



16 November 2017

3i Group plc announces half-year results to 30 September 2017

Another good first half performance

- Continued progression in NAV per share to **652 pence** (31 March 2017: 604 pence), after payment of the 18.5 pence FY2017 final dividend, and a total return of **£655 million** or **11%** of opening shareholders' funds
- Private Equity performed well, with strong performances from Action, Scandlines, ATESTEO, Audley Travel, Basic-Fit, Q Holding and Aspen Pumps contributing to its gross investment return of **£715 million**
- Completed four new Private Equity investments totalling **£514 million** in Hans Anders, Formel D, Lampenwelt and Cirtec Medical
- Significant growth of the third-party Infrastructure fund management business, including the addition of **£830 million** of assets under management in two new European infrastructure funds
- Announced our first North American infrastructure investment, Smarte Carte
- Strong balance sheet supported the increase in investment activity, resulting in net debt of **£48 million** at 30 September 2017. Good pipeline of investments and realisations in progress, which are expected to complete in the second half
- Interim dividend of **8.0 pence** in line with our dividend policy

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

"This was another good half for 3i. We used our strong balance sheet to invest in some attractive and well-priced businesses in Private Equity and added £830 million of assets under management in Infrastructure. Our Private Equity portfolio has been transformed over recent years and is on track to deliver another year of strong growth."

Summary financial highlights under the Investment basis

3i prepares its statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). However, we continue to report using a non-GAAP “Investment basis” as we believe it aids users of our report to assess the Group’s underlying operating performance. The investment basis (which is unaudited) is an alternative performance measure (“APM”) and is described on page 15. Total return and net assets are the same under the Investment basis and IFRS and we provide a reconciliation of our Investment basis financial statements to the IFRS statements from page 17.

	Six months to/as at 30 September 2017	Six months to/as at 30 September 2016 ¹	12 months to/as at 31 March 2017
Investment basis			
Total return ²	£655m	£1,006m	£1,592m
% return on opening shareholders’ funds ²	11%	23%	36%
Dividend per ordinary share	8.0p	8.0p	26.5p
Proprietary capital return			
Realisation proceeds	£374m	£666m	£1,005m
Uplift over opening book value ³	£53m/20%	£51m/9%	£38m/5%
Money multiple ⁴	2.7x	2.3x	3.6x
Gross investment return	£746m	£1,109m	£1,755m
As a percentage of opening 3i portfolio value	13%	25%	40%
Proprietary capital balance sheet			
Cash investment	£572m	£430m	£638m
3i portfolio value	£6,584m	£5,207m	£5,675m
Gross debt	£575m	£844m	£575m
Net (debt)/cash	£(48)m	£187m	£419m
Liquidity	£877m	£1,360m	£1,323m
Diluted net asset value per ordinary share	652p	551p	604p

1 The sale of our Debt Management business completed on 3 March 2017. The FY2017 total return attributed to the business sold to Investcorp was classified as discontinued operations and the results for the six months to/as at 30 September 2016 have been re-presented. Unless stated, all balances are on continuing operations.

2 Total return and % return on opening shareholders’ funds include discontinued operations.

3 Uplift over opening book value excludes refinancings.

4 Cash proceeds over cash invested. For partial realisations, the valuation of any remaining investment is included in the multiple.

Disclaimer

These half-year results have been prepared solely to provide information to shareholders. They should not be relied on by any other party or for any other purpose. These half-year results may contain statements about the future, including certain statements about the future outlook for 3i Group plc and its subsidiaries (“3i” or “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.

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A PDF copy of this release can be downloaded from www.3i.com/investor-relations

For further information, including a live videocast of the results presentation at 10.00am on 16 November 2017, please visit www.3i.com

Half-year report

Chief Executive's review

Introduction

This was another good half for 3i. Both our divisions have made progress with Private Equity investing in a number of attractive businesses and Infrastructure raising two third-party funds.

The total return in the first half was £655 million (September 2016: £1,006 million), or 11% on opening shareholders' funds, and NAV per share increased to 652 pence (31 March 2017: 604 pence), after the payment of the FY2017 final dividend of 18.5 pence. Our Private Equity portfolio delivered good earnings growth and a gross investment return of £715 million (September 2016: £989 million). 3i Infrastructure plc's ("3iN") share price increased to 194 pence (31 March 2017: 189 pence), which, together with dividend and advisory fee income, underpinned a good contribution from our Infrastructure business. We saw a material uplift in investment activity in Private Equity, completing four new investments, added £830 million of assets under management to our two new European infrastructure funds and announced our first North American infrastructure investment.

Continued strong progress in Private Equity

3i's Private Equity portfolio has been transformed in recent years and its international investments, particularly in northern Europe and North America, now account for c.90% of the total by value.

Action has been a stand out contributor to 3i's results for the last few years and it is an exceptional investment. After six years under 3i's management, Action's revenue continues to grow at sector leading levels. The opportunity for further significant growth is considerable and the Action team has embarked on a strategic initiative to put in place an organisation capable of handling over 2,700 stores and €10 billion of turnover per annum. This initiative encompasses continued rapid expansion of both its store and distribution network while further strengthening country management and essential backbone structures across all key functions. In the current year alone, Action has opened two new distribution centres in France and Germany as well as making further investment in the Moissy distribution centre in south east Paris that opened last year. This major initiative will weigh on margin development at Action in the near term but should facilitate material scale benefits in due course.

The compounding benefit of Action's strong growth means that we are now valuing our holding at over £2.0 billion (31 March 2017: £1.7 billion) despite not changing the earnings multiple that we use in our valuation. The valuation for this half includes 111 new stores. Action opened its 1,000th store in October and plans to have opened in excess of 230 stores by the end of this calendar year. Action's 2017 operating performance, together with this further material step up in its store opening programme, is on track to deliver another significant value increase for 3i this financial year.

But the 3i story is not only about Action. Since 2012, we have invested c.£2 billion in an attractive portfolio of Private Equity investments, four of which we presented at our Private Equity capital markets seminar in September 2017. This portfolio is well positioned to benefit from secular global trends in automation and electrification (automotive), outsourcing (medical devices and B2B service providers) and value for money retail. We are continuing to see the benefits of our sector and geographic focus as it provides demonstrable competitive advantage in the origination of new and further investment.

In the first six months of the year, we invested £514 million in four companies: Hans Anders, Lampenwelt, Formel D and Cirtec Medical. Where possible, our aim is to avoid highly competitive auction processes. Instead, we actively seek out companies within our target markets and sectors and build relationships with management long before any auction process starts. This was very effective, for example, in sourcing our investments in Ponroy Santé ("Ponroy") and Lampenwelt. These recent investments are in highly rated sectors, reflecting their significant growth potential, and they complement the portfolio that we have built since 2012.

International growth and bolt-on and strategic M&A are essential features of our investment strategy and key to delivering at least our 2x cash return objective. Recent acquisitions in our portfolio ranged from smaller strategic add-ons, such as ATESTEO's acquisition of Straesser, to transformative acquisitions, such as Q Holding's purchase of Degania. In many cases, the portfolio company is able to fund these acquisitions without the need for further 3i capital. Over the last six months, for example, Aspen Pumps completed two strategically important acquisitions using its own cash flow.

Ponroy has the opportunity to participate in the strong growth and consolidation of the highly fragmented consumer healthcare sector. In September 2017, we announced Ponroy's first acquisition, ERSA Group ("Aragan"), a designer

and distributor of premium pharmaceutical food supplements. This acquisition will strengthen Ponroy's presence in the pharmacy channel, which represents more than half of the food supplement market in France. In addition, Ponroy's existing international subsidiaries and distributors should provide an additional growth channel for Aragan.

Technology advances and globalisation are having a greater and greater impact on every commercial sector and we remain very focused on buying companies that can thrive in this fast-changing environment.

Enhancing our infrastructure platform

We have two broad priorities in Infrastructure. First, we are focused on our advisory relationship with 3iN and the active management of its portfolio. Second, we have also launched complementary fund management initiatives in Europe and North America in order to build fund management profit for the Group.

After last year's exceptional level of investment activity in 3iN, our main priority this year is to ensure first class asset management for those recent investments. Although the pipeline for further investment is good, our experience in Europe over the last few months is one of extremely competitive processes completed by both new and existing infrastructure investors in very short time frames. In such an environment, maintaining a selective and disciplined approach is critical.

Outside of 3iN, the Infrastructure team had a busy first half of fund launches. We closed two new European infrastructure funds and established a number of good relationships with important investors. In March 2017, we launched our North American infrastructure investment platform to complement and extend 3i's European presence. In October 2017, we announced our first US infrastructure investment in Smarte Carte, a leading concessionaire of essential infrastructure equipment, which we have funded from our own balance sheet. Although our US team has only been with us for a short while, it has already identified an interesting pipeline of potential new opportunities. These infrastructure initiatives will provide an important contribution to operating cash profit in due course.

Balance sheet and dividend

A consequence of this half's step up in investment is that we closed the half year with net debt of £48 million (31 March 2017: net cash of £419 million). In addition to the investment in Smarte Carte (which is expected to complete before our financial year end), we have a number of acquisitions for our Private Equity portfolio in the pipeline. However, we expect the second half to be different from the six months to September, with higher realisation and refinancing proceeds and lower levels of investment across the Group.

In line with our dividend policy, we have decided to pay an interim dividend of 8.0 pence, which is half of our 16.0 pence base dividend. This interim dividend will be paid to investors on 10 January 2018.

Outlook

This was another good half for 3i and these results are a further demonstration that 3i's strategy is capable of delivering consistently good returns. We used our strong balance sheet to invest in some attractive and well-priced businesses in Private Equity and added £830 million of assets under management in Infrastructure. Our Private Equity portfolio has been transformed over recent years and is on track to deliver another year of strong growth.

Simon Borrows
Chief Executive

Business review

Private Equity

Private Equity continued to perform strongly, with good performance from Action, Scandlines, Q Holding, ATESTEO, Audley Travel and Aspen Pumps contributing to unrealised value growth of £517 million (September 2016: £643 million). In addition, we completed a number of realisations, such as Mémora and MKM, and made four new investments. The ongoing weakness in sterling against the euro in particular contributed to £84 million of foreign exchange gains (September 2016: £268 million) and, in total, we generated a gross investment return of £715 million, or 15% on the opening portfolio (September 2016: £989 million or 26%) in the first half.

Investment activity

We had a very busy start to FY2018 and invested £514 million in four companies: two disruptive European retailers; a B2B German service business focused on the automotive sector; and a US manufacturer of medical devices. In May 2017 we closed a £104 million investment in Lampenwelt, the largest European online specialist retailer in the lighting space, as well as a £172 million investment in Hans Anders, a value for money optical retailer based in the Benelux. In July 2017 we invested £135 million in Formel D, a global service provider to the automotive and component supply industry based in Germany and brought in CITIC Capital as a co-investor to facilitate Formel D's expansion in China. Finally, in August 2017 we closed a £103 million investment in Cirtec Medical, a leading provider of outsourced medical device design, engineering and manufacturing, headquartered in North America.

Table 1: Private Equity cash investment in the six months to 30 September 2017

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
Lampenwelt	New	Online lighting specialist retailer	May 2017	105	104
Hans Anders	New	Value for money optical retailer	May 2017	173	172
Formel D	New	Quality assurance service provider for the automotive industry	July 2017	153	135
Cirtec Medical	New	Outsourced medical device manufacturing	August 2017	103	103
OneMed	Further (M&A)	Distributor of consumable medical products, devices and technology	May 2017	6	3
BoConcept	Over-funding	Urban living brand	July 2017	(11)	(11)
Total Private Equity investment				529	506

Realisations activity

As market conditions remained favourable, we completed the sale of some of our older investments, such as Mémora, MKM and Óticas Carol, our last remaining investment in Brazil. The sale of Mémora, the Iberian funeral services provider, generated proceeds of £119 million and a 1.4x money multiple, which was a good result from this 2008 investment. We also took advantage of supportive equity markets to sell our quoted holding in Dphone and a portion of our stake in Refresco Gerber.

Where appropriate, we will refinance our strongest assets when market conditions and trading performance allow. In July 2017, Scandlines completed a €1 billion refinancing, which resulted in £50 million of proceeds for 3i.

In total, we generated proceeds of £350 million (September 2016: £654 million). Realised profits of £53 million represented an uplift over opening value, excluding refinancings, of 21% (September 2016: £52 million and 9%). At 30 September 2017, the portfolio included 37 assets and two quoted stakes (31 March 2017: 37 assets and three quoted stakes).

Table 2: Private Equity realisations in the six months to 30 September 2017

Investment	Country/ region	Calendar year invested	31 March 2017 value ¹ £m	3i realised proceeds £m	Profit/(loss) in the period ² £m	Uplift on opening value ²	Residual Value £m	Money multiple over cost ³	IRR
Full realisations									
Mémora	Spain	2008	86	119	32	37%	–	1.4x	4%
MKM	UK	2006	68	70	2	3%	–	5.9x	19%
Óticas Carol	Brazil	2013	19	27	9	50%	–	1.9x	15%
Dphone	Hong Kong	2006	21	26	6	30%	–	2.2x	7%
Foster and Partners	UK	2007	34	33	(1)	(3)%	–	1.8x	9%
Partial realisations^{1,3}									
Refresco Gerber	Benelux	2010	14	16	2	14%	23	2.0x	12%
Other	n/a	n/a	3	5	–	n/a	34	n/a	n/a
Refinancings									
Scandlines ⁴	Denmark/ Germany	2007/ 2013	50	50	–	–	n/a	n/a	n/a
Deferred consideration									
Other	n/a	n/a	–	4	3	n/a	–	n/a	n/a
Total Private Equity realisations			295	350	53	18%	57	2.7x	n/a

1 For partial realisations, 31 March 2017 value represents the opening value of the stake disposed.

2 Cash proceeds in the period over opening value realised.

3 Cash proceeds over cash invested. For partial realisations, the valuation of any remaining investment is included in the multiple.

4 Scandlines' residual value, money multiple and IRR have been excluded for commercial reasons.

Portfolio performance

The portfolio performed strongly in the first half and generated unrealised value growth of £517 million (September 2016: £643 million).

Table 3: Unrealised profits on the revaluation of Private Equity investments¹ in the six months to 30 September

	2017 £m	2016 £m
Earnings based valuations		
Performance	283	282
Multiple movements	59	300
Other bases		
Other movements in unquoted investments	145	5
Quoted portfolio	30	56
Total	517	643

1 More information on our valuation methodology, including definitions and rationale, is included in our Annual report and accounts 2017 on pages 158 to 159.

Performance

The strong performance of investments valued on an earnings basis resulted in an increase in value of £283 million (September 2016: £282 million). The largest contributor to the increase was Action. At 30 September 2017, Action was valued using run-rate earnings to 10 September 2017, the closest period end to 3i's. As at 30 September 2017, Action's post discount run-rate multiple was unchanged at 16.0x and the resulting valuation was £2,009 million (31 March 2017: £1,708 million) representing 35% of the Private Equity portfolio value at 30 September 2017 (31 March 2017: 35%).

We continue to see good earnings growth in investments made post the 2012 review. Over the last five years, we have built a portfolio of attractive, mid-market companies in our target sectors with good potential for organic and inorganic growth. Q Holding is a manufacturer of highly engineered critical components and finished devices for the automotive and medical device sectors. Following its transformational acquisition of Degania in December 2016, Q Holding has increased its scale and global footprint materially to create a combined business with a greater focus on healthcare. In addition, the underlying automotive business is performing well and, as a result, Q Holding's revenue has doubled under our ownership to date.

ATESTEO continued to perform well over the period as it delivered a number of growth initiatives and improvements to its systems and processes, leading to operational and financial out-performance. It is now a world leader in global testing and inspection with a clear competitive advantage in lab-based testing. In addition, in September 2017 ATESTEO completed its acquisition of Straesser, a leading player in road testing and vehicle test-driving services.

A number of our older investments are benefiting from improved macro-economic trends in their markets. AES Engineering is a leading UK-based manufacturer of mechanical seals. AES exports its niche and highly specialised products globally and is experiencing strong demand for its seals and support systems, as well as from customers extending the life of their plants rather than building new ones.

Overall, 91% of the top 20 assets by value in our portfolio grew their earnings in the period (September 2016: 87%). We continue to see some portfolio company specific weakness. Schlemmer experienced operational challenges in its US business which affected project delivery and hence earnings growth in the first six months of the year. Earnings remain subdued for those assets exposed to the oil and gas after-market (JMJ and Dynatect) and to weaker consumer sentiment (Christ). In total, three investments were valued using forecast earnings at 30 September 2017 (31 March 2017: one), representing 3% of the Private Equity portfolio by value (31 March 2017: 2%).

Table 4: Portfolio earnings growth of the top 20 Private Equity assets¹

Last 12 months' (LTM) earnings growth	Number of companies	3i carrying value at 30 September 2017	
			£m
<0%	4		455
0 - 9%	7		1,483
10 - 19%	3		485
20 - 29%	3		2,336
>30%	3		529

1 This represents 93% of the Private Equity portfolio by value (31 March 2017: 91%). This excludes ACR because earnings are not its relevant measure.

Net debt across the portfolio increased to 3.5x EBITDA (31 March 2017: 3.3x) principally due to the refinancing of Scandlines in July 2017. Table 5 shows the ratio of net debt to EBITDA by portfolio value at 30 September 2017.

Table 5: Ratio of net debt to EBITDA¹

Ratio of net debt to EBITDA	Number of companies	3i carrying value at 30 September 2017	
			£m
<1x	2		94
1 - 2x	4		391
2 - 3x	4		573
3 - 4x	6		2,680
4 - 5x	7		1,266

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

Multiple movements

The increase in value of £59 million due to multiples (September 2016: £300 million increase) reflected a modest re-rating of a small number of our investments where their recent performance justified a review. The prior period increase included the effect of a re-rating of Action in June 2016. We consider a number of factors such as relative performance, investment size, comparable recent transactions and exit plans when setting valuation multiples. Consistent with this, we selected multiples that were lower than the comparable set in 15 out of the 24 companies (31 March 2017: 14 out of 22) valued on an earnings basis, taking into account the current strength of equity markets.

The run-rate multiple used to value Action remained unchanged at 16.0x post liquidity discount at 30 September 2017 (31 March 2017: 16.0x). Excluding Action, the weighted average EBITDA multiple increased to 11.5x before liquidity discount (31 March 2017: 10.6x) and was 10.8x after liquidity discount (31 March 2017: 9.9x). The increase in the weighted average multiple reflects the recent investment in companies in higher rated sectors, such as Cirtec and Lampenwelt, and the sale of assets held at lower multiples.

The pre-discount multiples used to value the portfolio ranged between 3.5x and 16.8x (31 March 2017: 5.0x to 16.8x) and the post discount multiples ranged between 3.4x and 16.0x (31 March 2017: 4.8x to 16.0x).

Other movements in unquoted investments

Other includes the valuation increase on assets valued on a discounted cash flow basis and those valued on industry metrics such as price to book.

Quoted portfolio

The Private Equity quoted portfolio generated an unrealised value gain of £30 million (September 2016: £56 million gain). The gain was principally due to Basic-Fit, whose share price increased to €18.70 at 30 September 2017 (31 March 2017: €16.27) following the announcement of strong interim results, which highlighted its continued growth in clubs and revenue and a confident outlook for the remainder of its financial year.

Table 6: Quoted portfolio movements for the six months to 30 September 2017

Investment	IPO date	Opening value at 1 April 2017 £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements ¹ £m	Closing value at 30 September 2017 £m
Dphone	July 2014	21	(21)	–	–	–
Refresco Gerber	March 2015	32	(14)	2	3	23
Basic-Fit	June 2016	184	–	28	6	218
		237	(35)	30	9	241

1 Other movements include foreign exchange.

Table 7: Private Equity assets by geography

3i office location	Number of companies	3i carrying value at 30 September 2017 £m
Benelux	6	2,683
France	2	190
Germany	7	1,539
UK	6	588
US	4	422
Other	14	270
Total	39	5,692

Assets under management

Consistent with the increase in our proprietary capital valuations, the value of Eurofund V (“EFV”) increased in the period and the Fund had a gross fund money multiple at 30 September 2017 of 2.3x (31 March 2017: 2.2x).

Investments made since the 2012 strategic review, including the further investment in Scandlines, are making good progress. The investments made between 2013 and 2016 had a sterling multiple of 1.9x at 30 September 2017 (31 March 2017: 1.7x).

The value of 3i’s Proprietary Capital increased to £5.7 billion in the period (31 March 2017: £4.8 billion). The value of the portfolio including third-party capital increased to €9.1 billion (31 March 2017: €8.1 billion).

Infrastructure

Infrastructure generated a gross investment return of £32 million or 5% on the opening portfolio (September 2016: £90 million, 17%) principally from the Group's 34% holding in 3iN. The 3iN share price increased by 3% in the period to close at 194 pence on 30 September 2017 (31 March 2017: 189 pence). Overall, we recognised £19 million of unrealised value growth on our 3iN investment and £13 million of dividend income (September 2016: £80 million of unrealised value growth and £10 million of dividend income).

Investment adviser to 3iN

The 3iN portfolio continued to perform well and 3iN generated a total return on opening NAV of 7% in the period (September 2016: 5%), ahead of its stated target total return of between 8 and 10% to be delivered over the medium term.

In the first half, the team focused on managing the 3iN portfolio actively and embedding the six investments made in FY2017. Although the team is reviewing a good number of new investment opportunities, there is very strong demand for infrastructure assets from both existing competitors and new entrants into the sector. As a result, the team remains disciplined on price and focused on maintaining a balanced and carefully selected portfolio for 3iN.

Under the terms of the investment advisory agreement, 3iN paid an advisory fee of £13 million to 3i (September 2016: £11 million) with the increase attributable to new investment activity in FY2017.

Table 8: Unrealised profits/(losses) on the revaluation of Infrastructure investments¹
in the six months to 30 September

	2017	2016
	£m	£m
Quoted	19	80
Other (includes DCF)	3	(4)
Total	22	76

¹ More information on our valuation methodology, including definitions and rationale, is included in our Annual report and accounts 2017 on pages 158 to 159.

Fund management

We launched several initiatives in the first half to complement our 3iN mandate and generate increased cash income for 3i in the medium term. In June 2017, we closed the c.£700 million 3i Managed Infrastructure Acquisitions LP and invested £30 million into the fund alongside two pension funds, ATP and APG. The fund holds investments in East Surrey Pipelines, Belfast City Airport, HerAmbiente and a number of discrete PPP projects. In April 2017, we announced the first close of the 3i European Operational Projects Fund and raised €155 million, including a €40 million commitment from 3i. 3i invested £13 million in this fund in July 2017 to enable it to purchase the majority of the PPP assets held by 3i's existing BEIF II fund. In October 2017, we announced the first acquisition by our US infrastructure team in Smarte Carte, the leading provider of self-service luggage carts, electronic lockers, commercial strollers and massage chairs at more than 2,500 locations worldwide.

Assets under management and advisory agreement

Infrastructure AUM increased to £3.6 billion (31 March 2017: £2.9 billion) principally due to the new fund management initiatives launched in the period, as well as to 3iN's share price increase.

Table 9: Assets under management and advisory agreement

Fund	Close date	Fund size	3i commitment /share	Remaining 3i commitment	% invested at September	AUM	Fee income earned in the period
						2017	£m
3iN ¹	Mar 07	n/a	£670m	n/a	n/a	1,995	13
3i Managed Infrastructure Acquisitions Fund	Jun 17	£698m	£35m	£5m	64%	662	2
3i European Operational Projects Fund ²	Apr 17	€155m	€40m	n/a	38%	52	–
BIIF	May 08	£680m	n/a	n/a	90%	542	2
BEIF II	Jul 06	£280m	n/a	n/a	97%	13	–
India Infrastructure Fund	Mar 08	US\$1,195m	\$250m	\$35m	73%	145	2
Other	various	various	various	n/a	n/a	206	2
Total						3,615	21

¹ Value based on the share price at 30 September 2017.

² Numbers based on the first close of the fund.

Financial review

Financial performance

3i delivered a gross investment return of £746 million (September 2016: £1,109 million) driven by strong unrealised value growth, especially from Action and Scandlines, and the uplifts from the realisations of Mémora and Óticas Carol.

3i generated a total return of £655 million, or a profit on opening shareholders' funds of 11%, in the first half (September 2016: £1,006 million including discontinued operations, or 23%). As a result, the diluted NAV per share at 30 September 2017 increased to 652 pence (31 March 2017: 604 pence) after the payment of the final FY2017 dividend of £178 million, or 18.5 pence per share (September 2016: £154 million, 16.0 pence per share).

Table 10: Total return

	Six months to 30 September 2017 £m	Six months to 30 September 2016 ¹ £m	12 months to 31 March 2017 £m
Investment basis			
Realised profits over value on the disposal of investments	53	51	38
Unrealised profits on the revaluation of investments	539	731	1,342
Portfolio income			
Dividends	22	24	50
Interest income from investment portfolio	49	19	50
Fees receivable	10	1	6
Foreign exchange on investments	73	283	269
Gross investment return	746	1,109	1,755
Fees receivable from external funds	24	23	46
Operating expenses	(58)	(54)	(117)
Interest income	1	1	2
Interest paid	(18)	(25)	(49)
Foreign exchange movements	(21)	9	28
Other income	1	8	10
Operating profit before carried interest	675	1,071	1,675
Carried interest			
Carried interest and performance fees receivable	64	203	279
Carried interest and performance fees payable	(81)	(302)	(434)
Operating profit from continuing operations	658	972	1,520
Income taxes	-	(2)	3
Re-measurements of defined benefit plans	(3)	(19)	(22)
Total comprehensive income: continuing operations ("Total return from continued operations")	655	951	1,501
Total comprehensive income from discontinued operations, net of tax ("Total return from discontinued operations")	-	55	91
Total comprehensive income ("Total return")	655	1,006	1,592
Total return on opening shareholders' funds	11%	23%	36%

1 Comparatives have been re-presented throughout the Financial review to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations and the residual Debt Management investments as continuing operations at 30 September 2016.

Realised profits

We sold a number of assets from our older vintages and realised profits on disposal of £53 million (September 2016: £51 million) and proceeds totalling £374 million (September 2016: £666 million). Private Equity generated £350 million of the proceeds and all of the profits on disposal. Group realisations, excluding refinancings, were achieved at an uplift over opening value of 20%, and reflect the sales of Mémora, Dphone and Óticas Carol. MKM was valued at imminent sale at 31 March 2017 and therefore substantially all of its uplift to sale was recognised in FY2017.

Unrealised value movements

The unrealised value movement of £539 million (September 2016: £731 million) was principally due to strong earnings growth in a number of our Private Equity assets including Action, ATESTEO and Q Holding. The unrealised value growth is lower than in the prior period as those results included a re-rating of Action's valuation in June 2016.

Table 11: Unrealised profits on revaluation of investments
for the six months to 30 September

	2017	2016
	£m	£m
Private Equity	517	643
Infrastructure	22	76
Other	–	12
Total	539	731

Further information on the Private Equity and Infrastructure valuations is included in the business line sections.

Portfolio income

Portfolio income increased to £81 million in the period (September 2016: £44 million) principally as a result of an increase in loan interest income receivable from five of the new Private Equity investments completed in the last 12 months (12 months to September 2016: three new investments). The majority of this interest income is non-cash. We recognised £10 million of fee income (September 2016: £1 million) due to transaction fees generated from our increased investment activity in the last six months together with a reduction in abort costs incurred on prospective transactions relative to the comparable period last year. Dividend income was £22 million (September 2016: £24 million).

Operating expenses

Operating expenses increased by 7% to £58 million in the first six months (September 2016: £54 million) principally due to a planned increase in staff costs as we invest to support our origination and asset management capability. Consistent with guidance given at the full year results in May 2017, we continue to expect that operating expenses for the year will be approximately double the FY2017 second half costs of £63 million.

Operating cash loss

Table 12: Operating cash loss for the six months to 30 September

	2017	2016
	£m	£m
Third-party capital fees	24	23
Cash portfolio fees	8	2
Cash portfolio dividends and interest	23	33
Cash income	55	58
Cash operating expenses	(71)	(65)
Operating cash loss	(16)	(7)

3i's cash expenses exceeded its cash income by £16 million in the period (September 2016: £7 million). Cash income was £55 million (September 2016: £58 million) with the increase in transaction fees offset by the reduction in cash interest received. Cash operating expenses incurred during the period increased to £71 million (September 2016: £65 million) principally due to higher variable compensation costs.

Net interest payable

Gross interest payable decreased to £18 million (September 2016: £25 million), following repayment of the €331 million bond in March 2017. Interest receivable was £1 million (September 2016: £1 million).

Carried interest and performance fees

We receive carried interest from third-party funds and pay a portion to participants in our carry plans. We also pay carried interest to participants in plans relating to our proprietary capital invested.

Table 13: Carried interest and performance fees for the six months to 30 September

Consolidated statement of comprehensive income	2017 £m	2016 £m
Carried interest and performance fees receivable		
Private Equity	64	203
Total	64	203
Carried interest and performance fees payable		
Private Equity	(81)	(302)
Total	(81)	(302)
Net carried interest payable	(17)	(99)

The continued good performance of Action and Scandlines, the largest investments in our Private Equity fund EFV, led to a corresponding increase in carried interest receivable from EFV and £63 million was recognised in the first six months (September 2016: £199 million). This is calculated assuming that the portfolio was realised at the 30 September 2017 valuation. The fund's gross multiple was 2.3x at 30 September 2017 (31 March 2017: 2.2x).

In Private Equity, we typically accrue carried interest payable at between 10% and 15% of gross investment return. The majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 30 September 2017 valuation. We accrued carried interest payable of £81 million (September 2016: £302 million) for Private Equity in the period, of which £29 million relates to the team's share of carried interest receivable from EFV (September 2016: £153 million).

Carried interest is paid to participants when the performance hurdles are passed in cash terms and then only when the cash proceeds are actually received following a realisation, refinancing event or other cash distribution. During the period, £21 million was paid to participants in the Private Equity plans (September 2016: £61 million).

Overall, the effect of the income statement charge, the cash payment as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £766 million (31 March 2017: £685 million) and the receivable increased to £436 million (31 March 2017: £366 million).

Table 14: Carried interest and performance fees

Consolidated statement of financial position	30 September 2017 £m	31 March 2017 £m
Carried interest and performance fees receivable		
Private Equity	434	359
Infrastructure	–	4
Other	2	3
Total	436	366
Carried interest and performance fees payable		
Private Equity	(736)	(650)
Infrastructure	(30)	(35)
Total	(766)	(685)

Net foreign exchange movements

At 30 September 2017, 75% of the Group's assets were denominated in euros or US dollars (31 March 2017: 71%). The Group recorded a total net foreign exchange gain of £52 million during the period (September 2016: £292 million gain) as sterling continued to weaken against the euro due to the political and economic uncertainty created by the UK's upcoming exit from the European Union.

The Group is a long-term investor and does not hedge its foreign currency denominated portfolio. Flows from currency realisations are matched with currency investments where possible. We may use short-term contracts, typically to hedge investments and realisations between signing and completion.

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

Table 15: Net assets and sensitivity by currency at 30 September 2017

	FX rate	Net assets £m	%	1% sensitivity £m	Net gain /(loss) £m
Sterling	n/a	1,326	21%	n/a	–
Euro	1.1344	3,968	63%	39	105
US dollar	1.3398	778	12%	8	(51)
Danish krone	8.4411	145	2%	1	4
Other	n/a	103	2%	n/a	(6)
Total		6,320			52

Pension

The latest triennial valuation for the Group's UK defined benefit scheme was completed on 25 September 2017, based on the scheme's position at 30 June 2016. The outcome was an actuarial deficit of £50 million but it was agreed 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 EU referendum), and improvements in market conditions and liability management actions implemented since then. As part of this valuation, the Group has agreed to pay up to £50 million to the scheme if its gearing increases above 20%, gross debt above £1 billion, or net assets fall below £2 billion. The scheme also benefits from a contingent asset arrangement, details of which are provided in Note 9 of this Half-year report and on page 131 of our Annual report and accounts 2017. If the gearing, gross 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.

On an IAS 19 basis, there was a £3 million re-measurement loss on the Group's pension scheme during the period (September 2016: £19 million loss) and the pension scheme remains in a surplus of £120 million (31 March 2017: £121 million).

Tax

The Group's parent company is an approved investment trust company for UK tax purposes, which provides it with a tax exemption for capital profits. This ensures that shareholders do not suffer double taxation of their investment returns. The majority of the Group's returns are capital returns for tax purposes (realised profits and fair value movements) and are therefore substantially non-taxable. As a result, the Group's tax charge in the period was nil (September 2016: £2 million tax charge).

Other assets

The balance of the Debt Management investments not sold to Investcorp in March 2017 are detailed below. The value reduced in the period principally due to sterling strengthening against the US dollar. We invested £23 million into the Global Income Fund to replace a loan facility, arranged by 3i prior to the disposal of the business, which expired in the period. Separately, we redeemed £23 million of our holding in the period and the majority of the remaining investment since the period end.

Table 16: Debt Management investments

Consolidated statement of financial position	Currency	31 March 2017	Investment	Divestment	Unrealised value	Other movements ¹	30 September 2017
		£m	£m	£m	£m	£m	£m
CLO equity retained	€/US\$	50	–	–	–	(4)	46
Global Income Fund	US\$	79	23	(23)	–	(6)	73
Senior Loan Fund	US\$	8	–	–	–	–	8
Other	€	1	–	(1)	–	–	–
Total		138	23	(24)	–	(10)	127

1 Other movements include foreign exchange.

Balance sheet

Table 17: Simplified consolidated balance sheet

	30 September 2017	31 March 2017
	£m	£m
Investment portfolio value	6,584	5,675
Gross Debt	(575)	(575)
Cash	527	994
Net (debt)/cash	(48)	419
Carried interest and performance fees receivable	436	366
Carried interest and performance fees payable	(766)	(685)
Other net assets	114	61
Net assets	6,320	5,836
Gearing¹	1%	nil

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

Due to the increased level of investment activity in the first half (£572 million) and to the payment of the FY2017 dividend of £178 million, the Group had net debt of £48 million at 30 September 2017 (31 March 2017: net cash £419 million). The investment portfolio value increased to £6,584 million at 30 September 2017 (31 March 2017: £5,675 million) as unrealised value growth of £539 million and cash investment offset the book value of realisations in the period. Further information on investments and realisations is included in the Private Equity and Infrastructure business reviews.

Liquidity

Liquidity reduced to £877 million at 30 September 2017 (31 March 2017: £1,323 million) and comprised cash and deposits of £527 million (31 March 2017: £994 million) and undrawn facilities of £350 million (31 March 2017: £329 million). Gearing increased to 1% at 30 September 2017 (31 March 2017: nil).

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 from page 17. The table below defines our additional APMs and should be read in conjunction with the Annual report and accounts 2017.

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 in our Annual report and accounts 2017.	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 make new investments. For further information see the Group KPIs in our Annual report and accounts 2017.	The cash received from the disposal of investments in the period 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	Making new investments with our proprietary capital is the primary driver of the Group’s ability to deliver attractive returns. For further information see the Group KPIs in our Annual report and accounts 2017.	The cash paid to acquire investments in the period 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/(loss)	By covering, as far as possible, the cash cost of running the business with cash income, we reduce the potential dilution of capital returns. For further information see the Group KPIs in our Annual report and accounts 2017.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 12 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Net cash/(net debt)	A measure of the 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.

Principal risks and uncertainties

3i's risk appetite statement, approach to risk management and governance structure are set out in the Risk section of the Annual report and accounts 2017, which can be accessed on the Group's website at www.3i.com.

The principal risks to the achievement of the Group's strategic objectives for the remaining six months of its financial year are unchanged from those reported on pages 50 to 53 of the Annual report and accounts 2017 and summarised below. This is not a comprehensive list of all potential risks and uncertainties faced by the Group, but rather a summary of the risks which it currently believes may have a significant impact on its performance and future prospects.

External – Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Group's operations. There has been a significant amount of uncertainty in the global economy over the last year and, more recently, due to the negotiations on the UK's upcoming exit from the EU. Although we cannot be immune to wider market conditions and political instability, our well-funded balance sheet and portfolio of international companies position us well as the wider implications of the negotiations unfold. As a result, we do not consider Brexit on its own to be a principal risk to the Group.

Investment – Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios.

Operational – Risks arising from inadequate or failed processes, people and systems or from external factors affecting these. We continue to review and improve our governance and controls to protect our information and operational infrastructure.

The Half-year report provides an update on 3i's strategy and business performance, as well as on market conditions, which is relevant to the Group's overall risk profile and should be viewed in the context of the Group's risk management framework and principal risks as disclosed in the Annual report and accounts 2017.

Reconciliation of the Investment basis to IFRS

Background to Investment basis numbers used in the Half-year report

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 investment entity subsidiaries. This fair value approach, applied at the investment entity subsidiary level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the investment entity subsidiaries. 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.

As a result we include a separate non-GAAP “Investment basis” consolidated statement of comprehensive income, financial position and cash flow to aid understanding of our results. The Investment basis is an APM and the Chief Executive’s review, Business review and Financial review are also prepared using the Investment basis, as we believe it provides a more understandable view of our performance. Total return and net assets are equal under the Investment basis and IFRS; the Investment basis is simply a “look through” of IFRS 10 to present the underlying performance.

A more detailed explanation of the effect of IFRS 10 is provided in the Annual report and accounts 2017 on page 38.

Reconciliation between 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 18 to 22.

Reconciliation of consolidated statement of comprehensive income

	Notes	Six months to 30 September 2017			Six months to 30 September 2016		
		Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m	Investment basis ⁵ £m	IFRS adjustments ⁵ £m	IFRS basis ⁵ (unaudited) £m
Realised profits over value on the disposal of investments	1,2	53	(40)	13	51	(44)	7
Unrealised profits on the revaluation of investments	1,2	539	(363)	176	731	(639)	92
Fair value movements on investment entity subsidiaries	1	–	396	396	–	671	671
Portfolio income							
Dividends	1,2	22	(6)	16	24	(6)	18
Interest income from investment portfolio	1,2	49	(39)	10	19	(17)	2
Fees receivable	1,2	10	1	11	1	3	4
Foreign exchange on investments	1,4	73	(66)	7	283	(222)	61
Gross investment return		746	(117)	629	1,109	(254)	855
Fees receivable from external funds	1,3	24	–	24	23	–	23
Operating expenses	1,3	(58)	–	(58)	(54)	1	(53)
Interest income		1	–	1	1	–	1
Interest paid		(18)	–	(18)	(25)	–	(25)
Exchange movements	1,4	(21)	37	16	9	26	35
Income from investment entity subsidiaries	1	–	11	11	–	–	–
Other income		1	–	1	8	–	8
Operating profit before carried interest		675	(69)	606	1,071	(227)	844
Carried interest							
Carried interest and performance fees receivable	1,3	64	–	64	203	2	205
Carried interest and performance fees payable	1,3	(81)	67	(14)	(302)	228	(74)
Operating profit from continuing operations		658	(2)	656	972	3	975
Income taxes	1,3	–	1	1	(2)	–	(2)
Profit for the period from continuing operations		658	(1)	657	970	3	973
Profit for the period from discontinued operations		–	–	–	55	(5)	50
Profit for the period		658	(1)	657	1,025	(2)	1,023
Other comprehensive income/(expense) that may be reclassified to the income statement:							
Exchange differences on translation of foreign operations	1,4	–	1	1	–	(3)	(3)
Other comprehensive expense that will not be reclassified to the income statement:							
Re-measurement of defined benefit plans		(3)	–	(3)	(19)	–	(19)
Other comprehensive expense for the period from continuing operations		(3)	1	(2)	(19)	(3)	(22)
Other comprehensive income for the period from discontinued operations		–	–	–	–	5	5
Total comprehensive income for the period (“Total return”)		655	–	655	1,006	–	1,006

The notes relating to the table above are on the next page.

Reconciliation of consolidated statement of comprehensive income continued

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 called 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 periods. 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 that are 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 Other items aggregated into the fair value movements on investment entity subsidiaries line include fees receivable from external funds, audit fees, custodian fees, bank charges, other general and administration expenses, carried interest and tax.
- 4 On the Investment basis, the impact of the translation of foreign subsidiaries is included within the line items foreign exchange on investments and exchange movements rather than as a separate line item as required under IFRS. On an IFRS basis, the revaluation of assets and liabilities held by investment entity subsidiaries is reflected in the fair value movements on investment entity subsidiaries rather than being reflected as exchange movements.
- 5 Comparatives for the six months ended 30 September 2016 have been re-presented to show the results of the retained Debt Management assets, previously shown as discontinued operations, as continuing operations. See Note 11.

Reconciliation of consolidated statement of financial position

	Notes	As at 30 September 2017			As at 31 March 2017		
		Investment basis	IFRS adjustments	IFRS basis	Investment basis	IFRS adjustments	IFRS basis
		£m	£m	(unaudited) £m	£m	£m	(audited) £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	911	(514)	397	893	(503)	390
Unquoted investments	1	5,673	(4,068)	1,605	4,782	(3,466)	1,316
Investments in investment entity subsidiaries	1,3	–	4,156	4,156	–	3,483	3,483
Investment portfolio		6,584	(426)	6,158	5,675	(486)	5,189
Carried interest and performance fees receivable	1	433	(5)	428	359	(5)	354
Other non-current assets		109	(58)	51	106	(56)	50
Intangible assets		13	–	13	–	–	–
Retirement benefit surplus		120	–	120	121	–	121
Property, plant and equipment		5	–	5	5	–	5
Total non-current assets		7,264	(489)	6,775	6,266	(547)	5,719
Current assets							
Carried interest and performance fees receivable	1	3	–	3	7	2	9
Other current assets	1	15	3	18	10	2	12
Current income tax receivable		4	–	4	2	–	2
Derivative financial instruments		3	–	3	–	–	–
Deposits		41	–	41	40	–	40
Cash and cash equivalents	1,2	486	(144)	342	954	(23)	931
Total current assets		552	(141)	411	1,013	(19)	994
Total assets		7,816	(630)	7,186	7,279	(566)	6,713
Liabilities							
Non-current liabilities							
Trade and other payables	1	(25)	–	(25)	(29)	5	(24)
Carried interest and performance fees payable	1	(717)	573	(144)	(644)	520	(124)
Loans and borrowings		(575)	–	(575)	(575)	–	(575)
Retirement benefit deficit		(22)	–	(22)	(22)	–	(22)
Deferred income taxes	1	–	–	–	(1)	1	–
Provisions		(1)	–	(1)	(2)	–	(2)
Total non-current liabilities		(1,340)	573	(767)	(1,273)	526	(747)
Current liabilities							
Trade and other payables	1	(103)	15	(88)	(125)	22	(103)
Carried interest and performance fees payable	1	(49)	41	(8)	(41)	18	(23)
Current income taxes		(1)	1	–	–	–	–
Provisions		(3)	–	(3)	(4)	–	(4)
Total current liabilities		(156)	57	(99)	(170)	40	(130)
Total liabilities		(1,496)	630	(866)	(1,443)	566	(877)
Net assets		6,320	–	6,320	5,836	–	5,836
Equity							
Issued capital		719	–	719	719	–	719
Share premium		786	–	786	785	–	785
Other reserves	4	4,841	–	4,841	4,370	–	4,370
Own shares		(26)	–	(26)	(38)	–	(38)
Total equity		6,320	–	6,320	5,836	–	5,836

The notes relating to the table above are on the next page.

Reconciliation of consolidated statement of financial position continued

Notes:

- 1 Applying IFRS 10 to the consolidated statement of financial position consolidates the line items of a number of previously consolidated subsidiaries into a single line item called investments in investment entity subsidiaries. In the Investment basis, we have disaggregated these line items to analyse our net assets as if these investment entity subsidiaries were fully consolidated, consistent with prior periods. 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 are carried interest and other payables, and the Investment basis presentation again disaggregates these items.

- 2 Cash balances held in investment entity subsidiaries are also aggregated into the investment in investment entity subsidiaries line.
- 3 Intercompany balances between investment entity subsidiaries and trading subsidiaries also impact the transparency of our results under the IFRS basis. If an investment entity subsidiary has an intercompany balance with a consolidated trading subsidiary of the Group, then the asset or liability of the investment entity subsidiary will be aggregated into its fair value, while the asset or liability of the consolidated trading subsidiary will be disclosed as an asset or liability in the consolidated statement of financial position of the Group. Prior to the adoption of IFRS 10, these balances would have been eliminated on consolidation.
- 4 Investment basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately under this basis.

Reconciliation of consolidated cash flow statement

	Notes	Six months to 30 September 2017			Six months to 30 September 2016		
		Investment	IFRS	IFRS	Investment	IFRS	IFRS
		basis	adjustments	basis (unaudited)	basis	adjustments	basis (unaudited)
		£m	£m	£m	£m	£m	£m
Cash flow from operating activities							
Purchase of investments	1	(572)	305	(267)	(515)	229	(286)
Proceeds from investments	1	360	(185)	175	693	(485)	208
Net cash flow (to)/from investment entity subsidiaries	1	–	(240)	(240)	–	151	151
Net cash flow from derivatives		(13)	–	(13)	–	–	–
Portfolio interest received	1	1	(1)	–	12	(8)	4
Portfolio dividends received	1	22	(6)	16	40	(6)	34
Portfolio fees received		8	–	8	2	–	2
Fees received from external funds		24	–	24	46	–	46
Carried interest and performance fees received		5	–	5	29	–	29
Carried interest and performance fees paid	1	(24)	7	(17)	(64)	52	(12)
Acquisition related earn-out charges		–	–	–	(1)	–	(1)
Operating expenses paid	1	(71)	–	(71)	(70)	–	(70)
Co-investment loans		1	–	1	–	–	–
Income taxes paid	1	(2)	1	(1)	(1)	–	(1)
Net cash flow from operating activities		(261)	(119)	(380)	171	(67)	104
Cash flow from financing activities							
Issue of shares		1	–	1	1	–	1
Repurchase of short-term borrowings		–	–	–	(15)	–	(15)
Dividend paid		(178)	–	(178)	(154)	–	(154)
Interest received		1	–	1	1	–	1
Interest paid		(11)	–	(11)	(11)	–	(11)
Net cash flow from financing activities		(187)	–	(187)	(178)	–	(178)
Cash flow from investing activities							
Purchases of property, plant and equipment		(1)	–	(1)	–	–	–
Purchases of intangible assets		(13)	–	(13)	–	–	–
Net cash flow from investing activities		(14)	–	(14)	–	–	–
Change in cash and cash equivalents	2	(462)	(119)	(581)	(7)	(67)	(74)
Cash and cash equivalents at the start of the period	1	954	(23)	931	962	(5)	957
Effect of exchange rate fluctuations	1	(6)	(2)	(8)	50	1	51
Cash held within assets held for sale		–	–	–	(14)	–	(14)
Cash and cash equivalents at the end of the period	2	486	(144)	342	991	(71)	920

Notes:

- 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 consolidated 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.
- 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.

IFRS Financial statements

Condensed consolidated statement of comprehensive income

		Six months to 30 September 2017 (unaudited) £m	Six months to 30 September 2016 ¹ (unaudited) £m
	Notes		
Realised profits over value on the disposal of investments	2	13	7
Unrealised profits on the revaluation of investments	3	176	92
Fair value movements on investment entity subsidiaries	7	396	671
		585	770
Portfolio income			
Dividends		16	18
Interest income from investment portfolio		10	2
Fees receivable		11	4
Foreign exchange on investments		7	61
Gross investment return		629	855
Fees receivable from external funds		24	23
Operating expenses		(58)	(53)
Interest income		1	1
Interest paid		(18)	(25)
Exchange movements		16	35
Income from investment entity subsidiaries		11	–
Other income		1	8
Carried interest			
Carried interest and performance fees receivable		64	205
Carried interest and performance fees payable		(14)	(74)
Operating profit before tax from continuing operations		656	975
Income taxes		1	(2)
Profit for the period from continuing operations		657	973
Profit for the period from discontinued operations	11	–	50
Profit for the period		657	1,023
Other comprehensive income/(expense) that may be reclassified to the income statement:			
Exchange differences on translation of foreign operations		1	(3)
Other comprehensive expense that will not be reclassified to the income statement:			
Re-measurement of defined benefit plans		(3)	(19)
Other comprehensive expense for the period from continuing operations		(2)	(22)
Other comprehensive income for the period from discontinued operations	11	–	5
Total comprehensive income for the period (“Total return”)		655	1,006
Earnings per share from continuing operations			
Basic (pence)	4	68.2	101.5
Diluted (pence)	4	67.9	101.0
Earnings per share			
Basic (pence)	4	68.2	106.7
Diluted (pence)	4	67.9	106.2

1 Comparatives for the six months ended 30 September 2016 have been re-presented to show the results of the retained Debt Management assets, previously shown as discontinued operations, as continuing operations. See Note 11.

Condensed consolidated statement of financial position

	Notes	30 September 2017 (unaudited) £m	31 March 2017 (audited) £m
Assets			
Non-current assets			
Investments			
Quoted investments	6	397	390
Unquoted investments	6	1,605	1,316
Investments in investment entity subsidiaries	7	4,156	3,483
Investment portfolio		6,158	5,189
Carried interest and performance fees receivable		428	354
Other non-current assets		51	50
Intangible assets		13	–
Retirement benefit surplus		120	121
Property, plant and equipment		5	5
Total non-current assets		6,775	5,719
Current assets			
Carried interest and performance fees receivable		3	9
Other current assets		18	12
Current income tax receivable		4	2
Derivative financial instruments		3	–
Deposits		41	40
Cash and cash equivalents		342	931
Total current assets		411	994
Total assets		7,186	6,713
Liabilities			
Non-current liabilities			
Trade and other payables		(25)	(24)
Carried interest and performance fees payable		(144)	(124)
Loans and borrowings		(575)	(575)
Retirement benefit deficit		(22)	(22)
Provisions		(1)	(2)
Total non-current liabilities		(767)	(747)
Current liabilities			
Trade and other payables		(88)	(103)
Carried interest and performance fees payable		(8)	(23)
Provisions		(3)	(4)
Total current liabilities		(99)	(130)
Total liabilities		(866)	(877)
Net assets		6,320	5,836
Equity			
Issued capital		719	719
Share premium		786	785
Capital redemption reserve		43	43
Share-based payment reserve		25	30
Translation reserve		219	218
Capital reserve		3,826	3,390
Revenue reserve		728	689
Own shares		(26)	(38)
Total equity		6,320	5,836

Condensed consolidated statement of changes in equity

For the six months to 30 September 2017 (unaudited)	Share-based								
	Share capital	Share premium	Capital redemption reserve	payment reserve	Translation Reserve	Capital reserve	Revenue reserve	Own shares	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total equity at the start of the period	719	785	43	30	218	3,390	689	(38)	5,836
Profit for the period	–	–	–	–	–	576	81	–	657
Exchange differences on translation of foreign operations	–	–	–	–	1	–	–	–	1
Re-measurements of defined benefit plans	–	–	–	–	–	(3)	–	–	(3)
Total comprehensive income for the period	–	–	–	–	1	573	81	–	655
Share-based payments	–	–	–	6	–	–	–	–	6
Release on exercise/forfeiture of share awards	–	–	–	(11)	–	–	11	–	–
Loss on sale of own shares	–	–	–	–	–	(12)	–	12	–
Ordinary dividends	–	–	–	–	–	(24)	(53)	–	(77)
Additional dividends	–	–	–	–	–	(101)	–	–	(101)
Issue of ordinary shares	–	1	–	–	–	–	–	–	1
Total equity at the end of the period	719	786	43	25	219	3,826	728	(26)	6,320

For the six months to 30 September 2016 (unaudited)	Share-based								
	Share capital	Share premium	Capital redemption reserve	payment reserve	Translation Reserve ¹	Capital reserve	Revenue reserve	Own shares	Total Equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total equity at the start of the period	719	784	43	32	229	2,080	622	(54)	4,455
Profit for the period	–	–	–	–	–	937	86	–	1,023
Exchange differences on translation of foreign operations from continuing operations	–	–	–	–	(3)	–	–	–	(3)
Re-measurements of defined benefit plans from continuing operations	–	–	–	–	–	(19)	–	–	(19)
Other comprehensive income from discontinued operations	–	–	–	–	5	–	–	–	5
Total comprehensive income for the period	–	–	–	–	2	918	86	–	1,006
Share-based payments	–	–	–	12	–	–	–	–	12
Release on exercise/forfeiture of share awards	–	–	–	(18)	–	–	18	–	–
Loss on sale of own shares	–	–	–	–	–	(15)	–	15	–
Ordinary dividends	–	–	–	–	–	–	(52)	–	(52)
Additional dividends	–	–	–	–	–	(102)	–	–	(102)
Issue of ordinary shares	–	1	–	–	–	–	–	–	1
Total equity at the end of the period	719	785	43	26	231	2,881	674	(39)	5,320

1 Translation reserve balance at 30 September 2016 included £12 million in relation to discontinued operations (31 March 2016: £7 million).

Condensed consolidated cash flow statement

	Six months to 30 September 2017 (unaudited) £m	Six months to 30 September 2016 (unaudited) £m
Cash flow from operating activities		
Purchase of investments	(267)	(286)
Proceeds from investments	175	208
Net cash flow (to)/from investment entity subsidiaries	(240)	151
Net cash outflow from derivatives	(13)	–
Portfolio interest received	–	4
Portfolio dividends received	16	34
Portfolio fees received	8	2
Fees received from external funds	24	46
Carried interest and performance fees received	5	29
Carried interest and performance fees paid	(17)	(12)
Acquisition related earn-out charges	–	(1)
Operating expenses paid	(71)	(70)
Co-investment loans received	1	–
Income taxes paid	(1)	(1)
Net cash flow from operating activities	(380)	104
Cash flow from financing activities		
Issue of shares	1	1
Repurchase of short-term borrowings	–	(15)
Dividend paid	(178)	(154)
Interest received	1	1
Interest paid	(11)	(11)
Net cash flow from financing activities	(187)	(178)
Cash flow from investing activities		
Purchase of property, plant and equipment	(1)	–
Purchase of intangibles	(13)	–
Net cash flow from investing activities	(14)	–
Change in cash and cash equivalents	(581)	(74)
Cash and cash equivalents at the start of the period	931	957
Effect of exchange rate fluctuations	(8)	51
Cash held within assets held for sale	–	(14)
Cash and cash equivalents at the end of the period	342	920

Notes to the financial statements

Basis of preparation and accounting policies

Compliance with International Financial Reporting Standards (“IFRS”)

The Half-year condensed consolidated financial statements of 3i Group plc have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board (‘IASB’) and as endorsed by the European Union. The Half-year condensed consolidated financial statements should be read in conjunction with the Annual report and accounts 2017. The accounting policies applied by 3i Group plc for the Half-year condensed consolidated financial statements are consistent with those described on pages 108 to 148 of the Annual report and accounts 2017, as are the methods of computation. There was no change in the current period to the critical accounting estimates and judgements applied in 2017, which are stated on pages 109 to 110 of the Annual report and accounts 2017.

The impact of future standards and amendments on the financial statements is being assessed by the Group and the Company. The Group does not anticipate that IFRS 9 (Financial instruments) and IFRS 16 (Leases) will have a material impact on its results. The detailed assessment of the extent to which IFRS 15 (Revenue from contracts with customers) may affect the carried interest receivable recognition in the Group’s financial statements is ongoing.

The financial information for the year ended 31 March 2017 contained within this Half-year report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year to 31 March 2017, prepared under IFRS as endorsed by the EU, have been reported on by Ernst & Young LLP and delivered to the Registrar of Companies. The report of the Auditor on these statutory accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

3i announced the sale of its Debt Management business to Investcorp on 25 October 2016 and the transaction completed on 3 March 2017. At 30 September 2016, the Debt Management business was classified as discontinued operations and all of its associated assets and liabilities as held for sale. As disclosed in the Annual report and accounts 2017, we retained the Debt Management investments not sold to Investcorp and classified them as ‘Other’ in our segmental analysis. Therefore, the comparatives for the six months ended 30 September 2016 have been re-presented to include the results from these retained Debt Management assets as continuing operations.

The Half-year condensed consolidated financial statements are prepared on a going concern basis.

1 Segmental analysis

The tables below are presented on the Investment basis which is the basis used by the chief operating decision maker, the Chief Executive, to monitor the performance of the Group. A description of the Investment basis and a reconciliation of the Investment basis to the IFRS financial statements is provided on pages 18 to 22. Further detail on the Group's segmental analysis can be found on pages 112 to 114 of the Annual report and accounts 2017. The remaining Notes are prepared on an IFRS basis.

Investment basis	Private Equity £m	Infrastructure £m	Other £m	Total £m
Six months to 30 September 2017				
Realised profits over value on the disposal of investments	53	–	–	53
Unrealised profits on the revaluation of investments	517	22	–	539
Portfolio income				
Dividends	2	13	7	22
Interest income from investment portfolio	49	–	–	49
Fees receivable	10	–	–	10
Foreign exchange on investments	84	(3)	(8)	73
Gross investment return	715	32	(1)	746
Fees receivable from external funds	3	21	–	24
Operating expenses	(38)	(20)	–	(58)
Interest received				1
Interest paid				(18)
Exchange movements				(21)
Other income				1
Operating profit before carried interest				675
Carried interest				
Carried interest and performance fees receivable	64	–	–	64
Carried interest and performance fees payable	(81)	–	–	(81)
Operating profit				658
Income taxes				–
Other comprehensive income				
Re-measurements of defined benefit plans				(3)
Total return				655
Net (investment)/divestment				
Realisations ¹	350	–	24	374
Cash investment	(506)	(43)	(23)	(572)
	(156)	(43)	1	(198)
Balance sheet				
Opening portfolio value at 1 April 2017	4,831	706	138	5,675
Investment ²	555	43	23	621
Value disposed	(297)	–	(24)	(321)
Unrealised value movement	517	22	–	539
Other movement (including foreign exchange)	86	(6)	(10)	70
Closing portfolio value at 30 September 2017	5,692	765	127	6,584

1 Investment basis Cash flow statement differs due to timing realisation cash flows in Private Equity.

2 Includes capitalised interest and other non-cash investment.

1 Segmental analysis continued

Investment basis				Total		Total £m
	Private Equity £m	Infrastructure £m	Other ¹ £m	Continuing Operations £m	Discontinued Operations ^{1,2} £m	
Six months to 30 September 2016 ¹						
Realised profits/(losses) over value on the disposal of investments	52	(1)	–	51	2	53
Unrealised profits on the revaluation of investments	643	76	12	731	1	732
Portfolio income						
Dividends	6	10	8	24	16	40
Interest income from investment portfolio	19	–	–	19	3	22
Fees receivable	1	–	–	1	–	1
Foreign exchange on investments	268	5	10	283	17	300
Gross investment return	989	90	30	1,109	39	1,148
Fees receivable from external funds	5	18	–	23	24	47
Operating expenses	(35)	(19)	–	(54)	(12)	(66)
Interest received				1	–	1
Interest paid				(25)	–	(25)
Exchange movements				9	4	13
Other income/(expense)				8	(1)	7
Operating profit before carried interest				1,071	54	1,125
Carried interest and performance fees						
Receivable	203	–	–	203	1	204
Payable	(302)	–	–	(302)	–	(302)
Operating profit				972	55	1,027
Income taxes				(2)	–	(2)
Other comprehensive income						
Re-measurements of defined benefit plans				(19)	–	(19)
Total return				951	55	1,006
Net divestment/(investment)						
Realisations ³	654	12	–	666	3	669
Cash investment ³	(291)	(131)	(8)	(430)	(42)	(472)
	363	(119)	(8)	236	(39)	197
Year to 31 March 2017						
Balance sheet						
Opening portfolio value at 1 April 2016	3,741	527	92	4,360	137	4,497
Investment ⁴	548	131	29	708	51	759
Value disposed	(944)	(13)	(10)	(967)	(191)	(1,158)
Unrealised value movement	1,274	59	9	1,342	3	1,345
Other movement (including foreign exchange)	212	2	18	232	–	232
Closing portfolio value at 31 March 2017	4,831	706	138	5,675	–	5,675

1 Comparatives for the six months ended 30 September 2016 have been re-presented to show the results of the retained Debt Management assets, previously shown as discontinued operations, within Other.

2 Discontinued operations relate to the Debt Management business sold to Investcorp.

3 Investment basis Cash flow statement differs due to timing of investment and realisation cash flows in Private Equity and Debt Management.

4 Includes capitalised interest and other non-cash investment.

2 Realised profits/(losses) over value on the disposal of investments

Six months to 30 September 2017	Unquoted	Quoted	Total
	investments	investments	
	£m	£m	£m
Realisations	175	–	175
Valuation of disposed investments	(162)	–	(162)
	13	–	13
Of which:			
- profit recognised on realisations	14	–	14
- losses recognised on realisations	(1)	–	(1)
	13	–	13
<hr/>			
Six months to 30 September 2016	Unquoted	Quoted	Total
	investments	investments	
	£m	£m	£m
Realisations	186	20	206
Valuation of disposed investments	(180)	(19)	(199)
	6	1	7
Of which:			
- profit recognised on realisations	7	1	8
- losses recognised on realisations	(1)	–	(1)
	6	1	7

3 Unrealised profits/(losses) on the revaluation of investments

Six months to 30 September 2017	Unquoted	Quoted	Total
	investments	investments	
	£m	£m	£m
Movement in the fair value of investments	165	11	176
Of which:			
- unrealised gains	177	11	188
- unrealised losses	(12)	–	(12)
	165	11	176
<hr/>			
Six months to 30 September 2016 ¹	Unquoted	Quoted	Total
	investments	investments	
	£m	£m	£m
Movement in the fair value of investments	44	48	92
Of which:			
- unrealised gains	93	48	141
- unrealised losses	(49)	–	(49)
	44	48	92

1 Comparatives for the six months ended 30 September 2016 have been re-presented to show the unrealised profits/(losses) on the retained Debt Management assets, previously shown as discontinued operations, as continuing operations. See Note 11.

4 Per share information

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

	6 months to 30 September 2017	6 months to 30 September 2016 ¹
Earnings per share (pence)		
Basic earnings per share	68.2	106.7
- of which from continuing operations	68.2	101.5
- of which from discontinued operations	-	5.2
Diluted earnings per share	67.9	106.2
- of which from continuing operations	67.9	101.0
- of which from discontinued operations	-	5.2
Earnings (£m)		
Profit for the period attributable to equity holders of the Company	657	1,023
- of which from continuing operations	657	973
- of which from discontinued operations	-	50

1 Comparatives for the six months ended 30 September 2016 have been re-presented to show the results from the retained Debt Management assets, previously shown as discontinued operations, as continuing operations. See Note 11.

	6 months to 30 September 2017 Number	6 months to 30 September 2016 Number
Weighted average number of shares in issue		
Ordinary shares	972,828,742	972,696,599
Own shares	(9,611,495)	(13,810,391)
Basic shares	963,217,247	958,886,208
Effect of dilutive potential ordinary shares		
Share options and awards	4,520,532	4,403,571
Diluted shares	967,737,779	963,289,779

	30 September 2017	31 March 2017
Net assets per share (pence)		
Basic	655	607
Diluted	652	604
Net assets (£m)		
Net assets attributable to equity holders of the Company	6,320	5,836

Basic NAV per share is calculated on 964,884,704 shares in issue at 30 September 2017 (31 March 2017: 961,458,801). Diluted NAV per share is calculated on diluted shares of 969,721,096 at 30 September 2017 (31 March 2017: 966,553,549).

5 Dividends

	6 months to 30 September 2017 pence per share	6 months to 30 September 2017 £m	6 months to 30 September 2016 pence per share	6 months to 30 September 2016 £m
Declared and paid during the period				
Final dividend	18.5	178	16.0	154
Proposed interim dividend	8.0	77	8.0	77

6 Investment portfolio

This section should be read in conjunction with Note 10 on pages 120 to 121 of the Annual report and accounts 2017, which provides more detail about initial recognition and subsequent measurement of investments at fair value.

	6 months to 30 September 2017 £m	Year to 31 March 2017 £m
Non-current		
Opening fair value	1,706	1,540
Additions from continuing operations	277	291
- of which loan notes with nil value	(1)	(10)
Additions from discontinued operations	-	70
Disposals and repayments from continuing operations	(162)	(311)
Disposals and repayments from discontinued operations	-	(191)
Fair value movement from continuing operations	176	262
Fair value movement from discontinued operations	-	3
Other movements and net cash movements from continuing operations	6	71
Other movements and net cash movements from discontinued operations	-	(19)
Closing fair value	2,002	1,706
Quoted investments	397	390
Unquoted investments	1,605	1,316
Closing fair value	2,002	1,706

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

Additions include £10 million (31 March 2017: £11 million) in capitalised interest received by way of loan notes, of which £1 million (31 March 2017: £10 million) was written down in the period to nil. Included within the Consolidated statement of comprehensive income is £10 million (31 March 2017: £10 million) of interest income, which reflects the net additions after write downs noted above, cash income is nil (31 March 2017: £4 million). The capitalisation of prior year accrued income and non-capitalised accrued income is £1 million (31 March 2017: £5 million). The prior year to 31 March 2017 included £3 million of interest income from discontinued operations.

Other movements and net cash movements include the impact of changes in foreign exchange rates. The prior year to 31 March 2017 included cash returned of £19 million from warehouses used by our Debt Management business.

Quoted investments are classified as Level 1 in the fair value hierarchy and unquoted investments are classified as Level 3 in the fair value hierarchy; see Note 8 for details.

7 Investments in investment entity subsidiaries

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and loss. We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. At each reporting period, we consider whether any additional fair value adjustments need to be made to the net asset values of the investment entity subsidiaries. These adjustments may be required to reflect market participants' considerations about fair value that may include, but are not limited to, liquidity and the portfolio effect of holding multiple investments within the investment entity subsidiary. There was no particular circumstance to indicate that any 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 30 September 2017.

Level 3 fair value reconciliation – investments in investment entity subsidiaries

	6 months to 30 September 2017	Year to 31 March 2017
Non-current	£m	£m
Opening fair value	3,483	2,680
Net cash flow to/(from) investment entities	240	(246)
Fair value movement on investment entity subsidiaries	396	1,041
Transfer of assets to investment entity subsidiaries	37	8
Closing fair value	4,156	3,483

All investment entity subsidiaries are classified as Level 3 in the fair value hierarchy, see Note 8 for details.

A 5% movement in the closing fair value of investments in investment entity subsidiaries would have an impact of £208 million (31 March 2017: £174 million).

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no restrictions on the ability to transfer funds from these subsidiaries to the Group except for cash balances of £58 million (31 March 2017: £56 million) held in escrow in investment entity subsidiaries for carried interest payable.

Support

3i Group plc provides, where necessary, ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the period, there were net cash flows from the Group as noted in the table above.

8 Fair values of assets and liabilities

This section should be read in conjunction with Note 12 on pages 122 to 124 of the Annual report and accounts 2017 which provides more detail about accounting policies adopted, the definitions of the three levels of fair value hierarchy, valuation methods used in calculating fair value, and the valuation framework which governs oversight of valuations. There have been no changes in the accounting policies adopted or the valuation methodologies used.

Valuation

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

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

8 Fair values of assets and liabilities continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 30 September 2017:

	As at 30 September 2017				As at 31 March 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Quoted investments	397	–	–	397	390	–	–	390
Unquoted investments	–	–	1,605	1,605	–	–	1,316	1,316
Investments in investment entity subsidiaries	–	–	4,156	4,156	–	–	3,483	3,483
Derivative financial instruments	–	3	–	3	–	–	–	–
Total	397	3	5,761	6,161	390	–	4,799	5,189

We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries valued in accordance with the Group's accounting policies. Note 7 details the Directors' considerations about the fair value of the underlying investment entity subsidiaries.

The fair values of the Group's other financial assets and liabilities are not materially different from their carrying values with the exception of loans and borrowings. The fair value of loans and borrowings is £722 million (31 March 2017: £741 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2017: £575 million).

Level 3 fair value reconciliation – unquoted investments

	Six months to 30 September 2017 £m	Year to 31 March 2017 £m
Opening fair value	1,316	1,243
Additions from continuing operations	277	213
- of which loan notes with nil value	(1)	(10)
Additions from discontinued operations	–	70
Disposals and repayments from continuing operations	(162)	(292)
Disposals and repayments from discontinued operations	–	(191)
Fair value movement from continuing operations	165	224
Fair value movement from discontinued operations	–	3
Other movements and net cash movements from continuing operations	10	75
Other movements and net cash movements from discontinued operations	–	(19)
Closing fair value	1,605	1,316

Unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised profits over value on disposal of investment of £13 million (September 2016: £6 million), dividend income of £8 million (September 2016: £4 million) and foreign exchange gains of £7 million (September 2016: £55 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section on pages 158 to 159 in the Annual report and accounts 2017. On an IFRS basis, of the unquoted assets held at 30 September 2017 classified as Level 3, 41% (31 March 2017: 33%) were valued using a multiple of earnings and the remaining 59% (31 March 2017: 67%) were valued using alternative valuation methodologies.

Assets move between Level 1 and Level 3 primarily when an unquoted equity investment lists on a quoted market exchange. There were no transfers in or out of Level 3 in the period.

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 and relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and their valuation multiple is then adjusted for factors including liquidity risk, growth potential and relative performance. Multiples are also adjusted to reflect our longer term view of performance through the cycle or our exit assumptions.

8 Fair values of assets and liabilities continued

The value weighted average multiple used when valuing the portfolio at 30 September 2017 was 11.28x (31 March 2017: 10.23x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 30 September 2017 decreased by 5%, the investment portfolio value would decrease by £38 million (31 March 2017: £18 million) or 2% (31 March 2017: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative impact of £257 million (31 March 2017: £224 million) or 6% (31 March 2017: 6%). If the multiple increased by 5% then the investment portfolio value would increase by £38 million (31 March 2017: £16 million) or 2% (31 March 2017: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive impact of £261 million (31 March 2017: £215 million) or 6% (31 March 2017: 5%).

Alternative valuation methodologies – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and the inputs that are used, are given in the Portfolio valuation – an explanation section on pages 158 to 159 in the Annual report and accounts 2017. Each methodology is used for a proportion of assets by value, and at 30 September 2017 the following techniques were used under an IFRS basis: 51% other (which includes DCF) and 8% industry metric. If the value of all of the investments under these methodologies moved by 5%, this would have an impact on the investment portfolio of £47 million (31 March 2017: £44 million) or 3% (31 March 2017: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have an impact of £5 million (31 March 2017: £7 million) or 0.1% (31 March 2017: 0.2%).

9 Contingent liabilities

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012 the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc) as defined by an agreement with 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 30 September 2017 was £273 million (31 March 2017: £265 million). As part of the latest triennial valuation of the pension scheme, the Company has agreed to pay up to £50 million to the scheme if the Group's gearing increases above 20%, gross debt above £1 billion or net assets fall below £2 billion. If gearing, gross debt or net asset limits noted are reached, the Group may be required to increase the potential cover provided by the contingent asset arrangement until the gearing, gross debt or net assets improve.

At 30 September 2017, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

10 Related parties

All related party transactions that took place in the half year to 30 September 2017 are consistent in nature with the disclosures in Note 29 on pages 140 to 143 of the Annual report and accounts 2017. Related party transactions which took place in the period and materially affected performance or the financial position of the Group, together with any material changes in related party transactions as described in the Annual report and accounts 2017 that could materially affect the performance or the financial position of the Group are detailed below.

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 recognised in respect of these limited partnerships:

Consolidated statement of comprehensive income	Six months to 30 September 2017 £m	Six months to 30 September 2016 £m
Carried interest and performance fees receivable	64	205
Fees receivable from external funds	13	14

Consolidated statement of financial position	30 September 2017 £m	31 March 2017 £m
Carried interest and performance fees receivable	430	356

10 Related parties continued

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:

Consolidated statement of comprehensive income	Six months to 30 September 2017 £m	Six months to 30 September 2016 ¹ £m
Realised profit over value on the disposal of investments	9	–
Unrealised profits on the revaluation of investments	25	29
Portfolio income	5	7
Profits for the period from discontinued operations	–	30

Consolidated statement of financial position	30 September 2017 £m	31 March 2017 £m
Unquoted investments	423	429

1 Comparatives for the six months ended 30 September 2016 have been re-presented to show the results from the retained Debt Management assets, previously shown as discontinued operations, as continuing operations. See Note 11.

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

Advisory arrangements

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

Consolidated statement of comprehensive income	Six months to 30 September 2017 £m	Six months to 30 September 2016 £m
Unrealised profits on the revaluation of investments	11	48
Dividends	8	6
Fees receivable from external funds	11	9

Consolidated statement of financial position	30 September 2017 £m	31 March 2017 £m
Quoted equity investments	397	390
Performance fees receivable	–	4

11 Discontinued operations

On 3 March 2017, the Group completed the disposal of its Debt Management business to Investcorp and received cash proceeds of £270 million. All assets associated with the Debt Management business were classified as held for sale in the Half-year report 2016. Following the completion of the transaction on 3 March 2017, the Group determined that the investments not sold to Investcorp would be retained beyond the 12 month period prescribed by IFRS 5. Accordingly, they were no longer classified as held for sale and were included as continuing operations in the Annual report and accounts 2017.

Comparatives for the six months to 30 September 2016 have been re-presented to reflect the reclassification of the residual Debt Management assets as continuing operations. The impact of this re-presentation on a line by line basis is presented below. There was no profit or cash flow from discontinued operations in the six months to 30 September 2017.

Condensed consolidated statement of comprehensive income – Impact of re-presentation

Six months to 30 September 2016	As previously reported £m	Effect of re-presentation £m	As re-presented £m
Realised profits over value on the disposal of investments	7	–	7
Unrealised profits on the revaluation of investments	80	12	92
Fair value movements on investment entity subsidiaries	670	1	671
	757	13	770
Portfolio income			
Dividends	10	8	18
Interest income from investment portfolio	2	–	2
Fees receivable	4	–	4
Foreign exchange on investments	53	8	61
Gross investment return from continuing operations	826	29	855
Fees receivable from external funds	23	–	23
Operating expenses	(53)	–	(53)
Interest received	1	–	1
Interest paid	(25)	–	(25)
Exchange movements	35	–	35
Other income	8	–	8
Carried interest			
Carried interest and performance fees receivable	205	–	205
Carried interest and performance fees payable	(74)	–	(74)
Operating profit before tax from continuing operations	946	29	975
Income taxes	(2)	–	(2)
Profit for the period from continuing operations	944	29	973
Profit for the period from discontinued operations	79	(29)	50
Profit for the period	1,023	–	1,023
Other comprehensive expense that may be reclassified to the income statement:			
Exchange differences on translation of foreign operations	(3)	–	(3)
Other comprehensive expense that will not be reclassified to the income statement:			
Re-measurement of defined benefit plans	(19)	–	(19)
Other comprehensive income for the period from continuing operations	(22)	–	(22)
Other comprehensive income for the period from discontinued operations	5	–	5
Total comprehensive income for the period (“Total return”)	1,006	–	1,006

Cash flows – Impact of re-presentation

Six months to 30 September 2016	As previously reported £m	Effect of re-presentation £m	As re-presented £m
Net cash flows from operating activities	43	(1)	42
Total net cash flows from discontinued operations	43	(1)	42

Independent review report to 3i Group plc

Introduction

We have been engaged by 3i Group plc (the 'Company' or the 'Group') to review the condensed consolidated financial statements in the Half-year report for the six months ended 30 September 2017 which comprises the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statement of changes in equity, the Condensed consolidated cash flow statement, Basis of preparation and accounting policies and the related notes 1 to 11 (together the 'condensed consolidated financial statements'). We have read the other information contained in the Half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Half-year report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-year report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the Basis of preparation and accounting policies, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed consolidated financial statements included in this Half-year report have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated financial statements in the Half-year report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the Half-year report for the six months ended 30 September 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Statement of Directors' responsibilities

The Directors, who are required to prepare the financial statements on a going concern basis unless it is not appropriate, are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered information relating to present and future conditions, including future projections of profitability and cash flows.

The Directors confirm that to the best of their knowledge:

- a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU;
- b) the Half year report includes a fair review of the information required by:
 - i) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 March 2018 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - ii) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being (i) related party transactions that have taken place in the first six months of the financial year ending 31 March 2018 which have materially affected the financial position or performance of 3i Group during that period; and (ii) any changes in the related party transactions described in the Annual report and accounts 2017 that could materially affect the financial position or performance of 3i Group during the first six months of the financial year ending 31 March 2018.

The Directors of 3i Group plc and their functions are listed below.

The report is authorised for issue by order of the Board.

K J Dunn, Secretary
15 November 2017

List of Directors and their functions

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

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

Portfolio and other information

20 large investments

The 20 investments listed below account for 82% of the portfolio at 30 September 2017 (31 March 2017: 77%). This table excludes one investment for commercial reasons.

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost ¹ March 2017 £m	Residual cost ¹ September 2017 £m	Valuation March 2017 £m	Valuation September 2017 £m	Relevant transactions in the period
Action* Non-food discount retailer	Private Equity Benelux 2011 Earnings	1	1	1,708	2,009	
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	399	396	655	670	Dividend of £13 million received
Q Holding* Manufacturer of engineered precision elastomeric components	Private Equity US 2014 Earnings	162	162	222	243	
Weener Plastic* Supplier of plastic packaging solutions	Private Equity Germany 2015 Earnings	161	168	200	218	
Basic-Fit Discount gym operator	Private Equity Benelux 2013 Quoted	11	11	184	218	
Audley Travel* Provider of experiential tailor made travel	Private Equity UK 2015 Earnings	177	185	185	208	
Hans Anders* Value for money optical retailer	Private Equity Benelux 2017 Earnings	–	178	–	195	New investment in the period
ATESTEO* International transmission testing specialist	Private Equity Germany 2013 Earnings	39	40	160	182	
Schlemmer* Provider of cable management solutions for the automotive industry	Private Equity Germany 2016 Earnings	162	168	154	152	
BoConcept* Urban living brand	Private Equity Denmark 2016 Earnings	140	136	146	145	DKK 100 million over-funding repaid in the period
Formel D* Quality assurance provider for the automotive industry	Private Equity Germany 2017 Earnings	–	137	–	135	New investment in the period
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	30	113	134	
Ponroy Santé* Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	123	126	122	133	
ACR Pan-Asian non-life reinsurance	Private Equity Singapore 2006 Industry metric	105	105	135	130	

20 large investments continued

Investment	Business line Geography First invested in Valuation basis	Residual cost ¹ March 2017 £m	Residual cost¹ September 2017 £m	Valuation March 2017 £m	Valuation September 2017 £m	Relevant transactions in the period
Tato Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	2	2	112	112	
Lampenwelt* Online lighting specialist retailer	Private Equity Germany 2017 Earnings	–	105	–	109	New investment in the period
Aspen Pumps* Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	78	82	88	104	
Christ* Distributor and retailer of jewellery	Private Equity Germany 2014 Earnings	101	102	98	100	
Cirtec Medical* Outsourced medical device manufacturing	Private Equity USA 2017 Earnings	–	103	–	99	New investment in the period
Euro-Diesel* Manufacturer of uninterruptible power supply systems	Private Equity Benelux 2015 Earnings	57	60	95	91	

* Controlled in accordance with IFRS.

¹ Residual cost includes capitalised interest.

Glossary

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.

Capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act 2006, the Company amended its Articles of Association at its 2012 Annual General Meeting to allow these profits to be distributable by way of a dividend.

Carried interest is accrued on the realised and unrealised profits generated, taking relevant performance hurdles into consideration, assuming all investments were realised at the prevailing book value. Carried interest is only actually paid or received when the relevant performance hurdles are met on a cash basis and the accrual is discounted to reflect expected payment periods. Carried interest receivable is generated on third-party capital over the life of the relevant fund when relevant performance criteria are met.

Company 3i Group plc.

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 the performance of our portfolio companies.

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

Fees receivable from external funds are fees received by the Group, from third parties, for the management of Private Equity and Infrastructure funds.

Investment basis accounts are 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 Interim report refers to this basis as we believe it provides a more understandable view of our performance.

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

Operating cash profit/(loss) is the difference between our cash income (consisting of portfolio interest received, portfolio dividends received, portfolio fees received and fees received from external funds as per the Investment basis Cash flow statement) and our cash operating expenses (as per the Investment basis Cash flow statement).

Proprietary Capital Shareholders' capital which is available to invest.

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

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.

Information for shareholders

Note

The interim dividend is expected to be paid on 10 January 2018 to holders of ordinary shares on the register on 15 December 2017. The ex-dividend date will be 14 December 2017.

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.