives focusing on improving margins and working capital.

Schlemmer, a German manufacturer of cable management solutions for the global automotive industry, had a challenging 12 months and we reduced the value of this 2016-19 asset by £70 million. The company experienced some market volatility predominantly in Europe, ongoing operational difficulties in the US and Mexico and raw material price increases especially in China, affecting profitability and cash flow. As a result, 3i implemented a change in management with a new CEO and CFO and provided additional funding of £4 million in March 2019, to ease the liquidity issue. We are now confident the new management team has a clear plan to recover performance.

Two
new Private Equity investments
(2018: four)

2.3x
vintage multiple on the 2013-16 portfolio of investments
(31 March 2018: 2.1x)

Chief Executive's statement
continued

29%
increase in 3iN share price (2018: 13%)

Another outstanding year for Infrastructure

In the 12 months to 31 March 2019, 3iN's share price appreciated by 29% to 275 pence, generating value growth of £167 million for the Group's 33% stake. This excellent share price increase reflects the successful management by our Infrastructure team, their impressive recent track record of realisations and the strong performance from the portfolio of European infrastructure assets.

Over the last few years, we have repositioned the 3iN portfolio away from assets with higher regulatory risk and generated significant investment gains for shareholders in the process. During the year 3iN disposed of its 33% stake in Cross London Trains ("XLT") for proceeds of £333 million, representing a 5.9x return and a 40% IRR. The value uplift from the sale contributed materially to a performance fee of £31 million for the Group. We increased our fee generating Infrastructure AUM by £300 million, as we manage new investments in Tampnet and Attero for 3iN and other investors. In addition to these investments, 3iN completed the acquisition by Infinis of Alkane Energy in the year, and in March 2019, 3iN announced a commitment to invest in Joulz, a leading owner and provider of essential energy infrastructure equipment and services in the Netherlands. The £190 million investment in Joulz completed in April 2019.

Demand for Infrastructure assets is strong and the team remains disciplined on price and, much like Private Equity, we look for bolt-on opportunities for the existing portfolio where appropriate. In the year, two such acquisitions for Wireless Infrastructure Group ("WIG") and one for TCR were completed, without further equity contribution from 3iN.

Our North American Infrastructure team announced its second investment at the beginning of April 2019, in Regional Rail LLC, a leading owner and operator of short-line freight railroads and rail-related businesses throughout the Mid-Atlantic US.

Apart from the gain in 3iN's share price, our Infrastructure platform remains an important source of cash income for the Group, generating £82 million (2018: £78 million) of cash income through its fund management activities and dividend income from Infrastructure.

£306m
net proceeds from the disposal of Scandlines

Corporate Assets

In June 2018, we completed the sale and our subsequent 35% reinvestment into Scandlines, generating net proceeds to 3i of £306 million. Our decision to reinvest into Scandlines is consistent with our strategic objectives and we are already seeing the benefit of this through the considerable cash flows that the business is continuing to produce. Since the Group's reinvestment, we have received £28 million of dividend income, an important contribution to the Group's operating cash position.

Strong balance sheet, well positioned to deliver good returns to shareholders

We ended FY2019 with net cash of £495 million after returning £358 million of cash dividends to shareholders in the year. Our strong balance sheet means we can be competitive and move fast when we find the right proprietary capital investments without having to accelerate realisations ahead of their full potential.

Our people and values

We expect everyone at 3i to act with integrity, to be accountable for their behaviour, and to approach their roles with ambition, rigour and energy. This means demonstrating our culture and values while working hard towards achieving attractive returns for our shareholders and other investors.

Our long-standing Responsible Investment Policy informs our investment decisions and our behaviour as stewards of our assets. We are committed to the continuous improvement of our approach.

We have seen some changes in key personnel this year. The Co-Heads of our Private Equity division transitioned during the year, with Menno Antal and Alan Giddins handing over leadership to Pieter de Jong from our Dutch team and Peter Wirtz from our German team, who have become the new Co-Heads of Private Equity and I look forward to working with them in their new capacity. I would like to thank Menno and Alan for their strong contribution in leading the Private Equity team since 2010.

Outlook

For 3i, FY2020 appears to be starting in a similar way to FY2019 with geo-political uncertainty, volatile capital and currency markets, concerns about economic growth and a growing tide of funds looking to invest in private assets in particular.

We remain cautious in this environment, which will lead us to be careful about the pricing of new investments, while looking to put more capital behind those portfolio companies we already know well. So our focus will remain on bilateral or complex processes and our buy-and-build platforms.

The Group's portfolio of investments is positioned well and has good momentum for further growth. We have a clear strategic focus and are committed to using our active management processes to deliver another good year of progress for our shareholders.

I would like to thank the 3i team again for all their good work this year.

Simon Borrows
Chief Executive

Action

Action is one of the fastest growing non-food discount retailers in Europe, with more than 1,361 stores in seven countries. Action generates over seven million customer visits a week. Customers are attracted by its unique combination of low prices and surprising assortment.

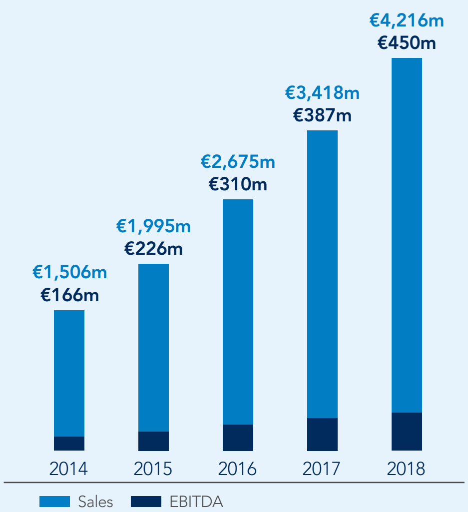
Action has a cost effective, simple and scalable business model. It sources its items from a network of almost 1,000 suppliers and, due to its scale, is able to buy large volumes of product at a low cost. Action stocks its stores daily from its distribution centre ("DC") network, providing each store with over 6,000 different products in 14 categories. Only one-third of these products are part of a standard range, the other two-thirds change constantly.

In 2018, Action added 230 net new stores in seven countries. In France, Action passed the 400th store mark, making France its largest market, whilst in Germany, Action opened its 300th store on 18 April 2019. An important step in Action's geographical expansion was the roll-out of new stores in Poland and, following the success of its six store pilot at the end of 2017, Action opened a further 19 stores in the south western part of the country in 2018, with plans to accelerate its store growth in Poland in 2019.

Action's DCs are the foundation of its growth and, in 2018, Action continued to work on its DC roll-out plan with two new DCs in its biggest markets, Germany and France. These DCs, in Belleville and Peine, became operational in early 2019 and are part of a larger DC roll-out plan with the target of opening an additional three DCs before the end of 2020, including one in Osla (Poland) towards the end of 2019, one in Bratislava (Slovakia) and one in Verrières-en-Anjou (France) in 2020.

To support this growth, Action employed a further 5,000 people in 2018, taking its total headcount to 46,000. Action has developed its digital interface with its customers, investing in its digital team, digital channels and online services, as well as implementing new IT systems to support end-to-end supply chain planning.

Key financial figures at 31 December



Number of stores at 31 December

230 net stores added

15 stores relocated

6 stores enlarged

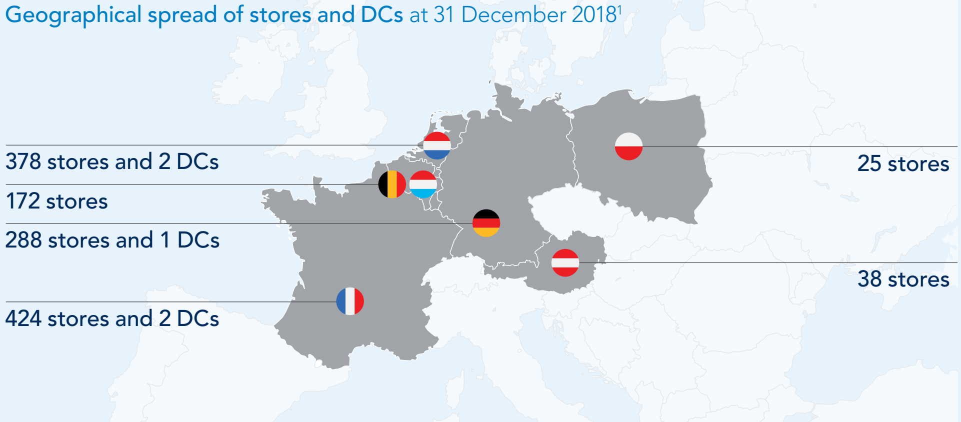
27 stores refurbished

People

46,000
Employees

5,000
Increase in number of employees

Geographical spread of stores and DCs at 31 December 2018[1]



1 In early 2019, two new DCs became operational, one in Germany and one in France.

Our business model

Capable of delivering mid-teen returns to shareholders through the cycle.

Key resources

Our institutional culture

Our institutional culture, policies and procedures, led by the Investment Committee, ensure a disciplined and selective approach to investment and divestment decisions, applied consistently across our business

Expert teams

Our origination is built on the skills of our local teams and the deep knowledge they have in their core markets and sectors. Where possible, we train our people in-house and develop cross-team working, bringing sector and international experience together

Network

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

Reputation

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

Strong balance sheet

Our proprietary capital funding model allows increased flexibility and speed in capital allocation and investment decisions, as well as an ability to hold for the long term

How we create value

We create value by investing our proprietary capital in a portfolio of mid-market private equity investments. We cover our operating costs with income from our portfolio and from fees generated by our Infrastructure business and Scandlines, our corporate asset, thereby minimising the dilution of returns.

1 Invest our proprietary capital

We aim to invest our proprietary capital in 4-7 Private Equity investments every year and support the development of Infrastructure and Corporate Assets

2 Grow portfolio earnings and cash flow

We generate value from our Private Equity investments typically over a 4-5 year hold period through underlying earnings and cash flow growth

We manage our Corporate Assets for long-term earnings and cash flow growth

3
Cover costs with fee and portfolio income

We cover our cash operating costs with cash income to minimise the dilution of capital returns to shareholders

We generate income from our portfolio, as well as fund management fee income from our Infrastructure business

4
Realise a money multiple of >2x in Private Equity

We work with our portfolio companies to achieve their full potential while generating good returns for our investors through the cycle

Fund new investment

Fund shareholder distributions

Shareholder returns in 2019

18%
Total return

35.0p
Dividend per share

19%
Total shareholder return ("TSR")

Our strategic objectives

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

Grow investment portfolio earnings

Realise investments with good cash-to-cash returns

Maintain an operating cash profit

Use our strong balance sheet

Increase shareholder distributions

1 Includes 21 companies valued on an earnings basis, as well as Basic-Fit.
2 Operating cash profit is an APM. Further details are included on page 43.

Further information on how these strategic objectives are factored into decisions concerning the Executive Directors' remuneration is included in the Directors' remuneration report on page 79.

FY2019 progress	FY2020 outlook	
93% **of Private Equity portfolio companies[1] (by value) grew earnings in FY2019**	• Action's growth is expected to continue as it focuses on store roll-out, further investment in the supply chain and maintaining the strong market position of the business • We expect strong performance from the 2013-16 vintage and good progress from the 2016-19 vintage, with a number of assets benefiting from recent bolt-on acquisitions • Continue to monitor the potential impact of geo-political and macro-economic uncertainty	**For further information see the Private Equity section**
£1,242m **Group proceeds** (or £713 million net of £529 million reinvestment in Scandlines)	• Realisations in FY2020 are expected to be lower compared to this year. We expect total proceeds of c.£350 million to £500 million	**For further information see the Private Equity section** **For further information see the Infrastructure section**
£46m **Operating cash profit[2]**	• Continue to focus on generating income where appropriate from the Private Equity portfolio • Continue to maintain cost discipline • Good cash income expected to continue from Infrastructure and Scandlines	**For further information see the Financial review**
£332m **Invested in Private Equity** **£529m** **Reinvestment in Scandlines**	• Invest up to £750 million of proprietary capital in four to seven Private Equity investments, whilst maintaining price discipline • Manage our Infrastructure funds and support other initiatives in Europe • Grow the North America infrastructure portfolio	**For further information see the Private Equity section**
35.0p **Dividend per share**	• The dividend will be subject to the level of investment, realisations and balance sheet strength • Aim to maintain or grow the dividend year-on-year • In line with our dividend policy, expect first FY2020 dividend to be 50% of FY2019's total dividend of 35.0 pence	**For further information see the Chairman's statement**

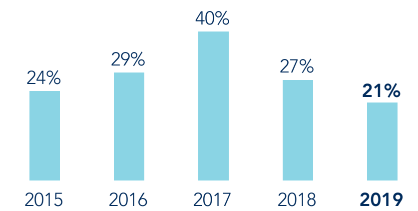
Key performance indicators

KPI

Link to strategic objectives

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

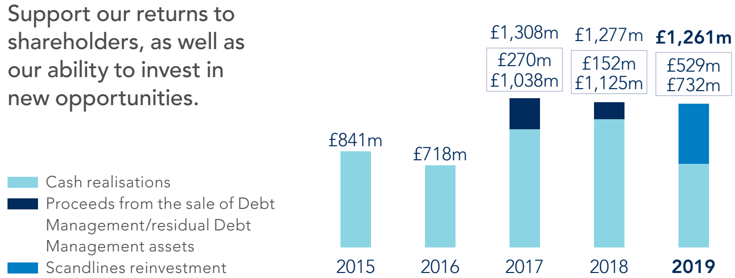
The performance of the proprietary investment portfolio expressed as a percentage of the opening portfolio value.



Link to strategic objectives:
- Grow investment portfolio earnings
- Realise investments with good cash-to-cash returns

Cash realisations[1,2]

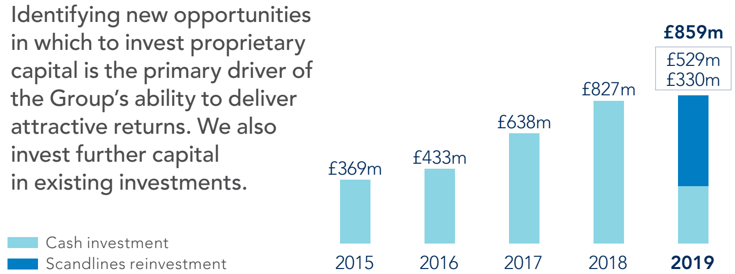
Support our returns to shareholders, as well as our ability to invest in new opportunities.



Link to strategic objectives:
- Realise investments with good cash-to-cash returns
- Increase shareholder distributions

Cash investment[1,2]

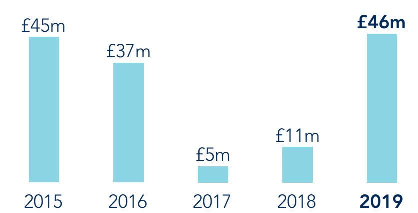
Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group’s ability to deliver attractive returns. We also invest further capital in existing investments.



Link to strategic objectives:
- Grow investment portfolio earnings
- Use our strong balance sheet
- Increase shareholder distributions

Operating cash profit[1,2,3]

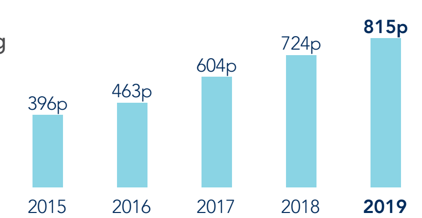
By covering the cash operating cost of running our business with cash income, we reduce the potential dilution of capital returns.



Link to strategic objectives:
- Maintain an operating cash profit
- Increase shareholder distributions

NAV per share[2]

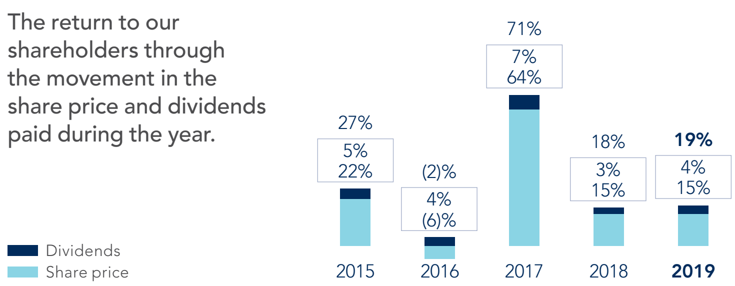
The measure of the fair value per share of our proprietary investments and other assets after the net cost of operating the business and dividends paid in the year.



Link to strategic objectives:
- Grow investment portfolio earnings
- Realise investments with good cash-to-cash returns
- Maintain an operating cash profit

Total shareholder return[2]

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



Link to strategic objectives:
- Increase shareholder distributions

FY2019 progress	Key risks
• Good performance across our portfolio with a GIR in Private Equity of £1,148 million, or 20% and a Group GIR of £1,407 million, or 21% • Action had another good year, opening 230 net new stores in calendar year 2018 and generating LFL sales growth of 3.2%, with significant investment in the supply chain • Good progress with our 2013-16 and 2016-19 vintages • 3iN delivered a TSR of 33% (2018: 12%)	• Investment rates or quality of new investments are lower than expected • Operational underperformance in the portfolio companies impacts earnings growth and exit plans • Sterling materially strengthens against the euro and US dollar; at 31 March 2019, 79% of the portfolio was denominated in euros or US dollars
• The Group generated cash proceeds of £1,261 million or £732 million net of the £529 million reinvestment in Scandlines • Private Equity generated total gross realised proceeds of £1,235 million, which includes the disposal of five companies, the partial exit of our quoted holding in Basic-Fit and the refinancing of one asset	• Subdued M&A activity in our core sectors reduces investor appetite for our assets • Macro-economic uncertainty limits investor appetite for the private equity and infrastructure asset classes • Debt markets become less supportive of leveraged buyouts or refinancings
• Invested £245 million in two new Private Equity investments and £69 million in two further investments in Hans Anders and ICE to support the acquisition of eyes + more and merger with SOR respectively • Reinvested £529 million to acquire a 35% stake in Scandlines alongside First State Investments and Hermes Investment Management • Announced a new investment in Magnitude Software Inc in March 2019. This investment of c.£139 million completed at the start of May 2019	• Competition from other private equity and infrastructure investors, as well as trade and other financial buyers, makes it more challenging to source investments at prices that will allow us to meet our return targets • Failure to attract, invest in and retain the right investment executives impacts our ability to originate and manage assets • Failure to maintain and develop our network of advisers and business leaders reduces the quality of potential deal flow
• Infrastructure generated cash income of £82 million (2018: £78 million) • Scandlines generated cash dividend income of £28 million (2018: nil) • Strong, but non-recurring cash income from Private Equity, including £17 million of cash income from Audley Travel • Remained disciplined over cash operating expenses, which declined to £109 million (2018: £115 million)	• Portfolio performance, and therefore portfolio income, is weak • Reduced ability to generate interest and dividend income in a private equity structure • Infrastructure initiatives do not generate sufficient fee income • Unplanned increase in the cost base; for example legal, compliance or regulatory costs
• 13% increase in NAV per share to 815 pence (31 March 2018: 724 pence), after payment of 37 pence dividend per share • Strong GIR from Private Equity and Infrastructure	• Ongoing geo-political uncertainty further dampens investor sentiment • Wider G20 political and economic uncertainty impacts 3i's portfolio companies and valuations
• TSR of 19% driven by a share price increase of 15% in the year, together with the second FY2018 dividend of 22.0 pence and first FY2019 dividend of 15.0 pence • Net divestment, strong balance sheet and closing net cash support a total FY2019 dividend of 35.0 pence per share	• Lower NAV due to investment underperformance or political and economic uncertainty • Investor appetite for 3i shares could reduce in a volatile macro-economic environment • Implications of the UK's decision to leave the EU and the current UK political uncertainty could limit the attractiveness of UK plc

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

2 Further information on how these KPIs are factored into decisions concerning the Executive Directors' remuneration is included in the Directors' remuneration report on page 79.

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

Business review

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

Private Equity
Business review

Our Private Equity business performed well in FY2019 with a gross investment return of £1,148 million or 20% on the opening portfolio (2018: £1,438 million or 30%) and realisations of £1,235 million (2018: £1,002 million), including £835 million from the disposal of Scandlines. Despite the political and economic backdrop, strong performance from Action and a number of assets from our 2013-16 and 2016-19 vintages generated unrealised value growth of £916 million (2018: £1,080 million). In a highly competitive market, the team remained selective and disciplined on price, making two new investments and adding eight bolt-on acquisitions for existing portfolio companies.

Investment activity

Over the last twelve months, record levels of capital availability continued to drive competition for private assets. We have remained selective and disciplined on price when originating new investment opportunities and have also focused on further bolt-on acquisitions for our existing portfolio companies, an important part of building the strategic value of these assets.

In April 2018, we invested £135 million of proprietary capital in Royal Sanders, a private label and contract manufacturing producer of personal care products and in June 2018, we invested £110 million in ICE, a global travel and loyalty company that connects leading brands, travel suppliers and end consumers. Over the last two years we have focused on investing in more fragmented markets which offer buy-and-build growth opportunities. In addition to these initial proprietary investments, Royal Sanders completed its acquisition of McBride's European personal care liquids business in November 2018 and, in February 2019, 3i supported ICE's merger with SOR, a web-based travel technology platform, by contributing a further investment of £19 million. In January 2019, we also invested £50 million to support Hans Anders with the bolt-on acquisition of eyes + more, a fast growing value-for-money optical retailer headquartered in Germany.

A number of other portfolio companies also completed bolt-on acquisitions in the year, primarily funded from their own resources. In May 2018, WP completed its acquisition of Proenfar, a Colombia based manufacturer of pharmaceutical and cosmetics plastic packaging solutions for the Latin American market. In July 2018, Ponroy Santé continued its buy-and-build strategy with the acquisition of Densmore, a natural food supplement laboratory specialising in ophthalmic solutions. Ponroy Santé also announced its acquisition of Pasquali Healthcare, a leading pharmaceutical company in Italy at the end of FY2019. In October and December 2018, Cirtec Medical completed the acquisitions of Cactus Semiconductor and Metrigraphics LLC, expanding the company's product portfolio of cutting edge and technically advanced medical device components. In November 2018, Aspen Pumps acquired Advanced Engineering, the market leader in the manufacture and supply of coil cleaners and service equipment to the air conditioning and refrigeration industry.

In September 2018, we acquired £12 million of Action shares from other shareholders and in February 2019, we purchased a small additional LP stake in EFV, which further increased our holding in Action to 44.3%.

In addition to the £332 million of investment completed in the year, in March 2019, we announced a new investment in Magnitude Software Inc, a leading provider of unified application data management solutions, operating in the US, the Netherlands, the UK, Canada and India. This investment, of c.£139 million, completed at the start of May 2019.

Table 1: Private Equity cash investment in the year to 31 March 2019

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
Royal Sanders	New	Private label and contract manufacturing producer of personal care products	April 2018	136	135
ICE	New	Global travel and loyalty company	June 2018	111	110
Hans Anders[1]	Further	Value-for-money optical retailer	January 2019	47	46
ICE/SOR	Further	Web-based travel technology platform	February 2019	19	19
Action	Further	Non-food discount retailer	September 2018	20	12
Schlemmer[2]	Further	Manufacturer of cable management solutions for the automotive industry	March 2019	5	5
EFV stake	Further	Acquisition of LP stake in Eurofund V	February 2019	4	4
Other	n/a	n/a	n/a	1	1
Total Private Equity investment				**343**	**332**

1 Investment of £46 million, includes the further investment in eyes + more of £50 million, net of a £4 million loan repayment earlier in the year which was treated as negative cash investment as this was received within the first year of our initial investment.

2 Investment of £5 million includes £1 million further investment in August 2018 and £4 million further investment in March 2019.

Private Equity – Business review

continued

Realisations activity

Market conditions remained favourable for exit in FY2019 and we generated £1,081 million of Private Equity proceeds (2018: £603 million) from the sale of five companies in the year, at an average money multiple of 3.0x.

On 21 June 2018, together with EFV, we sold Scandlines, generating proceeds of £835 million for our proprietary capital stake. The Scandlines disposal generated a money multiple of 7.7x on our investment and contributed £31 million to realised profit in the year, in addition to the uplift on sale we recognised in FY2018. This is an outstanding result having originally invested in Scandlines in 2007 and then, in a strategically significant step, increased our investment in 2013. Subsequently, the Group reinvested £529 million into Scandlines to acquire a 35% stake alongside First State Investments and Hermes Investment Management. This investment is now managed outside of the Private Equity business and is reported as a Corporate Asset.

We disposed of two 2011 assets at good recovery values. In September 2018, we sold Etanco for proceeds of £91 million and a realised profit of £24 million and, in March 2019, we completed the sale of OneMed returning proceeds of £96 million and generating a realised profit of £52 million. In addition, we sold our minority stake in SLR, a 2008 investment, for proceeds of £30 million and received our final payment of £29 million for Prisa Radio.

We took advantage of supportive equity market conditions to reduce our quoted holding in Basic-Fit, disposing of 24% of our equity holding and returning proceeds of £89 million. We retain an 18% stake in Basic-Fit, valued at £254 million at 31 March 2019.

We continue to refinance our most cash generative assets where appropriate for the business and where the market allows. In December 2018, Aspen Pumps completed a refinancing which resulted in a £49 million distribution to 3i, of which £48 million was recognised as capital proceeds and the remainder as income. Finally, in December 2018 Audley Travel completed a shareholder distribution of £25 million to 3i, of which £8 million was recognised as capital proceeds and the remainder as income.

In aggregate, we generated total Private Equity proceeds of £1,235 million (2018: £1,002 million) and realised profits of £131 million in the year (2018: £199 million).

Table 2: Private Equity realisations in the year to 31 March 2019

Investment	Country	Calendar year invested	31 March 2018 value[1] £m	3i realised proceeds £m	Profit/(loss) in the year[2] £m	Uplift on opening value[2] %	Residual value £m	Money multiple[3]	IRR
Full realisations									
Scandlines	Denmark/Germany	2007/2013	803	835	31	4%	–	7.7x	34%
Etanco	France	2011	66	91	24	36%	–	1.3x	3%
OneMed	Sweden	2011	46	96	52	118%	–	0.9x	(1)%
SLR	UK	2008	29	30	1	3%	–	1.3x	2%
Prisa Radio	Spain	2008	27	29	3	12%	–	0.7x	(6)%
Total realisations			**971**	**1,081**	**111**	**11%**	**–**	**3.0x**	**n/a**
Refinancings[3]									
Aspen Pumps	UK	2015	48	48	–	–	103	2.4x	24%
Total refinancings			**48**	**48**	**–**	**–**	**103**	**2.4x**	**24%**
Capital distribution[3]									
Audley Travel	UK	2015	8	8	–	–	270	1.9x	21%
Partial realisations[1,3]									
Basic-Fit	Netherlands	2013	69	89	20	29%	254	5.3x	46%
Other	n/a	n/a	8	5	(4)	(44)%	241	n/a	n/a
Deferred consideration									
Other	n/a	n/a	–	4	4	n/a	–	n/a	n/a
Total Private Equity realisations			**1,104**	**1,235**	**131**	**12%**	**868**	**n/a**	**n/a**

1 For partial realisations, 31 March 2018 value represents value of stake sold.

2 Cash proceeds realised in the period over opening value.

3 Cash proceeds over cash invested. For partial realisations and refinancings, valuations of any remaining investment are included in the multiple. Money multiples are quoted on a GBP basis.

Portfolio valuation

As at 31 March 2019, the portfolio comprised 31 assets and one quoted stake (31 March 2018: 35 assets and one quoted stake). The portfolio generated unrealised value growth of £916 million in the year (2018: £1,080 million) and was valued at £6,023 million at 31 March 2019 (31 March 2018: £5,825 million).

Performance

The continued strong performance of the investments valued on an earnings basis resulted in an increase in value of £654 million (2018: £541 million), with the most significant contribution coming from Action. At 31 March 2019, Action was valued using run-rate earnings to 31 March 2019 and a post discount run-rate multiple of 18.0x (31 March 2018: 16.5x), resulting in a value of £2,731 million (31 March 2018: £2,064 million). As the largest Private Equity investment by value, it represented 45% of the Private Equity portfolio (31 March 2018: 35%).

Our 2013-16 vintage is performing strongly. Audley Travel is a provider of luxury tailor-made holidays to over 80 destinations worldwide, serving clients principally in the UK and the US, and has had another strong year. Since our investment in 2015, we have further grown the UK business and are building a strong US business, investing in country specialists and expanding the roll-out of European destination offerings for US customers. As a result, our £156 million initial investment was valued at £270 million at 31 March 2019, after the receipt of the £25 million capital and interest distribution in the year.

A combination of organic growth and bolt-on acquisitions has consolidated Aspen Pumps as a global manufacturing leader of pumps and accessories for the air conditioning, heating and refrigeration industry. At 31 March 2019, our investment in Aspen Pumps was valued at £103 million (2018: £108 million), after the receipt of £49 million capital and interest proceeds from its refinancing in the year.

We completed a number of bolt-on acquisitions for assets within our 2016-19 vintage that add scale to these businesses and, in most cases, also generate operational synergies. The two new acquisitions for Cirtec Medical further expand the company's product portfolio, and the acquisition of Densmore continues Ponroy Santé's buy-and-build strategy. A combination of these acquisitions and growth in the core businesses are reflected in good earnings growth for Cirtec Medical and Ponroy Santé. The bolt-on acquisitions in Hans Anders, ICE and Royal Sanders are also adding value.

We continue to see a small number of asset specific challenges in the portfolio. Schlemmer experienced some market volatility, predominantly in Europe, ongoing operational difficulties in the US and Mexico, and higher raw material prices, against a more challenging automotive market backdrop. As a result, Schlemmer generated our largest decline in value in the year (£70 million), mainly attributable to performance. After a relatively slow start to the year, Euro-Diesel generated a record order intake in calendar year 2018, of which most will be manufactured and delivered in 2019. Finally, WP's performance recovered towards the end of its financial year, following pressure on profitability due to increasing resin prices, negative foreign exchange effects and temporarily weaker South American markets.

Overall, 93% of the portfolio by value, including Basic-Fit, grew their earnings in the year (2018: 91%). One investment was valued using forecast earnings at 31 March 2019 (31 March 2018: one), representing 1% of the portfolio by value (31 March 2018: 1%). Chart 1 shows the earnings growth of our top 20 assets.

Net debt across the portfolio decreased slightly to 3.9x earnings (31 March 2018: 4.0x), principally due to a decrease in the leverage ratio for Action. Excluding Action, the ratio increased to 3.7x (31 March 2018: 3.3x) due to the mix of new investments and realisations in the year, a number of bolt-on acquisitions funded by leverage of the portfolio companies and the refinancing of Aspen Pumps. Chart 2 shows the ratio of net debt to earnings by portfolio value at 31 March 2019.

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

	2019 £m	2018 £m
Earnings based valuations		
Performance	**654**	541
Multiple movements	**219**	144
Other bases		
Uplift to imminent sale	**–**	3
Scandlines transaction value	**–**	302
Discounted cash flow	**–**	3
Other movements on unquoted investments	**(12)**	6
Quoted portfolio	**55**	81
Total	**916**	1,080

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation on pages 157 and 158.

Private Equity – Business review
continued

Multiple movements

The increase in value due to multiple movements was £219 million (2018: £144 million increase). The run-rate multiple used to value Action increased to 18.0x post liquidity discount at 31 March 2019 (31 March 2018: 16.5x) to reflect its continued strong performance and our confidence in its future growth prospects. Based on the valuation at 31 March 2019, a 1x movement in Action's post-discount multiple would increase or decrease the valuation of 3i's investment by £197 million (31 March 2018: £176 million).

A common feature throughout FY2019 was volatility in equity markets, which was particularly acute in December 2018. Such unpredictable movements reinforce our strategy of taking a long-term view on the multiples used to value our portfolio companies. In setting and before changing a multiple, we consider a number of factors such as relative performance, investment size, comparable recent transactions and exit plans, as well as monitoring external equity markets. As a result, as at 31 March 2019, we selected multiples that were lower than the comparable set in 12 out of the 21 companies valued on an earnings basis (31 March 2018: 14 out of 21).

Excluding Action, the weighted average EBITDA multiple increased slightly to 11.8x before liquidity discount (31 March 2018: 11.7x) and was 11.1x after liquidity discount (31 March 2018: 11.0x).

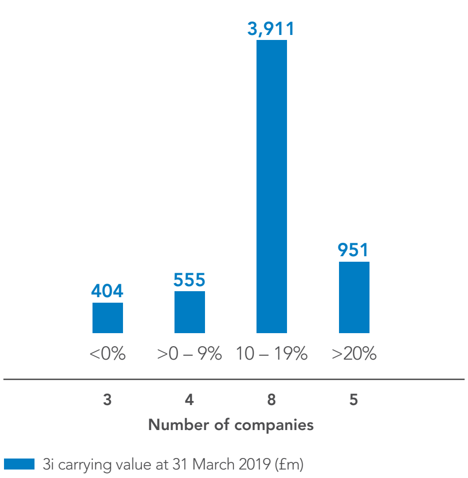
The pre-discount multiples used to value the portfolio ranged between 7.5x and 18.9x (31 March 2018: 8.5x to 17.4x) and the post-discount multiples ranged between 7.1x and 18.0x (31 March 2018: 6.3x to 16.5x).

Quoted portfolio

Basic-Fit, the only quoted asset in the Private Equity portfolio, had another very strong year, which was reflected in its share price increase of 28% to €30.00 per share at 31 March 2019 (31 March 2018: €23.35). In its 2018 financial year, revenue and profit increased by 23% and 24% respectively and the business ended the year with 629 clubs and 1.8 million members.

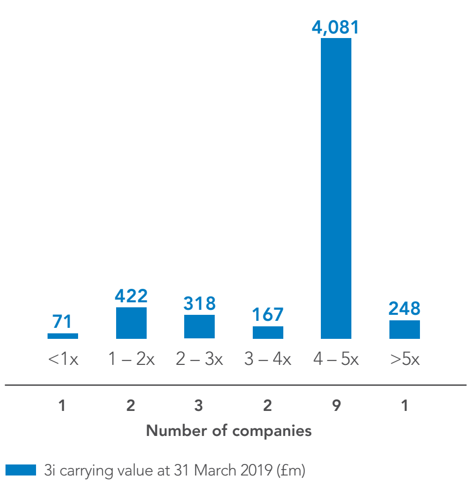
We generated an unrealised value gain of £55 million from Basic-Fit in the year, in addition to realised profits of £20 million on the disposal of 24% of our shareholding in September 2018 at €30.50 per share. At 31 March 2019, our residual 18% shareholding was valued at £254 million.

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



1 Includes top 20 Private Equity companies by value. This represents 97% of the Private Equity portfolio by value (31 March 2018: 95%).

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



1 This represents 88% of the Private Equity portfolio by value (31 March 2018: 88%). Quoted holdings, deferred consideration and companies with net cash are excluded from the calculation.

Table 4: Quoted portfolio movement for the year to 31 March 2019

Investment	IPO date	Opening value at 1 April 2018 £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements[1] £m	**Closing value at 31 March 2019 £m**
Basic-Fit	June 2016	270	(69)	55	(2)	**254**
		270	**(69)**	**55**	**(2)**	**254**

1 Other movements include foreign exchange.

Table 5: Private Equity assets by geography as at 31 March 2019

3i office location	Number of companies	**3i carrying value 2019 £m**
Benelux	6	**3,600**
France	1	**174**
Germany	5	**663**
UK	9	**672**
US	5	**750**
Other	6	**164**
Total	32	**6,023**

Assets under management

The value of 3i's proprietary capital invested in Private Equity increased to £6.0 billion in the year (31 March 2018: £5.8 billion).

Table 6: Private Equity proprietary capital as at 31 March

Vintages	**Proprietary capital value 2019 £m**	**Vintage multiple 2019**	Proprietary capital value 2018 £m	Vintage multiple 2018
Buyouts 2010–2012	**2,679**	**8.5x**	2,139	7.2x
Growth 2010–2012	**25**	**2.1x**	33	2.2x
2013–2016[1]	**1,325**	**2.3x**	1,695	2.1x
2016–2019[1]	**1,503**	**1.2x**	1,057	1.1x
Other	**491**	**n/a**	901	n/a
Total	**6,023**		5,825	

1 Assets included in these vintages are disclosed in the glossary.

The value of the Private Equity portfolio, including third-party capital, increased to €9.6 billion (31 March 2018: €9.5 billion).

Private Equity – Investments in the year

Consumer

Royal Sanders

£135m

3i investment

Royal Sanders is a leading European private label and contract manufacturing producer of personal care products.

Its key geographies are the Benelux, Germany, France and the UK with plants in the Netherlands, the UK and Belgium.

Royal Sanders' main product categories are shampoo, bath and shower gels, body lotions and hand wash. The company sells its products in over 30 countries through private label, contract manufacturing and own brands including Van Gils, Sanicur and Odorex.

3i invested alongside management to drive the company's international growth strategy in a fragmented industry. We believe that there are multiple buy-and-build opportunities across geographies. Royal Sanders completed its first acquisition under 3i ownership when it acquired McBride's European personal care liquids business in November 2018.

For more information, visit www.royalsanders.com

Business and Technology Services

ICE

£110m

3i investment

ICE – SOR acquisition

£19m

3i further investment

ICE is a global provider of B2B technology-based travel loyalty and reward solutions.

ICE has developed a unique network business model that enables leading brands to offer loyalty programmes that provide customers with unmatched value on travel products. ICE also partners with leading travel suppliers to generate incremental travel bookings from members of its loyalty programmes.

ICE employs over 2,800 staff and is headquartered in Scottsdale, Arizona with additional offices in Australia, Portugal, India, Mexico, New Zealand and the UK.

ICE – SOR acquisition

In February 2019 ICE completed a merger with SOR, a web-based travel technology platform. The combination of the two companies will enhance the product portfolio and provide added value to their global network of travel suppliers, their B2B partners and their consumers globally. 3i invested £19 million to support ICE's merger with SOR.

For more information, visit www.iceenterprise.com

Consumer

Hans Anders – eyes + more acquisition

£50m

3i further investment

In January 2019, 3i made a further investment of £50 million in Hans Anders to support its acquisition of eyes + more, a fast growing value-for-money optical retailer.

The company operates 170 stores across Germany, the Netherlands, Belgium and Austria selling a range of c.800 prescription glasses and private label sunglasses.

This transaction expands the European footprint of Hans Anders to serve customers in five countries, creating a leading north-western European optical retail platform that is focused exclusively on the growing value-for-money segment.

For more information, visit www.hansanders.nl

Infrastructure
Business review

Infrastructure contributed a gross investment return of £210 million, or 25% on the opening portfolio (2018: £113 million, 16%). This was primarily driven by 3iN's outstanding share price appreciation of 29% and good levels of dividend income. 3iN generated £333 million of proceeds from the sale of XLT, which were recycled into the investment in Tampnet and a new commitment to invest in Joulz. We increased our fee generating AUM with the management of third-party stakes in Attero and Tampnet and continued to build our US Infrastructure platform with the announcement of our second proprietary capital investment in Regional Rail, LLC.

Investment manager to 3iN

Our role changed from Investment Adviser to Investment Manager of 3iN in October 2018, when 3iN moved its management and tax domicile from Jersey to the UK. The move was accompanied by 3iN successfully applying to HM Revenue & Customs for UK approved investment trust status. Under the terms of the new management agreement, 3i will receive a management fee of between 1.2% and 1.4% on a tiered basis and a performance fee of 20% of returns above a hurdle of 8% of the growth in NAV per share, with a deferral and clawback mechanism in the event of subsequent performance below the hurdle. The fees payable by 3iN to 3i for FY2019 are calculated on the same basis as the previous advisory agreement.

Under the terms of the advisory and management agreements, 3iN paid a management fee of £31 million to 3i (2018: £34 million) and a NAV based performance fee of £31 million (2018: £90 million).

3iN and 3i managed accounts investment

In June 2018, 3iN completed its investment in Attero by completing the £176 million acquisition for a 50% stake. In August 2018, 3iN syndicated 50% of the original investment amount to other investors whose stakes continue to be managed by 3i. In March 2019, 3iN, in consortium with Danish pension fund ATP, invested £375 million in Tampnet, a fibre-based communications infrastructure asset. Of this investment, £187 million is 3iN's proprietary capital and the remaining ATP stake is managed by 3i.

In addition to these investments, 3iN completed its FY2018 commitment with the acquisition by Infinis of Alkane Energy and, in March 2019, it announced a commitment to invest in Joulz, a leading owner and provider of essential energy infrastructure equipment and services in the Netherlands. The £190 million investment in Joulz completed in April 2019.

Finally, the platform investments in the 3iN portfolio made three bolt-on acquisitions in the year, including two acquisitions by WIG and a further by TCR, all of which were funded from the companies' own resources.

Realisations

In March 2019, 3iN sold its 33% stake in XLT for proceeds of £333 million, representing a 5.9x money multiple and a 40% IRR. This realisation generates an excellent return for shareholders and continues to reposition 3iN away from assets with higher regulatory risk.

3iN also refinanced Infinis, WIG, TCR and Attero during the year, all on attractive terms.

Performance

Overall, the 3iN portfolio continues to perform well and the company generated a total return on opening NAV of 15% in the year (2018: 29%), ahead of its target total return of between 8% and 10% per annum to be achieved over the medium term.

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

	2019 £m	2018 £m
Quoted	**167**	67
Discounted cash flow	**(7)**	8
Fund	**2**	8
Total	**162**	83

1 Further information on our valuation methodology, including definitions and rationale, is included in the portfolio valuation – an explanation section on pages 157 and 158.

Performance of 3i's proprietary capital Infrastructure portfolio

Quoted stake in 3iN

The Group's proprietary capital infrastructure portfolio consists primarily of its 33% stake in 3iN.

3iN's share price performed very strongly in the year, increasing by 29% and closing at 275 pence on 31 March 2019 (31 March 2018: 214 pence). We recognised £167 million of unrealised value growth on our 3iN investment and £22 million of dividend income.

US Infrastructure

In April 2019, we announced an agreement to invest c.$112 million in Regional Rail, LLC, a leading owner and operator of short-line freight railroads and rail-related businesses throughout the Mid-Atlantic US. This is our second investment in US infrastructure, in addition to Smarte Carte.

As at 31 March 2019, Smarte Carte was valued on a DCF basis and we recognised an unrealised value gain of £3 million in the year, net of £12 million of capital and income proceeds received.

Fund Management

In April 2018, the 3i European Operational Projects Fund had its final close, with commitments of €456 million. At 31 March 2019, the fund had invested €102 million out of this total commitment. 3i has a commitment of €40 million to this fund, €9 million of which has been drawn to invest in the fund.

Our 5% holding in 3i Managed Infrastructure Acquisitions LP generated unrealised value growth of £2 million, net of the £1 million dividend distribution received in the year. The underlying portfolio performed well overall in the year.

Infrastructure AUM increased to £4.2 billion (2018: £3.4 billion), principally due to the increase in 3iN's share price and 3i managed accounts.

Table 8: Infrastructure portfolio movement for the year to 31 March 2019

Investment	Valuation	Opening value at 1 April 2018 £m	Investment £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements[1] £m	Closing value at 31 March 2019 £m
3iN	Quoted	581	–	–	167	(4)	**744**
Smarte Carte	DCF	167	–	(6)	3	17	**181**
3i Managed Infrastructure Acquisitions Fund	NAV	36	–	–	2	–	**38**
3i European Operational Projects Fund	NAV	10	(2)	–	–	–	**8**
India Infrastructure Fund	DCF	38	–	–	(10)	2	**30**
		832	(2)	(6)	162	15	**1,001**

1 Other movements include foreign exchange.

Table 9: Assets under management as at 31 March 2019

Fund/strategy	Close date	Fund size	3i commitment/ share	Remaining 3i commitment	% invested at 31 March 2019	AUM £m	Fee income earned in 2019 £m
3iN[1]	Mar 07	n/a	£744m	n/a	n/a	**2,232**	**31**
3i Managed Infrastructure Acquisitions LP	Jun 17	£698m	£35m	£5m	86%	**751**	**6**
3i European Operational Projects Fund	Apr 18	€456m	€40m	€31m	22%	**96**	**1**
BIIF	May 08	£680m	n/a	n/a	90%	**528**	**5**
3i India Infrastructure Fund	Mar 08	US$1,195m	US$250m	US$35m	73%	**110**	**4**
3i managed accounts	various	n/a	n/a	n/a	n/a	**300**	**2**
US Infrastructure	various	n/a	n/a	n/a	n/a	**181**	**–**
Total						**4,198**	**49**

1 AUM based on the share price at 31 March 2019.

Infrastructure – Investments in the year

Attero

£176m

Investment funded by 3iN and 3i managed accounts

Attero operates two of the largest and best located waste treatment facilities in Western Europe.

The company owns two energy from waste ("EFW") plants, two sorting and pre-treatment facilities, six anaerobic digestion facilities, seven composting facilities and 10 landfill sites. The company processes waste from a diverse mix of domestic municipalities, commercial and industrial customers, as well as a number of UK and Irish exporters.

Attero has good revenue visibility due to its long-term contracts with customers, and is strongly positioned to benefit from favourable underlying trends in the European waste market, driven by EU directives targeting more recycling and reduced landfill use.

For more information, visit www.attero.nl

Tampnet

£375m

Total investment funded by 3iN and 3i managed accounts

Tampnet is the leading independent offshore communications network operator in the North Sea and the Gulf of Mexico, headquartered in Norway, with operations in the UK, Scandinavia and the USA.

The company's network provides high speed, low latency and resilient data connectivity in an often hostile environment, enabling customers to operate more efficiently and safely. Tampnet is expected to benefit from customers requiring increased bandwidth and growth of the network.

For more information, visit www.tampnet.com

Corporate Assets
Business review

Investment activity

On 21 June 2018, the Group reinvested into Scandlines, alongside First State Investments and Hermes Investment Management. The Group reinvested £529 million to acquire a 35% stake in Scandlines. Scandlines is now being managed separately from the Private Equity and Infrastructure business lines and is hence reported as a Corporate Asset. At 31 March 2019, Scandlines was the only asset reported as a Corporate Asset.

Portfolio performance

Scandlines contributed a gross investment return of £49 million, or 9% of its reinvestment value. It is valued on a DCF basis and recognised an unrealised value gain of £9 million net of the £28 million of dividend distributions received in the year.

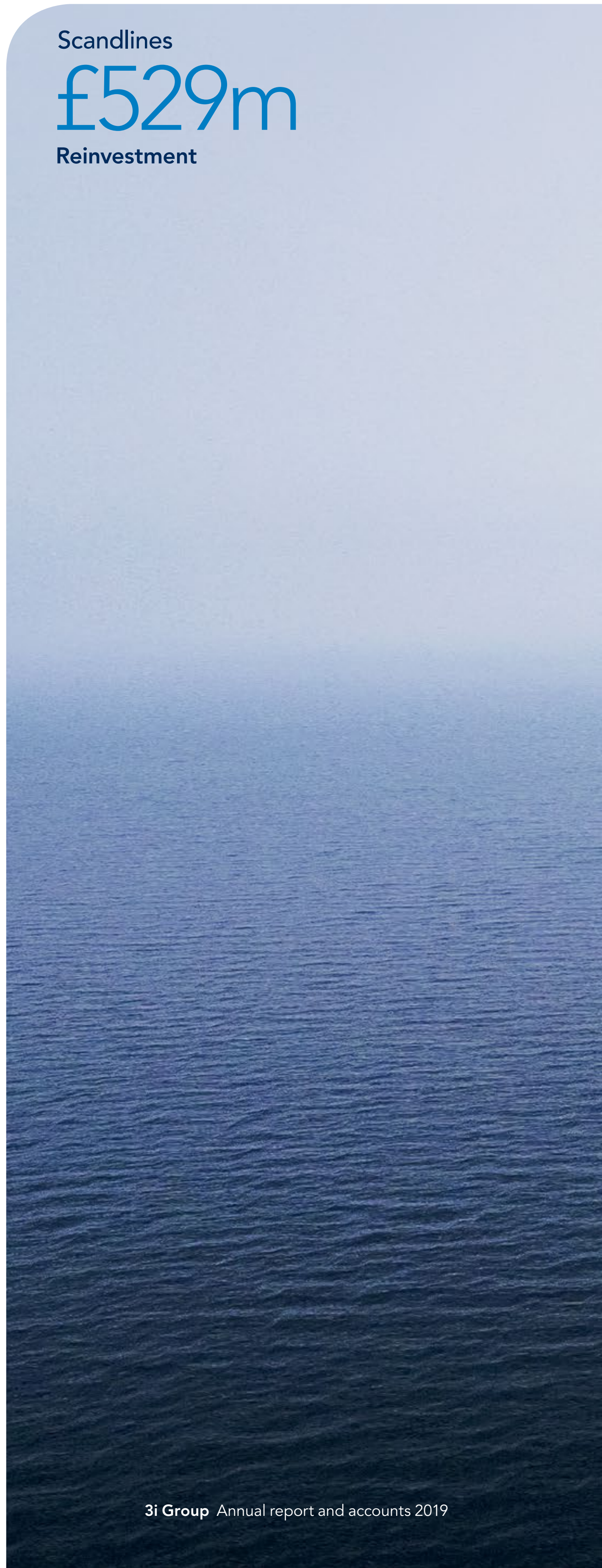
Foreign exchange

In January 2019, we implemented a hedging programme to help mitigate the foreign exchange translation risk on our reinvestment in Scandlines. This is because, unlike most private equity investments, it is an asset that we intend to hold for the longer term, with expected regular cash flows. The total notional size of the hedging programme is €500 million, which represents c.81% of the Scandlines value at 31 March 2019. As at 31 March 2019, we recognised a £12 million net gain on foreign exchange translation, which includes the £21 million movement from the hedging programme.

Table 10: Gross investment return in the period to 31 March[1]

Investment basis	2019 £m
Unrealised profits on the revaluation of investments	9
Dividends	28
Foreign exchange on investments	(9)
Movement in the fair value of derivatives	21
Gross investment return	**49**
Gross investment return as a % of its reinvestment value	**9%**

1 Scandlines was moved to Corporate Assets in June 2018.



Corporate Assets – Investments in the year

In June 2018, 3i reinvested in Scandlines alongside First State Investments and Hermes Investment Management.

Scandlines operates two short-distance, high capacity and high frequency ferry routes between Denmark and Germany, as well as two border shops in the German ports at Puttgarden and Rostock.

Scandlines pioneered hybrid ferries and has established the world's largest hybrid ferry fleet in operation. The Company continues to invest in technology and partnerships to pursue the vision of converting the fleet to zero emission vessels.

The core business provides an efficient and reliable transport service for both passengers and freight customers with more than 43,000 departures annually. In 2018, Scandlines transported 7.4 million passengers, 1.8 million cars and more than 700,000 freight units.

For more information, visit www.scandlines.com

Performance, risk and sustainability

An analysis of our financial performance, the principal risks impacting our business and our approach to sustainability

Financial review

Another year of strong financial performance

FY2019 was another year of strong financial performance in line with our strategic objective of generating mid to high teen returns through the cycle. We generated a gross investment return of £1,407 million (2018: £1,552 million) and operating profit before carried interest of £1,295 million (2018: £1,428 million).

We generated total return of £1,252 million, or a profit on opening shareholder funds of 18% (2018: £1,425 million or 24%). As a result of the good performance in the year, the diluted NAV per share at 31 March 2019 increased by 13% to 815 pence (31 March 2018: 724 pence) after paying dividends totalling 37 pence per share during the year.

The performance was mainly driven by strong unrealised value growth from Action, 3iN and the 2013-16 and 2016-19 Private Equity vintages.

Table 11: Total return for the year to 31 March

Investment basis	2019 £m	2018 £m
Realised profits over value on the disposal of investments	**132**	207
Unrealised profits on the revaluation of investments	**1,087**	1,163
Portfolio income		
Dividends	**63**	41
Interest income from investment portfolio	**113**	116
Fees receivable	**9**	14
Foreign exchange on investments	**(18)**	11
Movement in the fair value of derivatives	**21**	–
Gross investment return	**1,407**	1,552
Fees receivable from external funds	**53**	57
Operating expenses	**(126)**	(121)
Interest received	**2**	2
Interest paid	**(36)**	(37)
Exchange movements	**(3)**	(27)
Other (expense)/income	**(2)**	2
Operating profit before carried interest	**1,295**	1,428
Carried interest		
Carried interest and performance fees receivable	**159**	228
Carried interest and performance fees payable	**(220)**	(205)
Operating profit	**1,234**	1,451
Income taxes	**13**	(26)
Re-measurements of defined benefit plans	**5**	–
Total comprehensive income ("Total return")	**1,252**	1,425
Total return on opening shareholders' funds	**18%**	24%

Investment basis and alternative performance measures ("APMs")

In our Strategic report we report our financial performance using our Investment basis. We do not consolidate our portfolio companies; as private equity and infrastructure investments they are not operating subsidiaries. IFRS 10 provides an exemption from consolidation but also requires us to fair value other companies in the Group (primarily intermediate holding companies and partnerships), which results in a loss of transparency. As explained on pages 39 to 42, the total financial position is the same under our audited IFRS financial statements and our Investment basis. The Investment basis is simply a "look through" of IFRS 10 to present the underlying performance and we believe it is more transparent to readers of our Annual report and accounts.

In October 2015, the European Securities and Markets Authority ("ESMA") published guidelines about the use of APMs. These are financial measures such as KPIs that are not defined under IFRS. Our Investment basis is itself an APM, and we use a number of other measures which, on account of being derived from the Investment basis, are also APMs.

Further information about our use of APMs, including the applicable reconciliations to the IFRS equivalent where appropriate, is provided at the end of the Financial review and should be read alongside the Investment basis to IFRS reconciliation. Our APMs are gross investment return as a percentage of the opening investment portfolio value, cash realisations, cash investment, operating cash profit, net cash/(debt) and gearing.

Financial review

continued

Realised profits

We generated gross proceeds of £1,242 million before the Scandlines reinvestment of £529 million (2018: £1,323 million) and realised profits of £132 million (2018: £207 million) in the year. Almost all of the realisation proceeds and uplift over the opening value were from the Private Equity portfolio, which contributed £1,235 million of proceeds and £131 million of realised profits (2018: £1,002 million, £199 million). This includes the sale of Scandlines (£31 million realised profit) and OneMed (£52 million realised profit), together with the partial disposal of our quoted holding in Basic-Fit, which generated a realised profit of £20 million.

Unrealised value movements

We recognised an unrealised value movement of £1,087 million (2018: £1,163 million). Action's continued strong performance contributed £701 million (2018: £610 million) to value growth. Our quoted portfolio generated an unrealised value gain of £222 million following share price appreciation of 29% for 3iN and 28% for Basic-Fit. The majority of the 2013-16 and 2016-19 portfolio continued to perform well, notably Cirtec Medical, Audley Travel, Aspen Pumps and Formel D, offsetting asset specific issues in Schlemmer and Euro-Diesel.

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

Portfolio income

Portfolio income increased to £185 million during the year (2018: £171 million) principally due to the receipt of £28 million of dividend income from Scandlines. Loan interest income receivable from portfolio companies remained relatively stable at £113 million (2018: £116 million). The majority of this interest income is non-cash. Fee income reduced to £9 million (2018: £14 million) as a result of fewer Private Equity investments in the year.

Fees receivable from external funds

Fees received from external funds decreased to £53 million (2018: £57 million). 3i, as manager of EFV, received a fee based on the investment cost of the remaining assets in the fund. In January 2018, we agreed with the external investors in EFV to extend the life of the fund by a further year with effect from November 2018 and, as part of that agreement, 3i stopped receiving a management fee from that date.

3i, as Investment Manager to 3iN, receives a fee for sourcing and completing new investments and for the management of the portfolio. In FY2019, we received fee income of £31 million (2018: £34 million) from 3iN. In addition, we started to generate fee income from 3i managed accounts.

Operating expenses

Operating expenses increased to £126 million (2018: £121 million), principally due to a planned increase in staff cost for new roles and replacements across both the Private Equity and Infrastructure business lines to support our asset management capability and business initiatives.

Operating cash profit

We generated an operating cash profit of £46 million in the year (2018: £11 million). Cash income increased to £155 million (2018: £126 million), principally due to £28 million of dividend income received from Scandlines (2018: nil) and non-recurring cash interest of £18 million received from Audley Travel and Aspen Pumps.

Cash operating expenses were £109 million (2018: £115 million), which is lower than the £126 million (2018: £121 million) of operating expenses recognised in the Consolidated statement of comprehensive income as a result of share based payments and other non-cash expenses such as depreciation and amortisation.

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Table 12: Unrealised profits on the revaluation of investments for the year to 31 March

	2019 £m	2018 £m
Private Equity	**916**	1,080
Infrastructure	**162**	83
Corporate Assets	**9**	–
Total	**1,087**	1,163

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

	2019 £m	2018 £m
Cash fees from external funds	**57**	55
Cash portfolio fees	**11**	13
Cash portfolio dividends and interest	**87**	58
Cash income	**155**	126
Cash operating expenses	**(109)**	(115)
Operating cash profit	**46**	11

Carried interest and performance fees

We receive carried interest and performance fees from third-party funds. We also pay carried interest and performance fees to participants in plans relating to returns from investments. These are received and/or paid subject to meeting certain performance conditions. In Private Equity, we typically accrue net carried interest payable at between 10% and 12% of gross investment return.

The continued good performance of Action, the largest investment in our Private Equity fund, EFV, led to a £130 million increase in carried interest receivable from EFV (2018: £136 million). This was calculated assuming that the portfolio was realised at the 31 March 2019 valuation. The fund's gross multiple was 2.8x at 31 March 2019 (31 March 2018: 2.5x).

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 2019 valuation. The 2016-19 vintage is not yet through its performance hurdle, but is expected to meet it in FY2020, at which point we will accrue a catch up in carried interest payable on the returns to date. We accrued carried interest payable of £206 million (2018: £196 million) for Private Equity, of which £88 million relates to the Private Equity team's share of carried interest receivable from EFV (2018: £77 million).

Carried interest is paid to participants when the performance hurdles are passed in cash terms and then only when the cash proceeds have actually been received following a realisation, refinancing event or other cash distribution. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants are both current and previous employees of 3i. During the period, £77 million was paid to participants in the Private Equity plans (2018: £43 million).

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high watermark. The continued strong performance of the assets held by 3iN, including the significant uplift achieved on the sale of XLT, resulted in the recognition of £31 million (2018: £90 million) of performance fees receivable. The Infrastructure team receives a share of the performance fee received from 3iN, with the majority of payments deferred and expensed over a number of years. £14 million (2018: £9 million) was recognised as an expense during the year, relating to performance fees from both the current and previous years. The total potential payable relating to the FY2019 performance fee is £23 million, which together with the FY2018 performance fee, gave a remaining cumulative total potential payable for performance fees of £68 million.

Overall, the effect of the income statement charge, the cash movement, as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £970 million (31 March 2018: £870 million) and the receivable increased to £640 million (31 March 2018: £596 million).

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

Statement of comprehensive income	2019 £m	2018 £m
Carried interest and performance fees receivable		
Private Equity	**128**	138
Infrastructure	**31**	90
Total	**159**	228
Carried interest and performance fees payable		
Private Equity	**(206)**	(196)
Infrastructure	**(14)**	(9)
Total	**(220)**	(205)
Net carried interest (payable)/receivable	**(61)**	23

Table 15: Carried interest and performance fees at 31 March

Statement of financial position	2019 £m	2018 £m
Carried interest and performance fees receivable		
Private Equity	**609**	505
Infrastructure	**31**	90
Other	**–**	1
Total	**640**	596
Carried interest and performance fees payable		
Private Equity	**(942)**	(839)
Infrastructure	**(28)**	(31)
Total	**(970)**	(870)

Financial review

continued

Impact of IFRS 15 on the recognition of carried interest receivable

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

The substantial majority of 3i's carried interest receivable is due from EFV, which has been extended to November 2019, when we expect the fund to come to an end and to have a significant liquidity event. At 31 March 2019, there were only two remaining investments in the fund: Action and Christ (31 March 2018: four). At 31 March 2019, EFV investments had generated proceeds of €3.7 billion and the fund was over 85% of the way towards meeting its cash hurdle. Given the relative size of Christ, the actual payment of carried interest receivable is dependent on the performance of Action. At 31 March 2019, EFV's investment in Action was valued at €2,439 million (31 March 2018: €1,815 million). Given the strong performance of Action and its expected growth profile, and consistent with our investment strategy for and valuation of the asset, we have concluded that IFRS 15 does not have an impact on our recognition of carried interest receivable at 31 March 2019.

As at 31 March 2019, the carried interest receivable accrued on 3i's balance sheet from EFV was £602 million (31 March 2018: £484 million), with a corresponding £413 million (31 March 2018: £334 million) accrued as payable to the carry plan participants. The overall net impact from EFV carried interest is £189 million (31 March 2018: £150 million) or 19 pence per share (2018: 15 pence per share).

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

Net foreign exchange movements

At 31 March 2019, 77% of the Group's net assets were denominated in euros or US dollars (31 March 2018: 77%). Following the strengthening of sterling against the euro, partially offset by the weakening of sterling against the US dollar, the Group recorded a total net foreign exchange loss, before the movement in the fair value of hedging derivatives, of £21 million (2018: £16 million loss) in the year.

The Group's general policy remains not to hedge its foreign currency denominated portfolio. Where possible, flows from currency realisations are matched with currency investments. Short-term derivative contracts are used occasionally to manage transaction cash flows. However, in January 2019, we completed a hedging programme to help mitigate the foreign exchange translation risk on our reinvestment in Scandlines. The reinvestment in Scandlines is a longer term hold with relatively predictable cash flows. As at 31 March 2019 the notional amount of the forward foreign exchange contracts relating to Scandlines held by the Group was €500 million and the movement in fair value of the derivatives was a £21 million gain.

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

Table 16: Net assets and sensitivity by currency at 31 March 2019

	FX rate	£m	%	1% sensitivity £m
Sterling	n/a	**1,657**	21%	**n/a**
Euro[1]	1.1608	**4,966**	63%	**45**
US dollar	1.3034	**1,098**	14%	**11**
Danish krona	8.6667	**152**	2%	**1**
Other	n/a	**36**	–	**n/a**

1 Sensitivity impact is net of derivatives.

Table 17: Simplified consolidated balance sheet at 31 March

Statement of financial position	2019 £m	2018 £m
Investment portfolio	**7,553**	6,657
Gross debt	**(575)**	(575)
Cash and deposits	**1,070**	1,054
Net cash	**495**	479
Carried interest and performance fees receivable	**640**	596
Carried interest and performance fees payable	**(970)**	(870)
Other net assets	**191**	162
Net assets	**7,909**	7,024
Gearing[1]	**nil**	nil

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

Pension

During the year, the Trustees of the 3i Group Pension Plan ("the Plan") completed a buy-in transaction, which is a bulk annuity purchase that will partially reduce member longevity risk. This is the second buy-in completed by the Plan, following the first transaction in FY2017. It is expected to improve the actuarial funding position of the Plan, which in turn influences the requirement for future cash contributions by 3i. The next triennial funding valuation will be based on the Plan's position at 30 June 2019. On an IAS 19 basis, there was an £8 million re-measurement gain on the Group's UK pension scheme during the year (2018: £1 million), which is net of a £14 million accounting charge from the most recent buy-in transaction.

Tax

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

The Group recognised a corporate tax credit of £13 million for the year (2018: £26 million charge). The credit recognised this year arose from a partial reversal of the UK corporate tax charge included in last year's accounts due to the final tax for 2018 being less than estimated. The Group's overall UK tax position for the financial year is dependent on the finalisation of the tax returns of the various corporate and partnership entities in the UK group.

Balance sheet

Net cash increased to £495 million (31 March 2018: £479 million) as the Group remained a net divestor in FY2019. The investment portfolio value increased to £7,553 million at 31 March 2019 (31 March 2018: £6,657 million) with unrealised value growth of £1,087 million and cash investment offsetting the value of realisations in the year.

Further information on investments and realisations is included in the Private Equity, Infrastructure and Corporate Assets Business reviews.

Liquidity

Liquidity remained strong at £1,420million (31 March 2018: £1,404 million). Liquidity comprised cash and deposits of £1,070 million (31 March 2018: £1,054 million) and undrawn facilities of £350 million (31 March 2018: £350 million).

Dividend

The Board has recommended a second FY2019 dividend of 20.0 pence (2018: 22.0 pence). Subject to shareholder approval, the dividend will be paid to shareholders in July 2019 and takes the total dividend for the year to 35.0 pence (2018: 30.0 pence).

With net cash of £495 million and liquidity of over £1 billion at 31 March 2019, the Group is well positioned to fund the second FY2019 dividend of 20.0 pence.

Brexit outlook

The primary, direct risk of the UK's anticipated exit from the EU ("Brexit") relates to the Group's UK regulatory "passports" to conduct certain investment activities within the EU. In certain scenarios, including that of a "hard Brexit", it is likely that the Group would no longer have the benefit of these regulatory passports. Therefore we have implemented an alternative regulatory structure, which includes an AIFM in Luxembourg, which has taken over the operations of 3i's existing branches in France, Germany and the Netherlands from 1 April 2019. This new structure will enable 3i to continue its activities in Europe regardless of the form and timing of Brexit.

The direct impact of Brexit on 3i's investment portfolio is not expected to be material, due to the limited number of our portfolio companies that operate between the UK and the EU.

Key accounting judgements and estimates

A key judgement is the assessment required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment of investment entities is accurate. The introduction of IFRS 10 resulted in a number of intermediate holding companies being presented at fair value, which has led to reduced transparency of the underlying investment performance. As a result, the Group continues to present a non-GAAP Investment basis set of financial statements to ensure that the commentary in the Strategic report remains fair, balanced and understandable. The reconciliation of the Investment basis to IFRS is shown on pages 40 to 42.

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

Given the importance of the valuation of investments, the Board has a separate Valuations Committee to review the valuation policy, process and application to individual investments. However, asset valuations for unquoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2019, 87% by value of the investment assets were unquoted (31 March 2018: 87%).

The valuation of the proprietary capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2019 and the underlying investment management agreements. A further key judgement is the extent to which the calculated carry receivable can be recognised, on the basis that it is highly probable that there will not be a significant reversal.

Investment basis

Consolidated statement of comprehensive income
for the year to 31 March

	2019 £m	2018 £m
Realised profits over value on the disposal of investments	**132**	207
Unrealised profits on the revaluation of investments	**1,087**	1,163
Portfolio income		
Dividends	**63**	41
Interest income from investment portfolio	**113**	116
Fees receivable	**9**	14
Foreign exchange on investments	**(18)**	11
Movement in the fair value of derivatives	**21**	–
Gross investment return	**1,407**	1,552
Fees receivable from external funds	**53**	57
Operating expenses	**(126)**	(121)
Interest received	**2**	2
Interest paid	**(36)**	(37)
Exchange movements	**(3)**	(27)
Other (expense)/income	**(2)**	2
Operating profit before carried interest	**1,295**	1,428
Carried interest		
Carried interest and performance fees receivable	**159**	228
Carried interest and performance fees payable	**(220)**	(205)
Operating profit	**1,234**	1,451
Income taxes	**13**	(26)
Profit for the year	**1,247**	1,425
Other comprehensive income		
Re-measurements of defined benefit plans	**5**	–
Total comprehensive income for the year ("Total return")	**1,252**	1,425

Consolidated statement of financial position
as at 31 March

	2019 £m	2018 £m
Assets		
Non-current assets		
Investments		
Quoted investments	**998**	851
Unquoted investments	**6,555**	5,806
Investment portfolio	**7,553**	6,657
Carried interest and performance fees receivable	**605**	503
Other non-current assets	**117**	113
Intangible assets	**11**	12
Retirement benefit surplus	**134**	125
Property, plant and equipment	**4**	4
Derivative financial instruments	**11**	–
Total non-current assets	**8,435**	7,414
Current assets		
Carried interest and performance fees receivable	**35**	93
Other current assets	**29**	60
Current income taxes	**12**	3
Derivative financial instruments	**7**	–
Deposits	**50**	–
Cash and cash equivalents	**1,020**	1,054
Total current assets	**1,153**	1,210
Total assets	**9,588**	8,624
Liabilities		
Non-current liabilities		
Trade and other payables	**(8)**	(14)
Carried interest and performance fees payable	**(926)**	(764)
Loans and borrowings	**(575)**	(575)
Retirement benefit deficit	**(27)**	(23)
Deferred income taxes	**(1)**	(3)
Provisions	**(1)**	(1)
Total non-current liabilities	**(1,538)**	(1,380)
Current liabilities		
Trade and other payables	**(95)**	(101)
Carried interest and performance fees payable	**(44)**	(106)
Current income taxes	**(1)**	(12)
Provisions	**(1)**	(1)
Total current liabilities	**(141)**	(220)
Total liabilities	**(1,679)**	(1,600)
Net assets	**7,909**	7,024
Equity		
Issued capital	**719**	719
Share premium	**787**	786
Other reserves	**6,445**	5,545
Own shares	**(42)**	(26)
Total equity	**7,909**	7,024

Investment basis

continued

Consolidated cash flow statement
for the year to 31 March

	2019 £m	2018 £m
Cash flow from operating activities		
Purchase of investments	**(859)**	(827)
Proceeds from investments	**1,261**	1,277
Net cash flow from derivatives	**3**	(10)
Portfolio interest received	**26**	17
Portfolio dividends received	**61**	41
Portfolio fees received	**11**	13
Fees received from external funds	**57**	55
Carried interest and performance fees received	**104**	6
Carried interest and performance fees paid	**(86)**	(48)
Carried interest held in non-current assets	**(9)**	(27)
Operating expenses paid	**(109)**	(115)
Co-investment loans (paid)/received	**(3)**	3
Income taxes paid	**(10)**	(12)
Net cash flow from operating activities	**447**	373
Cash flow from financing activities		
Issue of shares	**1**	1
Purchase of own shares	**(29)**	–
Dividends paid	**(358)**	(255)
Interest received	**2**	2
Interest paid	**(39)**	(36)
Net cash flow from financing activities	**(423)**	(288)
Cash flow from investing activities		
Purchase of property, plant and equipment	**(3)**	(2)
Purchase of intangible assets	**–**	(13)
Net cash flow from deposits	**(50)**	41
Net cash flow from investing activities	**(53)**	26
Change in cash and cash equivalents	**(29)**	111
Cash and cash equivalents at the start of year	**1,054**	954
Effect of exchange rate fluctuations	**(5)**	(11)
Cash and cash equivalents at the end of year	**1,020**	1,054

Background to Investment basis financial statements

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

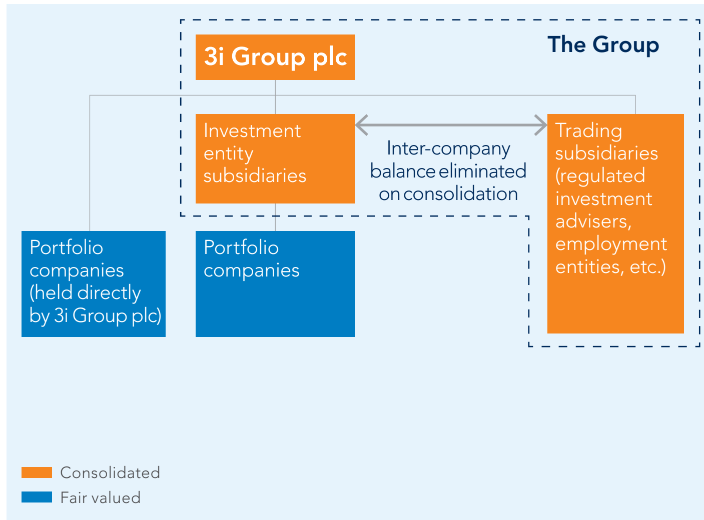
The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in Investment entity subsidiaries are aggregated into a single value. Other items which were previously eliminated on consolidation are now included separately.

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

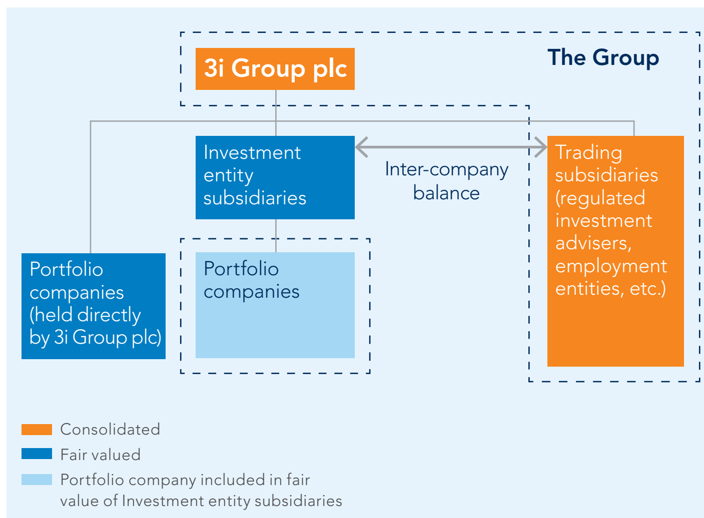
Reconciliation of Investment basis and IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the Consolidated statement of comprehensive income, Consolidated statement of financial position and Consolidated cash flow statement is shown on pages 40 to 42.

Investment basis of consolidation



IFRS 10 basis of consolidation



Reconciliation of Investment basis and IFRS

Reconciliation of consolidated statement of comprehensive income
for the year to 31 March

	Notes	Investment basis 2019 £m	IFRS adjustments 2019 £m	IFRS basis 2019 £m	Investment basis 2018 £m	IFRS adjustments 2018 £m	IFRS basis 2018 £m
Realised profits over value on the disposal of investments	1,2	132	(99)	33	207	(189)	18
Unrealised profits on the revaluation of investments	1,2	1,087	(919)	168	1,163	(777)	386
Fair value movements on investment entity subsidiaries	1	–	827	827	–	848	848
Portfolio income							
Dividends	1,2	63	(37)	26	41	(12)	29
Interest income from investment portfolio	1,2	113	(80)	33	116	(90)	26
Fees receivable	1,2	9	2	11	14	3	17
Foreign exchange on investments	1,3	(18)	35	17	11	(23)	(12)
Movement in the fair value of derivatives		21	–	21	–	–	–
Gross investment return		1,407	(271)	1,136	1,552	(240)	1,312
Fees receivable from external funds		53	–	53	57	–	57
Operating expenses	4	(126)	–	(126)	(121)	1	(120)
Interest received	1	2	1	3	2	–	2
Interest paid		(36)	–	(36)	(37)	–	(37)
Exchange movements	1,3	(3)	(24)	(27)	(27)	84	57
Other (expense)/income		(2)	–	(2)	2	–	2
Income from investment entity subsidiaries	1	–	66	66	–	19	19
Operating profit before carried interest		1,295	(228)	1,067	1,428	(136)	1,292
Carried interest							
Carried interest and performance fees receivable	1,4	159	4	163	228	–	228
Carried interest and performance fees payable	1,4	(220)	220	–	(205)	173	(32)
Operating profit		1,234	(4)	1,230	1,451	37	1,488
Income taxes	1,4	13	(1)	12	(26)	1	(25)
Profit for the year		1,247	(5)	1,242	1,425	38	1,463
Other comprehensive income/(expense)							
Exchange differences on translation of foreign operations	1,3	–	5	5	–	(38)	(38)
Re-measurements of defined benefit plans		5	–	5	–	–	–
Other comprehensive income/(expense) for the year		5	5	10	–	(38)	(38)
Total comprehensive income for the year ("Total return")		1,252	–	1,252	1,425	–	1,425

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

Notes:

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

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

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

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

Reconciliation of consolidated statement of financial position
as at 31 March

	Notes	Investment basis 2019 £m	IFRS adjustments 2019 £m	IFRS basis 2019 £m	Investment basis 2018 £m	IFRS adjustments 2018 £m	IFRS basis 2018 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	**998**	**(529)**	**469**	851	(506)	345
Unquoted investments	1	**6,555**	**(5,362)**	**1,193**	5,806	(4,055)	1,751
Investments in investment entity subsidiaries	1,2	**–**	**5,159**	**5,159**	–	4,034	4,034
Investment portfolio		**7,553**	**(732)**	**6,821**	6,657	(527)	6,130
Carried interest and performance fees receivable	1	**605**	**–**	**605**	503	(5)	498
Other non-current assets		**117**	**(93)**	**24**	113	(85)	28
Intangible assets		**11**	**–**	**11**	12	–	12
Retirement benefit surplus		**134**	**–**	**134**	125	–	125
Property, plant and equipment		**4**	**–**	**4**	4	–	4
Derivative financial instruments		**11**	**–**	**11**	–	–	–
Total non-current assets		**8,435**	**(825)**	**7,610**	7,414	(617)	6,797
Current assets							
Carried interest and performance fees receivable	1	**35**	**–**	**35**	93	–	93
Other current assets	1	**29**	**(5)**	**24**	60	(26)	34
Current income taxes		**12**	**–**	**12**	3	–	3
Derivative financial instruments		**7**	**–**	**7**	–	–	–
Deposits		**50**	**–**	**50**	–	–	–
Cash and cash equivalents	1	**1,020**	**(37)**	**983**	1,054	(82)	972
Total current assets		**1,153**	**(42)**	**1,111**	1,210	(108)	1,102
Total assets		**9,588**	**(867)**	**8,721**	8,624	(725)	7,899
Liabilities							
Non-current liabilities							
Trade and other payables	1	**(8)**	**7**	**(1)**	(14)	13	(1)
Carried interest and performance fees payable	1	**(926)**	**840**	**(86)**	(764)	659	(105)
Loans and borrowings		**(575)**	**–**	**(575)**	(575)	–	(575)
Retirement benefit deficit		**(27)**	**–**	**(27)**	(23)	–	(23)
Deferred income taxes		**(1)**	**–**	**(1)**	(3)	–	(3)
Provisions		**(1)**	**–**	**(1)**	(1)	–	(1)
Total non-current liabilities		**(1,538)**	**847**	**(691)**	(1,380)	672	(708)
Current liabilities							
Trade and other payables	1	**(95)**	**1**	**(94)**	(101)	1	(100)
Carried interest and performance fees payable	1	**(44)**	**19**	**(25)**	(106)	51	(55)
Current income taxes		**(1)**	**–**	**(1)**	(12)	1	(11)
Provisions		**(1)**	**–**	**(1)**	(1)	–	(1)
Total current liabilities		**(141)**	**20**	**(121)**	(220)	53	(167)
Total liabilities		**(1,679)**	**867**	**(812)**	(1,600)	725	(875)
Net assets		**7,909**	**–**	**7,909**	7,024	–	7,024
Equity							
Issued capital		**719**	**–**	**719**	719	–	719
Share premium		**787**	**–**	**787**	786	–	786
Other reserves	3	**6,445**	**–**	**6,445**	5,545	–	5,545
Own shares		**(42)**	**–**	**(42)**	(26)	–	(26)
Total equity		**7,909**	**–**	**7,909**	7,024	–	7,024

Notes: see page 42.

Reconciliation of Investment basis and IFRS

continued

Reconciliation of consolidated cash flow statement

for the year to 31 March

	Notes	Investment basis 2019 £m	IFRS adjustments 2019 £m	IFRS basis 2019 £m	Investment basis 2018 £m	IFRS adjustments 2018 £m	IFRS basis 2018 £m
Cash flow from operating activities							
Purchase of investments	1	**(859)**	**734**	**(125)**	(827)	357	(470)
Proceeds from investments	1	**1,261**	**(435)**	**826**	1,277	(863)	414
Cash (outflow)/inflow from investment entity subsidiaries	1	**–**	**(264)**	**(264)**	–	430	430
Net cash flow from derivatives		**3**	**–**	**3**	(10)	–	(10)
Portfolio interest received	1	**26**	**(20)**	**6**	17	(13)	4
Portfolio dividends received	1	**61**	**(37)**	**24**	41	(12)	29
Portfolio fees received	1	**11**	**1**	**12**	13	–	13
Fees received from external funds		**57**	**–**	**57**	55	–	55
Carried interest and performance fees received	1	**104**	**(2)**	**102**	6	–	6
Carried interest and performance fees paid	1	**(86)**	**48**	**(38)**	(48)	8	(40)
Carried interest held in non-current assets	1	**(9)**	**9**	**–**	(27)	27	–
Operating expenses paid	1	**(109)**	**–**	**(109)**	(115)	1	(114)
Co-investment loans (paid)/received	1	**(3)**	**7**	**4**	3	2	5
Income taxes paid	1	**(10)**	**–**	**(10)**	(12)	2	(10)
Net cash flow from operating activities		**447**	**41**	**488**	373	(61)	312
Cash flow from financing activities							
Issue of shares		**1**	**–**	**1**	1	–	1
Purchase of own shares		**(29)**	**–**	**(29)**	–	–	–
Dividends paid		**(358)**	**–**	**(358)**	(255)	–	(255)
Interest received		**2**	**–**	**2**	2	–	2
Interest paid		**(39)**	**–**	**(39)**	(36)	–	(36)
Net cash flow from financing activities		**(423)**	**–**	**(423)**	(288)	–	(288)
Cash flow from investing activities							
Purchase of property, plant and equipment		**(3)**	**–**	**(3)**	(2)	–	(2)
Purchase of intangible assets		**–**	**–**	**–**	(13)	–	(13)
Net cash flow from deposits		**(50)**	**–**	**(50)**	41	–	41
Net cash flow from investing activities		**(53)**	**–**	**(53)**	26	–	26
Change in cash and cash equivalents	2	**(29)**	**41**	**12**	111	(61)	50
Cash and cash equivalents at the start of year	2	**1,054**	**(82)**	**972**	954	(23)	931
Effect of exchange rate fluctuations	1	**(5)**	**4**	**(1)**	(11)	2	(9)
Cash and cash equivalents at the end of year	2	**1,020**	**(37)**	**983**	1,054	(82)	972

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

Notes:

1 The Consolidated cash flow statement is impacted by the application of IFRS 10 as cash flows to and from Investment entity subsidiaries are disclosed, rather than the cash flows to and from the underlying portfolio. Therefore in our Investment basis financial statements, we have disclosed our cash flow statement on a "look through" basis, in order to reflect the underlying sources and uses of cash flows and disclose the underlying investment activity.

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

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

Notes to Reconciliation of consolidated statement of financial position on page 41:

1 Applying IFRS 10 to the Consolidated statement of financial position aggregates the line items into the single line item "Investments in investment entity subsidiaries". In the Investment basis we have disaggregated these items to analyse our net assets as if the Investment entity subsidiaries were consolidated. The adjustment reclassifies items in the Consolidated statement of financial position. There is no change to the net assets, although for reasons explained below, gross assets and gross liabilities are different. The disclosure relating to portfolio companies is significantly reduced by the aggregation, as the fair value of all investments held by Investment entity subsidiaries is aggregated into the "Investments in investment entity subsidiaries" line. We have disaggregated this fair value and disclosed the underlying portfolio holding in the relevant line item, ie, quoted investments or unquoted investments. Other items which may be aggregated include carried interest and other payables, and the Investment basis presentation again disaggregates these items.

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

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

Alternative Performance Measures ("APMs")

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

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

The explanation of and rationale for the Investment basis and its reconciliation to IFRS is provided on pages 39 to 42.

The table below defines our additional APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Gross investment return as a percentage of opening portfolio value	A measure of the performance of our proprietary investment portfolio. For further information, see the Group KPIs on page 14.	It is calculated as the gross investment return, as shown in the Investment basis Consolidated statement of comprehensive income, as a % of the opening portfolio value.	The equivalent balances under IFRS and the reconciliation to the Investment basis are shown in the Reconciliation of the consolidated statement of comprehensive income and the Reconciliation of the consolidated statement of financial position respectively.
Cash realisations	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities. For further information, see the Group KPIs on page 14.	The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Cash investment	Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns. For further information, see the Group KPIs on page 14.	The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Operating cash profit	By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 13 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Net cash/net (debt)	A measure of the available cash to invest in the business and an indicator of the financial risk in the Group's balance sheet.	Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.
Gearing	A measure of the financial risk in the Group's balance sheet.	Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.

Risk management

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

Understanding our risk appetite and culture

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

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

Culture

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

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

Approach to risk governance

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

Non-executive oversight is also exercised through the Audit and Compliance Committee which focuses on upholding standards of integrity, financial reporting, risk management, going concern and internal control. The Audit and Compliance Committee's activities are discussed further in the Audit and Compliance Committee report on page 70 of this document.

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, and guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The review also incorporates a watch list of new and emerging risks for monitoring purposes. The risk review takes place four times a year, with the last review in May 2019, and the Chief Executive provides updates to each Audit and Compliance Committee meeting. Investment Committee ensures a consistent approach to investment processes across the business.

In addition to the above, a number of other Board and Executive Committee members contribute to the Group's overall risk governance structure, as set out on page 46.

Risk appetite

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

Investment risk

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

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

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

On occasion, the Group may conclude that it is in the interest of shareholders, and consistent with our strategic objectives, to hold a Private Equity investment for a longer period. Such an investment may be managed outside the Private Equity or Infrastructure businesses. The only investment currently in this "Corporate Assets" category is Scandlines.

Capital management

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

- there is no appetite for structural gearing at the Group level, but short-term tactical gearing will be used;
- the Group generally does not hedge its currency exposure for its Private Equity and Infrastructure assets but it does match currency realisations with investments, where possible, and may take out short-term hedges occasionally to hedge investments and realisations between signing and completion;
- if appropriate, with due consideration of any associated liquidity risk, the Group will hedge a portion of its currency exposure on its longer term investments, such as Scandlines; and
- we have limited appetite for the dilution of capital returns as a result of operating and interest expenses. All of our business lines generate cash income to mitigate this risk.

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

Risk management
continued

Risk governance structure

Committees of the Board
Committees of the Chief Executive
Independent Committees

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

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

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

Valuations Committee
- Specific and primary responsibility for the valuation policy and valuation of the Group's investment portfolio
- Provides oversight and challenge of underlying assumptions on the valuation of the unquoted investment portfolio (83% of net assets at 31 March 2019)
- Direct engagement with the external Auditor, including their specialist valuations team

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

Chief Executive
- Delegated responsibility for management of the Group
- Delegated responsibility for investment decisions
- Delegated responsibility for risk management

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

Conflicts Committee
- Deals with potential conflicts as required

Treasury Transactions Committee
- Considers specific treasury transactions as required

Disclosure Committee
- Considers potential disclosure matters as required

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

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

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

In practice, the Group operates a "three lines of defence" framework for managing and identifying risk.

- The first line of defence against outcomes outside our risk appetite is constituted by our business functions themselves.
- Line management is supported by oversight and control functions such as Finance, Human Resources and Legal which constitute the second line of defence. The Compliance function is also in the second line of defence; its duties include reviewing the effective operation of our processes in meeting regulatory requirements.
- Internal Audit provides independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes the review of risk management processes and recommendations to improve the internal control environment.

Role of Group Risk Committee in risk management

The quarterly Group risk review process includes the monitoring of key strategic and financial metrics (such as KPIs) considered to be indicators of potential changes in the Group's risk profile. The GRC uses these to identify its principal risks. It then evaluates the impact and likelihood of each risk, with reference to associated measures and KPIs. 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 FY2019, the GRC covered the following:

- an update on the Group's implementation of Brexit readiness plans;
- semi-annual updates on Environmental, Social, business integrity and corporate Governance ("ESG") issues and themes, especially with respect to the Group's portfolio companies;
- an update on the key themes, risks and trends from the Group's succession planning and capability review;
- a review of the Group's stress tests to support its Internal Capital Adequacy Assessment Process ("ICAAP") and Viability statement;
- a review of the Group's IT framework including cyber security and business resilience;
- an update on the Group's business continuity and resilience planning and testing; and
- the proposed risk disclosures in the 2019 Annual report and accounts.

There were no significant changes to the GRC's approach to risk governance or its operation in FY2019 but we continued to refine our framework for risk management where appropriate.

Role of Investment Committee in risk management

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

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

The execution of this investment case is closely monitored:

- our monthly portfolio monitoring reviews assess current performance against budget, prior year and a set of traffic light indicators and bespoke, forward looking KPIs; and
- we hold semi-annual reviews of all our assets. We focus on the longer-term performance and plan for the investment compared to the original investment case, together with any strategic developments, sustainability risks and opportunities, and market outlook.

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

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

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

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

Principal risks and mitigations – aligning risk to our strategic objectives

Business and risk environment in FY2019

Although global political instability, economic uncertainty and volatile market conditions have continued throughout FY2019, there has been no significant change to our risk management approach.

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

External

External risks are the risks to our business which are usually outside of our direct control such as political, economic, environmental, social, regulatory and competitor risks. In FY2019, we saw continued market volatility and a slow-down in economic growth. The combination of trade tensions between the US and China and Brexit concerns has weighed on investor sentiment. We concluded that these risks were not currently material to the overall performance of our portfolio but we will continue to monitor developments closely.

In preparation for the UK's anticipated exit from the EU, we have considered the possible risks that this will pose to the Group's business model and financial performance.

The primary, direct risk relates to the Group's UK regulatory "passports" to conduct certain investment activities within the EU. In certain scenarios, it is likely that the Group would no longer have the benefit of these regulatory passports. Therefore we have implemented an alternative regulatory structure, which includes an AIFM in Luxembourg, which now manages 3i's existing branches in France, Germany and the Netherlands. Our AIFM in Luxembourg has been established since April 2018 and the new branch structure became operational from 1 April 2019. Currently 66% of our portfolio is invested in northern Europe and this new structure will enable 3i to continue the Group's activities in Europe following the UK's anticipated exit from the EU.

The direct impact of Brexit on 3i's investment portfolio is not expected to be material, due to the limited number of our portfolio companies that operate between the UK and the EU. However, as described above, the broader macro-economic environment continues to be closely monitored.

Investment

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

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

Operational

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

In addition, detailed succession plans are in place for each division. The Board last completed its annual review of the Group's organisational capability and succession plans in September 2018. The success of the Group since the 2012 restructuring has led to very modest 8% levels of staff turnover.

Since last year, the risk in relation to the new Infrastructure business initiatives has decreased and is no longer considered as a principal risk in view of the progress made to date. We continued to enhance our cyber security management and reporting, and engaged an external firm to provide a dedicated Chief Information Security Officer service. Due to the nature of our business, cyber security is not considered a principal risk but is included on our watch list in the Group risk review, which remains under regular review by the GRC and Audit and Compliance Committee.

Outlook

Competition for the best assets in our sectors remains intense, with an environment of high prices requiring a disciplined approach to investment. Although there are challenges in the industry, we remain focused on a clear and consistent strategy and a disciplined approach to investment.

Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2022. 3i conducts its strategic planning over a five-year period; this statement is based on the first three years, which provides more certainty over the forecasting assumptions used. 3i's strategic plan, ICAAP and associated principal risks (as set out on pages 50 to 53 of the Strategic report) are the foundation of the Directors' assessment.

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

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

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

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

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

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to at least March 2022.

Principal risks and mitigations – aligning risk to our strategic objectives

continued

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

External

Key risk factors	Link to strategic objectives	Potential impact
Economic growth and investor and market confidence is vulnerable to ongoing challenges, including geo-political developments, in the global economy	Grow investment portfolio earnings Realise investments with good cash-to-cash returns	• Limited growth or reduction in NAV owing to contraction of earnings in our investments and/or changes in multiples and discount rates used for their valuations • Increases covenant risks or limits ability to refinance our investments • Impacts general market confidence and risk appetite • Leads to reduced M&A volumes, economic instability and lower growth, which impacts realisation levels • May increase market volatility or risk of a significant market correction
Volatility in capital markets and foreign exchange	Grow investment portfolio earnings Realise investments with good cash-to-cash returns Increase shareholder distributions	• May impact portfolio performance and realisation processes • Increases risks with IPO exit route and bank financing • Potential for large equity market fall to impact asset valuations • Unhedged foreign exchange rate movements impact total return and NAV
Competitive M&A markets and high pricing in 3i's core sectors	Realise investments with good cash-to-cash returns Use our strong balance sheet Increase shareholder distributions	• Reduced investment rates in Private Equity and Infrastructure • Increased risk of overpaying for investments impacting potential returns • Potential for higher cash realisations on exits

Risk management and mitigation	Movement in risk status in FY2019	FY2019 outcome
• Regular portfolio company reviews as well as Investment Committee focus on investment strategy, exit processes and refinancing strategies • Monthly portfolio monitoring to identify and address portfolio issues promptly • Monitoring of valuations and application of policy by the Valuations Committee	⇔	• Strong GIR at 21% with the impact from macro-economic and geo-political uncertainty on 3i and its portfolio companies limited by robust performance in largest investments • Gearing remains nil and liquidity strong at £1.4 billion • New AIFM has been established in Luxembourg with European branches to ensure the continuity of our business following the UK's anticipated withdrawal from the EU
• Portfolio company reviews focus on investment strategy, exit plans and refinancing strategies • Active management of exit strategies by Investment Committee to enable us to adapt to market conditions • Regular liquidity and currency monitoring and strategic reviews of the balance sheet • Matching of investment and realisation currency flows and use of short-term hedging on a case-by-case basis • Scandlines FX hedging programme	⇔	• Policy to adjust multiples to reflect longer-term trends mitigated volatility in FY2019 • £835m realised proceeds from the disposal of Scandlines. The Group reinvested into Scandlines acquiring a 35% interest • Realised £89 million of cash proceeds from the partial sale of Basic-Fit • Quoted asset exposure of 13% with 10% being 3iN • Foreign exchange exposures at the portfolio company level monitored and hedged appropriately
• Central oversight and disciplined approach to investment pipeline • Active management of investments and exit strategies by Investment Committee • Our local teams and networks facilitate off-market transactions	⇔	• Sold five Private Equity companies for proceeds of £1.1 billion • Invested in two new Private Equity companies, reinvested in Scandlines and completed eight bolt-on acquisitions to support buy-and-build strategies • As 3iN's Investment Manager, we completed investments in Tampnet and Attero, its acquisition of Alkane Energy by Infinis and three bolt-on acquisitions for existing portfolio companies. In March 2019, 3iN announced its commitment to invest in Joulz

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

Principal risks and mitigations – aligning risk to our strategic objectives
continued

Investment

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

Operational

Key risk factors	Link to strategic objectives	Potential impact
Failure to recruit, develop and retain key people	Realise investments with good cash-to-cash returns Use our strong balance sheet Increase shareholder distributions	• Restricts our ability to attract the best people • Potential to undermine investor/ shareholder confidence • Potential to delay execution of strategic plan

Risk management and mitigation	Movement in risk status in FY2019	FY2019 outcome
• Regular monitoring of investment and divestment pipeline • Close oversight by management and early involvement of Investment Committee when key targets are identified • Disciplined approach to sourcing investment opportunities and pricing • Regular review of asset allocation • Focus on bolt-on acquisition opportunities, which can be more attractively priced and offer synergy benefits	⇔	• Investment Committee maintained a cautious stance, declining a number of investment proposals where price and risk and reward failed to meet Group requirements • Invested in two new Private Equity companies, reinvested in Scandlines and completed eight bolt-on acquisitions to support buy-and-build strategies • As 3iN's Investment Manager, we completed investments in Tampnet and Attero, its acquisition of Alkane Energy by Infinis and three bolt-on acquisitions for existing portfolio companies. In March 2019, 3iN announced its commitment to invest in Joulz
• Rigorous initial assessment of new investment opportunities to maintain quality of our investment pipeline • Monthly portfolio monitoring of all investments to review operating performance, identify weaknesses and opportunities early and take action as appropriate • Additional monitoring of Action, including 3i Chief Executive membership of the Action board • ESG and governance requirements and monitoring	⇔	• 93% of the assets valued on an earnings basis grew their earnings over the last 12 months • Responsible Investment/ESG risk evaluation reviewed semi-annually at the portfolio company reviews and GRC • Regular portfolio monitoring tracked performance and, where appropriate, identified assets promptly where a deeper review was needed, such as Schlemmer

Risk management and mitigation	Movement in risk status in FY2019	FY2019 outcome
• Specific focus by Remuneration Committee which approves all material incentive arrangements to ensure they reflect market practice • Annual Board review of succession planning • Regular review of resourcing and key man exposures as part of business line reviews and the portfolio company review process	⇔	• Organisational capability and succession plan reviewed by the Board in September 2018 • Smooth transition in change in Private Equity leadership

↑ Risk exposure has increased

⇔ No significant change in risk exposure

↓ Risk exposure has decreased

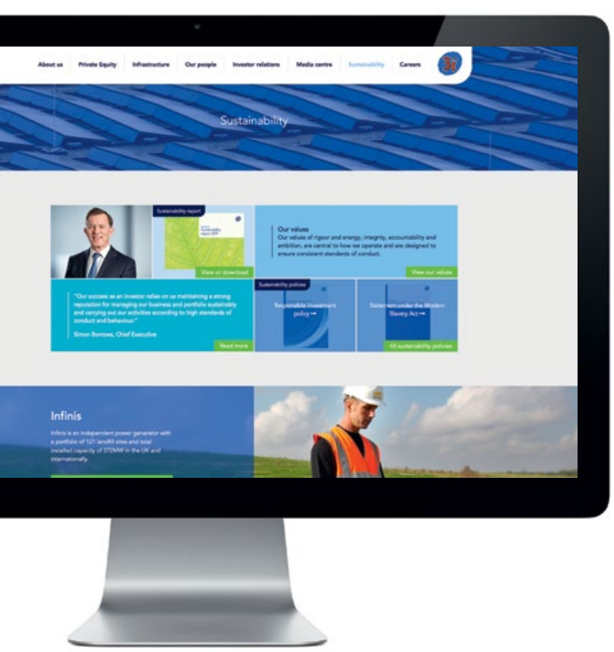
Sustainability

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

This section aims to provide a brief summary of our approach to sustainability. For the full picture, please read it in conjunction with our Sustainability report, available on our website.

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

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



Our sustainability strategy is defined by three key priorities:

1. Recruit and develop a diverse pool of talent
2. Invest responsibly
3. Act as a good corporate citizen

We are committed to communicating both financial and non-financial performance in a clear, open and comprehensive manner and to maintaining an open dialogue with stakeholders. Accordingly, we welcome the publication of the Recommendations of the Taskforce on Climate-Related Financial Disclosures ("TCFD") in 2017. Our TCFD disclosures are available on pages 57 to 59 of this report.

A responsible employer

The skills, capabilities and expertise of our employees are vital to our success. Recruiting, retaining and developing our talent are therefore among our key priorities. We communicate openly and consistently with our employees, provide training and opportunities for career advancement, reward our employees fairly and encourage direct feedback to senior management. We are a meritocracy and our employees are recruited, promoted and remunerated strictly on the basis of merit, ability and performance.

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

Human rights

Whilst 3i does not have, nor need, a formal human rights policy, our policies are consistent with internationally recognised human rights principles such as the UN Global Compact. We comply fully with applicable human rights legislation in the countries in which we operate, for example covering areas such as freedom of association and the right to collective bargaining, equal remuneration and protection against discrimination. 3i is an equal opportunities employer and has clear grievance and disciplinary procedures, an employee assistance programme and an independent, external "whistle blowing" hotline service which allows employees to report concerns anonymously.

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

Equal opportunity and diversity

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

3i's Equal Opportunities and Diversity policy establishes that all 3i employees (temporary and permanent), contract workers and job applicants are treated fairly and are offered equal opportunity in selection, training, career development, promotion and remuneration. During the year, we recorded no incidents of discrimination. To reinforce our commitment to equal opportunities, during the year we rolled out a training programme with managers across the organisation to guard against unconscious bias.

Achieving better gender diversity is important to 3i, and we believe we are making reasonable progress in that respect, within the constraints imposed by being a small organisation with limited staff turnover. Of the new hires we made during the year, 58% were female and 42% were male. At 31 March 2019, 3i had a total of 240 employees of which 159 were employed in the UK. The breakdown by gender was as follows:

Number	Total	Male	Female
All 3i employees	240	144	96
3i Group Directors[1]	9	6	3
Senior managers[2]	38	29	9

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

2 Senior managers excludes Simon Borrows and Julia Wilson (our Chief Executive and Group Finance Director, who are included as Directors of 3i Group plc) and includes 21 people who were directors of undertakings included in the consolidated Group accounts, of whom 19 were male and two were female.

Employee engagement

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

We promote and facilitate the ownership of 3i shares among employees through variable compensation or share investment plans. As a result, most of our employees are shareholders in the Company and feel invested in the success of the organisation. We pride ourselves on the engagement and the sense of ownership we have fostered over the years.

87% participation in UK SIP[1]

8% unplanned employee turnover rate

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

Graduate training scheme

Our graduate recruitment scheme, designed to develop our next generation of trusted investment professionals, was launched in 2015. We are a small organisation, however we believe this programme is important in fostering a distinctive 3i culture. Our first five graduate analysts joined us in 2015 and we have since been joined by five in September 2016 and three in each of September 2017 and September 2018. A further four are due to join us in September 2019.

Since 2016, only 14% of total applications have been from female candidates. However, out of the 20 graduate positions offered since 2015, eight, or 40% of the total, were offered to women. The top performers on the programme are offered the opportunity to be fast-tracked directly into our business.

Further information on our performance as a responsible employer is available in our Sustainability report 2019.

A responsible investor

With fewer than 250 employees across eight office locations, as a company we have a relatively small direct impact in terms of the environment and other sustainability issues. However, with assets under management of approximately £13 billion we have the opportunity to have a greater positive impact through the decisions we make within our portfolio.

We are committed to investing responsibly and believe that:

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

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

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

Sustainability
continued

Our Responsible Investment policy

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

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

Our RI policy has been integrated into our investment and portfolio management processes and procedures, which are described in the Risk management section on page 47, and is supported by detailed guidance notes, a global network of specialist external advisers and dedicated internal resource.

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

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

Every six months, the Private Equity and Infrastructure businesses carry out detailed reviews of each of their material portfolio companies. These reviews are typically attended by the Investment Committee, which includes the Group Finance Director and Group Strategy Director and is chaired by the Chief Executive, as well as by senior members of the investment teams. Non-executive Directors are also invited to attend. The reviews in March of each year include a detailed ESG assessment which seeks to track progress in relation to existing, identified ESG risks as well as identifying potentially new and emerging risks and opportunities. Any material ESG issues are discussed at the six-monthly review meeting and relevant actions points are minuted, followed up by the investment teams and reviewed at the following six-monthly meeting.

This year, as part of our commitment to the continuous evolution and refinement of our approach to ESG risks and opportunities, we reviewed and updated the assessment question set. With reference to our most recent investments, the data we routinely collect on our portfolio as well as third-party frameworks, we expanded the scope of the assessment to look more deeply at the policies, procedures and targets that our portfolio operates with. As a result of this more granular review we have identified a number of themes across our portfolio that will allow us better to manage the various sub categories of ESG risk. We have also focused our investment and management teams on a number of new value creation opportunities which can be explored.

A good corporate citizen

As a company, we strive to embed responsible business practices throughout the organisation. Good corporate citizenship is achieved by having robust policies and processes in place and by promoting the right values and culture within our organisation. All employees are assessed annually against our corporate values of ambition, rigour and energy, integrity and accountability and have a responsibility to be aware of, and abide by, 3i's compliance, behaviour, environmental, ethical and social policies and procedures.

For more information on our corporate values, policies and processes, please see our Sustainability report 2019.

Governance

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

Anti-bribery and corruption

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

Modern slavery

We published our statement on modern slavery for the financial year ending 31 March 2018 on our website in September 2018, and will update this statement in September 2019. 3i is committed to ensuring that:

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

Data protection

3i's data protection policy reflects the requirements of the general European data protection legislation, supplemented or adapted as necessary for local regulatory requirements. 3i is committed to protecting the data of its staff, customers and contacts and using it in an appropriate manner. We recognise the rights afforded to individuals by data protection legislation and that we must notify data subjects of the fact that we process their personal data and the specific purposes for which we do so.

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

Our latest Modern Slavery disclosure is available on our website at www.3i.com/sustainability/modern-slavery

3i maintains an Information Security Management System that: (i) ensures that the risks to the confidentiality, integrity and availability of information are managed to an acceptable level using a standard risk management framework; (ii) seeks to protect information from accidental or intentional damage, loss, unauthorised disclosure or modification; (iii) provides secure and reliable information to enable 3i employees to conduct their job effectively; and (iv) ensures compliance with legal and statutory obligations.

Environmental impact

Please refer to our TCFD disclosures opposite and on pages 58 and 59.

Community

We focus our charitable activities principally on the disadvantaged, on the elderly, on young people and on education. The charities we partner with are supported on the basis of their effectiveness and impact. We also support staff giving and sponsorship through matching donations.

Our charitable giving for the year to 31 March 2019 totalled £550,000 (2018: £390,000). Further details of the charities we support are available in our Sustainability report 2019.

Further information on our corporate citizenship performance is available in our Sustainability report 2019.

External benchmarking

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

Sustainability indices

We have been a member of the Dow Jones Sustainability Europe Index and of the FTSE4Good Index Series since 2002 and 2011 respectively. In addition, 3i became a member of the Ethibel Sustainability Index (ESI) Excellence Europe in September 2016 and was reconfirmed as a constituent of that index in March 2019.

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

Carbon Disclosure Project

CDP (formerly Carbon Disclosure Project) is an international, not-for-profit organisation providing a framework which enables businesses to disclose their greenhouse gas emissions and other metrics voluntarily.

3i has been making annual submissions to CDP since 2006. 3i's score in the 2018 CDP assessment was B. For more information, please see **www.cdp.net**.

Equileap

3i ranked 59th among the Top 200 companies, and 7th among UK companies, in Equileap's 2018 Gender Equality Global Report and Ranking. Equileap is a social venture that aims to accelerate progress towards gender equality in the workplace as a vital lever in reducing poverty and inequality.

Our TCFD disclosures

These disclosures reflect 3i's response to the recommendations of the TCFD, published in June 2017. They set out how we incorporate climate-related risks and opportunities into our governance, strategy, risk management and targets. What follows should be read in conjunction with the rest of the Annual report and with our Sustainability report. We have cross referenced the relevant sections of these two documents under each of the headings below.

Governance

The Board as a whole reviews our approach to sustainability, corporate responsibility and related policies and addresses specific issues if they arise. It is also accountable for our Responsible Investment policy, for monitoring its implementation and for approving material changes to it. It has established a committee structure to assist it in the discharge of its responsibilities. Of particular relevance to the assessment and monitoring of sustainability and climate-related risks and opportunities are:

- the Audit and Compliance Committee, which, among other areas, is also responsible for internal controls and risk management, including the assessment and management of ESG risks and opportunities, and for ensuring compliance with environmental legislation and regulation. The Audit and Compliance Committee is also responsible for reviewing and approving our disclosures under the TCFD framework; and
- the Valuations Committee, which considers the valuation impact of ESG-related risks and opportunities on our portfolio, including climate-related risks.

Day-to-day accountability for sustainability, including climate change-related issues, rests with executive management and, in particular, the Chief Executive. The Chief Executive has also established a number of committees to support him in overseeing and monitoring policies and procedures and to address issues if they arise. These include the Investment Committee and the Group Risk Committee.

The Investment Committee is responsible for overseeing the implementation of the Responsible Investment policy, as well as being the body responsible for making decisions concerning the acquisition, management, ongoing monitoring and disposal of investments, as well as making decisions concerning major investments made by our portfolio companies. In evaluating new and existing investments, the Investment Committee takes account of climate-related risks, including the impact of climate change on the markets each company serves and demand for its products; the climate change resilience of each company's assets and supply chain; and, in the case of energy-intensive industries, the feasibility and potential cost of GHG emissions abatement.

The Group Risk Committee oversees the Group's risk management framework.

Responsibilities and accountabilities: Sustainability report p06
Governance framework: Annual report p60-95; Sustainability report p07

Sustainability

continued

Strategy

Our objective is to generate attractive returns for our shareholders and the investors in our funds, by investing in and managing private equity and infrastructure assets. We create value through disciplined investment and the responsible stewardship of our assets, driving sustainable growth in our investee companies.

Portfolio Our investment strategy is to make a limited number of new investments each year in our Private Equity and Infrastructure businesses, selected within our target sectors and geographies on the basis of their compatibility with our return targets. We do not manage any sustainability-driven investment strategies, nor is it our intention to do so.

However, in our experience, there is a strong link between companies that have high ESG standards and those that are able to achieve sustainable business growth. As set our earlier in this section and in our Sustainability report, for more than a decade we have carried out our investment activities under our Responsible Investment policy, which is embedded in our investment and portfolio management processes and is considered rigorous by industry standards. We have the flexibility to screen out businesses which have unsustainable environmental practices. Once invested, we use our influence to encourage the development of more environmentally sustainable behaviours in our portfolio companies, as well as investments to mitigate our portfolio companies' environmental impact.

We are committed to improve our role as a responsible investor on an ongoing basis. We will continue to develop and refine our Responsible Investment policy and ensure it is implemented through our investment and asset management activities.

3i Group 3i has a very limited direct impact on the environment and is not a significant producer of greenhouse gas emissions. We do, however, try to minimise our direct impact on the environment and have implemented initiatives across the organisation to try to achieve that objective. Our London and Luxembourg offices, which account for over 80% of our overall electricity consumption, already purchase electricity from 100% renewable sources.

Our business model: Annual report p10-11; Sustainability report p04
A responsible investor: Sustainability report p23-30
Investment case studies: Sustainability report p31-33
Environment: Sustainability report p41-43

Risk management

Portfolio We monitor all relevant portfolio risks, including climate-related risks and changing consumer preferences in response to environmental issues, through our rigorous investment assessment and portfolio monitoring processes. This is critical to protecting and enhancing the value of our assets and is at the core of what we do. We undertake ESG due diligence, including environmental due diligence, before making new investments, and monitor ESG risks throughout the life of our investments. Our processes are described in our Sustainability report and on page 47.

We will continue to develop our governance and risk management framework to ensure that sustainability-related risks in our portfolio remain an important part of our agenda and are treated as a priority by our portfolio company management teams.

3i Group As a business, we are not exposed to material environmental risks. We employ fewer than 250 employees globally and our offices are leased. We have a comprehensive risk governance framework and compliance processes and procedures to ensure that all risks, including ESG risks, are monitored and managed with due care and diligence and that 3i is fully compliant with all applicable environmental legislation.

Governance framework: Annual report p60-95; Sustainability report p07
A responsible investor: Sustainability report p23-33
Risk management: Annual report p44-53; Sustainability report p07

Metrics and targets

Portfolio Due to the concentrated nature of our portfolios, we do not carry out portfolio-wide scenario analyses, and do not intend to publish aggregated resource intensity or carbon intensity data. As our portfolios are subject to continuous change as a result of asset rotation, such portfolio-wide scenario analyses and data aggregation would not be meaningful or comparable year-on-year. Where appropriate and relevant, we carry out scenario analyses on an asset-by-asset basis, both before making an investment and subsequently as part of our ongoing portfolio monitoring and asset management.

While we do not publish aggregated data, we monitor the environmental performance of our investee companies, and use our influence as an investor to promote a commitment in our investee companies to minimise their environmental footprint, invest in the mitigation of their environmental impact and implement energy efficiency measures. This is an important part not only of our portfolio risk management procedures, but also of the value creation plan for each of our investments.

3i Group This section has been prepared in accordance with our regulatory obligation to report greenhouse gas ("GHG") emissions pursuant to section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the year to 31 March 2019, our measured Scope 1 and 2 emissions (location-based) totalled 625.8 tCO_2e. This comprised:

Scope	FY2019	FY2018
1	142.2	156.4
2 Location-based	483.6	594.4
3 Market-based[1]	126.7	137.4

1 Emissions from the consumption of electricity outside the UK and emissions from purchased electricity are calculated using the market-based approach using supplier-specific emission factors and are reported in tCO_2 rather than tCO_2e because actual emission factors are available.

This is equivalent to 2.6 tCO_2e per full-time equivalent employee, based on an average of 240 employees during the year (2018: 3.1 tCO_2e; 241 employees). Overall our Scope 1 and 2 emissions decreased by 16.6% in the year due to the full impact of the closure of our Madrid office and a 19.5% decrease in the UK grid emission factor.

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

A responsible investor: Sustainability report p23-33
Environment: Sustainability report p41-43

We quantify and report our organisational GHG emissions in alignment with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and in alignment with the Scope 2 Guidance. We consolidate our organisational boundary according to the operational control approach, which includes all our offices. We have adopted a materiality threshold of 5% for GHG reporting purposes. The GHG sources that constituted our operational boundary for the year to 31 March 2019 are:

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

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

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

Whilst we have a very low footprint on the environment, we are committed to reducing it further. As noted earlier, in our London and Luxembourg offices, which account for over 80% of our overall electricity consumption, we purchase all of our electricity from 100% renewable sources.

For the purposes of the UK Companies Act 2006, the Strategic report of 3i Group plc comprises pages 4 to 59.

By order of the Board

Simon Borrows
Chief Executive
15 May 2019

Governance

Sets out how we maintain strong and effective oversight with rigorous controls to ensure the long-term sustainable success of the Company

Chairman's introduction

Effective corporate governance is fundamental to the way 3i, and its portfolio companies, conduct business. By encouraging entrepreneurial and responsible management, it supports the creation of long-term, sustainable value for shareholders and for wider society.

In the current uncertain economic and political environment, effective oversight of strategy and risk is particularly important to promote the long-term success of the Group. In performing this role, the Board seeks to be responsive to both the evolving regulatory environment and changing expectations about the role of business in society.
In particular, the Board seeks to ensure that the Group's culture is aligned with its purpose and values, and that the Company has the necessary financial and human resources to deliver its strategy.

S. R. Thompson

Simon Thompson
Chairman

Corporate governance statement

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

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council ("FRC") in September 2016 which is available on the FRC website. This Governance section of the Annual report and accounts outlines how we have applied the Code's principles and provisions throughout the year.
The Company is taking steps intended to enable it to comply with the revised 2018 UK Corporate Governance Code (the "2018 Code") published by the FRC in July 2018 which has applied to the Company from 1 April 2019.

Leadership
Board of Directors

Simon Thompson
Chairman

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

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

Simon Borrows
Chief Executive

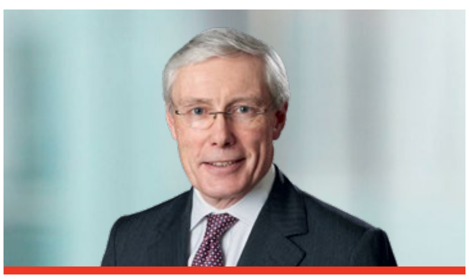
Chief Executive since 2012, and an Executive Director since he joined 3i in 2011. Chairman of the Group's Risk Committee, Executive Committee and Investment Committee. Member of the Supervisory Board of Peer Holding I B.V., the Dutch holding company for the Group's and EFV's investment in Action.

Previous experience
Formerly Chairman of Greenhill & Co International LLP, having previously been Co-Chief Executive Officer of Greenhill & Co, Inc. Before founding the European operations of Greenhill & Co in 1998 he was the Managing Director of Baring Brothers International Limited. Formerly a non-executive Director of the British Land Company PLC and Inchcape plc.

Julia Wilson
Group Finance Director

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

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



Jonathan Asquith
Deputy Chairman and Senior Independent Director

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

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

Caroline Banszky
Independent non-executive Director

Non-executive Director since 2014. Also a non-executive Director of Gore Street Energy Storage Fund plc and IntegraFin Holdings plc.

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

Stephen Daintith
Independent non-executive Director

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

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

Peter Grosch
Non-executive Director

Non-executive Director since November 2015. Chairman of Euro-Diesel S.A., a 3i investee company.

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

David Hutchison
Independent non-executive Director

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

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

Coline McConville
Independent non-executive Director

Non-executive Director since November 2018. Also a non-executive Director of Fevertree Drinks plc, Inchcape plc and Travis Perkins plc and a member of the Supervisory Board of Tui AG.

Previous experience
Formerly a non-executive Director of Tui Travel plc, UTV Media plc, Wembley National Stadium Limited, Shed Media plc and HBOS plc. Prior to that was Chief Operating Officer and Chief Executive Officer Europe of Clear Channel International Limited and had previously worked for McKinsey.

Attendance at Board and Committee meetings

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

1 This table shows the number of scheduled meetings of the Board and its Committees attended by each Director in the year, together with (in brackets) the number of meetings they were eligible to attend.
2 Mr P Grosch is not considered independent because of his links with the Group's Private Equity business including his position as chairman of Euro-Diesel, a company in which the Group is invested. Mr P Grosch receives director's fees from and is a shareholder in Euro-Diesel.

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

Leadership
Executive Committee

Simon Borrows
Chief Executive

See profile on page 62

Julia Wilson
Group Finance Director

See profile on page 62

Rob Collins
Managing Partner, Head of North American Infrastructure

Joined 3i in 2017 as the Managing Partner for North American Infrastructure. A member of the Executive Committee since May 2018.

Previous experience

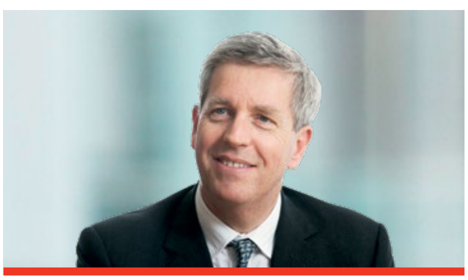
Prior to joining 3i, led Hastings' infrastructure investment team in North America and Europe. Founded the infrastructure M&A practice at Morgan Stanley and Greenhill where he was a Managing Director at both firms. Started his infrastructure career at Goldman Sachs after serving as a nuclear-power officer in the US Navy. Holds an MBA from The Wharton School, a masters equivalent in nuclear engineering from BRES, and a B.E. in chemical engineering from Vanderbilt University.

Pieter de Jong
Co-Head Private Equity

Joined 3i in 2004, has been Managing Director of 3i Benelux since 2011, and a member of the Executive Committee since April 2019. Also a non-executive director of Basic-Fit, Royal Sanders and WP.

Previous experience

Started his career at Stork in the USA, before joining Van Den Boom Group, a corporate finance consulting firm in Benelux, where he became partner/owner responsible for M&A. After selling the firm to NIBC in 2000, he headed the M&A department until 2003.



Kevin Dunn
General Counsel and Company Secretary

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

Previous experience

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

Phil White
Managing Partner, Head of Infrastructure

Joined 3i in 2007. A member of the Executive Committee since 2014.

Previous experience

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

Peter Wirtz
Co-Head Private Equity

Joined 3i in 1998. Served as 3i Germany Co-Head between 2009 and 2019. A member of the Executive Committee since April 2019. Also non-executive director of Christ, Scandlines, ICE and Lampenwelt.

Previous experience

Prior to joining 3i, worked for Deutsche Bank and spent four years with Procter & Gamble in various finance functions.

The role of the Board

How the Board operates

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

Meetings are usually held in London, except for one meeting a year which is held in one of our other offices, providing a chance for non-executive Directors to meet our local teams and visit some of our portfolio companies.

The Board is assisted by various Principal Committees of the Board, which report to it regularly and details of their activity in the year are provided on pages 69 to 89.

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

Day-to-day management of the Group is the responsibility of the Chief Executive. To assist him in this role, the Chief Executive has established a number of additional management committees, including the Investment Committee, which are outlined in the Risk management section of the Strategic report on page 44.

Role of the Chairman

- Leads the Board and is responsible for its overall effectiveness in directing the Company. Promotes a culture of openness and debate.
- Leads the Board in establishing the purpose, values and culture of the Company.
- Leads the Board in setting its agenda, approving strategy, monitoring financial and operational performance, and establishing the Group's risk appetite.
- Organises the business of the Board, ensuring its effectiveness, and maintains an effective system of internal controls.
- Ensures that Directors receive accurate, timely and clear information. This includes ensuring that the non-executive Directors receive regular reports on shareholders' views on the Group.
- Responsible for the composition of the Board, facilitates the effective contribution of all non-executive Directors and promotes constructive Board relations.

Role of the Chief Executive

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

Role of non-executive Directors

- Provide constructive challenge, strategic guidance and hold management to account.
- Scrutinise the performance of management in meeting agreed objectives and monitor the reporting of performance.
- Seek assurance on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible.
- Determine appropriate levels of remuneration for Executive Directors and Executive Committee and have a prime role in appointing Directors and in succession planning.
- Constructively challenge and help develop proposals on strategy; this occurs at meetings of the Board, and in particular at the annual review meeting to discuss ongoing strategy, the most recent of which took place in December 2018.

Leadership
Relations with shareholders

Approach to Investor Relations

The Board recognises the importance of maintaining a purposeful relationship with shareholders. The Group has a comprehensive Investor Relations programme to help existing and potential investors to understand its activities, strategy and financial performance. The Chief Executive and the Group Finance Director meet with the Company's principal shareholders to discuss relevant issues as they arise. The Chairman seeks to engage with major shareholders on corporate governance, strategy and management once a year, and is available more often as required. Non-executive Directors are also available to meet shareholders, as required.

Board oversight

The Executive Directors brief the Board on a regular basis on the implementation of the Investor Relations programme and on feedback received from analysts and investors. Any significant concern raised by shareholders in relation to the Group is communicated to the Board. The Board also receives periodic feedback from existing shareholders and potential investors through 3i's corporate brokers, Bank of America Merrill Lynch, Barclays and Numis Securities.

Investor Relations programme

Meetings with shareholders

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

Meetings with potential investors

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

Annual and half-yearly results presentations

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

Investor conferences

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

Capital markets seminars

3i held two capital markets seminars in London in FY2019, including one on Action, 3i's largest investment, and one on three other assets in the Private Equity portfolio. The Action capital markets seminar, held in March 2019, consisted of presentations to significant shareholders and analysts by the 3i Chief Executive and the management team of Action. This event focused on Action's business model and strategy and on its financial performance. A recording of the seminar and the presentation materials used were made available on 3i's website. The Private Equity capital markets seminar, held in September 2018, involved presentations on three of our most recent Private Equity investments: Audley Travel, Cirtec Medical and Lampenwelt. The presentations were delivered by the Private Equity investment partners responsible for those investments. The presentation materials used during the seminar were made available on 3i's website.

Individual investors

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

Annual General Meeting

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are generally made by the Chairman and the Chief Executive. The Chairmen of the Remuneration, Audit and Compliance, and Nominations Committees are generally available to answer shareholders' questions. Business to be discussed at the Meeting is notified to shareholders in advance through the Notice of Meeting and covers matters such as the annual election of Directors, the appointment of the Auditor and the dividend declaration. During the Meeting, shareholders are also asked to approve the financial statements and reports of the Directors and the Auditor. In addition, shareholders are asked to approve the Directors' remuneration report. The 2018 Notice of AGM was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website.

Website

3i's website provides a brief description of 3i's history, current operations and strategy, as well as an archive of over 10 years of news and historical financial information on the Group and details of forthcoming events for shareholders and analysts.

May	June	July	Sept	Nov	Jan	March
Full-year results 17.05.18	**AGM** 28.06.18	**Performance update** 25.07.18	**Capital markets seminar** 17.09.18	**Half-year results** 15.11.18	**Q3 Performance update** 31.01.19	**Capital markets seminar** 19.03.19
Roadshows from 18.05.18				**Roadshows** from 16.11.18		

Responsibility, succession and evaluation
Performance and risk management

What the Board did in FY2019

The Board met for seven scheduled meetings during FY2019. In addition, the Board held a strategy day in December 2018 and held two ad hoc meetings to deal with specific matters as they arose. A table of individual Board member attendance at the scheduled Board and Committee meetings is provided on page 63. This shows the number of scheduled meetings of the Board and its Committees attended by each Director in the year together with (in brackets) the number of such meetings they were eligible to attend.

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

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

- the Group's strategic plan, related KPIs and annual budget;
- regular reports from the Chief Executive;
- reviews of and updates on the Group's Private Equity and Infrastructure businesses as well as reports and updates on the investment portfolio and specific investments;
- regular reports from the Board's Committees;
- remuneration and pension matters including remuneration philosophy and strategy;
- the recommendations of the Valuations Committee on valuations of investments;
- the Annual report and accounts, Half-yearly report and quarterly performance updates together with the Notice of AGM;
- dividend policy and dividends;
- the clarification to the Company's published investment policy explained in the 2018 Accounts;
- the audit tender process including receiving recommendations from Audit and Compliance Committee and selecting the new Auditor;
- reports on the progress and implementation of plans to mitigate against impacts of Brexit;
- governance and regulatory matters including significant regulation affecting the Group, the introduction of the new 2018 Corporate Governance Code, review of Board Committee terms of reference and Matters Reserved to the Board, the annual Board and Chairman performance evaluation, independence of non-executive Directors, and non-executive Director fees; and
- organisational capability and succession plans.

Training and advice

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

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

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

Responsibility, succession and evaluation
Performance and risk management
continued

Performance and evaluation

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. This year, the evaluation process was externally facilitated by Lintstock Limited. Lintstock Limited has no other connections with the Company. The evaluation consisted of a questionnaire completed by Board members, an upward review of Board performance by other members of the Executive Committee, one-to-one interviews, and a report from Lintstock Limited to the Board. Points arising from the evaluation were discussed at a Board Meeting.

Overall, the results of the evaluation were positive, reflecting strong and improving performance by the Board and its Committees, including in relation to: Board and management succession planning; understanding of the markets in which the Group operates and the views of its stakeholders; oversight of strategy; and decision making. The evaluation noted a consensus among Board members on the shorter-term priorities for the Board and management. These included maintaining the Group's disciplined approach to investment; delivering on objectives in relation to specific investments; and being prepared for future changes within the Board and senior management team, and external to the Group.

The review identified a number of relatively minor actions to further improve Board processes.

In his role as Senior Independent Director, Jonathan Asquith led a review by the Directors of the performance of the Chairman, which was also facilitated with a questionnaire prepared by Lintstock Limited. Mr Asquith subsequently reported back to the Board and provided feedback to the Chairman.

The topics covered by the annual Board evaluation included:

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

Risk management and internal control

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

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Details of the risk management framework can be found in the Risk management section of the Strategic report on pages 44 to 47. The framework includes the Group Risk Committee, a management committee formed by the Chief Executive.

The overall risk management and internal control process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council. The Audit and Compliance Committee performed its annual review of the system's effectiveness and reported its conclusions to the Board. The process has been in place for the year under review and up to the date of approval of this Annual report and accounts 2019.

Financial reporting

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

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

Nominations Committee report

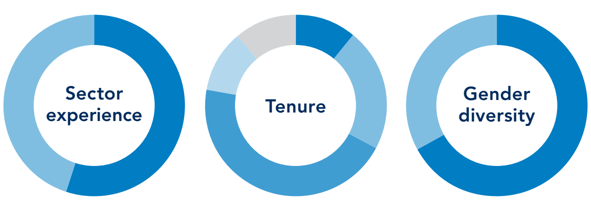
Membership during the year

Name	Membership status
Simon Thompson	Member since April 2015 and Chairman since June 2015
Jonathan Asquith	Member since March 2011
Caroline Banszky	Member since July 2014
Stephen Daintith	Member since October 2016
Peter Grosch	Member since November 2015
David Hutchison	Member since November 2013
Coline McConville	Member since November 2018

Read more about the Composition of the Board p62

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

Composition of the Board



Dear Shareholder

I am pleased to present the Nominations Committee report for the year ended 31 March 2019. My report explains the role of the Committee as well as its work this year.

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

Directors

Directors' biographical details are set out on pages 62 and 63.

All Directors are subject to re-appointment every year. Accordingly, at the AGM to be held on 27 June 2019, all the Directors will retire from office. All the Directors are eligible for and seek appointment or re-appointment. The Board's recommendation for the appointment and re-appointment of Directors is set out in the 2019 Notice of AGM.

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

Diversity

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

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

Activities

This year we worked with external search consultants JCA Heidrick and Struggles which led to the appointment of Coline McConville as a non-executive Director. As set out in her biography on page 63, Coline brings a wealth of executive and non-executive experience, including of remuneration policy. The Board (as well as certain of 3i's portfolio companies) also worked with executive search consultants Egon Zehnder in the year.

JCA Heidrick and Struggles and Egon Zehnder delivered no other services to 3i.

Simon Thompson
Chairman, Nominations Committee
15 May 2019

Audit, risk and internal control
Audit and Compliance Committee report

Membership during the year

Name	Membership status
Caroline Banszky	Member since July 2014 and Chairman since January 2015
Jonathan Asquith	Member since March 2011
Stephen Daintith	Member since October 2016
Coline McConville	Member since November 2018

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

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

Dear Shareholder

I am pleased to present the Audit and Compliance Committee report for the year ended 31 March 2019. My report explains the Committee's work this year.

We held six regular scheduled meetings this year, four of which were coordinated with 3i's external reporting timetable, as well as one other additional ad hoc meeting to discuss the audit tender. As discussed in last year's report, the Committee conducted an audit tender process in the summer of 2018. In July 2018 the Committee recommended to the Board the appointment of KPMG LLP as the Group's new external auditor for the year ending 31 March 2021, replacing Ernst & Young LLP. A resolution will be proposed at the 2020 AGM for shareholders to approve the appointment of KPMG LLP. Further detail on the tender process is included within the report.

In addition to the audit tender, the Committee focused on internal controls and the integrity of the Group's financial reporting, reviewed the implementation of IFRS 15 and received an update on management's approach to cyber security. The Committee also received its annual update on tax reporting.

In advance of each Committee meeting, I met the Group Finance Director, the Group Financial Controller and the Heads of Compliance and Internal Audit to discuss their reports as well as any relevant issues. I also met privately with the external Auditor and, periodically, with other members of the 3i senior management team.

I regularly meet with the Ernst & Young LLP audit team as part of my ongoing review of their effectiveness. As part of my year-end review, I also met Ernst & Young LLP's Head of Audit Quality for UK Financial Services to discuss their approach to audit quality and what assurance had been taken in connection with their audit of 3i. The Financial Reporting Council's ("FRC") Audit Quality Review team reviewed Ernst & Young LLP's audit for 3i's financial year to 31 March 2018. I am pleased to report that there were no significant findings arising from their review.

The rest of the report sets out in detail the Committee's activities in the year. It is structured into five parts:

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

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

Caroline Banszky
Chairman, Audit and Compliance Committee
15 May 2019

What the Committee reviewed in FY2019

Financial reporting

- Annual and half-year reports
- Quarterly performance updates
- Key accounting judgements and estimates
- Update on the relevant thematic reviews from the FRC
- Update on the Group's implementation of IFRS 9 and 15
- Reviewed the rationale for introducing Corporate Assets as an operating segment of the Group
- Reviewing the Annual report to ensure that it is fair, balanced and understandable

Internal control and risk management

- Review of 3i's system of control and risk management
- External and internal audit reports
- Review of the viability statement and the supporting stress test scenarios
- Update on cyber security and GDPR
- Staff annual verification exercise
- Update on compliance with HMRC's Senior Accounting Officer Regime

Governance

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

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

Report on the year

In addition to the areas of significant accounting judgement and monitoring the effectiveness of 3i's risk management, the Committee particularly focused on a number of topics, which are set out below.

Accounting policies and practices

The Committee discussed a report from management on the new accounting standards IFRS 9 (Financial Instruments) and IFRS 15 (Revenue Recognition), which became effective for 3i on 1 April 2018. In particular, the Committee discussed the key technical decisions, critical judgements and interpretations required by IFRS 15, and 3i's approach to these, together with the Group's disclosure in the Financial review and on page 104 of the financial statements.

Financial reporting regulators

The Committee considered comment letters and papers from the FRC, including their Year End Advice Letter to Audit Committee Chairs and Finance Directors in October 2018 and their published thematic reviews. The Committee reviewed a paper prepared by management, which detailed how they had taken due account of the matters raised and the enhancements they proposed to relevant disclosures in the Half yearly accounts 2018 and Annual report and accounts 2019.

Taxation

The Committee received its annual update from the Group Tax Director on the Group's taxation status. This year's report covered results of HMRC's latest business risk review, the upcoming EU Disclosure requirements and an update on the Senior Accounting Officer regime. In addition, the Committee was briefed on the recruitment of a new Group Tax Director following the retirement of the long-standing incumbent.

Going concern and viability

The Directors are required to make a statement in the Annual report as to 3i's long-term viability. The Committee provides advice to the Board on the form and content of the statement, including the underlying assumptions. In advance of the year end the Committee reviewed the Group's proposed stress test scenarios to support the Viability Statement. At the year end, the Committee evaluated a report from management setting out its view of 3i's long-term viability and content of the proposed Viability statement. This report was based on the Group's five-year strategic plan and covered forecasts for investments and realisations, liquidity and leverage, including forecast outcomes of the stress test of the plan and forecast capital and liquidity performance against an assessment of the Group's risk profile. To address feedback from the FRC in its thematic review, the Committee discussed whether the choice of the three-year period remained appropriate. However, it concluded that it remained the most appropriate and provided more certainty on the Group's performance due to the nature of the Group's business and its risk appetite to invest in Private Equity investments for a period of four to five years.

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

Areas of accounting judgement and control focus

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

External audit

- Confirmation of the external Auditor's independence
- Policy and approval for non-audit fees
- The FY2019 Audit plan, including significant audit risks (being the valuation of the unquoted investment portfolio and the calculation of carried interest) as well as the area of audit focus (revenue recognition)
- Audit results report, including the results from testing Key Audit Matters
- Auditor performance and effectiveness
- The Group's audit tender process, completed in July 2018
- Discussed Audit Quality Review team findings

Risk reviews

- Valuation reports and recommending the investment portfolio valuation to the Board
- Review of investment themes from portfolio company review process and portfolio performance
- Regular reviews of compliance with regulatory rules and compliance monitoring findings
- Review of strategy to address Brexit related regulatory challenges
- Annual tax update, including the result of HMRC's Business Risk Review
- Reports on approach to tax policy and strategy
- Litigation
- Liquidity and going concern
- Review of the on-shoring of 3iN

Audit, risk and internal control

Audit and Compliance Committee report

continued

Area of significant attention	What the Committee reviewed and concluded
Valuation of the proprietary capital investment portfolio	
The most material area of judgement in the financial statements, and noted as a significant risk and Key Audit Matter by the external Auditor, relates to the valuation of the unquoted Proprietary Capital investment portfolio, which at 31 March 2019 was £6,555 million, or 83% of net assets, under the Investment basis. In recognition of the importance of this area, the Board has a Valuations Committee to review the valuations policy, process and application to individual investments. The Valuations Committee provides quarterly oral reports to the Audit and Compliance Committee and the Board.	On behalf of the Board, the Committee received and evaluated quarterly reports from the Chairman of the Valuations Committee and the external Auditor, with particular focus on the assumptions supporting the unquoted asset investments, any valuation uncertainties and the proposed disclosure in the financial statements. Members of the Committee also attend the Valuations Committee meetings. The detail on the key valuation considerations and the review and challenge undertaken in the year is included in the Valuations Committee report on pages 75 to 78.
Carried interest payable and receivable	
The valuation of the proprietary capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2019. We are through the hurdle to recognise carried interest receivable from EFV on an accounting basis. Carried interest receivable has been recognised in accordance with IFRS 15 in FY2019. We are also through the hurdle to pay carried interest to investment teams on 3i's proprietary capital invested in the 2010-2012 vintage.	Internal Audit reviews the carried interest balances and carry plan distributions made to plan participants before the payments are made. Summaries of the work done are included in updates to the Committee. The Committee reviewed the carried interest payable and receivable as part of the overall summary prepared by management to support the Annual report and accounts 2019. In addition, the Committee reviewed a paper from management on the Group's recognition of carried interest receivable from EFV in accordance with IFRS 15, and the disclosure in the Annual report and accounts 2019.
Fair, balanced and understandable and the presentation of 3i's results	
Under the UK Corporate Governance Code the Board should establish arrangements to ensure the Annual report presents a fair, balanced and understandable assessment of the Group's position and prospects. The Group prepares the non-GAAP Investment basis financial statements to ensure that its results remain understandable.	The Committee reviewed the Half-yearly and Annual financial statements as well as the Quarterly Performance Updates with management, focusing on the integrity and clarity of disclosure and enabling the Board to provide the fair, balanced and understandable confirmation to shareholders in the Annual report and accounts 2019. The Committee also reviewed the level of segmental reporting following the introduction of Corporate Assets in the year. A report summarising the considerations for the Annual report and accounts 2019 was reviewed by the Committee in advance of the year end and a summary of the detailed procedures undertaken was prepared alongside the Annual report and accounts 2019. The external Auditor also confirmed that the inclusion of the Investment basis remained consistent with the prior year.

Internal audit

The Committee continued to monitor the scope, activity, and resources of the Group's internal audit function, including approving the internal audit plan and whether its operating model remained effective. The Committee monitors Internal Audit activity quarterly, which includes the results of their reviews of 3i's investment offices as well as other areas of identified higher risk. They also reviewed Internal Audit's self-assessment of quality in the year. The Committee concluded that the Internal Audit function remained appropriate.

Risk and internal control reviews

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

As highlighted on page 44 in the Risk management section, a report summarising each quarterly GRC meeting, along with the risk report considered, is provided to the Committee for review and discussion. In addition, the Head of Internal Audit prepares an annual report providing an independent assessment of the effectiveness of 3i's risk management and internal control systems for presentation to the Committee. Additional information can be found on page 68 of the Corporate Governance report.

External audit

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

Auditor independence

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

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

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

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

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

Audit and non-audit fees

The total audit fee for the year was £1.9 million (2018: £1.9 million). Non-audit fees paid to the external Auditor were £0.6 million (2018: £0.4 million). The Committee concluded that all of these fees fell within its criteria for engaging Ernst & Young LLP and does not believe they pose a threat to the Auditor's independence or objectivity.

Assessing external audit effectiveness

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

The FY2019 evaluation also reviewed the quality of the audit process, the use of Ernst & Young LLP's valuation specialists to support the audit of the portfolio valuations, the technical knowledge of the team and staff turnover within the Ernst & Young LLP audit team. The Committee concluded that the audit was effective and that there should be a resolution to shareholders to recommend the re-appointment of Ernst & Young LLP at the 2019 AGM.

The Financial Reporting Council's Audit Quality Review team reviewed Ernst & Young LLP's audit for 3i's financial year to 31 March 2018. The Committee reviewed the correspondence from the FRC, which noted that there were no significant findings arising from the FRC's review.

3i is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, in the year ended 31 March 2019.

Audit, risk and internal control
Audit and Compliance Committee report
continued

Audit tender

Ernst & Young LLP (including its predecessor firms) has been the Group's external Auditor since November 1973. In line with the Competition and Markets Authority Statutory Audit Services Order, the Group must appoint a new Auditor for its year ending 31 March 2021. As noted in previous annual reports, the Committee had delayed the rotation of the current auditor to no later than 1 April 2020. This was due to the scale of the current engagements across the Group as well as its portfolio companies with the firms that could have participated in any tender, as well as the complexities around how the rules on non-audit services apply to private equity investments.

Planning for the tender had begun informally in 2017, in recognition of the possible independence complexities and the need to assess a broad range of recipients. The process formally started in January 2018. The Chairman of the Audit and Compliance Committee led the process and oversaw the work of management, who supported the Committee in developing and implementing the planned approach. The Chairman met with the tender project team (the Group Finance Director and the Group Financial Controller) regularly throughout. The Chairman received and commented on the tender materials before they were issued, either to the Committee or to the participating firms.

The process was designed to be transparent and efficient and give as many firms as practicable an equal opportunity to tender for the services. Prior to the tender announcement in the FY2018 report, the prospective participating firms were given the opportunity to meet with 3i's employees. Procedures for managing conflicts of interest, including gifts and hospitality, were communicated to each firm and 3i employees. Access to employees and the Board was restricted when the Request for Proposal had been circulated and accepted.

Except for Ernst & Young LLP, no other firm was prohibited from taking part in the tender. However, the Committee agreed that only Deloitte, KPMG and PWC should be issued with the Request for Proposal ("RFP"). Grant Thornton were not invited to participate following their decision not to tender for FTSE 350 audits. Following meetings with management and a review of their capabilities, the Committee considered that the remaining firms did not have the sufficient valuations expertise to audit the valuation of 3i's mid-market, unquoted and international investments. In addition, none of the other firms had maintained significant, or material, relationships with 3i.

In line with FRC guidance, each firm was assessed against the following key criteria (in no particular order):

- audit approach to corporate entities;
- audit approach to partnership entities;
- audit approach to valuing the Group's investment portfolio, including the requirement to propose a separate partner with valuations expertise;
- audit quality;
- audit team capability;
- extent of existing relationships and commercial value to the Group of non-audit services;
- fee proposals; and
- organisational capability and service delivery.

The Committee's final evaluation of the firms took into account the following selection criteria:

- analysis of RFP submission;
- assessment of the firm's approach to audit quality, including reports from the Committee Chairman of her meetings with each firm's audit quality practice;
- audit workshops with the Company's management and the Committee;
- due diligence, which included reference calls on the lead audit partner and valuations partners and meetings with the firms' senior management;
- performance in the final presentation to the Audit and Compliance Committee; and
- performance of the firms in the FRC's Audit Quality Reviews, issued in June 2018.

The Committee concluded that KPMG scored higher in a significant majority of the selection criteria. KPMG demonstrated their commitment to the Committee, both through individual meetings as well as workshops and presentations, to provide 3i with a high quality audit. Led by strong audit and valuations partners, the proposed audit team demonstrated a good understanding of the Group's key audit judgements. KPMG also showed the Committee that they had a comprehensive internal process to ensure audit quality. In line with FRC guidelines, the Committee recommended a first (KPMG) and second placed firm to the Board supported by a rationale for the recommendation to appoint KPMG as auditor.

Planning for the transition to KPMG has commenced, including steps to ensure that they are fully independent by 1 April 2020. The most material change required is the transfer of the Group's tax compliance services to another provider.

Valuations Committee report

Membership during the year

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

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

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

Dear Shareholder

I am pleased to present the Valuations Committee report for the year ended 31 March 2019. My report explains the role of the Committee as well as the work we reviewed this year.

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

During the year, we met four times as part of the Group's external reporting timetable. Our principal focus was the Group's unquoted investments in Private Equity, as well as Scandlines and Smarte Carte, as a high level of judgement is required to value this portfolio of assets. This portfolio accounts for 86% of 3i's proprietary capital invested.

The valuation of the Group's principal Infrastructure investment, its quoted holding in 3iN which represents 10% of 3i's proprietary capital, requires less judgement given that it is based on the share price of the listed company.

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

I met the Group Finance Director and the Group Financial Controller in advance of each meeting to discuss the key valuation assumptions and review management's paper before circulation. I also met the external Auditor privately to discuss the results of their quarterly reviews. In February 2019, the external Auditor and I discussed their approach to the year-end audit and the assets that they intended to select for their specialist valuations team's in-depth review.

In advance of the full-year and half-year reporting, management hold individual portfolio company reviews with the respective investment teams. Non-executive Directors, including members of the Committee, attended a significant proportion of the meetings held in September 2018 and March 2019 and were represented at the reviews of the five largest Private Equity portfolio company investments as well as Scandlines.

As valuations are the most material key audit risk area, I was closely involved in the Group's recent audit tender. Alongside the Audit and Compliance Committee Chairman, I interviewed the valuations partner candidates from each of the three participating firms. I also attended the Audit and Compliance Committee workshops as well as the final presentations and provided my views on the preferred firm to the Audit and Compliance Committee Chairman.

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

David Hutchison
Chairman, Valuations Committee
15 May 2019

Audit, risk and internal control
Valuations Committee report
continued

The Committee focused on the following significant issues in the FY2019:

Area of judgement	What the Committee did
Earnings and multiple assumptions	
The majority (74%) of the portfolio is valued using a multiple of earnings. This requires judgement as the earnings of the portfolio company may be adjusted so that they are considered "maintainable". We also apply a liquidity discount to the enterprise value using factors such as our alignment with management and other shareholders and our investment rights in the company. There is also a significant degree of judgement in selecting the set of comparable quoted companies to determine the appropriate multiple to generate an enterprise value. Multiples are selected by reference to the market valuation of quoted comparable companies, M&A transactions and input in certain cases from corporate finance advisers. We also take into account size, growth profile, geographic location, business mix, degree of diversification and leverage/ refinancing risk. The multiple implied by the quoted comparables may be adjusted if, in certain cases, the longer-term view (cycle or exit plan) supports the use of a different multiple. This continues to be an important exercise given the market volatility seen in the second half of the financial year. Private Equity assets are typically valued using a multiple of earnings. However, alternative valuation methodologies, such as Discounted Cash Flow ("DCF") valuations, may be considered as an alternative benchmark for potential values as a cross check relative to the earnings based value.	Earnings data is received monthly from Private Equity portfolio companies and monitored closely by management. Actual earnings may then be adjusted in management's proposed valuations, for example, to reflect a full year's trading of an acquired business, removing profit from discontinued activities, any forecast uncertainty or to exclude exceptional transaction costs. Material adjustments are highlighted to the Committee in the quarterly report for review and approval. Management adjusted 16 of 21 multiples used where the longer-term view (of the exit or multiple) supports the use of a different, typically lower, multiple. Notable changes in multiples in a quarter are presented to the Committee and adjustments are reviewed by the Committee at each meeting. Management provided the Committee with a detailed summary of their approach to adjusted multiples and comparable sets for the December 2018 and March 2019 valuations, both of which were calculated during periods of notable market volatility. The Committee also reviewed the movement between the adjusted multiple and the comparable sets between the reporting quarter end and the Valuations Committee meeting date. The Committee reviewed the work done by management on the potential use of a DCF valuation for Action and agreed with management's assessment that, while providing an informative reference point, the earnings based approach remained the most appropriate.
Assets valued using a DCF basis	
For assets valued using DCF techniques, which represent 9% of the portfolio, the key valuation judgements relate to longer-term assumptions that drive the underlying business plan and cash flows and the decisions on the appropriate discount rates.	Material assumptions in the DCF valuations and changes to these assumptions are reviewed by the Committee. This may include third-party support if available. Sensitivity to assumptions is also noted. Any material changes are reviewed by the Committee and external advice is sought from time to time. Scandlines and Smarte Carte are the only material investments valued using a DCF valuation. The Committee reviewed the updated DCF assumptions for the Group's reinvestment in Scandlines. We challenged the discount rate selected by management, which was with reference to market transactions, weighted average cost of capital calculations and other public data.

Area of judgement	What the Committee did
Imminent sale assets At any point in time it is likely that a number of potential exit processes from the portfolio are underway. Judgement is applied by management as to the likely eventual exit proceeds and certainty of completion. This means that in some cases an asset may not be moved to an imminent sales basis until very shortly before completion; in other cases the switch may occur on signing, even if the time to completion is a period of some months. However, as a general rule an asset moves to an imminent sale basis only when a process is materially complete and the remaining risks are estimated to be small, given the completion risk around unquoted equity transactions.	Assets that are within active sales processes are reviewed by the Committee including details such as the timeline to potential completion, the number and make-up of bidders for investments, execution and due diligence risks and regulatory or competition clearance issues. Management propose a treatment for each asset in a sales process, which the Committee reviews at each meeting. The Committee focused on the disposals of Etanco and OneMed, which were at significant percentage uplifts to the March 2018 opening valuation. In both cases, the disposal took place earlier than planned. Etanco and OneMed were 2011 assets and the final proceeds represented 1.3x and 0.9x cost respectively. Although not an area of valuation judgement, the Committee actively reviews the results of the back-testing that management prepares on all assets disposed in each quarter to reconcile the price achieved with the carrying value at the last balance sheet date. Typically, differences are due to increased earnings, the unwind of the liquidity discount and the circumstances of the buyer or the competitiveness of the sales process. This review acts as an important hindsight test of the fair value applied to assets in the quarters up to disposal.

Audit, risk and internal control
Valuations Committee report
continued

Review process

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

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

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

In addition, the Committee is responsible for keeping the Group's valuation policy under review and recommending any changes to the policy to the Audit and Compliance Committee and the Board. The policy is reviewed at least annually, with the last update in January 2019 incorporating the update to the IPEV guidelines published in December 2018.

More information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 157 and 158.

External audit

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

Portfolio trends

At least annually the Committee Chairman and management conduct a review of the valuation outcomes in the portfolio over the preceding three years. The Committee Chairman and Group Finance Director will report to the Board in June 2019 on the key observations.

Remuneration
Directors' remuneration report

Membership during the year

Name	Membership status
Jonathan Asquith	Chairman since May 2011 and Member since March 2011
Caroline Banszky	Member since November 2015
David Hutchison	Member since December 2013
Coline McConville	Member since December 2018

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

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

Dear Shareholder

As Remuneration Committee Chairman, I am pleased to introduce the Directors' remuneration report for the financial year 1 April 2018 to 31 March 2019.

Our Remuneration policy was approved by shareholders at our 2017 Annual General Meeting. The policy has served us well and we are not proposing any changes to it at this time.

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

Performance in the year

I am happy to report that this has been another successful year for the Group. The Committee's decisions concerning the Executive Directors' remuneration reflect our financial results and are underpinned by a balanced scorecard of both financial and strategic measures agreed by the Committee. While the facts driving our assessment of performance against that balanced scorecard are available elsewhere in this Annual report, they are summarised here for ease of reference.

Portfolio return

The Private Equity portfolio generated a very strong gross investment return of £1,148 million or 20% of opening portfolio value. This was achieved through a combination of good realisations at significant uplifts (eg OneMed) and continued growth in unrealised profits in the portfolio. Our investment in 3iN generated a total shareholder return of 33%, driven by positive investor sentiment, a strong exit valuation for Cross London Trains and good growth across the rest of the 3iN portfolio.

Investment

The Group sets expectations rather than targets for the volume of new investments and realisations each year, reflecting the need to be sensitive to market conditions when adding to our investment portfolio. Price expectations were high in 2019 and management, with the full support and encouragement of the Board, maintained its disciplined approach to pricing and increased its focus on bolt-on acquisitions to add to our platform assets. Net of the Scandlines reinvestment (£529 million), the Group invested £332 million in Private Equity assets in the year, including two new investments and eight bolt-on acquisitions. In addition, it announced a new investment of c.£139 million in Magnitude Software Inc at the end of the financial year, which completed on 2 May. The European Infrastructure business advised 3iN on £377 million of investment and commitments during the year. The North American Infrastructure business also signed its second investment, in Regional Rail LLC, which is expected to complete in the first half of FY2020.

Operating performance

Management have continued to maintain a disciplined approach to cost control which resulted in a fall in cash operating costs to £109 million (2018: £115 million) and contributed to the Group recording an operating cash profit of £46 million.

Remuneration
Directors' remuneration report
continued

Strategy and people

We completed the sale of and our subsequent 35% reinvestment into Scandlines during the year. This investment is now a longer-term hold asset, managed separately from the Group's Private Equity and Infrastructure businesses, reported under the Corporate Assets segment. During the year we received dividends of £28 million from Scandlines which contributed directly to the Group operating cash profit.

Regulatory approval for our new corporate structure in Europe to manage the risks posed by Brexit was obtained and implemented in the year.

The investment teams within both the Private Equity and Infrastructure businesses were further strengthened during the year through internal promotions and new hires.

Conclusion

Having considered the strong performance against the targets and expectations set within the scorecard for the year, the Remuneration Committee has set annual bonuses for each Executive Director at 92.5% of maximum. Absolute total shareholder returns over the last three years have been remarkable, delivering an annualised performance of 32.3%. This, combined with strong relative performance against the FTSE 350, has ensured that the maximum hurdles of the 2016 LTIP have been materially exceeded, as set out in this report.

Paying for performance

The guiding principle of our approach to remuneration is to align the interests of the Executive Directors with those of our shareholders; to reward good performance and focus on share-based remuneration. 3i pays its Executive Directors low base salaries compared to those on offer across the FTSE, but balances this by setting maximum salary multiples for its annual and long-term bonus schemes at relatively higher levels to ensure that total compensation opportunities are in line with those available at high-performing quoted peers. The net result is that in good years shareholders and Executive Directors benefit alike, while in bad years fixed costs are kept to a minimum. To provide additional shareholder alignment, 80% of Executive Director annual bonuses and 100% of any LTIP awards are delivered in the form of shares.

Performance-driven incentive structures need to be designed and managed carefully. Executive Directors' remuneration is structured to align them with shareholders' interests, and they specifically do not participate in incentives directly linked to individual investments (eg carried interest plans) to avoid the potential for conflicts of interest arising out of individual investment decisions. Bonus schemes are capped, to avoid excessive risk-taking, and the Remuneration Committee retains broad discretions to reduce awards in exceptional circumstances.

The practical application of this philosophy can be observed in the remuneration history of the Chief Executive, set out in the chart on page 81. It is striking that during a five year period when the Group's market capitalisation has increased by 146% (from £3.9 billion to £9.6 billion), reward opportunities for the Chief Executive have increased by 12.6% and yearly variations in single figure remuneration have been driven overwhelmingly by share price performance and dividends accrued on vesting stock.

Looking forward

The Executive Directors will be awarded a 1.5% salary increase effective 1 July 2019. The Group-wide salary increase is 3%, except for the most senior executives who are receiving 1.5%. There are no proposed changes to the rest of the remuneration package.

The Corporate Governance Code published in 2018 contains new requirements on how Directors' remuneration, including post-employment shareholding requirements, long-term share award releases and the use of discretion (including the recovery or withholding of share awards). In reviewing its implications, the Committee has taken into account that:

(i) our existing policy for pension contributions for Executive Directors is identical to our policy for other employees, and therefore fully compliant with the Code requirements;

(ii) existing vested deferred awards to Executive Directors under the Annual Bonus and LTIP plans mean that both of them would retain exposures of at least their current shareholding target for the succeeding two years if they were to leave the Company at any point in the next 12 months in most scenarios;

(iii) annual bonus performance targets are a prompt and guide to judgement and the Committee retains full discretion to vary awards should circumstances warrant this; and

(iv) all awards are subject to comprehensive malus and clawback restrictions including broad Committee discretions in their application.

As part of the review and submission of our new Remuneration Policy to shareholders at our 2020 AGM we will consider whether any adjustments to our policy are required and will implement accordingly.

The Committee is committed to maintaining a remuneration framework that rewards progress in meeting the Group's strategic objectives and ensures alignment with shareholders while reflecting the risk profile of the firm. We will also continue to monitor and comply with relevant guidelines and regulatory changes.

Jonathan Asquith
Chairman, Remuneration Committee
15 May 2019

The Annual report of remuneration (Implementation report)

During FY2019, we continued to operate under the remuneration policy approved at the 2017 AGM, which can be found on our website at **www.3i.com**.

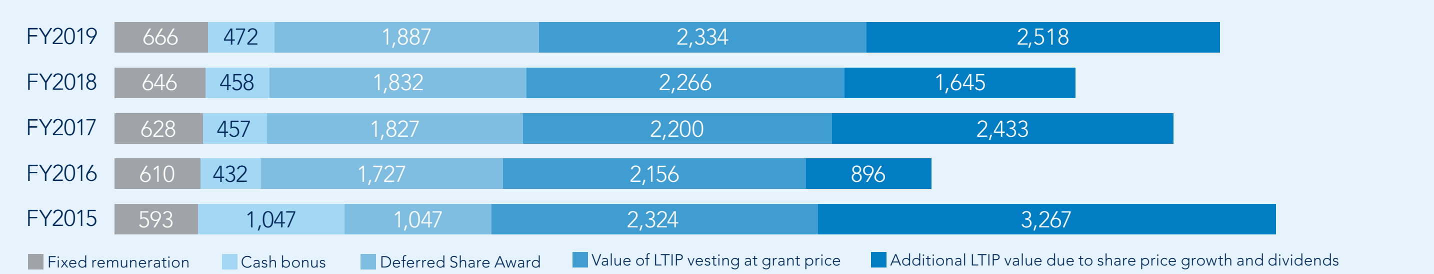
Director remuneration for the year

Single total figure of remuneration for each Director

£'000	FY2019 Salary/ fees	Benefits	Pension	Annual bonus	LTIP	Total	FY2018 Salary/ fees	Benefits	Pension	Annual bonus	LTIP	Total
S A Borrows	633	16	16	2,359	4,853	7,877	615	15	16	2,290	3,911	6,847
J S Wilson	460	19	48	1,072	2,206	3,805	447	16	47	1,041	1,778	3,329
S Thompson	310	–	–	–	–	310	310	–	–	–	–	310
J P Asquith	125	–	–	–	–	125	139	–	–	–	–	139
C J Banszky	93	–	–	–	–	93	107	–	–	–	–	107
S W Daintith	81	–	–	–	–	81	95	–	–	–	–	95
P Grosch	159	–	–	–	–	159	175	–	–	–	–	175
D A M Hutchison	93	–	–	–	–	93	107	–	–	–	–	107
C McConville	28	–	–	–	–	28	–	–	–	–	–	–

- Benefits include a car allowance, provision of health insurance and, for Mrs Wilson, the value of the Share Incentive Plan matching share awards.
- Mr Borrows and Mrs Wilson received salary supplements in lieu of pension contributions of £16k and £48k respectively. These supplements were in line with pension contributions for the Group's employees generally.
- Annual bonus awards made in respect of the year are delivered as 60% payable in 3i Group plc shares deferred over four years, and the remaining 40% being half as a cash payment immediately and half as 3i Group plc shares which are subject to a six-month retention period. All annual bonus awards are subject to the malus/clawback policy. Those shares deferred over four years are released in four equal annual instalments commencing June 2020 and all share awards carry the right to receive dividends and other distributions.
- In the case of Mr P Grosch, the sum shown includes €100k of fees paid to him by Euro-Diesel (a 3i portfolio company) for his role as Executive Chairman (2018: €100k).
- In addition to the table above, dividends or dividend equivalents on unvested deferred share awards were paid during the year (Mr Borrows: £160k, Mrs Wilson: £70k).
- The values shown in the LTIP column represent the performance shares vesting from the 2016 LTIP, together with the value of accrued dividends on those shares. The shares have been valued using the 29 March 2019 closing share price (984.8 pence). Further detail is provided on page 83.
- The fees shown for the non-executive Directors include fees used to purchase shares in the Company. Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. The Group meets the associated tax cost.
- In addition to the fees shown above, Mrs Wilson retained directors' fees of £115k from Legal and General Group plc.
- Since 1 April 2018, non-executive Directors have received a fixed proportion of their base fees as shares, having previously received a fixed number of shares.

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



The graph above illustrates the relatively stable remuneration picture at 3i over the last five years, with much of the inter-year variation in total reward driven by differing share price performance. During this period, the Group's market capitalisation rose from £3.9 billion to £9.6 billion. The Chief Executive's fixed compensation of £666,000 was at the bottom end of the FTSE100 as of 31 March 2019.

Remuneration
Directors' remuneration report
continued

FY2019 performance

Formulaic performance measures (60% of total)

Area of strategic focus	Weighting	Metric	Threshold	Maximum	Performance	Payout
Portfolio returns	50%	Private Equity Gross investment return (% of opening portfolio value)	10%	20%	20%	100%
Portfolio returns	5%	3iN total return	8%[1]	10%[1]	15%	100%
Operating performance	5%	Manage operating expenses	£136m	£131m	£126m	100%

Qualitative performance measures (40% of total)

Area of strategic focus	Weighting	Metric	Target/ Expectation		Performance	Comments
Portfolio returns	10%	Private Equity portfolio earnings growth	E	>10%	16%	93% by value of Private Equity assets delivered positive earnings growth in the year. The 16% overall value weighted average was achieved by a combination of strong organic growth and uplifts from successful bolt-on acquisitions.
Investment management	20%	New capital invested in Private Equity	E	€800m	€379m[2]	Selective new investments and bolt-on acquisitions made by the Private Equity business. With the full support of the Board, management have maintained a disciplined and selective approach to investing to avoid overpaying for assets in markets which have high price expectations.
		New 3iN capital committed in Core/PPP	E	£225m	£377m	Another strong year of investment activity, with 3 investments made or committed by 3iN.
There has been good progress in developing a future investment pipeline in Private Equity and Infrastructure. There were more strategic acquisitions and bolt-ons for existing portfolio companies than in previous years.						
Strategy and people	10%	Achievement of strategy and people targets is measured against a balanced scorecard of objectives set by the Remuneration Committee				The new corporate structure in Europe to manage potential regulatory risks posed by Brexit is now fully operational. Consistent shareholder support for the Group's performance and strategy and a further broadening of the shareholder base. The change and transition in the Private Equity leadership team has been well managed. The development, retention and succession plans for the Group's key talent and leadership team are progressing according to plan.

1 The threshold and maximum return targets are set in line with 3iN's public return objectives.
2 Net of the £529 million reinvestment into Scandlines.
T = Target E = Expectation

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

Chief Executive and Group Finance Director annual bonus outcomes

In light of the achievements detailed above, and the exceptional performance of the Group in the year, the Committee awarded Mr Borrows a bonus in respect of FY2019 of £2,358,787 (being 92.5% of his maximum bonus opportunity), and awarded Mrs Wilson a bonus in respect of FY2019 of £1,072,328 (being 92.5% of her maximum bonus opportunity). In each case, 20% of the award will be paid in cash immediately, 20% will be delivered as shares with a retention period of six months and the remaining 60% will be deferred into the Company's shares vesting in equal instalments over four years. Annual bonus awards are subject to the malus/clawback policy.

Share awards vesting in 2019 subject to performance conditions

2016 Long-term incentive award

The long-term incentive awards granted in June 2016 to Mr Borrows and Mrs Wilson were subject to performance conditions based on absolute and relative Total Shareholder Return over the three financial years to 31 March 2019. The table below shows the achievement against these conditions and the resulting proportion of the awards which will vest in June 2019.

	Weighting	Threshold		Maximum		Actual	
Total Shareholder Return Measure	%	Performance	% vesting	Performance	% vesting	Performance	% vesting
Absolute Total Shareholder Return	50%	10% pa	20%	18% p.a.	100%	32.3%	100%
Relative Total Shareholder Return (as measured against the FTSE 350 Index)	50%	Median	25%	Upper quartile	100%	Above Upper Quartile	100%

The table below shows the grants made to each Executive Director on 30 June 2016 at a share price of 516.7 pence and the resulting number of shares that will vest due to the achievement against the performance targets as set out above. The value of the shares vesting has been included in the single figure table using the 31 March 2019 closing share price of 984.8 pence.

	Basis of award at grant	Face value at grant	Number of shares awarded at 516.7p per share	% vesting	Number of shares vesting	Value of share vesting at 984.8p per share
S A Borrows	Face value award of 4 times base salary of £583k	£2,334k	451,708	100%	451,708	£4,448k
J S Wilson	Face value award of 2.5 times base salary of £424k	£1,061k	205,322	100%	205,322	£2,022k

The proportion of the award vesting will be released 50% in June 2019, 25% in June 2020 and 25% in June 2021 together with the value of dividends that would have been received during the period from grant to the release date.

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

The table below shows the percentage change in remuneration awarded to the Chief Executive and employees as a whole, between the year to 31 March 2018 and the year to 31 March 2019.

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

Remuneration
Directors' remuneration report
continued

Details of share awards granted in the year

LTIP

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

Description of award	A performance share-based award, which releases shares, subject to satisfying the performance conditions, 50% on the third anniversary of grant and 25% on the fourth and fifth anniversaries.
Face value	Chief Executive – 400% of salary, being 245,891 shares. Group Finance Director – 250% of salary, being 111,759 shares. The share price used to make the award was the average mid-market closing price over the five working days starting with the day of the announcement of the 2018 annual results (1,007.08p).
Performance period	1 April 2019 to 31 March 2022.
Performance targets	50% of the award is based on absolute TSR measured over the performance period, and vests: • 0% vesting below 10% pa TSR; • 20% vesting at 10% pa TSR; • Straight-line vesting between 10% and 18% pa TSR; and • 100% vesting at 18% pa TSR. 50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests: • 0% vesting for below median performance against the index; • 25% vesting for median performance against the index; • 100% vesting for upper quartile performance against the index; and • Straight-line vesting between median and upper quartile performance.
Remuneration Committee discretion	The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed.

Deferred bonuses awarded in FY2019

The two Executive Directors are considered to be AIFMD Identified Staff and, as such, 60% of their annual bonuses will be delivered in 3i Group plc shares deferred over four years (and which vest one quarter per annum over those four years). The remaining 40% will be delivered half as a cash bonus and half in 3i Group plc shares which are subject to a six-month retention period. The following awards were made on 6 June 2018 in respect of FY2018 performance:

	60% of FY2018 bonus deferred for four years			20% of FY2018 delivered as shares subject to a six-month retention period		
	Face value at grant	Number of shares awarded at 1,007.08p per share	Vesting	Face value at grant	Number of shares awarded at 1,007.08p per share	Released
S A Borrows	£1,374,247	136,458	Four equal instalments annually from 1 June 2019	£458,082	45,486	At the expiry of the six-month retention period
J S Wilson	£624,657	62,026		£208,219	20,675	

These face values were reported in the FY2018 single figure of remuneration for each Director. The share price used to calculate face value was the average of the mid-market closing prices over the five working days starting with the date of the announcement of the Company's results for the year ended 31 March 2018 (17 May 2018 to 23 May 2018), which was 1,007.08 pence. These awards are not subject to further performance conditions.

Share Incentive Plan

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

During the year, Mrs Wilson purchased 200 partnership shares, and received 400 matching shares and 725 dividend shares at prices ranging between £8.5427 and £9.6627 per share, with an average price of £9.0334.

Hedging of share awards

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

Pension arrangements

Mr Borrows and Mrs Wilson receive pension benefits on the same percentage basis as other employees of the Company. During the year, they received salary supplements in lieu of pension of £16k and £48k respectively.

Payments to past Directors

No payments to past Directors have been made in the year.

Payments for loss of office

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

Statement of Directors' shareholding and share interests

The Company's share ownership and retention policy requires Executive Directors to build up over time and thereafter maintain a shareholding in the Company's shares equivalent to at least 3.0 times gross salary in the case of the Chief Executive and 2.0 times gross salary for the Group Finance Director. In addition, shareholding targets have been introduced for other members of the Executive Committee at 1.5 times their gross salaries and for partners in the Group's businesses at 1.0 times their gross salaries. Since 2018 non-executive Directors and the Chairman are required to build up over time and thereafter maintain a shareholding in the Company's shares equivalent to at least 1 times their respective annual base fees (cash and shares).

Details of Directors' interests (including interests of their connected persons) in the Company's shares as at 31 March 2019 are shown in the table opposite. The closing share price on 29 March 2019 was 984.8p.

	Owned outright[1]	Deferred shares[2]	Subject to performance	Shareholding requirement	Current shareholding (% salary)
S A Borrows[3]	14,185,010	1,236,193	533,671	300%	21,909%
J S Wilson[3,4]	854,621	563,257	242,577	200%	1,815%

	Shares owned outright	Shareholding requirement	Current shareholding (% base fee)
S Thompson[3]	68,318	100%	1,035%
J P Asquith[3]	87,582	100%	1,327%
C Banszky[3]	20,576	100%	312%
S Daintith[3]	5,822	100%	88%
P Grosch[3]	8,830	100%	134%
D Hutchison[3]	77,747	100%	1,178%
C McConville[3]	3,097	100%	47%

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

2 The number of shares shown includes the 2016 Performance Share award. The performance target has been met with 100% of the shares being released as described on page 83.

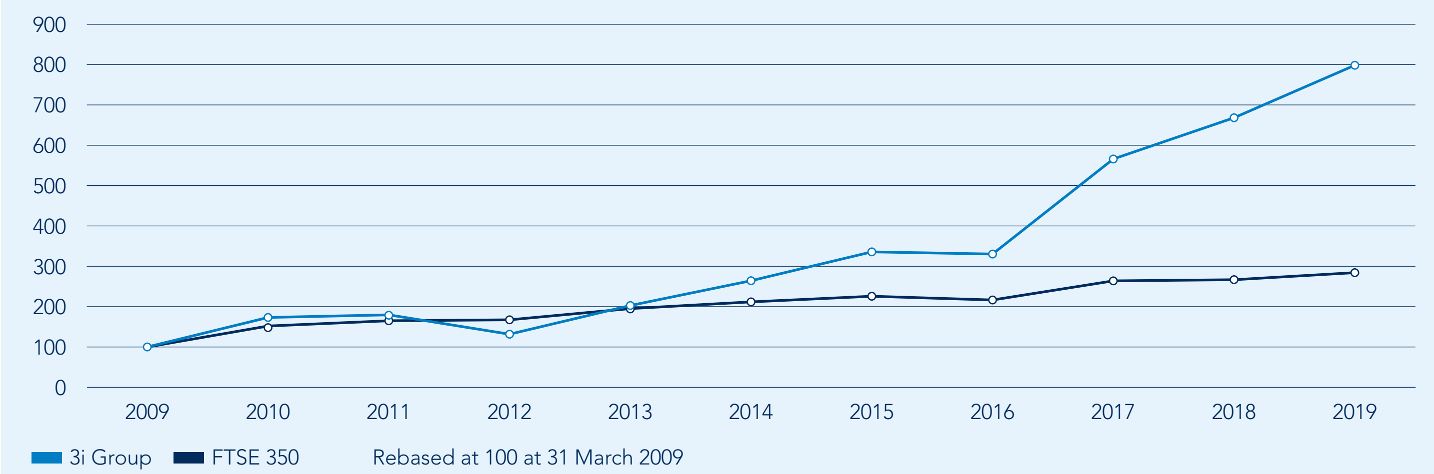
3 Directors are restricted from hedging their exposure to the 3i share price.

4 From 1 April 2019 to 1 May 2019, Mrs Wilson became interested in a further 14 shares overall outright (SIP Partnership Shares) and a further 28 deferred shares (SIP Matching Shares). There were no other changes to Directors' share interests in that period.

Remuneration
Directors' remuneration report
continued

Performance graph – TSR graph
This graph compares the Company's total shareholder return for the 10 financial years to 31 March 2019 with the total shareholder return of the FTSE 350 Index. The FTSE 350 Index is considered to be an appropriate comparator as it reflects both the variety of the Company's portfolio of international investments as well as the diverse currencies in which those investments are denominated.

3i total shareholder return vs FTSE 350 total return over the 10 years to 31 March 2019



Performance table
Table of historic Chief Executive data

Year	Chief Executive	Single figure of total remuneration £'000	Percentage of maximum bonus paid	Percentage of maximum LTIP vesting
FY2019	S A Borrows	7,877	92.5%	100%
FY2018	S A Borrows	6,847	92.5%	100%
FY2017	S A Borrows	7,544	95%	100%
FY2016	S A Borrows	5,821	92.5%	98%
FY2015	S A Borrows	8,278	92.5%	90.85%
FY2014	S A Borrows	3,222	92.5%	0%
FY2013[1]	S A Borrows	2,932	90%	n/a
	M J Queen	429	0%	0%
FY2012	M J Queen	641	0%	0%
FY2011	M J Queen	1,305	54%	0%
FY2010	M J Queen	1,989	75%	0%

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

Relative importance of spend on pay

	FY2019	FY2018	Change %
Remuneration of all employees	£83m	£83m	0%
Dividends paid to shareholders	£358m	£255m	40%

Statement of implementation of the remuneration policy in the coming year

The table below sets out how the Committee intends to operate the remuneration policy in FY2020.

Policy element	Implementation of policy during FY2020
Base salary	A Group-wide 3% increase to salaries will take place in FY2020, except for Executive Committee members and senior investors who will receive 1.5%. The 1.5% increase will also be applied to Executive Director salaries. Effective from 1 July 2019, salaries for the Executive Directors will therefore be as follows: • Chief Executive: £647,165 (+1.5%) • Group Finance Director: £470,665 (+1.5%)
Pension	No changes to the current arrangements are proposed for FY2020. The Executive Directors will continue to receive a pension contribution or salary supplement as follows: • Chief Executive: £16k • Group Finance Director: 12% of salary
Benefits	No changes to the current arrangements are proposed for FY2020. Benefits will continue to include a car allowance, provision of health insurance and any Share Incentive Plan matching share awards.
Annual bonus	The maximum annual bonus opportunities for FY2020 will remain unchanged, in line with the remuneration policy, as follows: • Chief Executive: 400% of salary • Group Finance Director: 250% of salary Any bonus will be awarded based on a balanced scorecard of both financial and strategic measures agreed by the Committee, alongside a consideration of the wider context of personal performance (including values and behaviours), risk, market and other factors. Measures for the FY2020 scorecard are based 87.5% on financial measures (70% portfolio return, 15% investment management and 2.5% operating performance) and 12.5% on strategic and people objectives. They are calibrated to current business strategy and evolve year-on-year as the Group's situation and priorities develop. The Committee considers that the specific targets and expectations contained within the FY2020 scorecard are commercially sensitive and therefore will not be disclosed in advance. We will report to shareholders next year on performance and the resulting bonus out-turns. At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years. Awards are subject to the Company's malus and clawback policy.
Long-term incentive plan	Awards under the long-term incentive plan in FY2020 will remain unchanged and be made as follows: • Chief Executive: 400% of salary • Group Finance Director: 250% of salary Performance will be measured over a three-year period and will be determined by the Remuneration Committee. Performance measures remained unchanged from the previous year and will be as follows: • 50% of the award is based on absolute TSR measured over the performance period, and vests: • 0% vesting below 10% pa TSR; • 20% vesting at 10% pa TSR; • straight-line vesting between 10% and 18% pa TSR; and • 100% vesting at 18% pa TSR. 50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests: • 0% for below median performance against the index; • 25% for median performance against the index; • 100% for upper quartile performance against the index; and • straight-line vesting between median and upper quartile performance. Awards are subject to the Company's malus and clawback policy. The Chief Executive and Group Finance Director are not permitted to participate in carried interest plans and similar arrangements.
Shareholding requirements	Shareholding requirements will be as follows: • Chief Executive: 300% of salary • Group Finance Director: 200% of salary • non-executive Directors (including the Company Chairman): 100% of base fee (cash and shares)

Remuneration
Directors' remuneration report
continued

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

Non-executive Director fees	The fees for the non-executive Directors for FY2020 will be: **Chairman fee:** £240,000 plus £70,000 in 3i shares **Non-executive Directors:** Board membership base fee: £50,000 plus £15,000 in 3i shares Deputy Chairman (including SID fee): £40,000 Senior independent director fee: £10,000 Committee chairman: £20,000 Committee member: £8,000 Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.
Malus and Clawback policy	Long-term incentive awards and deferred bonus share awards made during the year to Executive Directors (and certain other Senior Executives), may be forfeited or reduced prior to vesting in exceptional circumstances on such basis as the Committee considers fair, reasonable and proportionate taking into account an individual's role and responsibilities. This would include, but is not limited to, material misstatement of Group financial statements, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions, inappropriate values or behaviour. In exceptional circumstances (and on such basis as the Committee considers fair, reasonable and proportionate taking into account an individual's role and responsibilities), the Group may recover amounts that have been paid or released from awards (including cash bonus awards), as long as a written request for the recovery of such sums is made in the two-year period from the date of payment or release and in circumstances where either (a) there has been a material misstatement of Group financial statements or (b) the Group suffers a material loss. In arriving at its decision, the Committee will take into consideration such evidence as it may reasonably consider relevant including as to the impact of the affected individual's conduct, values or behaviours on the material misstatement or material loss, as the case may be.

Consideration by the Directors of matters relating to Directors' remuneration

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

Remuneration Committee

Name	Role	Membership status	Meetings attended in the year	Meetings eligible to attend in the year
J P Asquith (Chairman)	Non-executive Director	Member since March 2011 Chairman since May 2011	5	5
C J Banszky	Non-executive Director	Member since November 2015	5	5
D A M Hutchison	Non-executive Director	Member since December 2013	5	5
C McConville	Non-executive Director	Member since November 2018	1	1

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

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

Deloitte LLP are members of the Remuneration Consultants Group and as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. During the year, Deloitte LLP also provided 3i with certain tax advisory services. The Committee has reviewed the advice provided during the year and is satisfied that it has been objective and independent. The total fees for advice during the year were £36,450 (excluding VAT) (2018: £27,400 (excluding VAT)).

Result of voting at the 2017 and 2018 AGM

At the 2018 AGM, shareholders approved the Remuneration report that was published in the 2018 Annual report and accounts. At the 2017 AGM, shareholders approved the Directors' remuneration policy. The results for both of these votes are shown below:

Resolution	Votes for	Votes against	Total votes cast	Votes withheld
Approval of the Directors' remuneration report at the 2018 AGM	674,456,088 (94.29%)	40,686,436 (5.71%)	715,324,524	4,592,557
Approval of the Directors' remuneration policy at the 2017 AGM	684,177,712 (95.32%)	33,578,863 (4.68%)	717,756,575	1,094,463

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

Audit

The tables in this report (including the Notes thereto) on pages 81 to 86 have been audited by Ernst & Young LLP.

By order of the Board

Jonathan Asquith
Chairman, Remuneration Committee
15 May 2019

Additional statutory and corporate governance information

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

Corporate governance

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

The Group's internal control and risk management systems including those in relation to the financial reporting process are described on page 68.

Directors

Directors' biographical details are set out on pages 62 and 63. The Board currently comprises the Chairman, six non-executive Directors and two Executive Directors. Mr S R Thompson, Mr J P Asquith, Ms C J Banszky, Mr S A Borrows, Mr S W Daintith, Mr P Grosch, Mr D A M Hutchison, and Mrs J S Wilson served as Directors throughout the year under review. Ms C L McConville served as a Director during the year from 1 November 2018.

Investment policy

The UK Listing Authority's Listing Rules require 3i, as a closed-ended investment fund, to publish an investment policy. Shareholder approval is required for material changes to this policy. Non-material changes can be made by the Board. The current policy is set out below. No changes have been made to the policy since it was published in the Company's 2018 Report and Accounts.

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity and infrastructure returns. Currently, its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds in Europe, Asia and the Americas. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.
- 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio.
- Although 3i does not set maximum exposure limits for asset allocations, it does have a maximum exposure limit that, save as mentioned below, no investment will be made unless its cost[1] does not exceed 15% of the investment portfolio value as shown in the last published valuation. A further investment may be made in an existing portfolio business provided the aggregate cost of that investment and of all other unrealised investments in that portfolio business does not exceed 15% of the investment portfolio value as shown in the last published valuation. A higher limit of 30% will apply to the Company's investment in 3i Infrastructure plc. For the avoidance of doubt, 3i may retain an investment, even if its carrying value is greater than 15% or 30% (as the case may be) of the portfolio value at the time of an updated valuation.
- Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. 3i's gearing depends not only on its level of debt, but also on the impact of market movements and other factors on the value of its investments. The Board takes this into account when, as required, it sets a precise maximum level of gearing. The Board has therefore set the maximum level of gearing at 150% and has set no minimum level of gearing. If the gearing ratio should exceed the 150% maximum limit, the Board will take steps to reduce the gearing ratio to below that limit as soon as practicable thereafter. 3i is committed to achieving balance sheet efficiency.

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

Appointment and re-election of Directors

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

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

Shareholders can remove any Director by special resolution and appoint another person to be a Director in their place by ordinary resolution. Shareholders can also remove any Director by ordinary resolution of which special notice has been given.

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

The Board's responsibilities and processes

The composition of the Board and its Committees as well as the Board's key responsibilities and the way in which it and its Committees work are described on pages 62 to 89. The Board is responsible to shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Articles of Association and any directions given by special resolution of the shareholders. The Articles of Association empower the Board to offer, allot, grant options over or otherwise deal with or dispose of the Company's shares as the Board may decide.

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

The Board's diversity policies in relation to Directors are described in the Nominations Committee report on page 69 and such policies in relation to staff are described on page 94.

At the AGM in June 2018, shareholders renewed the Board's authority to allot ordinary shares and to repurchase ordinary shares on behalf of the Company subject to certain limits. Details of the authorities which the Board will be seeking at the 2019 AGM are set out in the 2019 Notice of AGM.

Matters reserved for the Board

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

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2019 is set out below.

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

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

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

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

Additional statutory and corporate governance information

continued

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

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

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

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

Share capital and debentures

The issued ordinary share capital of the Company as at 1 April 2018 was 972,897,006 ordinary shares and at 31 March 2019 was 973,000,665 ordinary shares of $73^{19}/_{22}$ pence each. It increased over the year by 103,659 ordinary shares on the issue of shares to the trustee of the 3i Group Share Incentive Plan.

At the Annual General Meeting ("AGM") on 28 June 2018, the Directors were authorised to repurchase up to 97,000,000 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 15 May 2017) until the Company's AGM in 2019 or 27 September 2019, if earlier. This authority was not exercised in the year. Details of the authorities which the Board will be seeking at the 2019 AGM are set out in the 2019 Notice of AGM.

As detailed in Note 17 to the Accounts, as at 31 March 2019 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme.

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

Major interests in ordinary shares

The table below shows notifications of major voting interests in the Company's ordinary share capital (notifiable in accordance with Chapter 5 of the FCA's Disclosure Guidance and Transparency Rules or section 793 Companies Act 2006) which had been received by the Company as at 31 March 2019 and 1 May 2019.

Portfolio management and voting policy

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

Major interests in ordinary shares

	As at 31 March 2019	% of issued share capital	As at 1 May 2019	% of issued share capital
BlackRock, Inc	84,361,041	8.67	81,695,088	8.40
Artemis Investment Management LLP	50,622,247	5.20	50,706,573	5.21
Standard Life Aberdeen plc	34,904,261	3.59	33,937,514	3.49
Threadneedle Asset Management Ltd	33,290,441	3.42	33,148,708	3.41
Legal & General Investment Management Limited	33,083,461	3.40	33,377,517	3.43
Vanguard Group, Inc	31,953,528	3.28	32,242,461	3.31

Tax and investment company status

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

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

3i Investments plc

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

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

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

The Annual report and accounts meet certain investor disclosure requirements as set out in FUND 3.2.2R, 3.2.3R, 3.2.5R and 3.2.6R of the FCA's Investment Funds sourcebook ('FUND Disclosures') for the Company as a standalone entity. The Company's profit for the year is stated in its Statement of changes in equity and its Financial position is shown on page 101. The Company performs substantially all of its investment related activities through its subsidiaries and therefore the Group's Consolidated statement of comprehensive income is considered to be more useful to investors than a Company statement.

Furthermore, in some instances the relevant FUND Disclosures have been made in relation to the Group on a consolidated basis rather than in respect of the Company on a solo basis. This is because the Company operates through its group subsidiaries and therefore reporting on the Group's activities provides more relevant information on the Company and its position. There have been no material changes to the disclosures required to be made under FUND 3.2.2R in the past year.

Although certain FUND Disclosures are made in this Annual report, full disclosures are summarised on the 3i website at **www.3i.com**. This will be updated as required and changes noted in future Annual reports.

For the purposes of the FUND Disclosures set out in FUND 3.3.5(R) (5) and (6), the total amount of remuneration paid by 3i to its staff for the year was £83 million, of which £40 million was fixed remuneration and £43 million was variable remuneration. The aggregate total remuneration paid to AIFM Identified Staff for the year was £20 million, of which £16 million was paid to Senior Management and £4 million was paid to other AIFM Identified Staff. A summary of the remuneration policy of 3i can be found on the Company's website.

Dividends

A first FY2019 dividend of 15.0 pence per ordinary share in respect of the year to 31 March 2019 was paid on 9 January 2019. The Directors recommend a second FY2019 dividend of 20.0 pence per ordinary share be paid in respect of the year to 31 March 2019 to shareholders on the Register at the close of business on 14 June 2019.

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

Directors' conflicts of interests and Directors' indemnities

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

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

Directors' employment contracts

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

Additional statutory and corporate governance information
continued

Employment

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

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

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

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

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

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

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

Political donations

In line with Group policy, during the year to 31 March 2019 no donations were made to political parties or organisations, or independent election candidates, and no political expenditure was incurred.

Significant agreements

As at 31 March 2019, the Company was party to one agreement subject to a renegotiation period on a change of control of the Company following a takeover bid. This agreement is a £350 million multi-currency Revolving Credit Facility Agreement dated 5 September 2014, between the Company, Barclays Bank PLC and a number of other banks. The Company is required to notify Barclays Bank PLC, as agent bank, within five days, of a change of control. This opens a 20-day negotiation period to determine if the Majority Lenders (as defined in the agreement) are willing to continue the facility. Failing agreement, amounts outstanding would be repayable and the facility cancelled.

Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2019.

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

The Viability statement is included on page 49.

Audit information

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

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

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

Appointment of Auditor

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

Information required by Listing Rule 9.8.4

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

Topic	Location
Capitalised interest	Portfolio income on page 32
Share allotments	Note 20 on page 126

Information included in Strategic report

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

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

Statement of Directors' responsibilities

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

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

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

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

(c) provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

(d) state that the Group has complied with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and

(e) make judgements and estimates that are reasonable.

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

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

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

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

(b) the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors of the Company and their functions are listed on pages 62 and 63.

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

Directors' report

For the purposes of the UK Companies Act 2006, the Directors' report of 3i Group plc comprises the Governance section on pages 61 to 95 other than the Directors' remuneration report on pages 79 to 89.

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

By order of the Board

K J Dunn
Company Secretary
15 May 2019

Registered office:
16 Palace Street
London SW1E 5JD

Audited financial statements

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

Consolidated statement of comprehensive income

for the year to 31 March

	Notes	2019 £m	2018 £m
Realised profits over value on the disposal of investments	2	**33**	18
Unrealised profits on the revaluation of investments	3	**168**	386
Fair value movements on investment entity subsidiaries	12	**827**	848
Portfolio income			
Dividends		**26**	29
Interest income from investment portfolio		**33**	26
Fees receivable	4	**11**	17
Foreign exchange on investments		**17**	(12)
Movement in the fair value of derivatives	18	**21**	–
Gross investment return		**1,136**	1,312
Fees receivable from external funds	4	**53**	57
Operating expenses	5	**(126)**	(120)
Interest received		**3**	2
Interest paid		**(36)**	(37)
Exchange movements		**(27)**	57
Income from investment entity subsidiaries		**66**	19
Other (expense)/income		**(2)**	2
Carried interest			
Carried interest and performance fees receivable	4,14	**163**	228
Carried interest and performance fees payable	15	**–**	(32)
Operating profit before tax		**1,230**	1,488
Income taxes	8	**12**	(25)
Profit for the year		**1,242**	1,463
Other comprehensive income/(expense) that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		**5**	(38)
Other comprehensive income that will not be reclassified to the income statement			
Re-measurements of defined benefit plans	27	**5**	–
Other comprehensive income/(expense) for the year		**10**	(38)
Total comprehensive income for the year ("Total return")		**1,252**	1,425
Earnings per share			
Basic (pence)	9	**128.3**	151.7
Diluted (pence)	9	**127.8**	151.0

The Notes on pages 108 to 144 form an integral part of these financial statements.

Consolidated statement of financial position

as at 31 March

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Investments			
Quoted investments	11	**469**	345
Unquoted investments	11	**1,193**	1,751
Investments in investment entity subsidiaries	12	**5,159**	4,034
Investment portfolio		**6,821**	6,130
Carried interest and performance fees receivable	14	**605**	498
Other non-current assets	16	**24**	28
Intangible assets		**11**	12
Retirement benefit surplus	27	**134**	125
Property, plant and equipment		**4**	4
Derivative financial instruments	18	**11**	–
Total non-current assets		**7,610**	6,797
Current assets			
Carried interest and performance fees receivable	14	**35**	93
Other current assets	16	**24**	34
Current income taxes		**12**	3
Derivative financial instruments	18	**7**	–
Deposits		**50**	–
Cash and cash equivalents		**983**	972
Total current assets		**1,111**	1,102
Total assets		**8,721**	7,899
Liabilities			
Non-current liabilities			
Trade and other payables	19	**(1)**	(1)
Carried interest and performance fees payable	15	**(86)**	(105)
Loans and borrowings	17	**(575)**	(575)
Retirement benefit deficit	27	**(27)**	(23)
Deferred income taxes	8	**(1)**	(3)
Provisions		**(1)**	(1)
Total non-current liabilities		**(691)**	(708)
Current liabilities			
Trade and other payables	19	**(94)**	(100)
Carried interest and performance fees payable	15	**(25)**	(55)
Current income taxes		**(1)**	(11)
Provisions		**(1)**	(1)
Total current liabilities		**(121)**	(167)
Total liabilities		**(812)**	(875)
Net assets		**7,909**	7,024
Equity			
Issued capital	20	**719**	719
Share premium		**787**	786
Capital redemption reserve		**43**	43
Share-based payment reserve		**36**	32
Translation reserve		**(3)**	(8)
Capital reserve		**5,590**	4,700
Revenue reserve		**779**	778
Own shares	21	**(42)**	(26)
Total equity		**7,909**	7,024

The Notes on pages 108 to 144 form an integral part of these financial statements.

Simon Thompson
Chairman
15 May 2019

Consolidated statement of changes in equity

for the year to 31 March

2019	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	786	43	32	(8)	4,700	778	(26)	7,024
Profit for the year	–	–	–	–	–	1,096	146	–	1,242
Exchange differences on translation of foreign operations	–	–	–	–	5	–	–	–	5
Re-measurements of defined benefit plans	–	–	–	–	–	5	–	–	5
Total comprehensive income for the year	–	–	–	–	5	1,101	146	–	1,252
Share-based payments	–	–	–	19	–	–	–	–	19
Release on exercise/forfeiture of share awards	–	–	–	(15)	–	–	15	–	–
Exercise of share awards	–	–	–	–	–	(13)	–	13	–
Ordinary dividends	–	–	–	–	–	(198)	(160)	–	(358)
Purchase of own shares	–	–	–	–	–	–	–	(29)	(29)
Issue of ordinary shares	–	1	–	–	–	–	–	–	1
Total equity at the end of the year	719	787	43	36	(3)	5,590	779	(42)	7,909

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

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

The Notes on pages 108 to 144 form an integral part of these financial statements.

Consolidated cash flow statement

for the year to 31 March

	Notes	2019 £m	2018 £m
Cash flow from operating activities			
Purchase of investments		**(125)**	(470)
Proceeds from investments		**826**	414
Cash (outflow)/inflow from investment entity subsidiaries	12	**(264)**	430
Net cash flow from derivatives		**3**	(10)
Portfolio interest received		**6**	4
Portfolio dividends received		**24**	29
Portfolio fees received		**12**	13
Fees received from external funds		**57**	55
Carried interest and performance fees received	14	**102**	6
Carried interest and performance fees paid	15	**(38)**	(40)
Operating expenses paid		**(109)**	(114)
Co-investment loans received		**4**	5
Income taxes paid		**(10)**	(10)
Net cash flow from operating activities		**488**	312
Cash flow from financing activities			
Issue of shares		**1**	1
Purchase of own shares	21	**(29)**	–
Dividend paid	10	**(358)**	(255)
Interest received		**2**	2
Interest paid		**(39)**	(36)
Net cash flow from financing activities		**(423)**	(288)
Cash flow from investing activities			
Purchases of property, plant and equipment		**(3)**	(2)
Purchase of intangibles		**–**	(13)
Net cash flow from deposits		**(50)**	41
Net cash flow from investing activities		**(53)**	26
Change in cash and cash equivalents		**12**	50
Cash and cash equivalents at the start of the year		**972**	931
Effect of exchange rate fluctuations		**(1)**	(9)
Cash and cash equivalents at the end of the year		**983**	972

The Notes on pages 108 to 144 form an integral part of these financial statements.

Company statement of financial position

as at 31 March

	Notes	2019 £m	2018 £m
Assets			
Non-current assets			
Investments			
Quoted investments	11	**469**	345
Unquoted investments	11	**1,193**	1,751
Investment portfolio		**1,662**	2,096
Carried interest and performance fees receivable	14	**655**	539
Interests in Group entities	23	**5,221**	4,112
Other non-current assets	16	**17**	20
Derivative financial instruments	18	**11**	–
Total non-current assets		**7,566**	6,767
Current assets			
Carried interest and performance fees receivable	14	**7**	3
Other current assets	16	**3**	2
Derivative financial instruments	18	**7**	–
Deposits		**50**	–
Cash and cash equivalents		**958**	939
Total current assets		**1,025**	944
Total assets		**8,591**	7,711
Liabilities			
Non-current liabilities			
Loans and borrowings	17	**(575)**	(575)
Total non-current liabilities		**(575)**	(575)
Current liabilities			
Trade and other payables	19	**(483)**	(527)
Total current liabilities		**(483)**	(527)
Total liabilities		**(1,058)**	(1,102)
Net assets		**7,533**	6,609
Equity			
Issued capital	20	**719**	719
Share premium		**787**	786
Capital redemption reserve		**43**	43
Share-based payment reserve		**36**	32
Capital reserve		**5,979**	5,015
Revenue reserve		**11**	40
Own shares	21	**(42)**	(26)
Total equity		**7,533**	6,609

The Company profit for the year to 31 March 2019 is £1,291 million (2018: £1,405 million).

The Notes on pages 108 to 144 form an integral part of these financial statements.

Simon Thompson
Chairman
15 May 2019

Company statement of changes in equity

for the year to 31 March

2019	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	786	43	32	5,015	40	(26)	6,609
Profit for the year	–	–	–	–	1,175	116	–	1,291
Total comprehensive income for the year	–	–	–	–	1,175	116	–	1,291
Share-based payments	–	–	–	19	–	–	–	19
Release on exercise/forfeiture of share awards	–	–	–	(15)	–	15	–	–
Exercise of share awards	–	–	–	–	(13)	–	13	–
Ordinary dividends	–	–	–	–	(198)	(160)	–	(358)
Purchase of own shares	–	–	–	–	–	–	(29)	(29)
Issue of ordinary shares	–	1	–	–	–	–	–	1
Total equity at the end of the year	719	787	43	36	5,979	11	(42)	7,533

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

The Notes on pages 108 to 144 form an integral part of these financial statements.

Company cash flow statement

for the year to 31 March

	Notes	2019 £m	2018 £m
Cash flow from operating activities			
Purchase of investments		**(125)**	(468)
Proceeds from investments		**826**	395
Distributions from subsidiaries		**753**	1,002
Drawdowns by subsidiaries		**(1,023)**	(624)
Net cash flow from derivatives		**3**	(10)
Portfolio interest received		**6**	4
Portfolio dividends received		**24**	25
Portfolio fees paid		**(1)**	(2)
Carried interest and performance fees received	14	**26**	4
Carried interest and performance fees paid		**–**	(23)
Co-investment loans received		**4**	5
Net cash flow from operating activities		**493**	308
Cash flow from financing activities			
Issue of shares		**1**	1
Purchase of own shares	21	**(29)**	–
Dividend paid	10	**(358)**	(255)
Interest received		**2**	2
Interest paid		**(36)**	(36)
Net cash flow from financing activities		**(420)**	(288)
Cash flow from investing activities			
Net cash flow from deposits		**(50)**	41
Net cash flow from investing activities		**(50)**	41
Change in cash and cash equivalents		**23**	61
Cash and cash equivalents at the start of the year		**939**	887
Effect of exchange rate fluctuations		**(4)**	(9)
Cash and cash equivalents at the end of the year		**958**	939

The Notes on pages 108 to 144 form an integral part of these financial statements.

Significant accounting policies

Reporting entity

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The consolidated financial statements ("the Group accounts") for the year to 31 March 2019 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

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

A Basis of preparation

The Group and Company accounts have been prepared and approved by the Directors in accordance with all relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee for the year ended 31 March 2019, endorsed by the European Union ("EU").

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

Effective for annual periods beginning on or after

IFRS 16	Leases	1 January 2019

IFRS 16 Leases replaces IAS 17 Leases and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 will be adopted by the Group from 1 April 2019.

The only impact on the Group relates to leases for use of office space. These are currently classified as operating leases under IAS 17, with lease rentals charged to operating expenses on a straight line basis over the lease term. IFRS 16 requires lessees to recognise a lease liability, representing the present value of the obligation to make lease payments, and a related right of use ("ROU") asset. The lease liability will be calculated based on expected future lease payments, discounted using the relevant incremental borrowing rate. The ROU asset will be assessed for impairment annually and depreciated on a straight line basis.

IFRS 16 will therefore result in an increase in the Group's total assets and total liabilities as detailed below, but will not have a material impact on net assets or total return because the Group does not have material lease liabilities. There will be a non-material impact on the Group's Consolidated statement of comprehensive income as operating lease rentals (recognised in operating expenses) will be replaced with depreciation of the ROU asset (recognised in operating expenses) and effective interest recognised on the lease liability (recognised in interest paid).

On adoption of IFRS 16 at 1 April 2019, the Group will recognise an additional £23 million right of use asset and £23 million lease liability. When measuring the lease liability at 1 April 2019, future lease payments were discounted using a range of incremental borrowing rates between 0.75% and 3.35%. The Group will apply IFRS 16 using the simplified retrospective approach and therefore comparative information will not be restated. A reconciliation of the operating lease commitment as at 31 March 2019 (Note 24) to the opening lease liability at 1 April 2019 is presented below:

	£m
Operating lease commitments at 31 March 2019 as disclosed in Note 24	**24**
Impact of discounting using incremental borrowing rate at 1 April 2019	**(1)**
Opening lease liability at 1 April 2019	**23**

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

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

Accounting developments

On 1 April 2018, the Group adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. The nature and effect of these changes are disclosed further below.

IFRS 9 Financial Instruments

IFRS 9 replaces the classification and measurement models previously contained in IAS 39 Financial Instruments: Recognition and Measurement.

The Group has applied IFRS 9 retrospectively, but has not restated comparative information.

The accounting for the Group's financial assets and liabilities is materially unchanged following the adoption of IFRS 9.

IFRS 15 Revenue from contracts with customers

IFRS 15 supersedes IAS 11 Construction contracts, IAS 18 Revenue and related interpretations and applies to all revenue arising from contracts with customers.

Items in the Group's Consolidated statement of comprehensive income that are within the scope of IFRS 15 are fees receivable, fees receivable from external funds and carried interest and performance fees receivable. The accounting policies for these items are shown in Notes 4 and 14. The Group's accounting for fees receivable and fees receivable from external funds is unchanged. However, IFRS 15 has introduced a key judgement of the extent to which it is highly probable that there will not be a significant reversal of carried interest and performance fees receivable when the relevant uncertainty is resolved. Following a detailed review, it was concluded that the adoption of IFRS 15 had no impact on the carried interest and performance fees receivable recognised by the Group. Further details of our considerations around the adoption of IFRS 15 are included on page 34 of the Financial review.

The Group has applied IFRS 15 using the modified retrospective method. As our recognition remained unchanged, no adjustment to the opening balance of retained earnings was required.

Revenue has been disaggregated in accordance with IFRS 15 in Note 4.

B Basis of consolidation

In accordance with IFRS 10 the Company meets the criteria as an investment entity and therefore is required to recognise subsidiaries that also qualify as investment entities at fair value through profit or loss. It does not consolidate the investment entities it controls. Subsidiaries that provide investment related services, such as advisory, management or employment services, are not accounted for at fair value through profit and loss and continue to be consolidated unless they are deemed investment entities, in which case they are recognised at fair value.

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

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

The Group is required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment is accurate.

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

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

General Partners (GPs) – Consolidated

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

Investment managers/advisers – Consolidated

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

Holding companies of investment managers/advisers – Consolidated

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

Limited Partnerships and other intermediate investment holding structures – Fair valued

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

Portfolio investments – Fair valued

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

Significant accounting policies
continued

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

Further detail on our application of IFRS 10 can be found in the Reconciliation of Investment basis to IFRS section.

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

(a) Critical judgements
In the course of preparing the financial statements, two judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements as follows:

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

II. Carried interest receivable
Carried interest receivable is calculated based on the underlying agreements, and assuming all portfolio investments are sold at their fair values at the balance sheet date. In accordance with IFRS 15, the calculated carried interest receivable can only be recognised to the extent to which it is highly probable that there will not be a significant reversal when the relevant uncertainty is resolved. This judgement is made on a fund-by-fund basis, based on its specific circumstances, including consideration of: remaining duration of the fund, position in relation to the cash hurdle, the number of assets remaining in the fund and the potential for clawback.

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

I. Fair valuation of the investment portfolio
The investment portfolio, a material asset of the Group, is held at fair value. Details of valuation methodologies used and the associated sensitivities are disclosed in Note 13 Fair values of assets and liabilities. Further information can be found in Portfolio valuation – an explanation on pages 157 and 158. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee (including a review of the assumptions made) is included on pages 75 to 78. In addition, sensitivity to a net 1x movement on Action's multiple, the largest investment in our portfolio, is included in the Strategic report on page 20.

II. Carried interest receivable and payable
Carried interest receivable and payable are calculated based on the underlying agreements, and assuming all portfolio investments are sold at their fair values at the balance sheet date. The actual amounts of carried interest received and paid will depend on the cash realisations of these portfolio investments and valuations may change significantly in the next financial year. The fair valuation of the investment portfolio is itself a critical estimate, as detailed above. The sensitivity of carried interest to movements in the investment portfolio is disclosed in Notes 14 and 15.

D Other accounting policies

(a) Gross investment return

Gross investment return is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs and includes foreign exchange movements in respect of the investment portfolio. The substantial majority is investment income and outside the scope of IFRS 15. It is analysed into the following components with the relevant standard shown where appropriate:

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

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

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

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

- Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders' rights to receive payment have been established.
- Interest income from investment portfolio is recognised as it accrues. 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.
- The accounting policy for fee income is included in Note 4.

v. Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction in accordance with IAS 21. At each subsequent reporting date, investments are translated to sterling at the exchange rate ruling at that date.

vi. Movement in the fair value of derivatives relates to the change in fair value of forward foreign exchange contracts which have been used to minimise foreign currency risk in the investment portfolio. See Note 18 for further details.

(b) Foreign currency translation

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

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

(c) Treasury assets and liabilities

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

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

Notes to the accounts

1 Segmental analysis

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

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

The segmental information that follows is presented on the basis used by the Chief Executive to monitor the performance of the Group. The reported segments are Private Equity, Infrastructure and Corporate Assets. On 21 June 2018, the Group completed the sale and re-investment into Scandlines. The re-investment in Scandlines is managed as a Corporate Asset separate from the Private Equity and Infrastructure businesses and, as such, is shown separately in the segmental analysis. Corporate Assets replaced Other as a segment in FY2019. In FY2018, Other comprised the residual investments retained following the sale of our Debt Management business. These residual investments were sold in FY2018.

The segmental analysis is prepared on the Investment basis to provide the most meaningful information to the reader of the accounts. For more information on the Investment basis and a reconciliation between the Investment basis and IFRS see pages 39 to 42.

Investment basis Year to 31 March 2019	Private Equity £m	Infrastructure £m	Corporate Assets £m	Total £m
Realised profits over value on the disposal of investments	131	1	–	132
Unrealised profits on the revaluation of investments	916	162	9	1,087
Portfolio income				
Dividends	12	23	28	63
Interest income from investment portfolio	103	10	–	113
Fees receivable	10	(1)	–	9
Foreign exchange on investments	(24)	15	(9)	(18)
Movement in the fair value of derivatives	–	–	21	21
Gross investment return	1,148	210	49	1,407
Fees receivable from external funds	4	49	–	53
Operating expenses	(77)	(48)	(1)	(126)
Interest receivable				2
Interest payable				(36)
Exchange movements				(3)
Other expense				(2)
Operating profit before carry				1,295
Carried interest				
Carried interest and performance fees receivable	128	31	–	159
Carried interest and performance fees payable	(206)	(14)	–	(220)
Operating profit				1,234
Income taxes				13
Other comprehensive income				
Re-measurements of defined benefit plans				5
Total return				1,252
Net divestment/(investment)				
Realisations[1]	1,235	7	–	1,242
Cash investment	(332)	2	(529)	(859)
	903	9	(529)	383
Balance sheet				
Opening portfolio value at 1 April 2018	5,825	832	–	6,657
Investment[2]	426	(2)	529	953
Value disposed	(1,103)	(6)	–	(1,109)
Unrealised value movement	916	162	9	1,087
Other movement[3]	(41)	15	(9)	(35)
Closing portfolio value at 31 March 2019	6,023	1,001	529	7,553

1 Private Equity does not include £19 million received during the year which was recognised as realised proceeds in FY2018.

2 Includes capitalised interest and other non-cash investment.

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

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

1 Segmental analysis continued

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

1 The Other segment comprises the residual Debt Management portfolio.
2 £46 million in Private Equity relates to cash in transit at year end.
3 Includes capitalised interest and other non-cash investment.
4 Other movement relates to foreign exchange and the provisioning of capitalised interest.
A number of items are not managed by segment by the chief operating decision maker and therefore have not been allocated to a specific segment.

Notes to the accounts
continued

1 Segmental analysis continued

Investment basis Year to 31 March 2019	UK £m	Northern Europe £m	North America £m	Other £m	Total £m
Gross investment return					
Realised profits over value on the disposal of investments	**2**	**126**	**–**	**4**	**132**
Unrealised profits/(losses) on the revaluation of investments	**289**	**745**	**85**	**(32)**	**1,087**
Portfolio income	**60**	**111**	**15**	**(1)**	**185**
Foreign exchange on investments	**–**	**(85)**	**54**	**13**	**(18)**
Movement in fair value of derivatives	**–**	**21**	**–**	**–**	**21**
	351	**918**	**154**	**(16)**	**1,407**
Net divestment/(investment)					
Realisations	**88**	**1,116**	**6**	**32**	**1,242**
Cash investment	**–**	**(730)**	**(129)**	**–**	**(859)**
	88	**386**	**(123)**	**32**	**383**
Balance sheet					
Closing portfolio value at 31 March 2019	**1,453**	**4,976**	**931**	**193**	**7,553**

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

2 Realised profits over value on the disposal of investments

	2019 Unquoted investments £m	2019 Quoted investments £m	2019 Total £m
Realisations	**826**	**–**	**826**
Valuation of disposed investments	**(793)**	**–**	**(793)**
	33	**–**	**33**
Of which:			
– profits recognised on realisations	**33**	**–**	**33**
– losses recognised on realisations	**–**	**–**	**–**
	33	**–**	**33**

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

3 Unrealised profits on the revaluation of investments

	2019 Unquoted investments £m	2019 Quoted investments £m	2019 Total £m
Movement in the fair value of investments	**66**	**102**	**168**
Of which:			
– unrealised gains	**105**	**102**	**207**
– unrealised losses	**(39)**	**–**	**(39)**
	66	**102**	**168**

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

Notes to the accounts
continued

4 Revenue

Accounting policy:

The following items from the Consolidated statement of comprehensive income fall within the scope of IFRS 15:

Fees receivable are earned for providing services to 3i's portfolio companies, which predominantly fall into one of two categories:

Negotiation and other transaction fees are earned for providing services relating to a specific transaction, such as when a portfolio company is bought, sold or refinanced. These fees are generally of a fixed nature and the revenue is recognised in full at the point of transaction completion.

Monitoring and other ongoing service fees are earned for providing a range of services to a portfolio company over a period of time. These fees are generally of a fixed nature and the revenue is recognised evenly over the period, in line with the services provided.

Fees receivable from external funds are earned for providing management and advisory services to a variety of fund partnerships and other entities. Fees are typically calculated as a percentage of the cost or value of the assets managed during the year and are paid quarterly, based on the assets under management at that date. The revenue is recognised evenly over the period, in line with the services provided.

Carried interest and performance fees receivable – the accounting policy for carried interest and performance fees receivable is shown in Note 14.

Items from the Consolidated statement of comprehensive income which fall within the scope of IFRS 15 are included in the table below:

Year to 31 March 2019	**Private Equity £m**	**Infrastructure £m**	**Total £m**
Total revenue by geography[1]			
UK	**136**	**62**	**198**
Northern Europe	**6**	**17**	**23**
North America	**6**	**(1)**	**5**
Other	**–**	**1**	**1**
Total	**148**	**79**	**227**
Revenue by type			
Fees receivable[2] from portfolio	**12**	**(1)**	**11**
Fees receivable from external funds	**4**	**49**	**53**
Carried interest and performance fees receivable[2]	**132**	**31**	**163**
Total	**148**	**79**	**227**

Year to 31 March 2018	Private Equity £m	Infrastructure £m	Total £m
Total revenue by geography[1]			
UK	144	21	165
Northern Europe	14	119	133
North America	4	–	4
Total	162	140	302
Revenue by type			
Fees receivable[2] from portfolio	17	–	17
Fees receivable from external funds	7	50	57
Carried interest and performance fees receivable[2]	138	90	228
Total	162	140	302

1 For fees receivable from external funds and carried interest and performance fees receivable the geography is based on the domicile of the fund.

2 Fees receivable and carried interest receivable above are different to the Investment basis figures included in Note 1. This is due to the fact that Note 1 is disclosed on the Investment basis and the table above is shown on the IFRS basis. For an explanation of the Investment basis and a reconciliation between Investment basis and IFRS basis see pages 39 to 42.

4 Revenue continued

Consolidated statement of financial position

As at 31 March 2019, other current assets in the Consolidated statement of financial position includes balances relating to fees receivable from portfolio and fees receivable from external funds of £1 million and £1 million respectively (31 March 2018: £3 million and £5 million respectively). Details of the carried interest and performance fees receivable included in the Consolidated statement of financial position are shown in Note 14. These are different to the balances included in the Investment basis consolidated statement of financial position. For an explanation of the Investment basis and a reconciliation between Investment basis and IFRS basis see pages 39 to 42.

5 Operating expenses

Operating expenses of £126 million (2018: £120 million) recognised in the IFRS Consolidated statement of comprehensive income include the following amounts:

	2019 £m	2018 £m
Depreciation of property, plant and equipment	**2**	2
Amortisation of intangible assets	**1**	1
Audit fees (Note 7)	**2**	2
Staff costs (Note 6)	**83**	83
Redundancy and termination costs	**4**	2

Including expenses incurred in the entities accounted for as investment entity subsidiaries of nil (2018: £1 million), the Group's total operating expenses for the year were £126 million (2018: £121 million).

6 Staff costs

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

	2019 £m	2018 £m
Wages and salaries	**62**	63
Social security costs	**10**	11
Share-based payment costs (Note 28)	**8**	5
Pension costs	**3**	4
Total staff costs	**83**	83

The average number of employees during the year was 240 (2018: 241), of which 156 (2018: 159) were employed in the UK.

Wages and salaries shown above include salaries paid in the year, as well as bonuses and portfolio incentive schemes relating to the year ended 31 March 2019. These costs are included in operating expenses. The table below analyses these costs between fixed and variable elements.

	2019 £m	2018 £m
Fixed staff costs	**40**	40
Variable staff costs[1]	**43**	43
Total staff costs	**83**	83

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

More detail on this information is included in the Directors' remuneration report on pages 79 to 89.

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7 Information regarding the Group's Auditor

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

		2019 £m	2018 £m
Audit services			
Statutory audit	– Company	**1.3**	1.3
	– UK subsidiaries	**0.5**	0.5
	– Overseas subsidiaries	**0.1**	0.1
Total audit services		**1.9**	1.9
Non-audit services			
Other assurance services		**0.2**	0.3
Investment due diligence		**0.4**	0.1
Total audit and non-audit services		**2.5**	2.3

8 Income taxes

Accounting policy:

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the Consolidated statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt 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 Consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

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

		2019 £m	2018 £m
Current taxes			
Current year	– UK	**1**	22
	– Overseas	**3**	1
Prior year	– UK	**(14)**	–
	– Overseas	**–**	(1)
Deferred taxes			
Current year		**–**	3
Prior year		**(2)**	–
Total income tax (credit)/charge in the Consolidated statement of comprehensive income		**(12)**	25

8 Income taxes continued

Reconciliation of income taxes in the Consolidated statement of comprehensive income

The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 19% (2018: 19%), and the differences are explained below:

	2019 £m	2018 £m
Profit before tax	1,230	1,488
Profit before tax multiplied by rate of corporation tax in the UK of 19% (2018: 19%)	234	283
Effects of:		
Non-taxable capital profits due to UK approved investment trust company status	(213)	(257)
Non-taxable dividend income	(12)	(9)
	9	17
Other differences between accounting and tax profits:		
Permanent differences – non-deductible items	(4)	2
Temporary differences on which deferred tax is not recognised	(3)	4
Overseas countries taxes	3	–
Recognition of previously unrecognised deferred tax on losses	–	5
Prior year adjustments	(16)	–
Utilisation of brought forward losses	(1)	(3)
Total income tax (credit)/charge in the Consolidated statement of comprehensive income	(12)	25

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

Including a net tax credit of £1 million (2018: £1 million charge) in investment entity subsidiaries, the Group recognised a total tax credit of £13 million (2018: charge of £26 million) under the Investment basis. This tax credit arises as a result of finalising the Group's UK tax returns for FY2018.

Deferred income taxes

	2019 £m	2018 £m
Opening deferred income tax liability		
Tax losses	3	8
Income in accounts taxable in the future	(6)	(8)
	(3)	–
Recognised through Consolidated statement of comprehensive income		
Tax losses recognised	(3)	(5)
Income in accounts taxable in the future	5	2
	2	(3)
Closing deferred income tax liability		
Tax losses	–	3
Income in accounts taxable in the future	(1)	(6)
	(1)	(3)

At 31 March 2019, the Group had carried forward tax losses of £1,419 million (31 March 2018: £1,400 million), capital losses of £87 million (31 March 2018: £102 million) and other temporary differences of £64 million (31 March 2018: £83 million). With the additional restrictions on utilising brought forward losses introduced from 1 April 2017, and the uncertainty that the Group will generate sufficient or relevant taxable profits in the foreseeable future to utilise these amounts, no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 19% (2018: 19%).

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9 Per share information

The calculation of basic net assets per share is based on the net assets and the number of shares in issue. When calculating the diluted net assets per share, the number of shares in issue is adjusted for the effect of all dilutive share awards.

	2019	2018
Net assets per share (£)		
Basic	**8.19**	7.28
Diluted	**8.15**	7.24
Net assets (£m)		
Net assets attributable to equity holders of the Company	**7,909**	7,024

	2019	2018
Number of shares in issue		
Ordinary shares	**973,000,665**	972,897,006
Own shares	**(7,014,008)**	(7,856,601)
	965,986,657	965,040,405
Effect of dilutive potential ordinary shares		
Share awards	**3,994,492**	4,732,745
Diluted shares	**969,981,149**	969,773,150

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

	2019	2018
Earnings per share (pence)		
Basic earnings per share	**128.3**	151.7
Diluted earnings per share	**127.8**	151.0
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	**1,242**	1,463

Basic earnings per share is calculated on weighted average shares in issue of 967,932,072 for the year to 31 March 2019 (2018: 964,091,662). Diluted earnings per share is calculated on diluted weighted average shares of 971,792,591 for the year to 31 March 2019 (2018: 968,705,437).

10 Dividends

	2019 pence per share	2019 £m	2018 pence per share	2018 £m
Declared and paid during the year				
Ordinary shares				
Second dividend	**22.0**	**213**	18.5	178
First dividend	**15.0**	**145**	8.0	77
	37.0	**358**	26.5	255
Proposed dividend	**20.0**	**193**	22.0	212

The Group introduced a simplified dividend policy in May 2018. In accordance with this policy, subject to maintaining a conservative balance sheet approach, the Group aims to maintain or grow the dividend each year. The first dividend is expected to be set at 50% of the prior year's total dividend.

The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules. The distributable reserves of the parent company are £2,226 million (31 March 2018: £1,941 million) and the Board reviews the distributable reserves bi-annually ahead of proposing any dividend. The Board also reviews the proposed dividends in the context of the requirements of being an approved investment trust. Details of the Group's continuing viability and going concern can be found in the Risk management section.

11 Investment portfolio

Accounting policy:

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

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

Quoted investments are accounted for at fair value through profit and loss. Fair value is measured using the closing bid price at the reporting date, where the investment is quoted on an active stock market.

Unquoted investments, including both equity and loans, are accounted for at fair value through profit and loss. Fair value is determined in line with 3i's valuation policy, which is compliant with the fair value guidelines under IFRS and the International Private Equity and Venture Capital (IPEV) Valuation Guidelines, details of which are available in "Portfolio valuation – an explanation" on pages 157 and 158.

Interest bearing loans accrue interest which is either settled in cash or capitalised on a regular basis and included as part of the principal loan balance. The capitalisation of accrued interest is treated as part of investment additions during the year. If the fair value of an investment is assessed to be below the principal value of the loan the Group recognises a fair value reduction against any interest income accrued from the date of the assessment going forward. "Capitalisation at nil value" is the term used to describe the capitalisation of accrued interest which has been fully provided for. These transactions are disclosed as additions to portfolio cost with an equal reduction made where loan notes have nil value.

In accordance with IFRS 10, the proportion of the investment portfolio held by the Group's unconsolidated subsidiaries is presented as part of the fair value of investment entity subsidiaries, along with the fair value of their other assets and liabilities. A reconciliation of the fair value of Investments in investment entities is included in Note 12.

	Group 2019 £m	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Opening book value	**2,096**	1,706	**2,096**	1,685
Additions	**150**	481	**150**	481
– of which loan notes with nil value	**(5)**	–	**(5)**	–
Disposals, repayments and write-offs	**(793)**	(396)	**(793)**	(375)
Fair value movement[1]	**168**	386	**168**	386
Other movements and net cash movements[2]	**46**	(81)	**46**	(81)
Closing book value	**1,662**	2,096	**1,662**	2,096
Quoted investments	**469**	345	**469**	345
Unquoted investments	**1,193**	1,751	**1,193**	1,751
Closing book value	**1,662**	2,096	**1,662**	2,096

1 All fair value movements relate to assets held at the end of the period.
2 Other movements includes the impact of foreign exchange and transfers of investments to/from investment entity subsidiaries.

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

Additions in the year included cash investment of £125 million (2018: £470 million) and £25 million (2018: £11 million) in capitalised interest received by way of loan notes, of which £5 million (2018: nil) was written down to nil.

Included within the Consolidated statement of comprehensive income is £33 million (2018: £26 million) of interest income. This comprised the £20 million of capitalised interest noted above, £6 million (2018: £4 million) of cash income and the capitalisation of prior year accrued income and non-capitalised accrued income of £7 million (2018: £11 million).

Quoted investments are classified as Level 1 and unquoted investments are classified as Level 3 in the fair value hierarchy, see Note 13 for details.

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12 Investments in investment entity subsidiaries

Accounting policy:

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and loss in accordance with IFRS 9.

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

Substantially all of these entities meet the definition of a Fund under the IPEV guidelines and the fair value and unit of account of these entities is their net asset value.

We determine that, in the ordinary course of business, the net asset value of investment entity subsidiaries is considered to be the most appropriate to determine fair value. At each reporting period, we consider whether any additional fair value adjustments need to be made to the net asset value of the investment entity subsidiaries. These adjustments may be required to reflect market participants' considerations about fair value that may include, but are not limited to, liquidity and the portfolio effect of holding multiple investments within the investment entity subsidiary. There was no particular circumstance to indicate that a fair value adjustment was required and, after due consideration, we concluded that the net asset values were the most appropriate reflection of fair value at 31 March 2019.

Non-current	Group 2019 £m	Group 2018 £m
Opening fair value	**4,034**	3,483
Net cash flow to/(from) investment entity subsidiaries	**264**	(430)
Fair value movements on investment entity subsidiaries	**827**	848
Transfer of assets to investment entity subsidiaries	**34**	133
Closing fair value	**5,159**	4,034

All investment entity subsidiaries are classified as Level 3 in the fair value hierarchy, see Note 13 for details.

A 5% movement in the closing book value of investments in investment entities would have an impact of £258 million (31 March 2018: £202 million).

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no restrictions on the ability to transfer funds from these subsidiaries to the Group, except for a cash balance of £93 million (31 March 2018: £85 million) held on escrow in investment entity subsidiaries for carried interest payable.

Support

3i Group plc continues to provide, where necessary, ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the year, there were net cash flows from the Group to investment entity subsidiaries as noted in the table above. The Group's current commitments are disclosed in Note 25.

13 Fair values of assets and liabilities

Accounting policy:

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

(A) Classification

The following tables analyse the Group's assets and liabilities in accordance with the categories of financial instruments in IFRS 9 (31 March 2018: IAS 39):

	Group 2019 Classified at fair value through profit and loss £m	Group 2019 Other financial instruments at amortised cost £m	Group 2019 Total £m	Group 2018 Classified at fair value through profit and loss £m	Group 2018 Other financial instruments at amortised cost £m	Group 2018 Total £m
Assets						
Quoted investments	**469**	**–**	**469**	345	–	345
Unquoted investments	**1,193**	**–**	**1,193**	1,751	–	1,751
Investments in investment entities	**5,159**	**–**	**5,159**	4,034	–	4,034
Other financial assets	**52**	**654**	**706**	–	653	653
Total	**6,873**	**654**	**7,527**	6,130	653	6,783
Liabilities						
Loans and borrowings	**–**	**575**	**575**	–	575	575
Other financial liabilities	**–**	**206**	**206**	–	261	261
Total	**–**	**781**	**781**	–	836	836

	Company 2019 Classified at fair value through profit and loss £m	Company 2019 Other financial instruments at amortised cost £m	Company 2019 Total £m	Company 2018 Classified at fair value through profit and loss £m	Company 2018 Other financial instruments at amortised cost £m	Company 2018 Total £m
Assets						
Quoted investments	**469**	**–**	**469**	345	–	345
Unquoted investments	**1,193**	**–**	**1,193**	1,751	–	1,751
Other financial assets	**34**	**666**	**700**	–	564	564
Total	**1,696**	**666**	**2,362**	2,096	564	2,660
Liabilities						
Loans and borrowings	**–**	**575**	**575**	–	575	575
Other financial liabilities	**–**	**483**	**483**	–	527	527
Total	**–**	**1,058**	**1,058**	–	1,102	1,102

Within the Company, £5,163 million (31 March 2018: £4,045 million) of the Interest in Group entities is held at fair value.

(B) Valuation

The fair values of the Group's financial assets and liabilities not held at fair value, are not materially different from their carrying values, with the exception of loans and borrowings. The fair value of the loans and borrowings is £709 million (31 March 2018: £718 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2018: £575 million) and accrued interest payable (included within trade and other payables) is £8 million (31 March 2018: £8 million).

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13 Fair values of assets and liabilities continued

Valuation hierarchy

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

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

Unquoted equity instruments and debt instruments are measured in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments can be found in the section Portfolio valuation – an explanation on pages 157 and 158.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2019:

	Group 2019 Level 1 £m	**Group 2019 Level 2 £m**	**Group 2019 Level 3 £m**	**Group 2019 Total £m**	Group 2018 Level 1 £m	Group 2018 Level 2 £m	Group 2018 Level 3 £m	Group 2018 Total £m
Assets								
Quoted investments	**469**	**–**	**–**	**469**	345	–	–	345
Unquoted investments	**–**	**–**	**1,193**	**1,193**	–	–	1,751	1,751
Investments in investment entity subsidiaries	**–**	**–**	**5,159**	**5,159**	–	–	4,034	4,034
Other financial assets	**–**	**18**	**34**	**52**	–	–	–	–
Total	**469**	**18**	**6,386**	**6,873**	345	–	5,785	6,130

We determine that, in the ordinary course of business, the net asset value of an investment entity subsidiary is considered to be the most appropriate to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries fair valued in accordance with the Group's accounting policies. Note 12 details the Directors' considerations about the fair value of the underlying investment entity subsidiaries.

Movements in the directly held investment portfolio categorised as Level 3 during the year are set out in the table below:

	Group 2019 £m	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Opening book value	**1,751**	1,316	**1,751**	1,295
Additions	**150**	481	**150**	481
– of which loan notes with nil value	**(5)**	–	**(5)**	–
Disposals, repayments and write-offs	**(793)**	(315)	**(793)**	(293)
Fair value movement[1]	**66**	346	**66**	346
Other movements and net cash movements[2]	**24**	(77)	**24**	(78)
Closing book value	**1,193**	1,751	**1,193**	1,751

1 All fair value movements relate to assets held at the end of the period.
2 Other movements include the impact of foreign exchange and transfers of investments to/from investment entity subsidiaries.

13 Fair values of assets and liabilities continued

Unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised profits over value on disposal of investments of £33 million (2018: £14 million), dividend income of £12 million (2018: £13 million) and foreign exchange gains of £17 million (2018: foreign exchange losses of £12 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2019 classified as Level 3, 77% (31 March 2018: 40%) were valued using a multiple of earnings and the remaining 23% (31 March 2018: 60%) were valued using alternative valuation methodologies. Of the underlying portfolio held by investment entity subsidiaries, 88% (31 March 2018: 95%) were valued using a multiple of earnings and the remaining 12% (31 March 2018: 5%) were valued using alternative valuation methodologies.

Assets move between Level 1 and Level 3 when an unquoted equity investment lists on a quoted market exchange. There were no transfers in or out of Level 3 during the year.

Valuation multiple – The valuation multiple is the main assumption applied to a multiple of earnings based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and multiples are then adjusted for factors including liquidity risk, growth potential and relative performance. They are also adjusted to represent our longer term view of performance through the cycle or our exit assumptions. The value weighted average post discount earnings multiple used when valuing the portfolio at 31 March 2019 was 12.1x (31 March 2018: 11.7x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2019 decreased by 5%, the investment portfolio value would decrease by £57 million (31 March 2018: £43 million) or 3% (31 March 2018: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative value impact of £318 million (31 March 2018: £270 million) or 5% (31 March 2018: 6%).

If the multiple increased by 5% then the investment portfolio value would increase by £57 million (31 March 2018: £35 million) or 3% (31 March 2018: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive value impact of £318 million (31 March 2018: £260 million) or 5% (31 March 2018: 6%).

Alternative valuation methodologies – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and inputs that are used, are given in the Portfolio valuation – an explanation section on pages 157 and 158.

Each methodology is used for a proportion of assets by value, and at year end the following techniques were used under an IFRS basis: 7% DCF (31 March 2018: 5%), nil imminent sale (31 March 2018: 45%), 11% industry metric (31 March 2018: 7%) and 5% other (31 March 2018: 3%).

If the value of all of the investments valued under alternative methodologies moved by 5%, this would have an impact on the investment portfolio value of £14 million (31 March 2018: £53 million) or 1% (31 March 2018: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a value impact of £33 million (31 March 2018: £10 million) or 0.6% (31 March 2018: 0.3%).

14 Carried interest and performance fees receivable

Accounting policy:

The Group earns a share of profits ("carried interest receivable") from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions and are paid by the fund when these conditions have been met on a cash basis. In certain limited circumstances the carried interest received may be subject to clawback provisions if the performance of the fund deteriorates materially following carried interest being paid.

The carried interest receivable recognised at the balance sheet date is calculated based on the valuation of the remaining portfolio assets in the fund at that date, discounted to reflect the estimated realisation dates. An assessment of whether it is sufficiently certain that there will not be a significant reversal of this revenue is carried out on a fund by fund basis, based on its specific circumstances, including consideration of: remaining duration of the fund, position in relation to the cash hurdle, the number of assets remaining in the fund and the potential for clawback.

The Group earns performance fees from the investment management services it provides to 3i Infrastructure plc ("3iN") when 3iN's total return for the year exceeds a specified threshold. These fees are calculated on an annual basis and paid in cash early in the next financial year. Revenue from performance fees is recognised when it is sufficiently certain that there will not be a significant reversal, which is usually at the end of the relevant financial year, when the calculation is finalised and agreed.

Following initial recognition, carried interest and performance fees receivable are accounted for under the amortised cost method in accordance with IFRS 9. This includes the requirement to calculate expected credit losses at inception. Given that carried interest and performance fees are received from a small number of entities which are managed by the Group and are paid shortly following receipt of the proceeds or finalisation of the calculation which causes the payments to become due, the expected credit losses for these receivables are expected to be negligible.

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14 Carried interest and performance fees receivable continued

	Group 2019 Carried interest receivable £m	Group 2019 Performance fees receivable £m	Group 2019 Total £m	Group 2018 Carried interest receivable £m	Group 2018 Performance fees receivable £m	Group 2018 Total £m
Opening carried interest and performance fees receivable	**501**	**90**	**591**	359	4	363
Carried interest and performance fees receivable recognised in the Consolidated statement of comprehensive income during the year	**132**	**31**	**163**	138	90	228
Cash received in the year	**(12)**	**(90)**	**(102)**	(2)	(4)	(6)
Other movements[1]	**(12)**	**–**	**(12)**	6	–	6
Closing carried interest and performance fees receivable	**609**	**31**	**640**	501	90	591
Of which: receivable in greater than one year	**605**	**–**	**605**	498	–	498

	Company 2019 Carried interest receivable £m	Company 2019 Performance fees receivable £m	Company 2019 Total £m	Company 2018 Carried interest receivable £m	Company 2018 Performance fees receivable £m	Company 2018 Total £m
Opening carried interest and performance fees receivable	**542**	**–**	**542**	359	–	359
Carried interest and performance fees receivable recognised in the Consolidated statement of comprehensive income during the year	**158**	**–**	**158**	183	–	183
Cash received in the year	**(26)**	**–**	**(26)**	(4)	–	(4)
Other movements[1]	**(12)**	**–**	**(12)**	4	–	4
Closing carried interest and performance fees receivable	**662**	**–**	**662**	542	–	542
Of which: receivable in greater than one year	**655**	**–**	**655**	539	–	539

1 Other includes the impact of foreign exchange.

The closing carried interest receivable balance above is calculated using the fair value of the assets in the relevant funds at the balance sheet date. The carried interest receivable recognised in the statement of comprehensive income during the year predominantly relates to changes in the fair value of the investments in the relevant funds.

A 5% movement in the valuation of all individual assets in the underlying investment portfolio (including those portfolio investments held by investment entity subsidiaries) would result in a £20 million (31 March 2018: £22 million) movement in the carried interest receivable balance. As there is nil carried interest receivable included within investment entity subsidiaries (31 March 2018: £5 million), there is no material difference when carried interest receivable within investment entity subsidiaries is included.

As explained in the accounting policy above, no expected credit losses have been recognised for carried interest and performance fees receivable as these are deemed to be negligible.

15 Carried interest and performance fees payable

Accounting policy:

The Group offers investment executives the opportunity to participate in the returns from investments subject to certain performance conditions. "Carried interest and performance fees payable" is the term used for amounts payable to executives on these investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest plans and participants include current and former investment executives. Carried interest payable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that plan were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest plan, discounted to reflect the likely actual cash payment date, which may be materially later than the time of the accrual.

The Infrastructure performance fee is accrued based on the expected award. A significant proportion of the amount awarded is deferred over time and may be granted in either 3i Group plc or 3i Infrastructure plc shares. This is recognised over the vesting period in line with the requirements of IFRS 2 or IAS 19, depending on the type of award.

Under IFRS 10, where carried interest payable reduces the fair value of an investment entity subsidiary, that movement is recorded through "Fair value movements on investment entity subsidiaries". At 31 March 2019, £859 million of carried interest payable was recognised in the Consolidated statement of financial position of these investment entity subsidiaries (31 March 2018: £710 million).

	Group 2019 £m	Group 2018 £m
Opening carried interest and performance fees payable	**160**	147
Carried interest and performance fees payable recognised in the Consolidated statement of comprehensive income during the year[1]	**(12)**	19
Cash paid in the year	**(38)**	(40)
Other movements[2]	**1**	34
Closing carried interest and performance fees payable	**111**	160
Of which: payable in greater than one year	**86**	105

1 The carry payable credit in the table above does not include £12 million (2018: £13 million) associated with the share-based payment charge arising from related carry schemes. The total carried interest and performance fee payable recognised in the Consolidated statement of comprehensive income is nil (2018: £32 million charge). See Note 28 Share-based payments for further details.

2 Other includes the impact of foreign exchange and a transfer from trade and other payables.

A 5% increase in the valuation of all individual assets in the underlying investment portfolio (including those portfolio investments held by investment entity subsidiaries) would result in a £1 million increase in carried interest payable (31 March 2018: £4 million). Including carried interest payable recognised in investment entity subsidiaries, it would result in a £66 million increase (31 March 2018: £45 million).

A 5% decrease in the valuation of all individual assets in the underlying investment portfolio would result in a £1 million decrease in carried interest payable (31 March 2018: £4 million). Including carried interest payable recognised in investment entity subsidiaries, it would result in a £40 million decrease (31 March 2018: £35 million).

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16 Other assets

Accounting policy:

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. Financial assets are recognised at amortised cost in accordance with IFRS 9, which includes the requirement to calculate expected credit losses ("ECLs") on initial recognition. Any ECLs are recognised directly in the Consolidated statement of comprehensive income, with any subsequent reversals recognised in the same location.

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Prepayments	**3**	3	**–**	–
Other debtors	**45**	59	**20**	21
Amounts due from subsidiaries	**–**	–	**–**	1
Total other assets	**48**	62	**20**	22
Of which: receivable in greater than one year	**24**	28	**17**	20

At 31 March 2019 no ECLs have been recognised against other assets as they are negligible (31 March 2018: nil).

17 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 2019 £m	Group 2018 £m
Loans and borrowings are repayable as follows:		
Within one year	**–**	–
Between the second and fifth year	**200**	200
After five years	**375**	375
	575	575

Principal borrowings include:

	Rate	Maturity	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2023	**200**	200	**200**	200
£375 million notes (public issue)	5.750%	2032	**375**	375	**375**	375
			575	575	**575**	575
Committed multi-currency facilities						
£350 million	LIBOR+0.60%	2021	**–**	–	**–**	–
			–	–	**–**	–
Total loans and borrowings			**575**	575	**575**	575

There was no change in total financing liabilities for the Group or the Company during the year as the cash flows relating to the financing liabilities were equal to the income statement expense. Accordingly, no reconciliation between the movement in financing liabilities and the cash flow statement has been presented.

The maturity of the Company's £350 million (31 March 2018: £350 million) syndicated multi-currency facility is September 2021, with the total size reducing to £328 million in September 2020. The £350 million facility has no financial covenants.

17 Loans and borrowings continued

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 £709 million (31 March 2018: £718 million), determined with reference to their published market prices. The loans and borrowings are included in Level 2 of the fair value hierarchy.

In accordance with the FCA Handbook (FUNDS 3.2.2. R and Fund 3.2.6. R), 3i Investments plc, as AIFM of the Company, is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with this formula, leverage at 31 March 2019 for the Group is 96% (31 March 2018: 111%) and the Company is 84% (31 March 2018: 105%) under both the gross method and the commitment method. The leverage for 3i Investments plc at 31 March 2019 is 100% (31 March 2018: 100%) under both the gross method and the commitment method.

Under the Securities Financing Transactions Regulation ("SFTR") and AIFMD, 3i is required to disclose certain information relating to the use of securities financing transactions ("SFTs") and total return swaps. At 31 March 2019, 3i was not party to any transactions involving SFTs or total return swaps.

18 Derivatives

Accounting policy:

Derivative financial instruments are accounted for at fair value through profit and loss in accordance with IFRS 9. They are revalued at the balance sheet date based on market prices, with any change in fair value being recorded in the Consolidated statement of comprehensive income. Derivatives are recognised in the Consolidated statement of financial position as a financial asset when their fair value is positive and as a financial liability when their fair value is negative. The Group's derivative financial instruments are not designated as hedging instruments.

Statement of comprehensive income	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Movement in the fair value of derivatives	**21**	–	**21**	–

Statement of financial position	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Non-current assets				
Forward foreign exchange contracts	**11**	–	**11**	–
Current assets				
Forward foreign exchange contracts	**7**	–	**7**	–

The Company entered into forward foreign exchange contracts to minimise the effect of fluctuations arising from movements in exchange rates in the value of the Group's investment in Scandlines, which is now held as a Corporate Asset.

As at 31 March 2019 the notional amount of the forward foreign exchange contracts held by the Company was €500 million (31 March 2018: nil).

19 Trade and other payables

Accounting policy:

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date. Financial liabilities are recognised at amortised cost in accordance with IFRS 9.

	Group 2019 £m	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Trade and other payables	**95**	101	**8**	8
Amounts due to subsidiaries	**–**	–	**475**	519
Total trade and other payables	**95**	101	**483**	527
Of which: payable in greater than one year	**1**	1	**–**	–

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20 Issued capital

Accounting policy:

Ordinary shares issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

Issued and fully paid	2019 Number	2019 £m	2018 Number	2018 £m
Ordinary shares of 73 19/22p				
Opening balance	**972,897,006**	**719**	972,808,424	719
Issued under employee share plans	**103,659**	**–**	88,582	–
Closing balance	**973,000,665**	**719**	972,897,006	719

The Company issued 103,659 ordinary shares to the Trustee of the 3i Group Share Incentive Plan for a total cash consideration of £928,343 at various prices from 769.33 pence to 966.27 pence per share (being the market prices on the issue dates which were the last trading day of each month in the year, with the exception of December 2018, when the issue date was 20 December 2018). These shares were ordinary shares with no additional rights attached to them and had a total nominal value of £76,566.

21 Own shares

Accounting policy:

Own shares are recorded by the Group when ordinary shares are acquired by the Company or by The 3i Group Employee Benefit Trust. Own shares are deducted from shareholders' equity. A transfer is made to retained earnings at their weighted average cost in line with the vesting of own shares held for the purposes of share-based payments. The number of own shares held by the Trust and the schemes are described in Note 28.

	2019 £m	2018 £m
Opening cost	**26**	38
Additions	**29**	–
Awards granted and exercised	**(13)**	(12)
Closing cost	**42**	26

During the year, the 3i Group Employee Benefit Trust acquired 3 million shares at an average price of 960 pence per share.

22 Capital structure

The capital structure of the Group consists of shareholders' equity and net debt or cash. The type and maturity of the Group's borrowings are analysed further in Note 17. Capital is managed with the objective of maximising long-term return to shareholders, whilst maintaining a capital base to allow the Group to operate effectively in the market and sustain the future development of the business.

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash and deposits	**1,033**	972	**1,008**	939
Borrowings and derivative financial liabilities	**(575)**	(575)	**(575)**	(575)
Net cash[1]	**458**	397	**433**	364
Total equity	**7,909**	7,024	**7,533**	6,609
Gearing (net debt/total equity)	**nil**	nil	**nil**	nil

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

22 Capital structure continued

Capital constraints

The Group is generally free to transfer capital from subsidiary undertakings to the parent company, subject to maintaining each subsidiary with sufficient reserves to meet local statutory/regulatory obligations. No significant constraints (apart from those shown in Note 12) have been identified and the Group has been able to distribute profits as appropriate.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm regulated by the FCA, and the Group's Audit and Compliance Committee. In addition, the Group's Internal Capital Adequacy Assessment Process (ICAAP) report is updated as appropriate and reviewed by the Board of 3i Investments plc and the Audit and Compliance Committee. The Group complies with the Individual Capital Guidance as agreed with the FCA and operates with a significant consolidated regulatory capital surplus, significantly in excess of the FCA's prudential rules. The Group's Pillar 3 disclosure document can be found on **www.3i.com**.

23 Interests in Group entities

Accounting policy:

The Company has controlling equity interests in, and makes loans to, both consolidated and fair valued Group entities. Equity investments in, and loans to, investment entities are held at fair value in the Company's accounts. The net assets of these entities are deemed to represent fair value. Equity investments in other subsidiaries are held at cost less impairment and any loans to these subsidiaries are held at amortised cost in accordance with IFRS 9, which includes the requirement to calculate expected credit losses on initial recognition.

	Company 2019 Equity investments £m	**Company 2019 Loans £m**	**Company 2019 Total £m**
Opening book value	**2,417**	**1,695**	**4,112**
Additions	**554**	**251**	**805**
Share of profits from partnership entities	**–**	**176**	**176**
Disposals and repayments	**(16)**	**(483)**	**(499)**
Fair value movements	**622**	**12**	**634**
Exchange movements	**–**	**(7)**	**(7)**
Closing book value	**3,577**	**1,644**	**5,221**

	Company 2018 Equity investments £m	Company 2018 Loans £m	Company 2018 Total £m
Opening book value	2,139	1,403	3,542
Additions	23	361	384
Share of profits from partnership entities	–	532	532
Disposals and repayments	(7)	(792)	(799)
Fair value movements	262	180	442
Exchange movements	–	11	11
Closing book value	2,417	1,695	4,112

Details of significant Group entities are given in Note 31.

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24 Operating leases

Accounting policy:

The Group leases its office space. Future minimum payments due under non-cancellable operating lease rentals are shown in the table below. The Company held no operating leases during the year.

Leases as lessee

	Group 2019 £m	Group 2018 £m
Within one year	**4**	5
Between the second and fifth year	**16**	18
After five years	**4**	9
	24	32

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

During the year to 31 March 2019, £4 million (2018: £4 million) was recognised as an expense in the Consolidated statement of comprehensive income in respect of operating leases. There was nil impact (2018: nil) on the Consolidated statement of comprehensive income in respect of subleases, as the difference between future lease and sublease obligations was already provided for in prior years. The total future sublease payments expected to be received under non-cancellable subleases are £2 million (2018: £1 million).

25 Commitments

Accounting policy:

Commitments represent amounts the Group has contractually committed to pay third parties but do not yet represent a charge or asset. This gives an indication of committed future cash flows. Commitments at the year end do not impact the Group's financial results for the year.

	Group 2019 due within 1 year £m	**Group 2019 due between 2 and 5 years £m**	**Group 2019 due over 5 years £m**	**Group 2019 Total £m**	Group 2018 due within 1 year £m	Group 2018 due between 2 and 5 years £m	Group 2018 due over 5 years £m	Group 2018 Total £m
Equity and loan investments	**263**	**1**	**–**	**264**	166	1	–	167

	Company 2019 due within 1 year £m	**Company 2019 due between 2 and 5 years £m**	**Company 2019 due over 5 years £m**	**Company 2019 Total £m**	Company 2018 due within 1 year £m	Company 2018 due between 2 and 5 years £m	Company 2018 due over 5 years £m	Company 2018 Total £m
Equity and loan investments	**174**	**1**	**–**	**175**	85	1	–	86

The amounts shown above include £225 million and £142 million of commitments made by the Group and Company respectively, to invest in two companies (31 March 2018: £135 million and £54 million in one company). The Group and Company were contractually committed to these investments as at 31 March 2019.

Operating lease commitments are detailed in Note 24.

26 Contingent liabilities

Accounting policy:

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the Consolidated statement of financial position.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012, the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc) as defined by the agreement to a wholly-owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets held by this subsidiary at 31 March 2019 was £275 million (31 March 2018: £237 million). As part of the latest triennial valuation of the Plan, the Company has agreed to pay up to £50 million to the Plan if the Group's gearing increases above 20%, gross debt above £1 billion or net assets fall below £2 billion. In addition, if the gearing, gross debt or net assets limits noted are reached, the Group may also be required to increase the potential cover provided by the contingent asset arrangement until the gearing, gross debt or net assets improve.

At 31 March 2019, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

27 Retirement benefits

Accounting policy:

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

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Interest on the net defined benefit asset/liability, calculated using the discount rate used to measure the defined benefit obligation, is recognised in the Consolidated statement of comprehensive income. Re-measurement gains or losses are recognised in full as they arise in other comprehensive income.

A retirement benefit deficit is recognised in the Consolidated statement of financial position to the extent that the present value of the defined benefit obligations exceeds the fair value of plan assets.

A retirement benefit surplus is recognised in the Consolidated statement of financial position where the fair value of plan assets exceeds the present value of the defined benefit obligations limited to the extent that the Group can benefit from that surplus.

Retirement benefit plans

(i) Defined contribution plans

The Group operates a number of defined contribution retirement benefit plans for qualifying employees throughout the Group. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state managed retirement benefit plan operated by the country's government. 3i Europe plc's French branch is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund these benefits.

The total expense recognised in the Consolidated statement of comprehensive income is £3 million (2018: £3 million), which represents the contributions paid to these defined contribution plans. There were no outstanding payments due to these plans at the balance sheet date.

(ii) Defined benefit plans

The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK ("the Plan"). The Plan is approved by HMRC for tax purposes and is operated separately from the Group and managed by an independent set of Trustees, whose appointment and powers are determined by the Plan's documentation.

Membership of the Plan has not been offered to new employees joining 3i since 1 April 2006. The Plan was closed to the future accrual of benefits by members with effect from 5 April 2011, although the final salary link is maintained on existing accruals. Members of the Plan have been invited to join the Group's defined contribution plan with effect from 6 April 2011. The defined benefit plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees. The Trustees are responsible for managing and investing the Plan's assets and for monitoring the Plan's funding position. As the Plan is now closed to future accrual, measures have been taken to de-risk the Plan, including through changes to its investment policy.

The valuation of the Plan was updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2019.

Employees in Germany are entitled to a pension based on their length of service. The future liability calculated by German actuaries is £27 million (31 March 2018: £23 million). In the previous year there was additionally a pension scheme relating to the Group's Spanish employees. The remaining liabilities of this scheme were settled during the year (31 March 2018: net liability was nil). There was no expense (2018: nil) recognised in the Consolidated statement of comprehensive income for the year and a £3 million loss (2018: £1 million loss) in other comprehensive income for these schemes.

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27 Retirement benefits continued

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

	2019 £m	2018 £m
Present value of funded obligations	**757**	782
Fair value of the Plan assets	**(963)**	(975)
Asset restriction	**72**	68
Retirement benefit surplus in respect of the Plan	**(134)**	(125)
Retirement benefit deficit in respect of other defined benefit schemes	**27**	23

A retirement benefit surplus under IAS 19 is recognised in respect of the Plan on the basis that the Group is entitled to a refund of any remaining surplus once all benefits have been settled in the expected course. The asset restriction relates to tax that would be deducted at source in respect of a refund of the Plan surplus.

The amounts recognised in the Consolidated statement of comprehensive income in respect of the Plan are as follows:

	2019 £m	2018 £m
Included in interest payable		
Interest income on net defined benefit asset	**1**	–
Included in other expense		
Allowance for GMP equalisation	**(3)**	–
Included in other comprehensive income		
Re-measurement gain	**11**	2
Asset restriction	**(3)**	(1)
Total re-measurement gain and asset restriction	**8**	1
Total	**6**	1

The total re-measurement gain recognised in other comprehensive income was £5 million (2018: nil). There was a £3 million loss on our overseas schemes (2018: £1 million), as noted above.

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

	2019 £m	2018 £m
Opening defined benefit obligation	**782**	869
Interest on Plan liabilities	**19**	20
Re-measurement (gain)/loss:		
– gain from change in demographic assumptions	**(48)**	(5)
– loss from change in financial assumptions	**44**	5
– experience gains	**(3)**	(3)
Benefits paid	**(40)**	(104)
Allowance for GMP equalisation	**3**	–
Closing defined benefit obligation	**757**	782

Following the High Court ruling in October 2018 on the Lloyds Bank GMP Inequalities case, it is expected that all defined benefit pension plans with relevant guaranteed minimum pensions ("GMP") will need to undertake an exercise to remove inequalities in those GMP between male and female members. There remains a high degree of uncertainty on how such an exercise will be carried out and therefore on the exact financial impact it will have on the Plan. The defined benefit obligations at 31 March 2019 included an approximate allowance for the future increase in benefits, which was calculated by applying a percentage uplift to the Plan's relevant GMP liabilities.

27 Retirement benefits continued

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

	2019 £m	2018 £m
Opening fair value of the Plan assets	**975**	1,055
Interest on Plan assets	**21**	22
Actual return on Plan assets less interest on Plan assets	**4**	(1)
Employer contributions	**3**	3
Benefits paid	**(40)**	(104)
Closing fair value of the Plan assets	**963**	975

Contributions paid to the Plan are related party transactions as defined by IAS 24 Related party transactions.

The fair value of the Plan's assets at the balance sheet date is as follows:

	2019 £m	2018 £m
Equities	**79**	150
Corporate bonds	**149**	160
Gilts	**411**	474
Annuity contracts	**254**	174
Other	**70**	17
	963	975

The Plan's assets are predominantly invested with Legal and General Investment Management in quoted and liquid funds. The annuity contracts are bulk annuity (or "buy-in") policies held with Pension Insurance Corporation and Legal and General Assurance Society. The 3i Group Pension Plan Trustees entered into these policies in March 2017 and February 2019 respectively. The buy-in policies reduce the Plan's member longevity risk and are designed to provide an exact match for around 60% of the Plan's liabilities for pensions already in payment. The fair values of the insurance policies are calculated using the same assumptions and methodology as used to calculate the value of the pension liability as at 31 March 2019.

The Plan's assets do not include any of the Group's own equity instruments nor any property in use by the Group.

Changes in the asset restriction were as follows:

	2019 £m	2018 £m
Opening asset restriction	**68**	65
Interest on asset restriction	**1**	2
Re-measurements	**3**	1
Closing asset restriction	**72**	68

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

	2019	2018
Discount rate	**2.4%**	2.5%
Expected rate of salary increases	**5.9%**	5.8%
Expected rate of pension increases	**0% to 3.5%**	0% to 3.4%
Retail Price Index (RPI) inflation	**3.4%**	3.3%
Consumer Price Index (CPI) inflation	**2.6%**	2.3%

In addition, it is assumed that members exchange 25% of their pension for a lump sum at retirement on the conversion terms in place at 31 March 2019 with an allowance for the terms to increase in future. The duration of the Plan's defined benefit obligation at the accounting date was around 19 years.

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2019 is 80% of the S2NA Light tables, allowing for improvements in line with the CMI 2018 core projections with a long-term annual rate of improvement of 1.75% (31 March 2018: 80% of S2NA Light tables allowing for improvements in line with the CMI 2015 core projections with a long-term annual rate of improvement of 1.75%). The life expectancy of a male member reaching age 60 in 2039 (31 March 2018: 2038) is projected to be 32.3 (31 March 2018: 34.0) years compared to 30.3 (31 March 2018: 31.3) years for someone reaching 60 in 2019.

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27 Retirement benefits continued

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

		Impact on retirement benefit surplus	
	Change in assumption	**2019**	2018
Discount rate	Decrease by 0.1%	**Decrease by £7 million**	Decrease by £9 million
Retail Price Index (RPI) inflation	Increase by 0.1%	**Decrease by £6 million**	Decrease by £8 million
Life expectancy	Increase by 1 year	**Decrease by £15 million**	Decrease by £17 million

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

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

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

As the Plan was closed to future accrual of benefits by members with effect from 5 April 2011, the Group ceased to make regular contributions to the Plan in the year to 31 March 2012.

The latest triennial valuation for the Plan was completed in September 2017, based on the position at 30 June 2016. The outcome was an actuarial deficit of £50 million. This valuation is produced for funding purposes and is calculated on a different basis to the IAS 19 valuation net asset of £134 million which is shown in the Note above. The actuarial funding valuation is as at 30 June 2016 and considers expected future returns on the Plan's assets against the expected liabilities, using a more prudent set of assumptions. The IAS 19 accounting valuation compares the 31 March 2019 fair value of plan assets and liabilities, with the liabilities calculated based on the expected future payments discounted using AA corporate bond yields.

As part of the triennial valuation it was agreed that it was not necessary for the Group to make any immediate contributions to the Plan, taking into account the volatile market conditions at the valuation date (immediately after the UK's referendum to leave the EU), and improvements in market conditions and liability management actions implemented since then. The Group has agreed to pay up to £50 million to the Plan if the Group's gearing increases above 20%, gross debt exceeds £1 billion, or net assets fall below £2 billion. The Plan also benefits from a contingent asset arrangement, details of which are provided in Note 26. If the gearing, net debt or net asset limits noted are reached, the Group may be required to increase the potential cover provided by the contingent arrangement until the gearing, gross debt or net assets improve. The next triennial funding valuation will be based on the Plan's position as at 30 June 2019.

28 Share-based payments

Accounting policy:

The Group has equity-settled and cash-settled share-based payment transactions with certain employees. Equity-settled schemes are measured at fair value at the date of grant, which is then recognised in the Consolidated statement of comprehensive income over the period that employees provide services, generally the period between the start of the performance period and the vesting date of the shares. The number of share awards expected to vest takes into account the likelihood that performance and service conditions included in the terms of the award will be met.

Fair value is measured by use of an appropriate model which takes into account the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the award and any other relevant factors. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the year. The movement in cumulative charges since the previous balance sheet is recognised in the Consolidated statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash-settled share-based payment transactions are recognised in the Consolidated statement of comprehensive income over the vesting period. They are fair valued at each reporting date. The cost of cash-settled share-based payment transactions is adjusted for the forfeitures of the participants' rights that no longer meet the plan requirements as well as for early vesting.

Share-based payments are in certain circumstances made in lieu of annual cash bonuses or carried interest payments. The cost of the share-based payments is allocated either to operating expenses (bonuses) or carried interest depending on the original driver of the award. Executive Director long-term incentive plans are allocated to operating expenses.

The total cost recognised in the Consolidated statement of comprehensive income is shown below:

	2019 £m	2018 £m
Share awards included as operating expenses[1,2]	**10**	8
Share awards included as carried interest[1]	**9**	9
Cash-settled share awards[3]	**5**	8
	24	25

1 Credited to equity.

2 For the year ended 31 March 2019, £8 million is shown in Note 6 (2018: £5 million), which is net of a £2 million (2018: £3 million) release from the bonus accrual.

3 Recognised in operating expenses and/or carried interest.

The features of the Group's share schemes for Executive Directors are described in the Directors' remuneration report on pages 79 to 89. To ensure that employees' interests are aligned with shareholders, a significant amount of variable compensation paid to higher earning employees is deferred into shares that vest over a number of years. For legal, regulatory or practical reasons certain participants may be granted "phantom awards" under these schemes, which are intended to replicate the financial effects of a share award without entitling the participant to acquire shares. The carrying amount of liabilities arising from share-based payment transactions at 31 March 2019 is £12 million (31 March 2018: £10 million).

For the share-based awards granted during the year, the weighted average fair value of those awards at 31 March 2019 was 778 pence (31 March 2018: 753 pence).

The main assumptions for the valuation of certain share-based awards with market conditions attached comprised:

Valuation methodology	Share price at issue[1]	Exercise price	Expected volatility	Expected award life in years	Dividend yield	Risk free interest rate
Monte Carlo model	931	–	25%	3	–	0.79%
Black Scholes	968	–	25%	0.5-4	3%	0.74%

1 Where share awards are granted on multiple different dates the share price at issue disclosed is the average of the prices on those dates.

Expected volatility was determined by reviewing share price volatility for the expected life of each award up to the date of grant.

Notes to the accounts
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28 Share-based payments continued

Movements in share awards

The number of share-based awards outstanding as at 31 March are as follows:

	2019 Number	2018 Number
Outstanding at the start of the year	**8,078,446**	10,113,875
Granted	**3,083,767**	1,957,521
Exercised	**(3,144,407)**	(3,907,171)
Lapsed	**(65,502)**	(85,779)
Outstanding at the end of year	**7,952,304**	8,078,446
Weighted average remaining contractual life of awards outstanding in years	**1.7**	1.9
Exercisable at the end of the year	**39,016**	60,254

The weighted average market price at the date of exercise was 939 pence (2018: 919 pence).

Holdings of 3i Group plc shares

The Group has established an employee benefit trust and the total number of 3i Group plc shares held in this trust at 31 March 2019 was 7 million (31 March 2018: 8 million). Dividend rights have been waived on these shares. During the year, the trust acquired 3 million shares at an average price of 960 pence per share. The total market value of the shares held in trust based on the year end share price of 985 pence (31 March 2018: 859 pence) was £69 million (31 March 2018: £67 million).

29 Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Risk management section on pages 44 to 47. This Note provides further detail on financial risk management, cross-referring to the Risk management section where applicable, and includes quantitative data on specific financial risks.

The Group is a highly selective investor and each investment is subject to an individual risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework set out in the Risk section. The risk management processes of the Company are aligned with those of the Group and both the Group and the Company share the same financial risks.

Financial risks

Concentration risk

3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio. Although 3i does not set maximum limits for asset allocation, it does have a maximum exposure limit for the cost of new investments. This is detailed in the Investment policy on page 90 in the Governance section. Quantitative data regarding the concentration risk of the portfolio across geographies can be found in the Segmental analysis in Note 1 and in the 20 large investments table on pages 155 and 156.

Credit risk

The Group is subject to credit risk on its unquoted investments, derivatives, cash and deposits. The maximum exposure is the balance sheet amount. The Group's cash is held with a variety of counterparties with 89% of the Group's surplus cash held on demand in AAA rated money market funds (31 March 2018: 93%).

The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. Further detail can be found in the Price risk – market fluctuations disclosure in this Note and the sensitivity disclosure to changes in the valuation assumptions is provided in the valuation section of Note 13.

Liquidity risk

The liquidity outlook is monitored monthly by management and regularly by the Board in the context of periodic strategic reviews of the balance sheet. The new investment pipeline and forecast realisations are closely monitored and assessed against our vintage control policy, as described on page 44 of the Risk management section. The table on the next page analyses the maturity of the Group's gross contractual liabilities.

29 Financial risk management continued

Financial liabilities

As at 31 March 2019	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
Gross commitments:					
Fixed loan notes	**35**	**35**	**292**	**569**	**931**
Committed multi-currency facility	**1**	**1**	**–**	**–**	**2**
Carried interest and performance fees payable within one year	**25**	**–**	**–**	**–**	**25**
Trade and other payables	**94**	**1**	**–**	**–**	**95**
Total	**155**	**37**	**292**	**569**	**1,053**

Gross commitments include principal amounts and interest and fees where relevant. Carried interest and performance fees payable within non-current liabilities of £86 million (31 March 2018: £105 million) has no stated maturity as it results from investment related transactions and it is not possible to identify with certainty the timing of when the investments will be sold. Carried interest and performance fees payable within non-current liabilities is shown after discounting, which has an impact of £1 million (31 March 2018: £1 million).

As at 31 March 2018	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
Gross commitments:					
Fixed loan notes	35	35	306	590	966
Committed multi-currency facility	1	1	1	–	3
Carried interest and performance fees payable within one year	55	–	–	–	55
Trade and other payables	100	–	1	–	101
Total	191	36	308	590	1,125

The Company disclosures are the same as those for the Group with the following exceptions: carried interest and performance fees payable due within one year is nil (31 March 2018: nil) and trade and other payables due within one year is £483 million (31 March 2018: £527 million).

Market risk

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio but the valuation and other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivity to these items is set out below.

(i) Interest rate risk

On the liability side, the direct impact of a movement in interest rates is limited to any drawings under the committed multi-currency facility as the Group's outstanding debt is fixed rate. The sensitivities below arise principally from changes in interest receivable on cash and deposits.

An increase of 100 basis points, based on the closing balance sheet position over a 12-month period, would lead to an approximate increase in total comprehensive income of £11 million (2018: £11 million increase) for the Group and £10 million (2018: £9 million) for the Company. In addition, the Group and Company have indirect exposure to interest rates through changes to the financial performance and the valuation of portfolio companies caused by interest rate fluctuations.

(ii) Currency risk

The Group's net assets in euro, US dollar, Danish krone and all other currencies combined are shown in the table below. This sensitivity analysis is performed based on the sensitivity of the Group's net assets to movements in foreign currency exchange rates assuming a 10% movement in exchange rates against sterling. The sensitivity of the Company to foreign exchange risk is not materially different from the Group.

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29 Financial risk management continued

The Group considers currency risk on specific investment and realisation transactions. Further information on how currency risk is managed is provided on page 50.

As at 31 March 2019	Sterling £m	Euro £m	US dollar £m	Danish krone £m	Other £m	Total £m
Net assets	**1,657**	**4,966**	**1,098**	**152**	**36**	**7,909**
Sensitivity analysis						
Assuming a 10% movement in exchange rates against sterling:						
Impact on net assets	**n/a**	**452**	**110**	**15**	**4**	**581**

As at 31 March 2018	Sterling £m	Euro £m	US dollar £m	Danish krone £m	Other £m	Total £m
Net assets	1,390	4,542	862	137	93	7,024
Sensitivity analysis						
Assuming a 10% movement in exchange rates against sterling:						
Impact on net assets	n/a	454	86	14	9	563

(iii) Price risk – market fluctuations

The Group's management of price risk, which arises primarily from quoted and unquoted equity instruments, is through the careful consideration of the investment, asset management and divestment decisions at the Investment Committee. The Investment Committee's role in risk management is detailed on page 47 in the Risk management section. A 15% change in the fair value of those investments would have the following direct impact on the Consolidated statement of comprehensive income:

Group	Quoted investment £m	Unquoted investment £m	Investment in Investment entity subsidiaries £m	Total £m
At 31 March 2019	**70**	**179**	**774**	**1,023**
At 31 March 2018	52	263	605	920

Company	Quoted investment £m	Unquoted investment £m	Total £m
At 31 March 2019	**70**	**179**	**249**
At 31 March 2018	52	263	315

30 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 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Carried interest receivable	**132**	138	**158**	183
Fees receivable from external funds	**19**	29	**–**	–

Statement of financial position	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Carried interest receivable	**609**	500	**662**	541

Investments

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

Statement of comprehensive income	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Realised profit over value on the disposal of investments	**1**	7	**1**	11
Unrealised profits on the revaluation of investments	**23**	36	**23**	36
Portfolio income	**12**	9	**11**	5

Statement of financial position	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Unquoted investments	**415**	380	**415**	380

Notes to the accounts
continued

30 Related parties and interests in other entities continued

Advisory and management arrangements

The Group acted as an adviser to 3i Infrastructure plc ("3iN"), which is listed on the London Stock Exchange, for the period to 14 October 2018. Following the decision to move 3iN's tax residence and management to the UK, 3i Investments plc was appointed as 3iN's Investment Manager on 15 October 2018. The following amounts have been recognised in respect of the advisory and management arrangements:

Statement of comprehensive income	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Realised profit over value on the disposal of investments	**–**	4	**–**	4
Unrealised profits on the revaluation of investments	**102**	40	**102**	40
Fees receivable from external funds	**31**	29	**–**	–
Performance fees receivable	**31**	90	**–**	–
Dividends	**14**	16	**14**	16

Statement of financial position	**Group 2019 £m**	Group 2018 £m	**Company 2019 £m**	Company 2018 £m
Quoted equity investments	**469**	345	**469**	345
Performance fees receivable	**31**	90	**–**	–

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 (2018: £13 million) from 3i plc, a fellow subsidiary, for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £60 million (2018: £90 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 2019 £m**	Group 2018 £m
Salaries, fees, supplements and benefits in kind	**4**	4
Cash bonuses	**2**	2
Carried interest and performance fees payable	**13**	25
Share-based payments	**10**	9
Termination payments	**1**	–

Statement of financial position	**Group 2019 £m**	Group 2018 £m
Bonuses and share-based payments	**17**	15
Carried interest and performance fees payable within one year	**2**	15
Carried interest and performance fees payable after one year	**51**	80

No carried interest was paid or accrued for the Executive or non-executive Directors (2018: nil). Carried interest paid in the year to other key management personnel was £6 million (2018: £1 million).

30 Related parties and interests in other entities continued

Unconsolidated structured entities

The application of IFRS 12 requires additional disclosure on the Group's exposure to unconsolidated structured entities.

The Group has exposure to a number of unconsolidated structured entities as a result of its investment activities across its Private Equity and Infrastructure business lines. The nature, purpose and activities of these entities are detailed below along with the nature of risks associated with these entities and the maximum exposure to loss.

Closed-end limited partnerships

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

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

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

	Carrying amount			
Balance sheet line item of asset or liability	Assets £m	Liabilities £m	Net £m	Maximum loss exposure £m
Unquoted investments	46	–	46	46
Carried interest receivable	609	–	609	609
Total	**655**	**–**	**655**	**655**

At 31 March 2018, the carrying amount of assets and maximum loss exposure of unquoted investments and carried interest receivable was £46 million and £500 million respectively. The carrying amount of liabilities was nil.

At 31 March 2019, the total assets under management relating to these entities was £3.7 billion (31 March 2018: £3.9 billion). The Group earned fee income of £19 million (2018: £29 million) and carried interest of £132 million (2018: £138 million) in the year.

Regulatory information relating to fees

3i Investments plc acts as the AIFM of 3i Group plc. In performing the activities and functions of the AIFM, the AIFM or another 3i company may pay or receive fees, commissions or non-monetary benefits to or from third parties of the following nature:

Transaction fees

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

Payments for third-party services

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

Payments for services from 3i companies

One 3i company may provide investment advisory services to another 3i company and receive payment for such services.

31 Subsidiaries and related undertakings

IFRS 10 deems control, as opposed to equity ownership, as the key factor when determining what meets the definition of a subsidiary. If a group is exposed to, or has rights to, variable returns from its involvement with the investee, then under IFRS 10 it has control. This is inconsistent with the UK's Companies Act 2006, where voting rights being greater than 50% is the key factor when identifying subsidiaries.

Under IFRS 10, 22 of the Group's portfolio company investments are considered to be accounting subsidiaries. As the Group applies the investment entity exception available under IFRS 10, these investee companies are classified as investment entity subsidiaries.

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings. Related undertakings are subsidiaries, joint ventures, associates and other significant holdings. In this context, significant means either a shareholding greater than or equal to 20% of the nominal value of any class of shares or a book value greater than 20% of the Group's assets.

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31 Subsidiaries and related undertakings continued

The Company's related undertakings at 31 March 2019 are listed below:

Description	Holding/share class	Footnote
Subsidiaries		
3i Holdings plc	100% ordinary shares	1
3i Investments plc	100% ordinary shares	1
3i plc	100% ordinary shares	1
3i International Holdings	100% ordinary shares	1
Investors in Industry plc	100% ordinary shares/cumulative preference shares	1
Mayflower GP Limited	100% ordinary shares	1
3i Assets LLP	100% partnership interest	1
3i General Partner No 1 Limited	100% ordinary shares	1
3i Corporation	100% ordinary shares	2
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	100% ordinary shares	4
Gardens Nominees Limited	100% ordinary shares	1
Gardens Pension Trustees Limited	100% ordinary shares	1
3i Europe plc	100% ordinary shares	1
3i Nominees Limited	100% ordinary shares	1
3i PVLP Nominees Limited	100% ordinary shares	1
3i Group Investments LP	100% partnership interest	1
3i APTech Nominees Limited	100% ordinary shares	1
3i APTech GP Limited	100% ordinary shares	1
Mayflower LP	100% partnership interest	5
3i Osprey GP Limited	100% ordinary shares	1
3i Investments GP Limited	100% ordinary shares	1
3i IIF GP Limited	100% ordinary shares	19
3i Nordic plc	100% ordinary shares	1
3i GP 2004 Limited	100% ordinary shares	3
3i Networks Finland Limited	100% ordinary shares	1
3i Ademas LP	100% partnership interest	3
The 3i Group Employee Trust	n/a	6
3i International Services plc	100% ordinary shares	1
3i EFIV Nominees Limited	100% ordinary shares	1
3i EFV Nominees A Limited	100% ordinary shares	1
3i EFV Nominees B Limited	100% ordinary shares	1
3i India Private Limited	100% ordinary shares	7
3i Sports Media (Mauritius) Limited	100% ordinary shares	8
3i Asia Limited	100% ordinary shares	8
3i EFV GP Limited	100% ordinary shares	1
3i EF4 GP Limited	100% ordinary shares	1
3i srl	100% ordinary shares	9
3i Infraprojects (Mauritius) Limited	100% ordinary shares	8
3i Research (Mauritius) Limited	100% ordinary shares	8
IIF SLP GP Limited	100% ordinary shares	3
3i Buyouts 2010 A LP	81% partnership interest	1
3i Buyouts 2010 B LP	74% partnership interest	1

31 Subsidiaries and related undertakings continued

Description	Holding/share class	Footnote
3i Buyouts 2010 C LP	49% partnership interest	1
GP CCC 2010 Limited	100% ordinary shares	3
3i GC GP Limited	100% ordinary shares	1
3i GP 2010 Limited	100% ordinary shares	1
3i Growth Capital A LP	100% partnership interest	1
3i Growth Capital G LP	100% partnership interest	1
3i Growth Capital (USA) D L.P.	100% partnership interest	5
3i Growth 2010 LP	85% partnership interest	1
3i Growth USA 2010 L.P.	83% partnership interest	5
3i Growth Capital (USA) P L.P.	100% partnership interest	5
Strategic Investments FM (Mauritius) Alpha Limited	70% ordinary shares	8
3i GC Nominees A Limited	100% ordinary shares	1
3i GC Nominees B Limited	100% ordinary shares	1
Ebrain 1 Limited	100% ordinary shares	36
Ebrain 2 Limited	100% ordinary shares	36
Ebrain 3 Limited	100% ordinary shares	36
3i India Infrastructure B LP	99% partnership interest	19
3i Asia Pacific 2004-06 LP	100% partnership interest	1
3i 2004 GmbH & Co KG	100% partnership interest	4
3i General Partner 2004 GmbH	100% ordinary shares	4
Pan European Buyouts Co-invest 2006-08 LP	100% partnership interest	1
Pan Euro Buyouts (Dutch) A Co-invest 2006-08 LP	100% partnership interest	1
3i US Growth Partners LP	94% partnership interest	5
3i US Growth Corporation	100% ordinary shares	11
Global Growth Co-invest 2006-08 LP	100% partnership interest	5
Pan European Growth Co-invest 2006-08 LP	100% partnership interest	1
Pan European Growth (Dutch) A Co-invest 2006-08 LP	100% partnership interest	1
US Growth Co-invest 2006-08 LP	72% partnership interest	1
Asia Growth Co-invest 2006-08 LP	100% partnership interest	1
3i GP 2006-08 Limited	100% ordinary shares	1
Pan European Buyouts (Nordic) Co-invest 2006-08 LP	100% partnership interest	1
Pan European Growth (Nordic) Co-invest 2006-08 LP	100% partnership interest	1
3i Buyouts 08-10 A LP	99% partnership interest	1
3i Buyouts 08-10 B LP	98% partnership interest	1
3i Buyouts 08-10 C LP	98% partnership interest	1
3i Growth 08-10 LP	99% partnership interest	1
GP CCC 08-10 Limited	100% ordinary shares	3
3i GP 08-10 Limited	100% ordinary shares	1
3i Growth (Europe) 08-10 LP	99% partnership interest	1
3i PE 2013-16A LP	100% partnership interest	1
3i PE 2013-16C LP	100% partnership interest	1
3i GP 2013 Ltd	100% ordinary shares	1
GP 2013 Ltd	100% ordinary shares	3

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31 Subsidiaries and related undertakings continued

Description	Holding/share class	Footnote
3i BIFM Investments Limited	100% ordinary shares	1
BIIF GP Limited	100% ordinary shares	1
BEIF II Limited	100% ordinary shares	1
BAM General Partner Limited	100% ordinary shares	1
BEIF Management Limited	100% ordinary shares	1
3i BIIF GP LLP	100% partnership interest	1
3i BEIF II GP LLP	100% partnership interest	1
3i PE 2016-19 A LP	100% partnership interest	1
3i Managed Infrastructure Acquisitions GP (2017) LLP	100% partnership interest	1
3i Managed Infrastructure Acquisitions GP Limited	100% ordinary shares	1
3i 2016 Gmbh & Co. KG	100% partnership interest	4
3i European Operational Projects GmbH & Co. KG	100% partnership interest	4
GP 2016 Limited	100% ordinary shares	3
3i GP 2016 Limited	100% ordinary shares	1
3i European Operational Projects GP s.a.r.l	100% ordinary shares	10
3i SCI Holdings Limited	100% ordinary shares	1
3i North America Infrastructure, LLC	80% partnership interest	38
3i RR LLC	100% ordinary shares	2
Coltrane Merger Sub, LLC	100% ordinary shares	2
New Amsterdam Software Holdings LP	100% partnership interest	2
New Amsterdam Software GP LLC	100% ordinary shares	2
New Amsterdam Software Parent LLC	100% ordinary shares	2
New Amsterdam Software Midco LLC	100% ordinary shares	2
New Amsterdam Software Bidco LLC	100% ordinary shares	2
3i Abaco ApS	100% ordinary shares	35
3i Investments (Luxembourg) S.A.	100% ordinary shares	10
Associates		
3i Growth Carry A LP	25% partnership interest	3
3i Growth Carry B LP	25% partnership interest	3
3i Growth Capital B LP	36% partnership interest	1
Moon Topco GmbH	49% ordinary shares	13
Layout Holdco A/S	49% ordinary shares	14
Fuel Holdco SA	43% ordinary shares	10
Boketto Holdco Limited	47% ordinary shares	15
Klara HoldCo S.A.	47% ordinary shares	10
Colorado Holdco Limited	48% ordinary shares	16
Shield Holdco LLC	49% ordinary shares	17
Q Holdco Ltd	26% ordinary shares	18
3i Infrastructure plc	33% ordinary shares	19
ACR Capital Holdings Pte Ltd	25% ordinary shares	20
Peer Holding 1 BV	43% ordinary shares	21
AES Engineering Ltd	43% ordinary shares	22
Chrysanthes 1 S.a.r.l	49% ordinary shares	10
Mito Holdings S.a.r.l	47% ordinary shares	10
Carter Thermal Industries Limited	34% ordinary shares	23

31 Subsidiaries and related undertakings continued

Description	Holding/share class	Footnote
Echezeaux Investissement SA	40% ordinary shares	10
Harper Topco Limited	42% ordinary shares	24
Orange County Fundo de Investmento EM Particpacoes	39% equity units	27
Permali Gloucester Limited	32% ordinary shares	28
Tato Holdings Limited	27% ordinary shares	31
Lilas 1 SAS	49% ordinary shares	32
Indiareit Offshore Fund (Mauritius)	20% partnership interest	33
Nimbus Communications Ltd	30% ordinary shares	34
Asia Strategic MedTech Holdings (Mauritius) Limited	36% ordinary shares	8
Aurela TopCo Gmbh	43% ordinary shares	37
Retina Holdco BV	49% ordinary shares	29
C Medical Holdco, LLC	49% ordinary shares	2
Crown Holdco BV	49% ordinary shares	12
3i India Infrastructure Holdings Ltd	21% ordinary shares	8
Racing Topco GmbH	49% ordinary shares	30
Panda Holdco LLC	49% ordinary shares	25
Scandlines Infrastructure ApS	35% ordinary shares	26

There are no joint ventures or other significant holdings. The 20 large portfolio companies by fair value are detailed on pages 155 and 156. The combination of the table above and that on pages 155 and 156 is deemed by the Directors to fulfil the requirements under IFRS 12 on the disclosure of material subsidiaries.

Footnote	Address
1	16 Palace Street, London, SW1E 5JD, UK
2	1 Grand Central Place, East 42nd Street, Suite 4100 New York, NY 10165, USA
3	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
4	OpernTurm, Bockenheimer Landstresse 2-4, 60306 Frankfurt am Main, Germany
5	2nd Floor, Gaspe House, 66-72 Esplanade, St Helier, JE1 1GH, Jersey
6	Computershare, Queensway House, Hilgrove Street, St Helier, JE1 1ES, Jersey
7	Level 7, The Capital B-Wing, Bandra Kurla Complex, Bandra East, Mumbai, 400051, India
8	Ebene Esplanade, 24 Cybercity, Ebene, Mauritius
9	Via Orefici 2, 20123 Milan, Italy
10	9 Rue Sainte Zithe, L-2763 Luxembourg, Grand Duchy of Luxembourg
11	2711 Centervilla Road, Suite 4000, Wilmington, DE 19808, New Castle, USA
12	Industriepark Vliedberg 12, Vlijmen, 5251 RG
13	Gruber Str. 48, 85586 Poing, Germany
14	Mørupvej 16 Mørup 7400 Herning, Denmark
15	New Mill, New Mill Lane, Witney, Oxfordshire, OX29 9SX, UK
16	Aspen Building, Apex Way, Hailsham, East Sussex, BN27 3WA, UK
17	400 Madison Avenue, Suite 9C, New York, NY 10017, USA
18	Berger House (2nd Floor), 36-38 Berkeley Square, London, W1J 5AE, UK
19	12 Castle Street, St Helier, JE2 3RT, Jersey
20	6 Temasek Blvd, Singapore 038986, Singapore
21	Perenmarkt 15, Zwaagdijk East, 1681PG, Netherlands
22	Bradmarsh Business Park, Mill Close, Rotherham, South Yorkshire, S60 1BZ, UK
23	Redhill Rd, Birmingham, B25 8EY, UK
24	5th Floor, 6 St Andrew Street, London, EC4A 3AE, UK

Notes to the accounts
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31 Subsidiaries and related undertakings continued

Footnote	Address
25	East 42nd Street, #4100, New York, NY 10165
26	TMF Denmark A/S, Købmagergade 60, 1. t.v. Copenhagen, Denmark, 1150
27	Av. Ataulfo de Paiva, 1.100, 7th Floor, Leblon, Rio de Janeiro, RJ 22440-035, Brazil
28	Bristol Rd, Gloucester, GL1 5TT, UK
29	Papland 21, 4206CK Gorinchem, Netherlands
30	Hunsrückstraße 1, 53842 Frankfurt am Main, Germany
31	Thor Group Ltd, Bramling House, Bramling, Canterbury, Kent, CT3 1NB, UK
32	Park a Eco Vendee Sud Loire, 85600, Bouffere, France
33	IFS Court, TwentyEight, Cybercity, Ebene, Mauritius
34	44 Oberoi Complex, Andthei (West), Mumbai, India
35	Holbergsgade 14, 2tv, 1057, Copenhagen, Denmark
36	47 Esplanade, St Helier, JE1 0BD, Jersey
37	Seelbüde 13, 36110 Schlitz, Germany
38	1209 Orange Street, Wilmington, Delaware 19801, USA

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

Opinion

In our opinion:

- 3i Group plc's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU");
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of 3i Group plc which comprise:

Group	Parent company
Consolidated statement of comprehensive income for the year to 31 March 2019	Company statement of financial position as at 31 March 2019
Consolidated statement of financial position as at 31 March 2019	Company statement of changes in equity for the year to 31 March 2019
Consolidated statement of changes in equity for the year to 31 March 2019	Company cash flow statement for the year to 31 March 2019
Consolidated cash flow statement for the year to 31 March 2019	
Significant accounting policies	
Related notes 1 to 31 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual report set out on pages 48 to 53 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 48 in the Annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 94 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 49 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

continued

Overview of our audit approach

Key audit matters	• Incorrect valuation of unquoted proprietary investments. • Incorrect calculation of carried interest. • Incorrect recognition of portfolio income and of realised profits on disposal of investments. The first two risks are considered to be significant risks, consistent with the 2018 audit.
Audit scope	• The Group is principally managed from one location in London. All core functions, including finance and operations, are located in London. The Group operates seven international offices, which are primarily responsible for deal origination and investment portfolio monitoring. • The Group comprises 84 consolidated subsidiaries and 56 investment entity subsidiaries. Monitoring and control over the operations of these subsidiaries, including those located overseas, is centralised in London. • The London based Group audit team performed direct audit procedures on all items material to the Group financial statements. Our audit sample covered 99% of the investment portfolio and 99% of carried interest accruals. This approach is consistent with the 2018 audit.
Materiality	• Overall Group materiality is £79m (2018: £70m) which represents 1% of net assets. This approach is consistent with the 2018 audit.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
Group and Parent company risk **Incorrect valuation of unquoted proprietary investments (£6,555m, 2018: £5,806m)** *Refer to the Audit and Compliance Committee report (pages 70 to 74); Significant accounting policies (page 106); and Notes 11, 12 and 13 of the financial statements (pages 117 to 121)* The proprietary investment portfolio comprises a number of unquoted securities. In the Consolidated statement of financial position these are shown both as Investments (which are held directly by consolidated subsidiaries of the Group and Parent company), and as Investments in investment entities (which are typically limited partnerships and other holding structures). In the Company statement of financial position these are shown both as Investments (which are held directly by the Parent company), and as Investments in investment entities (which are included within the Interests in Group entities line item). The Group adopts a valuation methodology based on the International Private Equity and Venture Capital Valuation 2018 ("IPEV") guidelines, in conformity with IFRS 13 – Fair Value Measurements ("IFRS 13"). Owing to the unquoted and illiquid nature of these investments, the assessment of fair valuation is subjective and requires a number of significant and complex judgments to be made by management. The exit value will be determined by the market at the time of realisation and therefore despite the valuation policy adopted and judgments made by management, the final sales value may differ materially from the valuation at the year end date. There is the risk that inaccurate judgments made in the assessment of fair value, in particular in respect of; earnings multiples, the application of liquidity discounts, calculation of discount rates and the estimation of future maintainable earnings, could lead to the incorrect valuation of the unquoted proprietary investment portfolio. In turn, this could materially misstate the value of the Investment portfolio in the Consolidated statement of financial position, the Gross investment return and Total return in the Consolidated statement of comprehensive income, and the Net asset value per share. There is also the risk that management may influence the significant judgments and estimations in respect of unquoted proprietary investment valuations in order to meet market expectations of the overall Net asset value of the Group. The risk has neither increased nor decreased in the current year.	Our procedures extended to testing 99% of the related balance. We obtained an understanding of management's processes and controls for determining the fair valuation of unquoted proprietary investments. This included discussing with management the valuation governance structure and protocols around their oversight of the valuation process and corroborating our understanding by attending Valuations Committee meetings. We have identified key controls in the process, assessed the design adequacy and tested the operating effectiveness of those controls. We were able to rely on controls over portfolio company and comparable company data used in the valuation of unquoted investments. We compared management's valuation methodology to IFRS and the IPEV guidelines. We sought explanations from management where there were judgments applied in its application of the guidelines and assessed their appropriateness. With the assistance of our valuations specialists, we formed an independent range for the key assumptions used in the valuation of a sample of unquoted investments, with reference to the relevant industry and market valuation considerations. We derived a range of fair values using our assumptions and other qualitative risk factors. We compared these ranges with management's assumptions, and discussed our results with both management and the Valuations Committee. With respect to unquoted investments, on a sample basis we corroborated key inputs in the valuation models, such as earnings and net debt to source data. We also performed the following procedures on key judgments made by management in the calculation of fair value: • assessed the suitability of the comparable companies used in the calculation of the earnings multiples; • challenged management on the applicability of adjustments made to earnings multiples by obtaining rationale and supporting evidence for adjustments made; • performed corroborative calculations to assess the appropriateness of discount rates; and • discussed with management the adjustments made to calculate future maintainable earnings and corroborated this to supporting documentation. We checked the mathematical accuracy of the valuation models on a sample basis. We recalculated the unrealised profits on the revaluation of investments impacting the Consolidated statement of comprehensive income. We discussed with management the rationale for any differences between the exit prices of investments realised during the year and the prior year fair value, to further verify the reasonableness of the current year valuation models and methodology adopted by management. We performed a site visit, accompanied by our Valuations Specialists, to the most material asset in the portfolio, which enabled us to corroborate our understanding of, and gain specific insights into, the asset.

Key observations communicated to the Audit and Compliance Committee:

The valuation of the unquoted proprietary investment portfolio is determined to be within a reasonable range of fair values. All valuations tested are materially in accordance with IFRS and the IPEV guidelines. Reasonable inputs to the valuations were used. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

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

continued

Risk	Our response to the risk
Group and Parent company risk **Incorrect calculation of carried interest (carried interest and performance fees receivable £640m, 2018: £596m; carried interest and performance fees payable £970m, 2018: £870m)** *Refer to the Audit and Compliance Committee report (pages 70 to 74); Significant accounting policies (page 106); and Notes 14 and 15 of the financial statements (pages 121 to 123)* Carried interest receivable is an accrual of the share of the profits from funds managed by the Group on behalf of third parties. Carried interest payable is an accrual of amounts payable to investment executives in respect of the returns on successful investments both from Group proprietary capital and third party capital. Carried interest is only paid on realisation of investments. Carried interest receivable and payable is calculated as a percentage of the profits that would be achieved, if the investments within each fund or scheme were realised at fair value at the year end date, subject to the relevant hurdle rates or performance conditions being met. Judgment is required in determining the fair value of the investment portfolio (as described in the preceding risk section) and therefore, whether hurdles or performance conditions have been achieved. There are multiple carried interest arrangements in place and investment executives may participate in more than one scheme. These arrangements have been structured over multiple periods and include different pools of investments. The process of calculating carried interest receivable and payable relies on manual calculations. Due to the complexities inherent in the arrangements and the manual nature of the recognition process, there is a risk that the carried interest calculations are incorrectly calculated or recognised in the wrong period. Carried interest is recorded in the Consolidated statement of financial position as Carried interest and performance fees receivable or Carried interest and performance fees payable, and is also recorded within Investments in investment entity subsidiaries. The risk has neither increased nor decreased in the current year.	Our procedures extended to testing 99% of the related balance. We obtained an understanding of management's processes and controls for the calculation of carried interest by performing walkthrough procedures, and discussing with management the governance structure and protocols around their oversight of the carried interest arrangements. We adopted a substantive approach to our testing. We agreed a sample of calculation methodologies to their respective terms and conditions set out in the underlying agreements. Our audit procedures on the fair value of the underlying investments are described in the preceding risk section. We performed analytical procedures comparing the performance of the reference investments in each fund or scheme, taking into account the investment realisations, to the related accruals in the financial statements. On a sample basis we: • recalculated the returns on the fund or scheme to test that hurdles or performance conditions had been met where carried interest was being accrued; • recalculated the carried interest accruals for mathematical accuracy and agreed the investment fair values to our audit work on the fair value of the investment portfolio, the fee rates to the relevant agreements and realised gains to our audit work on realised profits; • determined the reasonableness of investment exit dates with reference to our audit work on the fair value of the investment portfolio and our understanding of the life cycle of the relevant investments, and then compared this against the anticipated payment dates used to discount the carried interest accrual; and • ensured the resulting cash flow was a result of a triggering event such as a realisation or a re-finance by verifying the cash flow to bank statements (and in the case of carry payable to award letters sent to investment executives).

Key observations communicated to the Audit and Compliance Committee:

Our audit procedures did not identify any matters regarding the recognition of carried interest in accordance with IFRSs as adopted by the EU. All calculations tested have been performed materially in accordance with contractual terms. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

Risk	Our response to the risk
Group and Parent company risk **Incorrect recognition of portfolio income and of realised profits on disposal of investments (£308m, 2018: £364m)** *Refer to the Audit and Compliance Committee report (pages 70 to 74); Significant accounting policies (page 107); and Note 2 of the financial statements (page 111)* Portfolio income is directly attributable to the return from investments. This includes dividends from investee companies and interest income from the investment portfolio. Realised profits originate from disposals of investments. Realised profits are calculated as the difference between the net proceeds and the investment's fair value at the beginning of the year. Market expectations and revenue based targets may place pressure on management to influence the timing of the recognition of portfolio income or realised gains. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations. Where income is recorded in a consolidated subsidiary, in the Consolidated statement of comprehensive income it is recorded as Portfolio income and Realised profits/(losses) over value on the disposal of investments. Where the income is recorded in an investment entity subsidiary, it is recorded as Fair value movements on investment entity subsidiaries. The risk has neither increased nor decreased in the current year.	Our procedures extended to testing 84% of the related amount. We obtained an understanding of the processes and controls around accounting for portfolio income and realised gains by performing walkthroughs of the processes. We identified key controls in the processes, assessed design adequacy and tested the operating effectiveness of those controls. We performed detailed testing on a sample of transactions in order to confirm whether they had been appropriately recorded in the Consolidated statement of comprehensive income. For portfolio income, on a sample basis, we: • agreed dividends from investee companies to the dividend notice; and • recalculated interest income based on the terms of the underlying agreements. For all samples selected for testing we verified that revenue is recognised when the rights to receive the income have been established. For realised gains, on a sample basis, we: • analysed the contract and terms of the sale to determine whether the Group has met the stipulated requirements, confirming that the net proceeds and therefore the realised profits over opening value can be reliably measured; and • re-performed management's calculations to determine mathematical accuracy and confirmed the collection of the net proceeds by agreeing the cash receipt to bank statements. For all samples selected for testing we verified that revenue is recognised when the significant risks and rewards of ownership have been transferred. In order to address the risk of realised gains being recognised in the incorrect period, we performed enquiries of management, read minutes of meetings throughout the year and subsequent to the year end, and performed journal entry testing in order to address the risk of management override of controls to overstate or defer revenue recognition.

Key observations communicated to the Audit and Compliance Committee:
Our audit procedures did not identify any material matters regarding the recognition of portfolio income and of realised profits on disposal of investments. All transactions tested have been materially recognised in accordance with contractual terms and IFRSs as adopted by the EU. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

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

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

The investment portfolio balance is the most material part of the Consolidated statement of financial position. Monitoring and control over the valuation of investments is exercised by management centrally in London, and as such is audited wholly by the London based Group audit team. Monitoring and control over the operations of the subsidiaries within the Group, including those located overseas, is centralised in London. The Group audit team performed all the work necessary to issue the Group and Parent company audit opinion, including undertaking all audit work on the risks of material misstatement identified above.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £79m (2018: £70m), which is 1% (2018: 1%) of net assets. We believe that net assets provides us with a consistent year on year basis for determining materiality, and is the most relevant measure to the stakeholders of the entity.

We determined materiality for the Parent company to be £75m (2018: £66m), which is 1% (2018: 1%) of net assets.

We calculated materiality during the planning stage of the audit and then during the course of our audit, we reassessed initial materiality based on 31 March 2019 net asset value, and adjusted our audit procedures accordingly.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2018: 50%) of our planning materiality, namely £39m (2018: £35m). We set performance materiality at this percentage due to the judgmental nature of the valuations in the Consolidated statement of financial position and the relative value of transactions recorded in the other primary statements, to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality of £79m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Compliance Committee that we would report to them all uncorrected audit differences in excess of £3.9m (2018: £3.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual report set out on pages 1 to 95 and 154 to 162, including the Strategic report, Directors' report, Directors' remuneration report and Portfolio and other information section, other than the financial statements and our Auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (set out on page 95)** – the statement given by the Directors that they consider the Annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting (set out on pages 70 to 74)** – the section describing the work of the Audit and Compliance Committee does not appropriately address matters communicated by us to the Audit and Compliance Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (set out on page 90)** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

continued

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 95, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and have a direct impact on the preparation of the financial statements. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRSs as adopted by the EU, the Companies Act 2006 and the UK Corporate Governance Code) and relevant tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements, being the Listing Rules of the UK Listing Authority and relevant FCA rules and regulations.
- We understood how 3i Group plc is complying with those frameworks by making enquiries of senior management, including the General Counsel and Company Secretary, Group Finance Director, Head of Compliance, Head of Internal Audit and also non-executive Directors including the Chairmen of the Audit and Compliance Committee and Valuations Committee. We corroborated our understanding through our review of board minutes, papers provided to the Audit and Compliance Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their potential influence on efforts made by management to manage net asset value per share or the total return on equity. We considered the controls that the Group has established to address the risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of senior management; and focused testing, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our Auditor's report.

Other matters we are required to address

- We were appointed by the board on 5 November 1973 to audit the financial statements for the year ending 31 March 1974 and subsequent financial periods. Our appointment was subsequently ratified at the Annual General Meeting of the company on 6 August 1974.
- Our total uninterrupted period of engagement is 46 years, covering periods from our appointment through to the period ending 31 March 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company and we remain independent of the Group and the Parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Compliance Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Julian Young (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 May 2019

Notes:

1. The maintenance and integrity of the 3i Group plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Portfolio and other information

Includes details of our 20 large investments, a glossary of terms and other useful shareholder information

20 large investments

The 20 investments listed below account for 94% of the portfolio at 31 March 2019 (31 March 2018: 93%). All investments have been assessed to establish whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

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

In accordance with Part 5 of The Alternative Investment Fund Managers Regulations 2013 ("the Regulations"), 3i Investments plc, as AIFM, requires all controlled portfolio companies to make available to employees an annual report which meets the disclosure requirements of the Regulations. These are available either on the portfolio company's website or through filing with the relevant local authorities.

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2018 £m	**Residual cost[1] March 2019 £m**	Valuation March 2018 £m	**Valuation March 2019 £m**	Relevant transactions in the year
Action* Non-food discount retailer	Private Equity Netherlands 2011 Earnings	12	**24**	2,064	**2,731**	
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	310	**307**	581	**744**	
Scandlines Ferry operator between Denmark and Germany	Corporate Assets Denmark/ Germany 2018 DCF	–	**529**	–	**529**	Full realisation and 3i's partial reinvestment completed on 21 June 2018.
Audley Travel* Provider of experiential tailor-made travel	Private Equity UK 2015 Earnings	195	**189**	233	**270**	£25m distribution received.
Basic-Fit Discount gyms operator	Private Equity Netherlands 2013 Quoted	11	**8**	270	**254**	Sold 3.7m shares at €30.5 per share, generating proceeds of £89m.
Cirtec Medical* Outsourced medical device manufacturing	Private Equity US 2017 Earnings	172	**172**	190	**248**	Acquired Cactus Semiconductor in October 2018 and Metrigraphics in December 2018.
Hans Anders* Value-for-money optical retailer	Private Equity Netherlands 2017 Earnings	186	**250**	189	**246**	Acquired eyes + more in January 2019.
Q Holding* Manufacturer of precision engineered elastomeric components	Private Equity US 2014 Earnings	162	**162**	229	**241**	
WP* Supplier of plastic packaging solutions	Private Equity Netherlands 2015 Earnings	175	**187**	244	**241**	
Smarte Carte* Provider of self-serve vended luggage carts, electronic lockers and concession carts	Infrastructure US 2017 DCF	166	**164**	167	**181**	

20 large investments

continued

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2018 £m	**Residual cost[1] March 2019 £m**	Valuation March 2018 £m	**Valuation March 2019 £m**	Relevant transactions in the year
Ponroy Santé* Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	139	**147**	145	**174**	Acquired Densmore in July 2018.
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	**30**	139	**172**	
Formel D* Quality assurance provider for the automotive industry	Private Equity Germany 2017 Earnings	138	**147**	133	**169**	
ICE* Global travel and loyalty company that connects leading brands, travel suppliers and end consumers	Private Equity US 2018 Earnings	–	**129**	–	**155**	New investment. In February 2019, merged with SOR.
BoConcept* Urban living designer	Private Equity Denmark 2016 Earnings	142	**156**	137	**152**	
Royal Sanders* Private label and contract manufacturing producer of personal care products	Private Equity Netherlands 2018 Earnings	–	**135**	–	**147**	New investment. Acquired McBride's European personal care liquids business in November 2018.
ACR Pan-Asian non-life reinsurance	Private Equity Singapore 2006 Industry metric	105	**105**	129	**129**	
Lampenwelt* Online lighting specialist retailer	Private Equity Germany 2017 Earnings	98	**101**	111	**119**	
Tato Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	2	**2**	114	**117**	£10m dividend received.
Aspen Pumps* Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	86	**41**	108	**103**	Acquired Advanced Engineering in November 2018. Completed a refinancing in December 2018.
		2,129	**2,985**	5,183	**7,122**	

* Controlled in accordance with IFRS.

1 Residual cost includes capitalised interest.

Portfolio valuation – an explanation

Policy

The valuation policy is the responsibility of the Board, with additional oversight and annual review from the Valuations Committee. The policy is reviewed at least annually, with the last update in January 2019 incorporating the update to the guidelines issued by the International Private Equity and Venture Capital valuation board ("IPEV guidelines"), published in December 2018. Our policy is to value 3i's investment portfolio at fair value and we achieve this by valuing investments on an appropriate basis, applying a consistent approach across the portfolio. The policy ensures that the portfolio valuation is compliant with the fair value guidelines under IFRS and, in so doing, is also compliant with the IPEV guidelines. The policy covers the Group's Private Equity, Infrastructure and Corporate Assets investment valuations. Valuations of the investment portfolio of the Group and its subsidiaries are performed at each quarter end.

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2018). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement.

The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date. The majority of the portfolio, however, is represented by unquoted investments.

Private Equity unquoted valuation

To arrive at the fair value of the Group's unquoted Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. We then apportion that enterprise value between 3i, other shareholders and lenders.

Determining enterprise value

The enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment.

Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions, and trading updates from our portfolio.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a liquidity discount. The liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are material restrictions on our ability to sell at a time of our choosing.

The table on the next page outlines in more detail the range of valuation methodologies available to us, as well as the inputs and adjustments necessary for each.

Apportioning the enterprise value between 3i, other shareholders and lenders

Once we have estimated the enterprise value, the following steps are taken:

1. We subtract the value of any claims, net of free cash balances that are more senior to the most senior of our investments.

2. The resulting attributable enterprise value is apportioned to the Group's investment, and equal ranking investments by other parties, according to contractual terms and conditions, to arrive at a fair value of the entirety of the investment. The value is then distributed amongst the different loan, equity and other financial instruments accordingly.

3. If the value attributed to a specific shareholder loan investment in a company is less than its carrying value, a shortfall is implied, which is recognised in our valuation. In exceptional cases, we may judge that the shortfall is temporary; to recognise the shortfall in such a scenario would lead to unrepresentative volatility and hence we may choose not to recognise the shortfall.

Other factors

In applying this framework, there are additional considerations that are factored into the valuation of some assets.

Impacts from structuring

Structural rights are instruments convertible into equity or cash at specific points in time or linked to specific events. For example, where a majority shareholder chooses to sell, and we have a minority interest, we may have the right to a minimum return on our investment.

Debt instruments, in particular, may have structural rights. In the valuation, it is assumed third parties, such as lenders or holders of convertible instruments, fully exercise any structural rights they might have if they are "in the money", and that the value to the Group may therefore be reduced by such rights held by third parties. The Group's own structural rights are valued on the basis they are exercisable on the reporting date.

Assets classified as "terminal"

If we believe an investment has more than a 50% probability of failing in the 12 months following the valuation date, we value the investment on the basis of its expected recoverable amount in the event of failure. It is important to distinguish between our investment failing and the business failing; the failure of our investment does not always mean that the business has failed, just that our recoverable value has dropped significantly. This would generally result in the equity and loan components of our investment being valued at nil. Value movements in the period relating to investments classified as terminal are classified as provisions in our value movement analysis.

Infrastructure unquoted valuation

The primary valuation methodology used for unquoted Infrastructure investments is the discounted cash flow method ("DCF"). Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate is estimated with reference to the market risk-free rate, a risk adjusted premium and information specific to the investment or market sector.

Corporate Assets unquoted valuation

The valuation methodology for any asset in Corporate Assets will depend on the nature of the underlying investment. Scandlines, the only investment currently classified as a Corporate Asset, is valued on a DCF basis. This is consistent with the Infrastructure methodology.

Portfolio valuation – an explanation

continued

Methodology	Description	Inputs	Adjustments	% of investment basis portfolio valued on this basis
Earnings (Private Equity)	Most commonly used Private Equity valuation methodology Used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions, where relevant, with similar characteristics	Earnings multiples are applied to the earnings of the Company to determine the enterprise value **Earnings** Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA") Earnings used are usually the management accounts for the 12 months to the quarter end preceding the reporting period, unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings **Earnings multiples** The earnings multiple is derived from comparable listed companies or relevant market transaction multiples We select companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus We adjust for relative performance in the set of comparables, exit expectations and other company specific factors	A liquidity discount is applied to the enterprise value, typically between 5% and 15%, using factors such as our alignment with management and other investors and our investment rights in the deal structure	**74%**
Quoted (Infrastructure/ Private Equity)	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	**13%**
Discounted cash flow (Private Equity/ Infrastructure/ Corporate Assets)	Appropriate for businesses with long-term stable cash flows, typically in Infrastructure	Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	**9%**
Specific industry metrics (Private Equity)	Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters	We create a set of comparable listed companies and derive the implied values of the relevant metric We track and adjust this metric for relative performance, as in the case of earnings multiples Comparable companies are selected using the same criteria as described for the earnings methodology	An appropriate discount is applied, depending on the valuation metric used	**2%**
NAV (Private Equity/ Infrastructure)	Used for investments in unlisted funds	Net asset value reported by the fund manager	Typically no further discount applied in addition to that applied by the fund manager	**1%**
Other (Private Equity)	Used where elements of a business are valued on different bases	Values of separate elements prepared on one of the methodologies listed above	Discounts applied to separate elements as above	**1%**

Consistent with IPEV guidelines, all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

Information for shareholders

Financial calendar

Ex-dividend date	Thursday 13 June 2019
Record date	Friday 14 June 2019
Annual General Meeting	Thursday 27 June 2019*
Second FY2019 dividend to be paid	Friday 19 July 2019
Half-year results (available online only)	November 2019
First FY2020 dividend expected to be paid	January 2020

* The 2019 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Thursday 27 June 2019 at 11.00am. For further details please see the Notice of Annual General Meeting 2019.

Information on ordinary shares

Shareholder profile: Location of investors at 31 March 2019

UK	58.3%
North America	26.0%
Continental Europe	12.0%
Other international	3.7%

Share price

Share price at 31 March 2019	984.8p
High during the year 22 May 2018	1014.8p
Low during the year 24 December 2018	756.2p

Dividends paid in the year to 31 March 2019

Second FY2018 dividend, paid 20 July 2018	22.0.p
First FY2019 dividend, paid 9 January 2019	15.0p

Balance analysis summary

	Number of holdings		Balance as at 31 March 2019				
Range	Individuals	Corporate bodies	Number of shares	% shares	Total holdings	Individual shares	Corporate shares
1–1,000	11,545	388	5,323,368	0.55	11,933	5,143,224	180,144
1,001–10,000	4,720	582	12,430,461	1.28	5,302	10,336,366	2,094,095
10,001–100,000	138	482	22,456,941	2.31	620	3,139,412	19,317,529
100,001–1,000,000	16	350	138,591,830	14.24	366	4,157,266	134,434,564
1,000,001–10,000,000	0	119	346,714,229	35.63	119	0	346,714,229
10,000,001–highest	0	17	447,483,836	45.99	17	0	447,483,836
Total	**16,419**	**1,938**	**973,000,665**	**100.00**	**18,357**	**22,776,268**	**950,224,397**

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2019.

Information for shareholders
continued

The Common Reporting Standard

Tax legislation under the Organisation for Economic Co-operation and Development ("OECD") Common Reporting Standard for Automatic Exchange of Financial Account Information requires investment trust companies to provide personal information about certain investors who hold shares in investment trusts to HMRC. As an investment company, 3i Group plc is therefore required to provide information annually to the local tax authority on certain certificated shareholders and corporate entities. This information includes country of tax residency as well as details of shares held and dividends received. The local tax authority to which the information is initially passed may in turn exchange the information with the tax authorities of another country or countries in which the shareholder may be tax resident, where those countries (or tax authorities in those countries) have entered into agreements to exchange financial account information. Certain shareholders have been and will in future be sent a certification form for the purposes of collecting required information.

Boiler room and other scams

Shareholders should be wary of any unsolicited investment advice, offers to buy shares at a discounted price or offers to buy 3i shareholdings. These fraudsters use persuasive and high-pressure tactics to lure shareholders into scams. We have become aware of what appears to be an increase in calls to current and former 3i shareholders.

The Financial Conduct Authority ("FCA") has found that victims of share fraud are often seasoned investors with victims losing an average of £20,000.

Please keep in mind that firms authorised by the FCA are unlikely to contact you unexpectedly with an offer to buy or sell shares. You should consider getting independent financial or professional advice before you hand over any money or even share any information with them.

If you receive any unsolicited approaches or investment advice, you should proceed with caution. Steps that you might wish to take could include the following:

- always ensure the firm is on the Financial Conduct Authority ("FCA") Register and is allowed to give financial advice before handing over your money. You can check at **www.fca.org.uk/register**;
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. This is important as there have been instances where an authorised firm's website has been cloned but with a few subtle changes, such as a different phone number or false email address;
- check the FCA's list of known unauthorised overseas firms. However, these firms change their name regularly, so even if a firm is not listed it does not mean they are legitimate. Always check that they are listed on the FCA Register; and
- if you have any doubts, call the Financial Conduct Authority Consumer Helpline on 0800 111 6768. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Annual reports and half-yearly reports online

If you would prefer to receive shareholder communications electronically in future, including annual reports and notices of meetings, please visit our **Registrars' website at www.shareview.co.uk/clients/3isignup** and follow the instructions there to register.

The 2019 half-yearly report will be available online only. Please register to ensure you are notified when it becomes available at **www.3i.com/investor-relations/financial-news**.

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

Investor relations enquiries

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

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

Telephone +44 (0)20 7975 3131

email **IRTeam@3i.com**

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

Registrars

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

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Telephone 0371 384 2031

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

Glossary

2013-2016 vintage includes Aspen Pumps, Audley Travel, Basic-Fit, Dynatect, Euro-Diesel, ATESTEO, JMJ, Q Holding, WP, Scandlines further (completed in December 2013), Christ, Geka, Óticas Carol and Blue Interactive.

2016-2019 vintage includes BoConcept, Cirtec, Formel D, Hans Anders, ICE, Lampenwelt, Ponroy Santé, Royal Sanders and Schlemmer.

Alternative Investment Funds ("AIFs")
At 31 March 2019, 3i Investments plc as AIFM, managed five AIFs. These were 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V, 3i Managed Infrastructure Acquisitions LP and 3i Infrastructure plc. 3i Investments (Luxembourg) SA as AIFM, managed one AIF, 3i European Operational Projects Fund.

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

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

Assets under management ("AUM")
A measure of the total assets that 3i has to invest or manages on behalf of shareholders and third-party investors for which it receives a fee. AUM is measured at fair value. In the absence of a third-party fund in Private Equity, it is not a measure of fee generating capability.

Automatic Exchange of Information ("AEOI") regulation covers the combined legislative requirements of Common Reporting Standards ("CRS") and the Foreign Account Tax Compliance Act ("FATCA"). Both sets of rules require financial groups to identify investors and report details to their local authority who will then exchange the information with other relevant tax authorities.

B2B Business-to-business.

Board The Board of Directors of the Company.

Buyouts 2010-2012 vintage includes Action, Amor, Christ, Element, Etanco, Hilite, OneMed and Trescal.

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

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

Carried interest payable 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 when the relevant performance hurdles are met and the accrual is discounted to reflect expected payment periods.

Carried interest receivable The Group earns a share of profits from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions and are paid by the fund once these conditions have been met on a cash basis. The carried interest receivable may be subject to clawback provisions if the performance of the fund deteriorates following carried interest being paid.

Company 3i Group plc.

Country by Country reporting ("CbC Reporting") refers to a requirement for large multinational groups, operating in different countries, to file an annual report with their head office tax authority. This provides information about the activities of the entities in the Group, on a country-by-country basis, across the countries in which the Group operates. This requirement applied to the Group from 1 April 2016.

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

EBITDA is defined as earnings before interest, taxation, depreciation and amortisation and is used as the typical measure of portfolio company performance.

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

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

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

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

Fee income (or Fees receivable) is earned for providing services to 3i's portfolio companies and predominantly falls into one of two categories. Negotiation and other transaction fees are earned for providing transaction related services. Monitoring and other ongoing service fees are earned for providing a range of services over a period of time.

Fees receivable from external funds Fees receivable from external funds are earned for providing management and advisory services to a variety of fund partnerships and other entities. Fees are typically calculated as a percentage of the cost or value of the assets managed during the year and are paid quarterly, based on the assets under management to date.

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.

Glossary

continued

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, movements in the fair value of derivatives and foreign exchange movements. GIR is measured as a percentage of the opening portfolio value.

Growth 2010-2012 vintage includes Element, Hilite, BVG, Go Outdoors, Loxam, Touchtunes and WFCI.

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

International Financial Reporting Standards ("IFRS") are accounting standards issued by the International Accounting Standards Board ("IASB"). The Group's consolidated financial statements are required to be prepared in accordance with IFRS, as endorsed by the EU.

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

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

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

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

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

Operating cash profit is the difference between our cash income (consisting of portfolio interest received, portfolio dividends received, portfolio fees received and fees received from external funds as per the Investment basis Consolidated cash flow statement) and our operating expenses (as per the Investment basis Consolidated cash flow statement).

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

Performance fee receivable The Group earns a performance fee from the investment management services it provides to 3i Infrastructure plc ("3iN") when 3iN's total return for the year exceeds a specified threshold. This fee is calculated on an annual basis and paid in cash early in the next financial year. A new fee arrangement will come into place on 1 April 2019.

Portfolio income is that which is directly related to the return from individual investments. It is comprised of dividend income, income from loans and receivables and fee income.

Proprietary Capital Shareholders' capital which is available to invest to generate profits.

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

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

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

Segmental reporting Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive who is considered to be the Group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intrasegment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

Share-based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

SORP means the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts.

Syndication The sale of part of our investment in a portfolio company to a third party, usually within 12 months of our initial investment and for the purposes of facilitating investment by a co-investor or portfolio company management in line with our original investment plan. A syndication is treated as a negative investment rather than a realisation.

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

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

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

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

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ISO 14001 SGS

To offset the CO_2 emissions associated with the production and distribution of our Annual report and accounts 2018, we purchased carbon credits sold by a range of power projects.

ReExistential 2 by Lyra Morgan
Oil paint and mixed media on a box canvas.

3i Group plc

Registered office: 16 Palace Street, London, SW1E 5JD, UK

Registered in England No. 1142830
An investment company as defined by section 833 of the Companies Act 2006

www.3i.com

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To receive shareholder communications electronically, including reports and notices of meetings, please register at

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