



10 November 2016

## 3i Group plc announces half-year results to 30 September 2016

### An excellent first half performance

- Strong progression in NAV per share to **551 pence** (31 March 2016: 463 pence), after payment of 16 pence FY2016 final dividend and total return of **£1,006m** or **23%** of opening shareholders' funds
- Private Equity gross investment return of **£989m** underpinned by continued strong financial and operational performance across the portfolio
- Very busy period for Private Equity realisations with proceeds of **£654m** at a money multiple of over **2x**. Patient approach to investing in an environment where valuations remain high; invested **£287m** in two new Private Equity investments, Schlemmer and BoConcept
- Good progress in Infrastructure with the particularly strong performance from 3i Infrastructure plc ("3iN") contributing to a gross investment return of **£90m** in addition to fee income. 3i invested **£131m** in 3iN's equity raise, all of which has now been invested or committed
- Debt Management launched two new CLOs in Europe and one in the US despite challenging markets
- On 25 October 2016 3i announced the sale of the Debt Management business to Investcorp for gross cash proceeds of **£222m**. The sale is expected to complete by 31 March 2017 subject to closing conditions
- Interim dividend of **8.0 pence** in line with our dividend policy
- We expect to recommend a total dividend for the year of no less than the 22.0 pence total dividend paid in respect of the year to 31 March 2016

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

"3i continues to benefit from its clear strategy and a portfolio with limited exposure to the repercussions caused by the current geopolitical and financial market volatility. We are navigating these challenges from a position of strength; our diverse portfolio, rigorous investment processes and robust balance sheet underpin our confidence about the future success of the Group."

# Financial highlights<sup>1</sup>

|   | Six months to/as<br>at 30 September<br>2016 | Six months to/as<br>at 30 September<br>2015 | Year to/as at<br>31 March<br>2016 |
|---|---|---|-----------------------------------|
| <b>Group</b>  |   |   |                                   |
| Total return including discontinued operations          | <b>£1,006m</b>                              | £168m                                       | £824m                             |
| Total return <sup>1</sup>                               | <b>£922m</b>                                | £163m                                       | £805m                             |
| Operating expenses including discontinued operations    | <b>£66m</b>                                 | £63m  | £134m                             |
| Operating expenses <sup>1</sup>                         | <b>£54m</b>                                 | £50m  | £106m                             |
| Operating cash profit including discontinued operations | <b>£34m</b>                                 | £17m  | £37m                              |
| Operating cash (loss) <sup>1</sup>                      | <b>£(4)m</b>                                | £(3)m                                       | £(9)m                             |
| Dividend per ordinary share                             | <b>8.0p</b>                                 | 6.0p  | 22.0p                             |
| <b>Proprietary Capital</b>                              |   |   |                                   |
| Realisation proceeds                                    | <b>£666m</b>                                | £358m                                       | £794m                             |
| - Uplift over opening book value <sup>2</sup>           | <b>£51m/9%</b>                              | £29m/9%                                     | £70m/13%                          |
| - Money multiple  | <b>2.3x</b>                                 | 1.7x  | 2.4x                              |
| Gross investment return                                 | <b>£1,079m</b>                              | £269m                                       | £1,058m                           |
| - As a percentage of opening 3i portfolio value         | <b>25.3%</b>                                | 7.3%  | 28.6%                             |
| Operating profit <sup>3</sup>                           | <b>£1,042m</b>                              | £207m                                       | £919m                             |
| Cash investment   | <b>£422m</b>                                | £208m                                       | £365m                             |
| 3i portfolio value                                      | <b>£5,073m</b>                              | £4,037m                                     | £4,497m                           |
| Gross debt  | <b>£844m</b>                                | £819m                                       | £837m                             |
| Net cash/(debt)   | <b>£187m</b>                                | £(12)m                                      | £165m                             |
| Gearing <sup>4</sup>                                    | <b>nil</b>                                  | 0.3%  | nil                               |
| Liquidity   | <b>£1,360m</b>                              | £1,157m                                     | £1,352m                           |
| Net asset value   | <b>£5,320m</b>                              | £3,851m                                     | £4,455m                           |
| Diluted net asset value per ordinary share              | <b>551p</b>                                 | 401p  | 463p                              |

1 The sale of our Debt Management business was announced on 25 October 2016. Debt Management's total return for the six months to 30 September 2016 has been classified as discontinued operations and the prior period results have been represented. Unless stated, all balances are on continuing operations.

2 Uplift over opening book value excludes refinancings.

3 Operating profit excludes carried interest and performance fees payable/receivable.

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

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**For further information regarding the announcement of 3i's half yearly results to 30 September 2016, including a live videocast of the results presentation at 10.00am, please visit [www.3i.com](http://www.3i.com).**

## **Notes to editors**

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

## **Notes to the announcement of the results**

### **Note 1**

All of the financial data in this announcement is taken from the Investment basis financial statements. This Half-yearly report has been prepared solely to provide information to shareholders. It should not be relied on by any other party or for any other purpose.

The financial information for the year ended 31 March 2016 contained within this announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The statutory accounts for the year to 31 March 2016, prepared under IFRS, have been reported on by Ernst and 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.

### **Note 2**

A pdf of the 3i Group plc Half-yearly report 2016 will be available on our website [www.3i.com](http://www.3i.com) and is also attached below.

### **Note 3**

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

### **Note 4**

The interim dividend is expected to be paid on 4 January 2017 to holders of ordinary shares on the register on 9 December 2016.

## Key performance highlights

for the six months to 30 September 2016

### Total return on equity<sup>1</sup>

# 22.6%

(September 2015: 4.4%)

### NAV per share

# 551p

(31 March 2016: 463p)

### Interim dividend per share

# 8.0p

(September 2015: 6.0p)

### Operating cash profit<sup>2</sup>

# £34m

(September 2015: £17m)

### Private Equity cash invested

# £291m

(September 2015: £208m)

### Private Equity realisation proceeds

# £654m

(September 2015: £307m)

### Infrastructure cash invested

# £131m

(September 2015: nil)

### Infrastructure operating cash income

# £28m

(September 2015: £25m)

1 Our Debt Management business is now classified as discontinued operations following the announcement of its sale on 25 October 2016. On a continuing operations basis, total return on equity for the period was 20.7% (September 2015: 4.3%).

2 On a continuing operations basis, the operating cash loss for the period was £(4)m (September 2015: £(3)m loss).

## Summary financial data under the Investment basis

3i prepares its statutory financial statements in accordance with 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. 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 16.

Unless stated, all balances are on continuing operations<sup>1</sup>.

|   | Six months to/as<br>at 30 September<br>2016 | Six months to/as<br>at 30 September<br>2015 | 12 months to/as<br>at 31 March<br>2016 |
|---|---|---|--|
| <b>Investment basis</b>                                 |   |   |  |
| Total return including discontinued operations          | <b>£1,006m</b>                              | £168m                                       | £824m                                  |
| Total return  | <b>£922m</b>                                | £163m                                       | £805m                                  |
| Operating expenses including discontinued operations    | <b>£66m</b>                                 | £63m  | £134m                                  |
| Operating expenses                                      | <b>£54m</b>                                 | £50m  | £106m                                  |
| Operating cash profit including discontinued operations | <b>£34m</b>                                 | £17m  | £37m                                   |
| Operating cash (loss)                                   | <b>£(4)m</b>                                | £(3)m                                       | £(9)m                                  |
| Dividend per ordinary share                             | <b>8.0p</b>                                 | 6.0p  | 22.0p                                  |
| <b>Proprietary capital return</b>                       |   |   |  |
| Realisation proceeds                                    | <b>£666m</b>                                | £358m                                       | £794m                                  |
| Uplift over opening book value <sup>2</sup>             | <b>£51m/9%</b>                              | £29m/9%                                     | £70m/13%                               |
| Money multiple  | <b>2.3x</b>                                 | 1.7x  | 2.4x                                   |
| Gross investment return                                 | <b>£1,079m</b>                              | £269m                                       | £1,058m                                |
| As a percentage of opening 3i portfolio value           | <b>25.3%</b>                                | 7.3%  | 28.6%                                  |
| Operating profit <sup>3</sup>                           | <b>£1,042m</b>                              | £207m                                       | £919m                                  |
| <b>Proprietary capital balance sheet</b>                |   |   |  |
| Cash investment   | <b>£422m</b>                                | £208m                                       | £365m                                  |
| 3i portfolio value                                      | <b>£5,073m</b>                              | £4,037m                                     | £4,497m                                |
| Gross debt  | <b>£844m</b>                                | £819m                                       | £837m                                  |
| Net cash/(debt)   | <b>£187m</b>                                | £(12)m                                      | £165m                                  |
| Gearing <sup>4</sup>                                    | <b>nil</b>                                  | 0.3%  | nil                                    |
| Liquidity   | <b>£1,360m</b>                              | £1,157m                                     | £1,352m                                |
| Net asset value   | <b>£5,320m</b>                              | £3,851m                                     | £4,455m                                |
| Diluted net asset value per ordinary share              | <b>551p</b>                                 | 401p  | 463p                                   |

1 The sale of our Debt Management business was announced on 25 October 2016. Debt Management's total return for the six months to 30 September 2016 of £84 million has been classified as discontinued operations and the prior period results have been re-presented.

2 Uplift over opening book value excludes refinancings.

3 Operating profit excludes carried interest and performance fees payable/receivable.

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

# Chief Executive's review

## Introduction

3i has delivered a strong set of results despite the backdrop of geopolitical and financial market volatility.

The Group continues to benefit from its clear strategy and a defensive portfolio which has limited exposure to the early repercussions of the Brexit referendum. 3i is an international business and 70% of the Group's assets are denominated in euros or US dollars and the steep devaluation of sterling has added a translation benefit to the strong underlying performance of the Group's investment portfolio in the first half.

As a result, 3i reported first half returns in excess of £1 billion (September 2015: £168 million) and a NAV per share of 551 pence (31 March 2016: 463 pence). 3i's financial performance was underpinned by continued strong earnings growth in the Private Equity portfolio and supported by good levels of dividend and fee income from Infrastructure and Debt Management, as well as 3i Infrastructure plc's ("3iN") strong share price appreciation.

As announced on 25 October 2016, we have agreed to sell our Debt Management business to Investcorp. Since our strategic review in 2012, the Debt Management business has played an important role in the Group's restructuring. Predominantly a third-party asset management business, it has provided us with cash fee income, contributing to achieving and maintaining a Group operating cash profit, as well as good cash returns from our investments in the underlying CLOs. However, the cash income from Debt Management is now less important as we focus on building our Private Equity and Infrastructure portfolios from a robust position, with a strong balance sheet and a lean cost base.

## A diversified portfolio

In Private Equity we have an international portfolio focused on defensive sectors, with limited exposure to areas of the market that have experienced the most challenges over the last 18 months.

Following our decision to revalue Action in June 2016, the business has continued to deliver consistently strong like-for-like sales growth and rapid store expansion and was valued at £1,549 million at 30 September 2016 (31 March 2016: £902 million). By the end of October 2016, Action had opened over 790 stores, having reached over 100 stores in Germany and 200 stores in France. The third distribution centre opened south east of Paris in June 2016 with a fourth and fifth planned for 2017 in the Toulouse and Mannheim regions respectively. In addition, its first stores in Austria are performing very well. With significant white space available in its target countries and a highly energised management team, Action is on target to open considerably more stores this calendar year than last year (141 net new stores) and is well positioned to continue its exceptional growth story.

Scandlines has continued to perform robustly, generating good levels of cash flow in the year to date. By the end of 2016, two new vessels will have come into operation on the route between Rostock and Gedser and as a result, Scandlines will have significantly increased its capacity prior to the start of the new calendar year. Apart from Scandlines, we continued to see strong performance from assets invested in since the 2012 strategic review with Basic-Fit, ATESTEO, Aspen Pumps and Euro-Diesel showing significant progress in their development.

Our effective investment processes and active portfolio management are central to how we deliver returns and are intended to minimise the risk of material loss. However, we do have some exposure to sectors that are subject to cyclical end markets, as well as a few troubled legacy assets. Some assets continue to feel the impact of their customers' reduced capital expenditure, which is at its lowest level since the financial crisis in 2008. In addition, weaker consumer sentiment and reduced footfall are impacting the earnings growth potential in some of our retail investments.

The Group's holding in 3iN performed particularly strongly in the period, in addition to providing dividend and fee income. In June, 3i invested £131 million in 3iN's £385 million capital raising to maintain its 34% stake. By the end of the period, the majority of the equity raise had been invested and 3iN's share price increased from the offer price of 165 pence to close at 194 pence.

## The strength of our proprietary capital proposition

Over the last four years, we have built our Private Equity and Infrastructure businesses into focused and effective operations capable of generating mid-teen returns through the cycle. We believe that the greatest opportunities for shareholder returns lie in mid-market Private Equity investment in sectors where we have a proven track record, and in Infrastructure.

However, with so much investment dry powder having built up in recent years, it is very important that we maintain our price and process disciplines. In an environment where valuations remain high, markets are chasing yield and good M&A opportunities are scarce, our proprietary capital approach in Private Equity allows us to be conservative and patient in our approach. Subject to market conditions, we aim to invest in four to seven new Private Equity investments a year, committing up to £750 million. We invested just under £300 million in two new investments in the first half and announced a €150 million investment in Ponroy Santé in November 2016.

We have maintained our focus on realisations from our Private Equity portfolio and took advantage of the favourable market conditions in the period to dispose of five companies and three quoted holdings. In the first half, we generated £669 million of cash proceeds across our three business lines, of which £654 million was generated by Private Equity.

## Dividend

In line with our updated dividend policy, we have declared an interim dividend of 8.0 pence, which is half of our 16.0 pence base dividend. In view of the exceptional performance of the Group in the year to date, the Board expects to recommend a total dividend for the year of no less than the 22.0 pence total dividend paid in respect of the year to 31 March 2016.

## Outlook

The macroeconomic and geopolitical landscape continues to be challenging and investor confidence is particularly susceptible to negative news flow. In this context, we will remain cautious and disciplined in our investment approach, and focused on enhancing the value of our portfolio. To date, we have seen little direct impact on our businesses from the UK's EU referendum result but we continue to monitor developments closely.

We are navigating these challenges from a position of strength. Our robust balance sheet and diverse portfolio, together with the rigorous approach of our investment processes, underpins our confidence about the future success of the Group.

**Simon Borrows**  
Chief Executive

## Business review

### Private Equity

Private Equity performed strongly in the first half despite the challenging macroeconomic and market conditions. In June 2016, we announced a material increase to the valuation of Action following a number of third party approaches and its continued strong financial and operating performance. In addition, we are seeing strong performance in the portfolio built since the strategic review in 2012, together with some excellent realisations from earlier vintages. With the benefit of further foreign exchange translation gains, the gross investment return for the six-month period was a very strong £989 million, or 26% on the opening portfolio (September 2015: £246 million, 8%).

### Investment activity

We completed two new acquisitions in the first half in our consumer and industrial target sectors. In July 2016, in a public-to-private transaction where the majority of the shares were owned by the founding family, we invested DKK1,144 million (£132 million) in BoConcept, an urban living brand headquartered in Denmark. In August 2016, we invested €182 million (£155 million) in Schlemmer, a global leader in cable management solutions for the automotive industry headquartered in Germany. In both cases, 3i had built a strong relationship with the management teams. 3i will use its experience to help both businesses expand internationally, maximise market opportunities and drive operational efficiencies.

We continue to see an interesting range of investment opportunities across our international network and we recently announced our €150 million investment in Ponroy Santé, a manufacturer of natural healthcare and cosmetics products based near Nantes, France.

**Table 1: Private Equity cash investment in the six months to 30 September 2016**

| Investment                             | Type    | Business description   | Date           | Total      | Proprietary |
|--|---------|--|----------------|------------|-------------|
|  |         |  |                | investment | capital     |
|  |         |  |                | £m         | £m          |
| BoConcept                              | New     | Urban living brand   | July 2016      | 133        | 132         |
| Schlemmer                              | New     | Provider of cable management solutions for the automotive industry | August 2016    | 156        | 155         |
| Agent Provocateur                      | Further | Women's lingerie and associated products                           | September 2016 | 7          | 4           |
| <b>Total Private Equity investment</b> |         |  |                | <b>296</b> | <b>291</b>  |

### Realisations activity

As market conditions remained favourable, we had a very busy first half. In total we generated £654 million of proceeds at an average money multiple of 2.3x. The realisations included a mix of older assets such as Mayborn and Polyconcept, as well as more recent investments such as Geka and Basic-Fit. We also took advantage of supportive equity market conditions to exit a number of quoted holdings.

In June 2016, we completed the IPO of Basic-Fit, the largest 'value for money' fitness club operator in Europe. The IPO raised proceeds of €400 million and allowed 3i to reduce its holding from 44% to 24%. Total gross cash proceeds to 3i were £82 million (a 1.1x cash multiple to date). 3i's remaining stake was valued at £195 million at 30 September 2016, taking total returns to £277 million (3.5x), compared to a value of £208 million at 31 March 2016.

In total, we generated realised profits of £52 million representing an uplift over opening value of 9%, excluding refinancings (September 2015: £26 million and 9%). Mayborn and Amor were sold in the first quarter and were valued on an imminent sales basis at 31 March 2016. We continue to make good progress towards our longer-term plan to hold a portfolio of 30-40 assets and at 30 September 2016 the portfolio had reduced to 44 assets and 3 quoted stakes (31 March 2016: 47 assets and 5 quoted stakes).

In early October, we announced that we had signed an implementation agreement for the sale of ACR. The transaction is expected to complete by early 2017 but we have not reflected the uplift to sale value as at 30 September 2016.



**Table 2: Private Equity realisations in the six months to 30 September 2016**

| Investment                                | Country/<br>region  | Calendar<br>year<br>invested | 31 March<br>2016<br>value <sup>1</sup><br>£m | 3i<br>realised<br>proceeds<br>£m | Profit<br>in the<br>period <sup>2</sup><br>£m | Uplift on<br>opening<br>value <sup>2</sup><br>% | Residual<br>value<br>£m | Money<br>multiple<br>over<br>cost <sup>3</sup> | IRR        |
|---|---------------------|------------------------------|--|----------------------------------|---|---|-------------------------|--|------------|
| <b>Full realisations</b>                  |                     |                              |  |                                  |   |   |                         |  |            |
| Mayborn                                   | UK                  | 2006                         | 135  | 136                              | 3   | 2%  | nil                     | 3.5x   | 17%        |
| Quintiles                                 | USA                 | 2008                         | 92   | 107                              | 10  | 10%   | nil                     | 3.3x   | 23%        |
| Amor                                      | Germany             | 2010                         | 87   | 88                               | 2   | 2%  | nil                     | 2.3x   | 18%        |
| Geka                                      | Germany             | 2012                         | 55   | 85                               | 27  | 47%   | nil                     | 1.8x   | 16%        |
| Polyconcept                               | UK                  | 2005                         | 37   | 42                               | 1   | 2%  | nil                     | 2.0x   | 7%         |
| Eltel                                     | Sweden              | 2007                         | 20   | 20                               | 1   | 5%  | nil                     | 1.0x   | (1)%       |
| UFO Moviez                                | India               | 2007                         | 12   | 16                               | 3   | 23%   | nil                     | 2.9x   | 16%        |
| <b>Partial realisations<sup>1,3</sup></b> |                     |                              |  |                                  |   |   |                         |  |            |
| Basic-Fit <sup>4</sup>                    | Benelux             | 2013                         | 82   | 82                               | nil   | -%  | 195                     | 3.5x   | 58%        |
| Scandlines                                | Denmark/<br>Germany | 2007/<br>2013                | 16   | 16                               | nil   | -%  | 434                     | 3.8x   | 30%        |
| Other                                     | n/a                 | n/a                          | 8  | 8                                | nil   | n/a   | 59                      | n/a  | n/a        |
| <b>Refinancings<sup>3</sup></b>           |                     |                              |  |                                  |   |   |                         |  |            |
| ATESTEO                                   | Germany             | 2013                         | 48   | 48                               | nil   | -%  | 115                     | 2.1x   | 34%        |
| <b>Deferred consideration</b>             |                     |                              |  |                                  |   |   |                         |  |            |
| Other                                     | n/a                 | n/a                          | 1  | 6                                | 5   | n/a   | 1                       | n/a  | n/a        |
| <b>Total Private Equity realisations</b>  |                     |                              | <b>593</b>                                   | <b>654</b>                       | <b>52</b>                                     | <b>9%</b>                                       | <b>804</b>              | <b>2.3x</b>                                    | <b>n/a</b> |

1 For partial realisations, 31 March 2016 value represents value of stake sold.

2 Cash proceeds in the period over opening value realised.

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

4 Proceeds returned to 3i through the repayment of shareholder loans.

## Portfolio performance

The portfolio performed strongly in the first half and generated unrealised value growth of £643 million (September 2015: £174 million).

**Table 3: Unrealised profits/(losses) on the revaluation of Private Equity investments<sup>1</sup> in the six months to 30 September**

|   | 2016<br>£m | 2015<br>£m |
|---|------------|------------|
| Earnings based valuations               |            |            |
| Performance                             | 282        | 171        |
| Multiple movements                      | 300        | (24)       |
| Other bases                             |            |            |
| Discounted cash flow                    | 48         | 28         |
| Other movements on unquoted investments | (43)       | 1          |
| Quoted portfolio                        | 56         | (2)        |
| <b>Total</b>                            | <b>643</b> | <b>174</b> |

1 More information on our valuation methodology, including definitions and rationale, is included in the Valuation policy section on pages 41 to 42 and in our Annual report and accounts 2016 on pages 148 to 149.

## Performance

Continued strong performance of the investments valued on an earnings basis resulted in an increase in value of £282 million (September 2015: £171 million). The largest driver behind the increase is Action. Action is valued using its run rate earnings over the last twelve months to 30 June 2016. As announced at the end of June 2016, we increased the valuation of Action due to a number of offers and its improved financial and operational performance. At 30 September 2016 Action was valued at £1,549 million (31 March 2016: £902 million) and as the largest Private Equity investment by value, represented 36% of the Private Equity portfolio by value (31 March 2016: 24%).

The investments made since our strategic review in 2012 are showing good progress, with Scandlines (a further investment in December 2013 where we doubled our holding), Basic-Fit, Euro-Diesel, Aspen Pumps and ATESTEO all delivering good earnings growth. All five assets are market leaders in attractive segments, the majority of which have good potential to continue to gain market share, and together they contributed £158 million of returns and £146 million of realised proceeds during the period. In particular, the partial realisation of Basic-Fit at its IPO and the subsequent increase in share price contributed £61 million to portfolio returns in the half year.

We cannot be immune to market volatility and macroeconomic developments are impacting pockets of the portfolio. We saw continuing weakness in a limited number of assets, especially those exposed to capital expenditure in the oil and commodities sector (Dynatect and JMJ) or weaker consumer sentiment and decelerating tourist flows which have reduced spending on discretionary consumer goods in Europe. In particular, Agent Provocateur continues to be impacted by declining luxury spend in a number of its key markets. The effect of this has been compounded by the inconsistent execution of its recent store expansion programme and the discovery of accounting issues. We are supporting the new management team to put in place a new strategic plan, which involves a restructuring of the business. Agent Provocateur is still a valuable brand and, as part of this restructuring, we have provided further investment of £4 million in the quarter to 30 September 2016. Reflecting these challenges, we reduced the value of our investment by £39 million in the period and this is included in the other movements category in Table 3.

Overall the majority of the portfolio (83% of assets valued on an earnings basis) grew its earnings in the period. Two investments were valued using forecast earnings at 30 September 2016 (31 March 2016: two), representing less than 1% of the portfolio by value (31 March 2016: 2%).

**Table 4: Portfolio earnings growth of the top 20 Private Equity assets<sup>1</sup>**

| Last 12 months' (LTM) earnings growth | 3i carrying value    | 3i carrying value |
|---------------------------------------|----------------------|-------------------|
|                                       | at 30 September 2016 | at 31 March 2016  |
|                                       | £m                   | £m                |
| (20) - (11)%                          | 59                   | -                 |
| (10) - (1)%                           | 439                  | 336               |
| 0 - 9%                                | 785                  | 1,108             |
| 10 - 19%                              | 468                  | 334               |
| 20 - 30%                              | -                    | 421               |
| >30%                                  | 2,135                | 902               |

<sup>1</sup> Includes top 20 companies. This represents 89% of the Private Equity portfolio by value (31 March 2016: 83%).

We took the opportunity to refinance the debt in ATESTEO in the first half. Since our investment, ATESTEO has increased its EBITDA by 50%, which allowed it to refinance its debt on a prudent basis and repay part of 3i's shareholder loans. Overall, net debt across the portfolio increased to 3.1x EBITDA (31 March 2016: 2.9x). Table 5 shows the ratio of net debt to EBITDA by portfolio value at 30 September 2016.

**Table 5: Ratio of net debt to EBITDA<sup>1</sup>**

|                             | 3i carrying value<br>at 30 September 2016 | 3i carrying value<br>at 31 March 2016 |
|-----------------------------|---|---------------------------------------|
|                             | £m  | £m                                    |
| Ratio of net debt to EBITDA |   |                                       |
| <1x                         | 541                                       | 550                                   |
| 1 - 2x                      | 526                                       | 406                                   |
| 2 - 3x                      | 275                                       | 339                                   |
| 3 - 4x                      | 2,730                                     | 691                                   |
| 4 - 5x                      | 263                                       | 1,724                                 |
| >5x                         | -   | 5                                     |

1 This represents 99.6% of the Private Equity portfolio by value (31 March 2016: 99.3%).

### Multiple movements

The multiple used to value Action increased from 14.0x at 31 March 2016 to 16.8x post discount at 30 September 2016. Excluding Action, the weighted average EBITDA multiple declined to 10.4x before marketability discount (31 March 2016: 10.8x) and was 9.7x after marketability discount (31 March 2016: 10.1x) principally due to the IPO of Basic-Fit which was valued using a multiple materially higher than the average. As noted in the Annual report and accounts 2016, we consider other factors such as exit plans, relative performance and investment size when setting valuation multiples. Market volatility in the period meant that we continued to adjust multiples down in 17 out of the 25 companies (31 March 2016: 17 out of 29) valued on an earnings basis. The pre-discount multiples used to value the portfolio ranged between 6.5x and 17.7x (31 March 2016: 6.5x to 14.7x) and the post discount multiples ranged between 5.8x and 16.8x (31 March 2016: 5.5x to 14.0x). The combined effect of changes in multiples across the portfolio resulted in an increase in value of £300 million in the period (September 2015: £24 million decline).

### Discounted cash flow ("DCF")

As at 30 September 2016, the largest portfolio company valued on a DCF basis was Scandlines, valued at £434 million. It generated value growth of £47 million due to strong trading over the early summer months as well as an update to its weighted average cost of capital ("WACC").

### Quoted portfolio

The Private Equity quoted portfolio, including Basic-Fit which listed in June 2016, generated an unrealised value gain of £56 million (September 2015: £2 million loss) which is detailed in Table 6 below.

**Table 6: Quoted portfolio movement for the six months to 30 September 2016**

| Investment | IPO date    | Opening<br>value<br>at 1 April<br>2016 | Disposals<br>at opening<br>book value | Unrealised<br>value<br>movement | Other<br>movements <sup>1</sup> | Closing<br>value at<br>30 September<br>2016 |
|------------|-------------|--|---------------------------------------|---------------------------------|---------------------------------|---|
|            |             | £m                                     | £m                                    | £m                              | £m                              | £m  |
| Quintiles  | May 13      | 92                                     | (92)                                  | -                               | -                               | -   |
| Dphone     | July 14     | 25                                     | -                                     | (3)                             | 2                               | 24  |
| Eltel      | February 15 | 20                                     | (20)                                  | -                               | -                               | -   |
| Refresco   | March 15    | 44                                     | -                                     | (2)                             | 4                               | 46  |
| UFO Moviez | May 15      | 12                                     | (12)                                  | -                               | -                               | -   |
| Basic-Fit  | June 16     | 208                                    | (82)                                  | 61                              | 8                               | 195   |
|            |             |  |                                       | <b>56</b>                       |                                 | <b>265</b>                                  |

1 Other movements include foreign exchange.

### Assets under management

The value of Eurofund V ("EFV") continued to grow, with a money multiple at 30 September 2016 of 2.0x (31 March 2016: 1.7x). Investments made since the 2012 strategic review, including the further investment in Scandlines, are making good progress with a sterling multiple of 1.6x at 30 September 2016. The value of 3i's Proprietary Capital increased to £4.4 billion in the period (31 March 2016: £3.7 billion). The value of the portfolio including third party capital increased to €7.3 billion (31 March 2016: €6.8 billion).

## Infrastructure

Infrastructure continued to make good progress and contributed a gross investment return of £90 million, or 17% on the opening portfolio (September 2015: £23 million, 4%). This was driven by 3iN's strong share price appreciation together with good levels of dividend and fee income from both 3iN and other infrastructure funds managed by the team.

In May 2016, 3iN announced a 7.55 pence per share dividend target for FY2017, as well as a £350 million capital raise. Both initiatives were well received in the market and the equity offer at 165 pence per share was significantly oversubscribed. The final amount raised, gross of fees, was £385 million. 3iN's share price closed at 194 pence on 30 September 2016.

In a competitive market with interest rates remaining at all-time lows and continued compression in market returns, 3iN announced four new investments for a total consideration of £287 million in the period (September 2015: £187 million). The team completed three new investments in mid-market economic infrastructure businesses: Wireless Infrastructure Group, TCR and Valorem and made an investment commitment to the Hart van Zuid greenfield PPP project in the Netherlands. In addition post period end, 3iN announced a commitment to invest in the A27/A1 greenfield PPP project in the Netherlands and an approximately £185 million investment in Infinis. As a result, all of the proceeds from the capital raise have now been fully deployed.

Overall, the 3iN portfolio continues to perform well and generated a total return of 5% in the period. Under the terms of the investment advisory agreement, 3iN paid an advisory fee of £11 million to 3i (September 2015: £8 million) with the increase attributable to new investment activity.

The team is focused on managing the 3iN portfolio actively and embedding the new assets to maximise shareholder value and continues to see a good flow of new investment opportunities. In light of the strong demand for infrastructure assets as capital flows towards more defensive sectors, the team remains disciplined and focused on maintaining a balanced and attractive portfolio.

## Performance

The Group's infrastructure portfolio consists primarily of its 34% stake in 3iN. In June 2016, 3i invested £131 million in 3iN's £385 million capital raise to maintain its 34% stake.

3iN's share price performed strongly in the period as infrastructure stocks in general were well positioned in the volatile market conditions following the aftermath of the UK's referendum on its membership of the EU. The yield offered by 3iN continues to be attractive to investors in the current low interest rate environment. 3iN's total shareholder return was 17% in the period (September 2015: 7%). 3i also has an investment in the 3i India Infrastructure Fund, where the team has made progress towards the realisation of the assets.

In total, the Infrastructure portfolio generated unrealised value growth of £76 million in the period (September 2015: £11 million).

**Table 7: Unrealised profits/(losses) on the revaluation of Infrastructure investments**  
in the six months to 30 September

|                                   | 2016      | 2015      |
|-----------------------------------|-----------|-----------|
|                                   | £m        | £m        |
| <b>Infrastructure<sup>1</sup></b> |           |           |
| Quoted                            | 80        | 19        |
| Discounted cash flow              | (4)       | (8)       |
| <b>Total</b>                      | <b>76</b> | <b>11</b> |

<sup>1</sup> More information on our valuation methodology, including definitions and rationale, is included in the Valuation policy section on pages 41 to 42 of this Half-yearly report and in our Annual report and accounts 2016 on pages 148 to 149.

## Assets under management

Infrastructure AUM increased to £2.7 billion (31 March 2016: £2.4 billion) principally due to 3iN's fundraising and strong performance.

## Debt Management

On 25 October 2016 we announced our decision to sell our Debt Management business to Investcorp for gross cash proceeds of £222 million. The business is classified as discontinued operations at 30 September 2016. As part of the transaction, Investcorp is acquiring Debt Management's CLO equity investments, valued at £182 million at 30 September 2016, required to meet the risk retention requirements. Investcorp will also take over the warehouse commitments in Europe and the US.

In total, at 30 September 2016 we had £319 million (31 March 2016: £229 million) of proprietary capital invested in the Debt Management business.

**Table 8: Proprietary capital invested in Debt Management**

|   | <b>30 September</b> | 31 March  |
|---|---------------------|-----------|
|   | <b>2016</b>         | 2016      |
| Investment  | <b>£m</b>           | <b>£m</b> |
| CLO equity to satisfy risk retention requirements | <b>182</b>          | -         |
| Other CLO equity                                  | <b>56</b>           | 154       |
| Investment in CLO warehouses                      | <b>13</b>           | 17        |
| Direct investments in debt funds                  | <b>68</b>           | 58        |
| <b>Total</b>                                      | <b>319</b>          | 229       |

3i made a net cash investment of £50 million in the period in warehouses ahead of CLO issuance and in the equity of new CLOs launched in the period.

## Assets under management

The Debt Management team continued to make good progress in its core CLO business, raising £1.0 billion in new assets by issuing two CLOs in Europe and one in the US. Non-CLO AUM remained broadly stable in the period. Overall, Debt Management AUM increased to £9.0 billion at 30 September 2016 (31 March 2016: £8.1 billion) as the new CLO AUM raised and favourable foreign exchange movements more than offset the run-off of older funds.

## Investment portfolio performance

After the volatile start to the 2016 calendar year, our CLO equity investments performed well in terms of mark-to-market gains, cash distributions and fee income. In addition, both the European and US CLO markets are proving resilient to the volatility resulting from the UK referendum on its membership of the EU. European loan prices in the secondary market have been relatively robust, with year-to-date CLO issuance of €14.0 billion, which is in line with the prior year. Activity levels in the European primary loan market pipeline remain low and transactions are being dominated by recapitalisations, repricings and refinancings.

In the US, loan prices are continuing to recover from last year's credit concerns about specific sectors such as oil and gas, and commodities, but new deal flow is materially below 2015 levels. The US market continues to benefit from strong support as new CLO issuance, retail fund dividend reinvestment and institutional demand have driven loan prices up. New CLO issuance continues to favour managers with a strong following in the market and those able to invest equity in the CLOs. Early 2016 volatility and equity constraints have kept new CLO issuance significantly below 2015 levels, with calendar year to date volumes at 72% of the previous year.

## Debt Management unrealised value movement

Debt Management recognised an unrealised value gain of £13 million in the first half (September 2015: £18 million loss), relating principally to the mark-to-market valuation gains on the CLO equity portfolio. Reversing losses recognised in previous periods, CLO equity valuations recovered strongly in the first half. European CLO valuations benefited from strong secondary market demand for CLO equity. Following a difficult start to calendar year 2016, US CLO equity prices improved as markets recovered.

In addition to the unrealised gain of £13 million (September 2015: £18 million loss), the business generated £27 million of portfolio income (September 2015: £15 million) and £24 million of fee income (September 2015: £17 million).

## Financial review

### Strong financial performance

3i delivered a gross investment return from continuing operations of £1,079 million (September 2015: £269 million) and an operating profit before carry of £1,042 million (September 2015: £207 million) driven by strong value growth, especially from Action, and the positive impact of foreign exchange translation.

Overall, 3i generated a total return including discontinued operations of £1,006 million, or a profit on opening shareholders' funds of 22.6%, in the first half (September 2015: £168 million or 4.4%). As a result, the diluted NAV per share at 30 September 2016 increased to 551 pence (31 March 2016: 463 pence) after the payment of the final FY2016 dividend of £154 million, or 16.0 pence per share (September 2015: £133 million, 14.0 pence per share).

**Table 9: Total return**

|  | Six months to<br>30 September<br>2016<br>£m | Six months to<br>30 September<br>2015 <sup>1</sup><br>£m | 12 months to<br>31 March<br>2016 <sup>1</sup><br>£m |
|--|---|--|---|
| <b>Investment basis</b>  |   |  |   |
| Realised profits over value on the disposal of investments   | 51  | 29   | 72  |
| Unrealised profits on the revaluation of investments   | 719   | 185  | 712   |
| Portfolio income   |   |  |   |
| Dividends  | 16  | 22   | 39  |
| Income from loans and receivables  | 19  | 26   | 59  |
| Fees receivable  | 1   | 6  | 7   |
| Foreign exchange on investments  | 273   | 1  | 169   |
| <b>Gross investment return</b>   | <b>1,079</b>                                | 269  | 1,058   |
| Fees receivable from external funds  | 23  | 20   | 41  |
| Operating expenses   | (54)  | (50)   | (106)   |
| Interest received  | 1   | 2  | 4   |
| Interest paid  | (25)  | (24)   | (47)  |
| Exchange movements   | 10  | (10)   | (31)  |
| Other income   | 8   | -  | -   |
| <b>Operating profit before carried interest</b>  | <b>1,042</b>                                | 207  | 919   |
| Carried interest   |   |  |   |
| Carried interest and performance fees receivable   | 203   | (8)  | 78  |
| Carried interest and performance fees payable  | (302)                                       | (36)   | (186)   |
| <b>Operating profit from continuing operations</b>   | <b>943</b>                                  | 163  | 811   |
| Income taxes   | (2)   | 1  | -   |
| Re-measurements of defined benefit plans   | (19)  | (1)  | (6)   |
| <b>Total comprehensive income: continuing operations<br/>("Total return from continued operations")</b>              | <b>922</b>                                  | 163  | 805   |
| Total comprehensive income from discontinued operations, net of tax<br>("Total return from discontinued operations") | 84  | 5  | 19  |
| <b>Total comprehensive income ("Total return")</b>   | <b>1,006</b>                                | 168  | 824   |
| <b>Total return on opening shareholders' funds</b>   | <b>22.6%</b>                                | 4.4%   | 21.7%   |

1 Comparatives have been re-presented to reflect the classification of the Group's Debt Management business as discontinued operations.

### Realised profits

Continued exit momentum from continuing operations in the first half resulted in 3i realising profits on disposal of £51 million (September 2015: £29 million) and proceeds totalling £666 million (September 2015: £358 million) from Private Equity and Infrastructure. Private Equity generated £654 million of the proceeds and £52 million of profits on disposal. Realisations, excluding refinancings, were achieved at an uplift over opening value of 9%, which reflects the fact that Mayborn and Amor were valued on an imminent sales basis at the beginning of the financial year, and the sale of £143 million of quoted holdings.

## Unrealised value movements

The unrealised value movement of £719 million (September 2015: £185 million) was due to strong earnings growth in a number of our key Private Equity assets. The uplift in the Action valuation, announced in June 2016, contributed £547 million of the unrealised value growth, but we also saw encouraging performance from Private Equity investments made since the strategic review in 2012, as well as strong share price progression in 3iN.

**Table 10: Unrealised profits on revaluation of investments (continuing operations)**  
for the six months to 30 September

|                | 2016       | 2015 |
|----------------|------------|------|
|                | £m         | £m   |
| Private Equity | <b>643</b> | 174  |
| Infrastructure | <b>76</b>  | 11   |
| <b>Total</b>   | <b>719</b> | 185  |

Further information is included in the business line sections.

## Portfolio income

The portfolio generated income of £36 million in the period (September 2015: £54 million). Although dividend income from 3iN remained stable, we received lower interest and dividend income from Private Equity following a number of disposals as well as increased abort costs.

## Net foreign exchange movements

At 30 September 2016, 70% of the Group's assets were denominated in euros or US dollars. Following the result of the UK's referendum on its membership of the EU and the subsequent weakening of sterling against the euro and the US dollar, the Group recorded a total net foreign exchange gain of £283 million (September 2015: £9 million loss) during the period.

The Group is a long-term investor and does not hedge its foreign currency denominated portfolio, where flows from currency realisations are matched with currency investments where possible. Short-term contracts are used occasionally, and 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 11: Net assets and sensitivity by currency at 30 September 2016**

|              | FX rate | £m           | %          | 1%<br>sensitivity<br>£m |
|--------------|---------|--------------|------------|-------------------------|
| Sterling     | n/a     | <b>1,296</b> | <b>24%</b> | n/a                     |
| Euro         | 1.1585  | <b>2,989</b> | <b>56%</b> | 30                      |
| US dollar    | 1.2984  | <b>741</b>   | <b>14%</b> | 7                       |
| Danish krone | 8.6278  | <b>133</b>   | <b>3%</b>  | 1                       |
| Other        | n/a     | <b>161</b>   | <b>3%</b>  | n/a                     |

Excluding the net assets associated with our Debt Management business reduces the euro net assets by £208 million and US dollar net assets by £131 million. A 1% movement in the Euro and US dollar foreign exchange rates impacts total return by £28 million and £6 million respectively.

## Net interest payable

Gross interest payable was £25 million (September 2015: £24 million), of which £8 million related to interest charges on our bond due in March 2017. A balance of €312 million relating to this bond remains at 30 September 2016, following €19 million of open market purchases since 31 March 2016. The undrawn revolving credit facility was extended by one year to September 2021 in September 2016 at no extra cost, following an agreement with all but one of the participating banks. The total amount of the facility is £329 million (31 March 2016: £350 million).

Interest receivable was £1 million (September 2015: £2 million).

## Carried interest and performance fees

We pay carried interest to participants in our carry schemes on proprietary capital invested and receive carried interest from third-party funds.

**Table 12: Carried interest and performance fees (continuing operations)**  
for the six months to 30 September

| Statement of comprehensive income                       | 2016         | 2015        |
|---|--------------|-------------|
|   | £m           | £m          |
| <b>Carried interest and performance fees receivable</b> |              |             |
| Private Equity  | 203          | (8)         |
| <b>Total</b>  | <b>203</b>   | <b>(8)</b>  |
| <b>Carried interest and performance fees payable</b>    |              |             |
| Private Equity  | (302)        | (36)        |
| <b>Total</b>  | <b>(302)</b> | <b>(36)</b> |
| <b>Net carried interest payable</b>                     | <b>(99)</b>  | <b>(44)</b> |

Our largest Private Equity fund, EFV, went through its performance hurdle on a valuation basis in the first half of the year. This led to a corresponding increase in carried interest receivable from Limited Partners in EFV. Carried interest receivable from EFV of £199 million was recognised in the first six months (September 2015: nil). This is calculated assuming that the portfolio was realised at the 30 September 2016 valuation. The fund's multiple was 2.0x at 30 September 2016 (31 March 2016: 1.7x).

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 2016 valuation. We accrued carried interest payable of £302 million (September 2015: £36 million) for Private Equity in the period, of which £153 million relates to the team's share of carried interest receivable from EFV (September 2015: nil). Having gone through the hurdle in EFV, we now expect that net carried interest payable for FY2017 will accrue at the lower end of the 10–15% of gross investment return range.

Carried interest is only paid to participants when the hurdles are passed in cash terms and then only when the cash proceeds are actually received following a realisation or refinancing event. During the period, £61 million was paid on Private Equity plans (September 2015: £8 million). In particular the disposal of Amor took the related 2010-12 carried interest plan through its cash performance hurdle.

Overall, the effect of the income statement charge, the cash movement as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £657 million (31 March 2016: £404 million) and the receivable increased to £296 million (31 March 2016: £122 million).

## Pension

There was a re-measurement loss on the Group's pension scheme of £19 million during the period (September 2015: £1 million loss). The liability of the Group's UK defined benefit pension scheme increased in the period following a decrease in the discount rate. This was partially offset by an increase in the underlying asset valuations.

On an IAS 19 basis the pension scheme remains in a surplus. The next triennial valuation of the scheme's funding position at 30 June 2016 is underway and will be completed no later than September 2017.

## Tax

The Group's parent company is an approved investment trust company for UK tax purposes. Approved investment trust companies are used as investment fund vehicles. The tax exemption for capital profits from which they benefit ensures that investors do not suffer double taxation of their investment returns. The majority of the Group's returns are capital returns for tax purposes (realised profits and fair value movements) and are substantially non-taxable. As a result, the Group's tax charge in the period was £2 million (September 2015: £1 million tax credit).



## Operating cash profit

**Table 13: Operating cash profit (continuing operations) for the six months to 30 September**

|  | 2016       | 2015       |
|--|------------|------------|
|  | £m         | £m         |
| Third-party capital fees                                   | 23         | 19         |
| Cash portfolio fees  | 2          | 5          |
| Cash portfolio dividends and interest                      | 25         | 23         |
| <b>Cash income from continuing operations</b>              | <b>50</b>  | <b>47</b>  |
| Operating expenses <sup>1</sup> from continuing operations | (54)       | (50)       |
| <b>Operating cash loss: continuing operations</b>          | <b>(4)</b> | <b>(3)</b> |
| Operating cash profit: discontinued operations             | 38         | 20         |
| <b>Operating cash profit</b>                               | <b>34</b>  | <b>17</b>  |

1 Operating expenses are calculated on an accruals basis rather than on a cash basis.

3i made an operating cash loss from continuing operations of £4 million in the period (September 2015: £3 million loss). Cash income increased to £50 million (September 2015: £47 million) principally due to the increase in the third party capital fees in Infrastructure to £18 million (September 2015: £14 million). Cash fee income from our managed Private Equity funds and third parties declined to £2 million (September 2015: £5 million). Operating expenses incurred during the period increased to £54 million (September 2015: £50 million) principally due to additional share based payment expense. Investment in the front office capability in Private Equity and Infrastructure remains a priority and we remain very focused on costs.

Including Debt Management, the Group made an operating cash profit of £34 million in the period (September 2015: £17 million).

## Balance sheet

**Table 14: Simplified Group balance sheet and gearing**

|  | 30 September 2016 | 31 March 2016 |
|--|-------------------|---------------|
|  | £m                | £m            |
| <b>Investment portfolio value</b>                | <b>5,073</b>      | 4,497         |
| Gross debt                                       | (844)             | (837)         |
| Cash and deposits                                | 1,031             | 1,002         |
| <b>Net cash</b>                                  | <b>187</b>        | 165           |
| Carried interest and performance fees receivable | 296               | 122           |
| Carried interest and performance fees payable    | (657)             | (404)         |
| Net direct assets and liabilities held for sale  | 347               | -             |
| Other net assets                                 | 74                | 75            |
| <b>Net assets</b>                                | <b>5,320</b>      | 4,455         |
| <b>Gearing<sup>1</sup></b>                       | <b>nil</b>        | nil           |

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

The Group's balance sheet is strong with net cash of £187 million at 30 September 2016 (31 March 2016: £165 million). The investment portfolio value increased to £5,073 million at 30 September 2016 (31 March 2016: £4,497 million) as unrealised value growth of £719 million, foreign exchange gains of £273 million and cash investment of £422 million offset the book value of realisations in the period. Further information on investment and realisations is included in the business line sections.

## Liquidity

Liquidity also remained strong at £1,360 million (31 March 2016: £1,352 million) and comprised cash and deposits of £1,031 million (31 March 2016: £1,002 million) and undrawn facilities of £329 million (31 March 2016: £350 million). Our €312 million bond, due in March 2017, will be repaid out of cash resources.

## 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 2016 which can be accessed on the Group's website at [www.3i.com](http://www.3i.com)

In delivering the Group's strategy we face a number of risks. These are monitored on an ongoing basis and managed by:

- adhering to our clearly defined and established business model;
- following an integrated risk management approach; and
- maintaining our clearly defined risk appetite and monitoring our key risk indicators.

Although the business environment in the six months to 30 September 2016 has been challenging, given the political and economic uncertainty and volatile market conditions, there has been no significant change to our risk management approach or risk appetite. The decision to sell the Debt Management business, announced on 25 October 2016, will allow the Group to focus on proprietary capital investment in its established Private Equity and Infrastructure business lines.

The principal risks to the achievement of the Group's strategic objectives for the remaining six months of its financial year are unchanged 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 following the UK's referendum on its membership of the EU. Although we cannot be immune to wider market conditions, our well-funded balance sheet and portfolio of international companies position us well as the wider implications of the referendum result 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 infrastructure.

The Group Risk Committee meets four times a year. The risk review process includes the monitoring of dashboards which track the Group's financial performance and progress against its strategic objectives at a Group level and for each of the Group's business lines. This assists the Committee in its assessment of the key risks affecting the achievement of the Group's objectives and the effectiveness of current risk mitigation plans.

The Committee also has a number of focus areas, which are agreed in advance of each meeting. Topics discussed in the period included a discussion of the result of the UK's referendum on its membership of the EU and impact on the Group and its portfolio companies as well as a review of environmental and social governance on the investment portfolio.

This Half-yearly report provides an update on 3i's strategy and business performance, as well as market conditions, which are relevant to the Group's overall risk profile and should be viewed in the context of the Group's risk management framework and principal inherent risk factors as disclosed in the Annual report and accounts 2016.

## Reconciliation of the Investment basis to IFRS

### Background to Investment basis numbers used in the Interim Management 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 that were previously consolidated line by line. 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. Other items which were previously eliminated on consolidation are now included separately.

As a result we include a separate non-GAAP “Investment basis” Statement of comprehensive income, financial position and cash flow to aid understanding of our results. The Interim Management report is also prepared using the Investment basis as we believe it provides a more understandable view of our performance. Total return and net assets are equal under the Investment basis and IFRS; the Investment basis is simply a “look through” of IFRS 10 to present the underlying performance.

### Reconciliation between Investment basis and IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the Statement of comprehensive income, Statement of financial position and Cash flow statement is shown on pages 17 to 21.

## Reconciliation of consolidated statement of comprehensive income

|   | Notes | Six months to 30 September 2016 |                        |                                 | Six months to 30 September 2015     |                                     |  |
|---|-------|---------------------------------|------------------------|---------------------------------|-------------------------------------|-------------------------------------|--|
|   |       | Investment basis<br>£m          | IFRS adjustments<br>£m | IFRS basis<br>(unaudited)<br>£m | Investment basis <sup>5</sup><br>£m | IFRS adjustments <sup>5</sup><br>£m | IFRS basis <sup>5</sup><br>(unaudited)<br>£m |
| Realised profits over value on the disposal of investments                                  | 1,2   | 51                              | (44)                   | 7                               | 29                                  | (17)                                | 12   |
| Unrealised profits on the revaluation of investments  | 1,2   | 719                             | (639)                  | 80                              | 185                                 | (166)                               | 19   |
| Fair value movements on investment entity subsidiaries                                      | 1     | -                               | 670                    | 670                             | -                                   | 207                                 | 207  |
| Portfolio income  |       |                                 |                        |                                 |                                     |                                     |  |
| Dividends   | 1,2   | 16                              | (6)                    | 10                              | 22                                  | (4)                                 | 18   |
| Income from loans and receivables   | 1,2   | 19                              | (17)                   | 2                               | 26                                  | (15)                                | 11   |
| Fees receivable   | 1,2   | 1                               | 3                      | 4                               | 6                                   | -                                   | 6  |
| Foreign exchange on investments   | 1,4   | 273                             | (220)                  | 53                              | 1                                   | (8)                                 | (7)  |
| <b>Gross investment return</b>  |       | <b>1,079</b>                    | <b>(253)</b>           | <b>826</b>                      | 269                                 | (3)                                 | 266  |
| Fees receivable from external funds   | 1,3   | 23                              | -                      | 23                              | 20                                  | -                                   | 20   |
| Operating expenses  | 1,3   | (54)                            | 1                      | (53)                            | (50)                                | -                                   | (50)   |
| Interest received   |       | 1                               | -                      | 1                               | 2                                   | -                                   | 2  |
| Interest paid   |       | (25)                            | -                      | (25)                            | (24)                                | -                                   | (24)   |
| Exchange movements  | 1,4   | 10                              | 25                     | 35                              | (10)                                | 6                                   | (4)  |
| Expense from investment entity subsidiaries   | 1     | -                               | -                      | -                               | -                                   | (31)                                | (31)   |
| Other income  |       | 8                               | -                      | 8                               | -                                   | -                                   | -  |
| <b>Operating profit before carried interest</b>   |       | <b>1,042</b>                    | <b>(227)</b>           | <b>815</b>                      | 207                                 | (28)                                | 179  |
| Carried interest  |       |                                 |                        |                                 |                                     |                                     |  |
| Carried interest and performance fees receivable  | 1,3   | 203                             | 2                      | 205                             | (8)                                 | (7)                                 | (15)   |
| Carried interest and performance fees payable   | 1,3   | (302)                           | 228                    | (74)                            | (36)                                | 22                                  | (14)   |
| <b>Operating profit from continuing operations</b>  |       | <b>943</b>                      | <b>3</b>               | <b>946</b>                      | 163                                 | (13)                                | 150  |
| Income taxes  | 1,3   | (2)                             | -                      | (2)                             | 1                                   | (1)                                 | -  |
| <b>Profit for the period from continuing operations</b>                                     |       | <b>941</b>                      | <b>3</b>               | <b>944</b>                      | 164                                 | (14)                                | 150  |
| Profit for the period from discontinued operations  |       | 84                              | (5)                    | 79                              | 5                                   | -                                   | 5  |
| <b>Profit for the period</b>  |       | <b>1,025</b>                    | <b>(2)</b>             | <b>1,023</b>                    | 169                                 | (14)                                | 155  |
| Other comprehensive income/(expense) that may be reclassified to the income statement:      |       |                                 |                        |                                 |                                     |                                     |  |
| Exchange differences on translation of foreign operations                                   | 1,4   | -                               | (3)                    | (3)                             | -                                   | 14                                  | 14   |
| Other comprehensive income/(expense) that will not be reclassified to the income statement: |       |                                 |                        |                                 |                                     |                                     |  |
| Re-measurement of defined benefit plans   |       | (19)                            | -                      | (19)                            | (1)                                 | -                                   | (1)  |
| <b>Other comprehensive income/(expense) for the period from continuing operations</b>       |       | <b>(19)</b>                     | <b>(3)</b>             | <b>(22)</b>                     | (1)                                 | 14                                  | 13   |
| <b>Other comprehensive income for the period from discontinued operations</b>               |       | <b>-</b>                        | <b>5</b>               | <b>5</b>                        | -                                   | -                                   | -  |
| <b>Total comprehensive income for the period ("Total return")</b>                           |       | <b>1,006</b>                    | <b>-</b>               | <b>1,006</b>                    | 168                                 | -                                   | 168  |

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 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 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 2015 have been re-presented to reflect the classification of the Group's Debt Management business as discontinued operations. See Note 11 to the IFRS financial statements.

## Reconciliation of consolidated statement of financial position

|  | Notes | As at 30 September 2016 |                        |                                 | As at 31 March 2016    |                        |                               |
|--|-------|-------------------------|------------------------|---------------------------------|------------------------|------------------------|-------------------------------|
|  |       | Investment basis<br>£m  | IFRS adjustments<br>£m | IFRS basis<br>(unaudited)<br>£m | Investment basis<br>£m | IFRS adjustments<br>£m | IFRS basis<br>(audited)<br>£m |
| <b>Assets</b>  |       |                         |                        |                                 |                        |                        |                               |
| <b>Non-current assets</b>  |       |                         |                        |                                 |                        |                        |                               |
| Investments  |       |                         |                        |                                 |                        |                        |                               |
| Quoted investments   | 1     | 938                     | (537)                  | 401                             | 658                    | (361)                  | 297                           |
| Unquoted investments   | 1     | 4,135                   | (3,088)                | 1,047                           | 3,839                  | (2,596)                | 1,243                         |
| Investments in investment entity subsidiaries                        | 1,3   | -                       | 3,180                  | 3,180                           | -                      | 2,680                  | 2,680                         |
| <b>Investment portfolio</b>  |       | <b>5,073</b>            | <b>(445)</b>           | <b>4,628</b>                    | <b>4,497</b>           | <b>(277)</b>           | <b>4,220</b>                  |
| Carried interest and performance fees receivable                     | 1     | 276                     | (1)                    | 275                             | 94                     | (5)                    | 89                            |
| Other non-current assets   |       | 46                      | -                      | 46                              | 37                     | -                      | 37                            |
| Intangible assets  |       | -                       | -                      | -                               | 12                     | -                      | 12                            |
| Retirement benefit surplus   |       | 122                     | -                      | 122                             | 132                    | -                      | 132                           |
| Property, plant and equipment  |       | 4                       | -                      | 4                               | 5                      | -                      | 5                             |
| Deferred income taxes  |       | -                       | -                      | -                               | 3                      | -                      | 3                             |
| <b>Total non-current assets</b>                                      |       | <b>5,521</b>            | <b>(446)</b>           | <b>5,075</b>                    | <b>4,780</b>           | <b>(282)</b>           | <b>4,498</b>                  |
| <b>Current assets</b>  |       |                         |                        |                                 |                        |                        |                               |
| Carried interest and performance fees receivable                     | 1     | 20                      | (2)                    | 18                              | 28                     | -                      | 28                            |
| Other current assets   | 1     | 62                      | (2)                    | 60                              | 53                     | (22)                   | 31                            |
| Deposits   |       | 40                      | -                      | 40                              | 40                     | -                      | 40                            |
| Cash and cash equivalents  | 1,2   | 991                     | (71)                   | 920                             | 962                    | (5)                    | 957                           |
| <b>Total current assets</b>  |       | <b>1,113</b>            | <b>(75)</b>            | <b>1,038</b>                    | <b>1,083</b>           | <b>(27)</b>            | <b>1,056</b>                  |
| <b>Assets held for sale</b>  |       | <b>366</b>              | <b>-</b>               | <b>366</b>                      | <b>-</b>               | <b>-</b>               | <b>-</b>                      |
| <b>Total assets</b>  |       | <b>7,000</b>            | <b>(521)</b>           | <b>6,479</b>                    | <b>5,863</b>           | <b>(309)</b>           | <b>5,554</b>                  |
| <b>Liabilities</b>   |       |                         |                        |                                 |                        |                        |                               |
| <b>Non-current liabilities</b>                                       |       |                         |                        |                                 |                        |                        |                               |
| Trade and other payables   | 1     | (24)                    | 6                      | (18)                            | (27)                   | -                      | (27)                          |
| Carried interest and performance fees payable                        | 1     | (538)                   | 419                    | (119)                           | (290)                  | 205                    | (85)                          |
| Loans and borrowings   |       | (575)                   | -                      | (575)                           | (575)                  | -                      | (575)                         |
| Retirement benefit deficit   |       | (22)                    | -                      | (22)                            | (20)                   | -                      | (20)                          |
| Deferred income taxes  | 1     | (1)                     | 1                      | -                               | (2)                    | 2                      | -                             |
| Provisions   |       | (2)                     | -                      | (2)                             | (1)                    | -                      | (1)                           |
| <b>Total non-current liabilities</b>                                 |       | <b>(1,162)</b>          | <b>426</b>             | <b>(736)</b>                    | <b>(915)</b>           | <b>207</b>             | <b>(708)</b>                  |
| <b>Current liabilities</b>   |       |                         |                        |                                 |                        |                        |                               |
| Trade and other payables   | 1     | (104)                   | 17                     | (87)                            | (107)                  | 8                      | (99)                          |
| Carried interest and performance fees payable                        | 1     | (119)                   | 78                     | (41)                            | (114)                  | 94                     | (20)                          |
| Acquisition related earn-out charges payable                         |       | -                       | -                      | -                               | (1)                    | -                      | (1)                           |
| Loans and borrowings   |       | (269)                   | -                      | (269)                           | (262)                  | -                      | (262)                         |
| Current income taxes   |       | (3)                     | -                      | (3)                             | (2)                    | -                      | (2)                           |
| Provisions   |       | (4)                     | -                      | (4)                             | (7)                    | -                      | (7)                           |
| <b>Total current liabilities</b>                                     |       | <b>(499)</b>            | <b>95</b>              | <b>(404)</b>                    | <b>(493)</b>           | <b>102</b>             | <b>(391)</b>                  |
| <b>Liabilities directly associated with the assets held for sale</b> |       | <b>(19)</b>             | <b>-</b>               | <b>(19)</b>                     | <b>-</b>               | <b>-</b>               | <b>-</b>                      |
| <b>Total liabilities</b>   |       | <b>(1,680)</b>          | <b>521</b>             | <b>(1,159)</b>                  | <b>(1,408)</b>         | <b>309</b>             | <b>(1,099)</b>                |
| <b>Net assets</b>  |       | <b>5,320</b>            | <b>-</b>               | <b>5,320</b>                    | <b>4,455</b>           | <b>-</b>               | <b>4,455</b>                  |
| <b>Equity</b>  |       |                         |                        |                                 |                        |                        |                               |
| Issued capital   |       | 719                     | -                      | 719                             | 719                    | -                      | 719                           |
| Share premium  |       | 785                     | -                      | 785                             | 784                    | -                      | 784                           |
| Other reserves   | 4     | 3,855                   | -                      | 3,855                           | 3,006                  | -                      | 3,006                         |
| Own shares   |       | (39)                    | -                      | (39)                            | (54)                   | -                      | (54)                          |
| <b>Total equity</b>  |       | <b>5,320</b>            | <b>-</b>               | <b>5,320</b>                    | <b>4,455</b>           | <b>-</b>               | <b>4,455</b>                  |

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 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 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, i.e. 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 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 | 6 months to 30 September 2016 |                        |                                 | 6 months to 30 September 2015 |                        |                                 |
|---|-------|-------------------------------|------------------------|---------------------------------|-------------------------------|------------------------|---------------------------------|
|   |       | Investment basis<br>£m        | IFRS adjustments<br>£m | IFRS basis<br>(unaudited)<br>£m | Investment basis<br>£m        | IFRS adjustments<br>£m | IFRS basis<br>(unaudited)<br>£m |
| <b>Cash flow from operating activities</b>                |       |                               |                        |                                 |                               |                        |                                 |
| Purchase of investments                                   | 1     | (515)                         | 229                    | (286)                           | (294)                         | 206                    | (88)                            |
| Proceeds from investments                                 | 1     | 693                           | (485)                  | 208                             | 359                           | (180)                  | 179                             |
| Net cash flow from/(to) investment entity subsidiaries    | 1     | -                             | 151                    | 151                             | -                             | (24)                   | (24)                            |
| Portfolio interest received                               | 1     | 12                            | (8)                    | 4                               | 3                             | -                      | 3                               |
| Portfolio dividends received                              | 1     | 40                            | (6)                    | 34                              | 36                            | (4)                    | 32                              |
| Portfolio fees received                                   |       | 2                             | -                      | 2                               | 4                             | -                      | 4                               |
| Fees received from external funds                         |       | 46                            | -                      | 46                              | 37                            | -                      | 37                              |
| Carried interest and performance fees received            |       | 29                            | -                      | 29                              | 49                            | -                      | 49                              |
| Carried interest and performance fees paid                | 1     | (64)                          | 52                     | (12)                            | (18)                          | 1                      | (17)                            |
| Acquisition related earn-out charges                      |       | (1)                           | -                      | (1)                             | (11)                          | -                      | (11)                            |
| Operating expenses paid                                   | 1     | (70)                          | -                      | (70)                            | (76)                          | -                      | (76)                            |
| Income taxes paid   |       | (1)                           | -                      | (1)                             | 1                             | -                      | 1                               |
| <b>Net cash flow from operating activities</b>            |       | <b>171</b>                    | <b>(67)</b>            | <b>104</b>                      | <b>90</b>                     | <b>(1)</b>             | <b>89</b>                       |
| <b>Cash flow from financing activities</b>                |       |                               |                        |                                 |                               |                        |                                 |
| Issue of shares   |       | 1                             | -                      | 1                               | -                             | -                      | -                               |
| Repurchase of short-term borrowings                       |       | (15)                          | -                      | (15)                            | -                             | -                      | -                               |
| Dividend paid   |       | (154)                         | -                      | (154)                           | (133)                         | -                      | (133)                           |
| Interest received   |       | 1                             | -                      | 1                               | 2                             | -                      | 2                               |
| Interest paid   |       | (11)                          | -                      | (11)                            | (11)                          | -                      | (11)                            |
| <b>Net cash flow from financing activities</b>            |       | <b>(178)</b>                  | <b>-</b>               | <b>(178)</b>                    | <b>(142)</b>                  | <b>-</b>               | <b>(142)</b>                    |
| <b>Cash flow from investing activities</b>                |       |                               |                        |                                 |                               |                        |                                 |
| Purchases of property, plant and equipment                |       | -                             | -                      | -                               | (1)                           | -                      | (1)                             |
| Net cash flow to deposits                                 |       | -                             | -                      | -                               | (140)                         | -                      | (140)                           |
| <b>Net cash flow from investing activities</b>            |       | <b>-</b>                      | <b>-</b>               | <b>-</b>                        | <b>(141)</b>                  | <b>-</b>               | <b>(141)</b>                    |
| <b>Change in cash and cash equivalents</b>                | 2     | <b>(7)</b>                    | <b>(67)</b>            | <b>(74)</b>                     | <b>(193)</b>                  | <b>(1)</b>             | <b>(194)</b>                    |
| Cash and cash equivalents at the start of the period      | 1     | 962                           | (5)                    | 957                             | 864                           | (3)                    | 861                             |
| Effect of exchange rate fluctuations                      | 1     | 50                            | 1                      | 51                              | (4)                           | (1)                    | (5)                             |
| Cash held within assets held for sale                     |       | (14)                          | -                      | (14)                            | -                             | -                      | -                               |
| <b>Cash and cash equivalents at the end of the period</b> | 2     | <b>991</b>                    | <b>(71)</b>            | <b>920</b>                      | <b>667</b>                    | <b>(5)</b>             | <b>662</b>                      |

## Notes:

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

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

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



# IFRS FINANCIAL STATEMENTS

## Condensed consolidated statement of comprehensive income

|   | Notes | Six months to<br>30 September<br>2016<br>(unaudited)<br>£m | Six months to<br>30 September<br>2015 <sup>1</sup><br>(unaudited)<br>£m |
|---|-------|--|---|
| Realised profits over value on the disposal of investments                                  | 2     | 7  | 12  |
| Unrealised profits on the revaluation of investments  | 3     | 80   | 19  |
| Fair value movements on investment entity subsidiaries                                      | 7     | 670  | 207   |
|   |       | <b>757</b>   | 238   |
| Portfolio income  |       |  |   |
| Dividends   |       | 10   | 18  |
| Income from loans and receivables   |       | 2  | 11  |
| Fees receivable   |       | 4  | 6   |
| Foreign exchange on investments   |       | 53   | (7)   |
| <b>Gross investment return</b>  |       | <b>826</b>   | 266   |
| Fees receivable from external funds   |       | 23   | 20  |
| Operating expenses  |       | (53)   | (50)  |
| Interest received   |       | 1  | 2   |
| Interest paid   |       | (25)   | (24)  |
| Exchange movements  |       | 35   | (4)   |
| Expense from investment entity subsidiaries   |       | -  | (31)  |
| Other income  |       | 8  | -   |
| Carried interest  |       |  |   |
| Carried interest and performance fees receivable  |       | 205  | (15)  |
| Carried interest and performance fees payable   |       | (74)   | (14)  |
| <b>Operating profit before tax from continuing operations</b>                               |       | <b>946</b>   | 150   |
| Income taxes  |       | (2)  | -   |
| <b>Profit for the period from continuing operations</b>                                     |       | <b>944</b>   | 150   |
| Profit for the period from discontinued operations  | 11    | 79   | 5   |
| <b>Profit for the period</b>  |       | <b>1,023</b>   | 155   |
| Other comprehensive income/(expense) that may be reclassified to the income statement:      |       |  |   |
| Exchange differences on translation of foreign operations                                   |       | (3)  | 14  |
| Other comprehensive income/(expense) that will not be reclassified to the income statement: |       |  |   |
| Re-measurement of defined benefit plans   |       | (19)   | (1)   |
| <b>Other comprehensive (expense)/income for the period from continuing operations</b>       |       | <b>(22)</b>  | 13  |
| Other comprehensive income for the period from discontinued operations                      | 11    | 5  | -   |
| <b>Total comprehensive income for the period ("Total return")</b>                           |       | <b>1,006</b>   | 168   |
| Earnings per share from continuing operations   |       |  |   |
| Basic (pence)   | 4     | 98.5   | 15.8  |
| Diluted (pence)   | 4     | 98.0   | 15.7  |
| Earnings per share  |       |  |   |
| Basic (pence)   | 4     | 106.7  | 16.3  |
| Diluted (pence)   | 4     | 106.2  | 16.2  |

1 Comparatives for the six months ended 30 September 2015 have been re-presented to reflect the classification of the Group's Debt Management business as discontinued operations. See Note 11.

## Condensed consolidated statement of financial position

| Notes  | 30 September<br>2016<br>(unaudited)<br>£m | 31 March<br>2016<br>(audited)<br>£m |
|--|---|-------------------------------------|
| <b>Assets</b>  |   |                                     |
| <b>Non-current assets</b>  |   |                                     |
| Investments  |   |                                     |
| Quoted investments   | 6   | 297                                 |
| Unquoted investments   | 6   | 1,243                               |
| Investments in investment entity subsidiaries                        | 7   | 2,680                               |
| <b>Investment portfolio</b>  | <b>4,628</b>                              | 4,220                               |
| Carried interest and performance fees receivable                     | 275                                       | 89                                  |
| Other non-current assets   | 46  | 37                                  |
| Intangible assets  | -   | 12                                  |
| Retirement benefit surplus   | 122                                       | 132                                 |
| Property, plant and equipment  | 4   | 5                                   |
| Deferred income taxes  | -   | 3                                   |
| <b>Total non-current assets</b>                                      | <b>5,075</b>                              | 4,498                               |
| <b>Current assets</b>  |   |                                     |
| Carried interest and performance fees receivable                     | 18  | 28                                  |
| Other current assets   | 60  | 31                                  |
| Deposits   | 40  | 40                                  |
| Cash and cash equivalents  | 920                                       | 957                                 |
| <b>Total current assets</b>  | <b>1,038</b>                              | 1,056                               |
| <b>Assets held for sale</b>  | 11  | -                                   |
| <b>Total assets</b>  | <b>6,479</b>                              | 5,554                               |
| <b>Liabilities</b>   |   |                                     |
| <b>Non-current liabilities</b>                                       |   |                                     |
| Trade and other payables   | (18)                                      | (27)                                |
| Carried interest and performance fees payable                        | (119)                                     | (85)                                |
| Loans and borrowings   | (575)                                     | (575)                               |
| Retirement benefit deficit   | (22)                                      | (20)                                |
| Provisions   | (2)                                       | (1)                                 |
| <b>Total non-current liabilities</b>                                 | <b>(736)</b>                              | (708)                               |
| <b>Current liabilities</b>   |   |                                     |
| Trade and other payables   | (87)                                      | (99)                                |
| Carried interest and performance fees payable                        | (41)                                      | (20)                                |
| Acquisition related earn-out charges payable                         | -   | (1)                                 |
| Loans and borrowings   | (269)                                     | (262)                               |
| Current income taxes   | (3)                                       | (2)                                 |
| Provisions   | (4)                                       | (7)                                 |
| <b>Total current liabilities</b>                                     | <b>(404)</b>                              | (391)                               |
| <b>Liabilities directly associated with the assets held for sale</b> | 11  | -                                   |
| <b>Total liabilities</b>   | <b>(1,159)</b>                            | (1,099)                             |
| <b>Net assets</b>  | <b>5,320</b>                              | 4,455                               |
| <b>Equity</b>  |   |                                     |
| Issued capital   | 719                                       | 719                                 |
| Share premium  | 785                                       | 784                                 |
| Capital redemption reserve   | 43  | 43                                  |
| Share-based payment reserve  | 26  | 32                                  |
| Translation reserve  | 231                                       | 229                                 |
| Capital reserve  | 2,881                                     | 2,080                               |
| Revenue reserve  | 674                                       | 622                                 |
| Own shares   | (39)                                      | (54)                                |
| <b>Total equity</b>  | <b>5,320</b>                              | 4,455                               |

## Condensed consolidated statement of changes in equity

| For the six months to<br>30 September 2016<br>(unaudited)                            | Share      | Share      | Capital    | Share-    | Translation          | Capital      | Revenue    | Own         | Total        |
|--|------------|------------|------------|-----------|----------------------|--------------|------------|-------------|--------------|
|  | capital    | premium    | redemption | based     | Reserve <sup>1</sup> | reserve      | reserve    | shares      | Equity       |
|  | £m         | £m         | £m         | payment   | £m                   | £m           | £m         | £m          | £m           |
|  |            |            | reserve    | reserve   |                      |              |            |             |              |
|  | £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            |
| <b>Total comprehensive income for the period</b>                                     | -          | -          | -          | -         | 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            |
| <b>Total equity at the end of the period</b>   | <b>719</b> | <b>785</b> | <b>43</b>  | <b>26</b> | <b>231</b>           | <b>2,881</b> | <b>674</b> | <b>(39)</b> | <b>5,320</b> |

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

| For the six months to<br>30 September 2015<br>(unaudited) <sup>1</sup>               | Share      | Share      | Capital    | Share-    | Translation | Capital      | Revenue    | Own         | Total        |
|--|------------|------------|------------|-----------|-------------|--------------|------------|-------------|--------------|
|  | capital    | premium    | redemption | based     | reserve     | reserve      | reserve    | shares      | Equity       |
|  | £m         | £m         | £m         | payment   | £m          | £m           | £m         | £m          | £m           |
|  |            |            | reserve    | reserve   |             |              |            |             |              |
|  | £m         | £m         | £m         | £m        | £m          | £m           | £m         | £m          | £m           |
| Total equity at the start of the period  | 719        | 784        | 43         | 31        | 216         | 1,519        | 573        | (79)        | 3,806        |
| Profit for the period  | -          | -          | -          | -         | -           | 108          | 47         | -           | 155          |
| Exchange differences on translation of foreign operations from continuing operations | -          | -          | -          | -         | 14          | -            | -          | -           | 14           |
| Re-measurements of defined benefit plans from continuing operations                  | -          | -          | -          | -         | -           | (1)          | -          | -           | (1)          |
| Other comprehensive income from discontinued operations                              | -          | -          | -          | -         | -           | -            | -          | -           | -            |
| <b>Total comprehensive income for the period</b>                                     | -          | -          | -          | -         | 14          | 107          | 47         | -           | 168          |
| Share-based payments   | -          | -          | -          | 10        | -           | -            | -          | -           | 10           |
| Release on exercise/forfeiture of share awards                                       | -          | -          | -          | (14)      | -           | -            | 14         | -           | -            |
| Loss on sale of own shares   | -          | -          | -          | -         | -           | (26)         | -          | 26          | -            |
| Ordinary dividends   | -          | -          | -          | -         | -           | -            | (51)       | -           | (51)         |
| Additional dividends   | -          | -          | -          | -         | -           | (82)         | -          | -           | (82)         |
| Issue of ordinary shares   | -          | -          | -          | -         | -           | -            | -          | -           | -            |
| <b>Total equity at the end of the period</b>   | <b>719</b> | <b>784</b> | <b>43</b>  | <b>27</b> | <b>230</b>  | <b>1,518</b> | <b>583</b> | <b>(53)</b> | <b>3,851</b> |

1 Comparatives for the six months ended 30 September 2015 have been re-presented to reflect the classification of the Group's Debt Management business as discontinued operations. See Note 11.

## Condensed consolidated cash flow statement

|   | Six months to<br>30 September<br>2016<br>(unaudited)<br>£m | Six months to<br>30 September<br>2015<br>(unaudited)<br>£m |
|---|--|--|
| <b>Cash flow from operating activities</b>                |  |  |
| Purchase of investments                                   | (286)  | (88)   |
| Proceeds from investments                                 | 208  | 179  |
| Net cash flow from/(to) investment entity subsidiaries    | 151  | (24)   |
| Portfolio interest received                               | 4  | 3  |
| Portfolio dividends received                              | 34   | 32   |
| Portfolio fees received                                   | 2  | 4  |
| Fees received from external funds                         | 46   | 37   |
| Carried interest and performance fees received            | 29   | 49   |
| Carried interest and performance fees paid                | (12)   | (17)   |
| Acquisition related earn-out charges                      | (1)  | (11)   |
| Operating expenses paid                                   | (70)   | (76)   |
| Income taxes (paid)/received                              | (1)  | 1  |
| <b>Net cash flow from operating activities</b>            | <b>104</b>   | <b>89</b>  |
| <b>Cash flow from financing activities</b>                |  |  |
| Issue of shares   | 1  | -  |
| Repurchase of short-term borrowings                       | (15)   | -  |
| Dividend paid   | (154)  | (133)  |
| Interest received   | 1  | 2  |
| Interest paid   | (11)   | (11)   |
| <b>Net cash flow from financing activities</b>            | <b>(178)</b>   | <b>(142)</b>   |
| <b>Cash flow from investing activities</b>                |  |  |
| Purchase of property, plant and equipment                 | -  | (1)  |
| Net cash flow to deposits                                 | -  | (140)  |
| <b>Net cash flow from investing activities</b>            | <b>-</b>   | <b>(141)</b>   |
| <b>Change in cash and cash equivalents</b>                | <b>(74)</b>  | <b>(194)</b>   |
| Cash and cash equivalents at the start of the period      | 957  | 861  |
| Effect of exchange rate fluctuations                      | 51   | (5)  |
| Cash held within assets held for sale                     | (14)   | -  |
| <b>Cash and cash equivalents at the end of the period</b> | <b>920</b>   | <b>662</b>   |

# Notes to the financial statements

## Basis of preparation and accounting policies

### A Compliance with International Financial Reporting Standards (“IFRS”)

The Half-yearly 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 EU. These Half-yearly condensed consolidated financial statements should be read in conjunction with the Annual report and accounts 2016.

#### Standards applied during the half year to 30 September 2016

There were no new standards applied during the half year to 30 September 2016. During the period, 3i Group plc applied a number of interpretations and amendments to standards as part of the IFRS lifecycle proposals which had an insignificant effect on these Half-yearly condensed consolidated financial statements.

The financial information for the year ended 31 March 2016 contained within this Half-yearly 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 2016, 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.

### B Use of estimates and judgements

The preparation of the Half-yearly report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The most significant techniques for estimation are described in the accounting policies on pages 100 to 139 and in “Portfolio valuation – an explanation” on pages 148 to 149 of the Annual report and accounts 2016. There was no change in the current period to the critical accounting estimates and judgements applied in 2016, which are stated on pages 101 to 102 of the Annual report and accounts 2016.

### C Composition of the Group

3i announced the sale of its Debt Management business to Investcorp on 25 October 2016. The transaction is expected to complete by 31 March 2017. At 30 September 2016, the Debt Management business was classified as discontinued operations with the associated assets and liabilities held for sale. The rest of the Group was materially unchanged at 30 September 2016.

### D Future accounting developments

Information on future accounting developments and their potential effect on the financial statements of 3i are provided on page 100 of the Annual report and accounts 2016.

### E Going concern

The financial statements are prepared on a going concern basis.

### F Accounting policies

The accounting policies applied by 3i Group plc for these Half-yearly condensed consolidated financial statements are consistent with those described on pages 100 to 139 of the Annual report and accounts 2016, as are the methods of computation.

## 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 is provided in the Financial review and a reconciliation of the Investment basis to the IFRS financial statements is provided on pages 17 to 21. Further detail on the Group's segmental analysis can be found on pages 103 to 105 of the Annual report and accounts 2016. The remaining Notes are prepared on an IFRS basis.

| Investment basis  | Private<br>Equity<br>£m | Infrastructure<br>£m | Total<br>continuing<br>operations<br>£m | Discontinued<br>operations <sup>1</sup><br>£m | Total<br>£m  |
|---|-------------------------|----------------------|---|---|--------------|
| <b>Six months to 30 September 2016</b>                              |                         |                      |   |   |              |
| Realised profits/(losses) over value on the disposal of investments | 52                      | (1)                  | 51                                      | 2   | 53           |
| Unrealised profits on the revaluation of investments                | 643                     | 76                   | 719                                     | 13  | 732          |
| <b>Portfolio income</b>   |                         |                      |   |   |              |
| Dividends   | 6                       | 10                   | 16                                      | 24  | 40           |
| Income from loans and receivables                                   | 19                      | -                    | 19                                      | 3   | 22           |
| Fees receivable/(payable)   | 1                       | -                    | 1                                       | -   | 1            |
| Foreign exchange on investments                                     | 268                     | 5                    | 273                                     | 27  | 300          |
| <b>Gross investment return</b>                                      | <b>989</b>              | <b>90</b>            | <b>1,079</b>                            | <b>69</b>                                     | <b>1,148</b> |
| 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  |                         |                      | 10                                      | 3   | 13           |
| Other income/(expense)  |                         |                      | 8                                       | (1)   | 7            |
| <b>Operating profit before carried interest</b>                     |                         |                      | <b>1,042</b>                            | <b>83</b>                                     | <b>1,125</b> |
| <b>Carried interest and performance fees</b>                        |                         |                      |   |   |              |
| Receivable  | 203                     | -                    | 203                                     | 1   | 204          |
| Payable   | (302)                   | -                    | (302)                                   | -   | (302)        |
| <b>Operating profit</b>   |                         |                      | <b>943</b>                              | <b>84</b>                                     | <b>1,027</b> |
| Income taxes  |                         |                      | (2)                                     | -   | (2)          |
| <b>Other comprehensive income</b>                                   |                         |                      |   |   |              |
| Re-measurements of defined benefit plans                            |                         |                      | (19)                                    | -   | (19)         |
| <b>Total return</b>   |                         |                      | <b>922</b>                              | <b>84</b>                                     | <b>1,006</b> |
| <b>Net divestment/(investment)</b>                                  |                         |                      |   |   |              |
| Realisations <sup>2</sup>   | 654                     | 12                   | 666                                     | 3   | 669          |
| Cash investment <sup>2</sup>  | (291)                   | (131)                | (422)                                   | (50)  | (472)        |
|   | 363                     | (119)                | 244                                     | (47)  | 197          |
| <b>Balance sheet</b>  |                         |                      |   |   |              |
| Opening portfolio value at 1 April 2016                             | 3,741                   | 527                  | 4,268                                   | 229   | 4,497        |
| Investment  | 320                     | 131                  | 451                                     | 50  | 501          |
| Value disposed  | (602)                   | (13)                 | (615)                                   | (1)   | (616)        |
| Unrealised value movement   | 643                     | 76                   | 719                                     | 13  | 732          |
| Other movement (including foreign exchange)                         | 249                     | 1                    | 250                                     | 28  | 278          |
| <b>Closing portfolio value at 30 September 2016</b>                 | <b>4,351</b>            | <b>722</b>           | <b>5,073</b>                            | <b>319</b>                                    | <b>5,392</b> |

1 Discontinued operations relates to the Debt Management business held for sale at 30 September 2016.

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

## 1 Segmental analysis continued

| Investment basis  | Private<br>Equity<br>£m | Infrastructure<br>£m | Total<br>continuing<br>operations<br>£m | Discontinued<br>operations <sup>1</sup><br>£m | Total<br>£m |
|---|-------------------------|----------------------|---|---|-------------|
| Six months to 30 September 2015                               |                         |                      |   |   |             |
| Realised profits over value on the disposal of investments    | 26                      | 3                    | 29                                      | -   | 29          |
| Unrealised profits/(losses) on the revaluation of investments | 174                     | 11                   | 185                                     | (18)  | 167         |
| Portfolio income  |                         |                      |   |   |             |
| Dividends   | 11                      | 11                   | 22                                      | 14  | 36          |
| Income from loans and receivables                             | 26                      | -                    | 26                                      | 2   | 28          |
| Fees receivable/(payable)                                     | 6                       | -                    | 6                                       | (1)   | 5           |
| Foreign exchange on investments                               | 3                       | (2)                  | 1                                       | 6   | 7           |
| Gross investment return                                       | 246                     | 23                   | 269                                     | 3   | 272         |
| Fees receivable from external funds                           | 6                       | 14                   | 20                                      | 17  | 37          |
| Operating expenses  | (34)                    | (16)                 | (50)                                    | (13)  | (63)        |
| Interest received   |                         |                      | 2                                       | -   | 2           |
| Interest paid   |                         |                      | (24)                                    | -   | (24)        |
| Exchange movements  |                         |                      | (10)                                    | -   | (10)        |
| Operating profit before carried interest                      |                         |                      | 207                                     | 7   | 214         |
| Carried interest and performance fees                         |                         |                      |   |   |             |
| Receivable from external funds                                | (8)                     | -                    | (8)                                     | 5   | (3)         |
| Payable   | (36)                    | -                    | (36)                                    | (3)   | (39)        |
| Acquisition related earn-out charges                          | -                       | -                    | -                                       | (4)   | (4)         |
| Operating profit  |                         |                      | 163                                     | 5   | 168         |
| Income taxes  |                         |                      | 1                                       | -   | 1           |
| Other comprehensive income                                    |                         |                      |   |   |             |
| Re-measurements of defined benefit plans                      |                         |                      | (1)                                     | -   | (1)         |
| Total return  |                         |                      | 163                                     | 5   | 168         |
| Net divestment/(investment)                                   |                         |                      |   |   |             |
| Realisations  | 307                     | 51                   | 358                                     | 1   | 359         |
| Cash investment   | (208)                   | -                    | (208)                                   | (86)  | (294)       |
|   | 99                      | 51                   | 150                                     | (85)  | 65          |
| Balance sheet   |                         |                      |   |   |             |
| Opening portfolio value at 1 April 2015                       | 3,148                   | 553                  | 3,701                                   | 176   | 3,877       |
| Investment  | 252                     | -                    | 252                                     | 86  | 338         |
| Value disposed  | (281)                   | (48)                 | (329)                                   | (1)   | (330)       |
| Unrealised value movement                                     | 174                     | 11                   | 185                                     | (18)  | 167         |
| Other movement (including foreign exchange)                   | (18)                    | (3)                  | (21)                                    | 6   | (15)        |
| Closing portfolio value at 30 September 2015                  | 3,275                   | 513                  | 3,788                                   | 249   | 4,037       |

1 Discontinued operations relates to the elements of the Debt Management business held for sale at 30 September 2016.

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

| Six months to 30 September 2016     | Unquoted<br>investments<br>£m | Quoted<br>investments<br>£m | Total<br>£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           |

  

| Six months to 30 September 2015 <sup>1</sup> | Unquoted<br>investments<br>£m | Quoted<br>investments<br>£m | Total<br>£m |
|--|-------------------------------|-----------------------------|-------------|
| Realisations                                 | 147                           | 31                          | 178         |
| Valuation of disposed investments            | (137)                         | (29)                        | (166)       |
|  | 10                            | 2                           | 12          |
| Of which:                                    |                               |                             |             |
| - profit recognised on realisations          | 10                            | 2                           | 12          |
| - losses recognised on realisations          | -                             | -                           | -           |
|  | 10                            | 2                           | 12          |

1 Comparatives for the six months ended 30 September 2015 have been re-presented to reflect the classification of the Group's Debt Management business as discontinued operations. See Note 11.

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

| Six months to 30 September 2016           | Unquoted<br>investments<br>£m | Quoted<br>investments<br>£m | Total<br>£m |
|---|-------------------------------|-----------------------------|-------------|
| Movement in the fair value of investments | 32                            | 48                          | 80          |
| Of which:                                 |                               |                             |             |
| - unrealised gains                        | 80                            | 48                          | 128         |
| - unrealised losses                       | (48)                          | -                           | (48)        |
|   | 32                            | 48                          | 80          |

  

| Six months to 30 September 2015 <sup>1</sup> | Unquoted<br>investments<br>£m | Quoted<br>investments<br>£m | Total<br>£m |
|--|-------------------------------|-----------------------------|-------------|
| Movement in the fair value of investments    | 4                             | 15                          | 19          |
| Of which:                                    |                               |                             |             |
| - unrealised gains                           | 44                            | 15                          | 59          |
| - unrealised losses                          | (40)                          | -                           | (40)        |
|  | 4                             | 15                          | 19          |

1 Comparatives for the six months ended 30 September 2015 have been re-presented to reflect the classification of the Group's Debt Management business as discontinued 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<br>to 30 September<br>2016 | 6 months<br>to 30 September<br>2015 <sup>1</sup> |
|---|-------------------------------------|--|
| <b>Earnings per share (pence)</b>                                   |                                     |  |
| Basic earnings per share  | 106.7                               | 16.3   |
| - of which from continuing operations                               | 98.5                                | 15.8   |
| - of which from discontinued operations                             | 8.2                                 | 0.5  |
| Diluted earnings per share  | 106.2                               | 16.2   |
| - of which from continuing operations                               | 98.0                                | 15.7   |
| - of which from discontinued operations                             | 8.2                                 | 0.5  |
| <b>Earnings (£m)</b>  |                                     |  |
| Profit for the period attributable to equity holders of the Company | 1,023                               | 155  |
| - of which from continuing operations                               | 944                                 | 150  |
| - of which from discontinued operations                             | 79                                  | 5  |

1 Comparatives for the six months ended 30 September 2015 have been re-presented to reflect the classification of the Group's Debt Management business as discontinued operations. See Note 11.

|   | 6 months<br>to 30 September<br>2016<br>Number | 6 months<br>to 30 September<br>2015<br>Number |
|---|---|---|
| <b>Weighted average number of shares in issue</b> |   |   |
| Ordinary shares                                   | 972,696,599                                   | 972,524,749                                   |
| Own shares  | (13,810,391)                                  | (20,757,426)                                  |
| <b>Basic shares</b>                               | <b>958,886,208</b>                            | 951,767,323                                   |
| Effect of dilutive potential ordinary shares      |   |   |
| Share options and awards                          | 4,403,571                                     | 3,987,648                                     |
| <b>Diluted shares</b>                             | <b>963,289,779</b>                            | 955,754,971                                   |

|  | 30 September<br>2016 | 30 September<br>2015 |
|--|----------------------|----------------------|
| <b>Net assets per share (pence)</b>                      |                      |                      |
| Basic  | 554                  | 403                  |
| Diluted  | 551                  | 401                  |
| <b>Net assets (£m)</b>                                   |                      |                      |
| Net assets attributable to equity holders of the Company | 5,320                | 3,851                |

Basic NAV per share is calculated on 961,105,293 shares in issue at 30 September 2016 (30 September 2015: 956,477,854). Diluted NAV per share is calculated on diluted shares of 966,208,027 at 30 September 2016 (30 September 2015: 960,746,598).

## 5 Dividends

|                                     | 6 months to<br>30 September<br>2016<br>pence<br>per share | 6 months to<br>30 September<br>2016<br>£m | 6 months to<br>30 September<br>2015<br>pence<br>per share | 6 months to<br>30 September<br>2015<br>£m |
|-------------------------------------|---|---|---|---|
| Declared and paid during the period |   |   |   |   |
| Final dividend                      | 16.0  | 154                                       | 14.0  | 133                                       |
|                                     | 16.0  | 154                                       | 14.0  | 133                                       |
| Proposed interim dividend           | 8.0   | 77  | 6.0   | 57  |

## 6 Investment portfolio

The basis for measuring the fair value of the investment portfolio is explained on page 110 of the Annual report and accounts 2016.

|   | 6 months to<br>30 September 2016<br>£m | Year to<br>31 March 2016<br>£m |
|---|--|--------------------------------|
| <b>Non-current</b>  |  |                                |
| Opening book value  | 1,540                                  | 1,671                          |
| Additions from continuing operations                                | 205                                    | 164                            |
| - of which loan notes with nil value                                | (8)                                    | (13)                           |
| Additions from discontinued operations                              | 60                                     | -                              |
| Disposals and repayments from continuing operations                 | (199)                                  | (225)                          |
| Disposals and repayments from discontinued operations               | (1)                                    | -                              |
| Fair value movement from continuing operations                      | 80                                     | 92                             |
| Fair value movement from discontinued operations                    | 13                                     | -                              |
| Non-current assets classified as held for sale                      | (311)                                  | -                              |
| Other movements and net cash movements from continuing operations   | 52                                     | (149)                          |
| Other movements and net cash movements from discontinued operations | 17                                     | -                              |
| Closing book value  | 1,448                                  | 1,540                          |
| Quoted investments  | 401                                    | 297                            |
| Unquoted investments  | 1,047                                  | 1,243                          |
| Closing book value  | 1,448                                  | 1,540                          |

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 £8 million (31 March 2016: £35 million) in capitalised interest received by way of loan notes, of which £8 million (31 March 2016: £13 million) has been written down in the period to nil. Included within the Consolidated statement of comprehensive income is £2 million (31 March 2016: £26 million) of interest income (Debt Management interest income of £3 million is included within profit from discontinued operations), which reflects the net additions after write downs noted above, £1 million (31 March 2016: £5 million) of cash income (Debt Management cash income of £3 million is included within profit from discontinued operations) and the capitalisation of prior year accrued income and non-capitalised accrued income is £1 million (31 March 2016: £(1) million).

Other movements and net cash movements include the effects of foreign exchange, conversions from one instrument into another and £10 million relating to cash returned (31 March 2016: £38 million cash returned) from Debt Management warehouses.

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 a fair value adjustment was required and after due consideration we concluded that the net asset values were the most appropriate reflection of fair value at 30 September 2016.

| <b>Non-current</b>   | <b>6 months to<br/>30 September 2016<br/>£m</b> | Year to<br>31 March 2016<br>£m |
|--|---|--------------------------------|
| Opening book value   | <b>2,680</b>                                    | 2,079                          |
| Net cash flow from investment entity subsidiaries                                  | <b>(151)</b>                                    | (206)                          |
| Fair value movement on investment entity subsidiaries from continuing operations   | <b>670</b>                                      | 591                            |
| Fair value movement on investment entity subsidiaries from discontinued operations | <b>1</b>  | -                              |
| Assets held for sale   | <b>(8)</b>                                      | -                              |
| Transfer of assets (from)/to investment entity subsidiaries                        | <b>(12)</b>                                     | 216                            |
| Closing book value   | <b>3,180</b>                                    | 2,680                          |

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 book value of investments in investment entity subsidiaries would have an impact of £159 million (31 March 2016: £134 million).

### Support

3i Group plc provides ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the period, there were net cash flows to 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 112 to 114 of the Annual report and accounts 2016 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) | No Level 2 financial instruments                 |
| Level 3 | Inputs that are not based on observable market data   | Unquoted equity instruments and loan instruments |

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 30 September 2016:

|  | As at 30 September 2016 |               |               |             | As at 31 March 2016 |               |               |             |
|--|-------------------------|---------------|---------------|-------------|---------------------|---------------|---------------|-------------|
|  | Level 1<br>£m           | Level 2<br>£m | Level 3<br>£m | Total<br>£m | Level 1<br>£m       | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
| Quoted investments                           | 401                     | -             | -             | 401         | 297                 | -             | -             | 297         |
| Unquoted investments                         | -                       | -             | 1,047         | 1,047       | -                   | -             | 1,243         | 1,243       |
| Investment in investment entity subsidiaries | -                       | -             | 3,180         | 3,180       | -                   | -             | 2,680         | 2,680       |
| Total  | 401                     | -             | 4,227         | 4,628       | 297                 | -             | 3,923         | 4,220       |

The above disclosure only relates to the investment portfolio and the investments in our investment entity subsidiaries, and does not include assets held for sale (see note 11). We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries fair valued in accordance with the Group's accounting policies. Note 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 £1,053 million (31 March 2016: £967 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £844 million (31 March 2016: £837 million).

### Level 3 fair value reconciliation

|   | Six months to<br>30 September<br>2016<br>£m | Year to<br>31 March<br>2016<br>£m |
|---|---|-----------------------------------|
| Opening book value  | 1,243                                       | 1,272                             |
| Additions from continuing operations                                | 128   | 164                               |
| - of which loan notes with nil value                                | (8)   | (13)                              |
| Additions from discontinued operations                              | 60  | -                                 |
| Disposals and repayments from continuing operations                 | (180)                                       | (166)                             |
| Disposals and repayments from discontinued operations               | (1)   | -                                 |
| Fair value movement from continuing operations                      | 32  | 72                                |
| Fair value movement from discontinued operations                    | 13  | -                                 |
| Non-current assets classified as held for sale                      | (311)                                       | -                                 |
| Other movements and net cash movements from continuing operations   | 54  | (86)                              |
| Other movements and net cash movements from discontinued operations | 17  | -                                 |
| Closing book value  | 1,047                                       | 1,243                             |

## 8 Fair values of assets and liabilities continued

Unquoted investments valued using Level 3 inputs also had the following impact on the Statement of comprehensive income: realised profits over value on disposal of investment of £6 million (September 2015: £10 million), dividend income of £4 million (September 2015: £11 million) and foreign exchange gain of £55m (September 2015: £6 million loss).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section on pages 41 to 42. On an IFRS basis, of the unquoted assets held at 30 September 2016 classified as Level 3, 30% (31 March 2016: 28%) were valued using a multiple of earnings and the remaining 70% (31 March 2016: 72%) were valued using alternative valuation methodologies.

Assets move between Level 1 and Level 3 primarily due to an increase or decrease in observable market activity related to an input which is primarily when an unquoted equity investment lists on a quoted market exchange.

**Valuation multiple** – The valuation multiple is the main assumption applied to a multiple of earnings based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and then adjusted for factors including liquidity risk, growth potential and relative performance. They are also adjusted to represent our longer term view of performance through the cycle or our exit assumptions. The value weighted average multiple used when valuing the portfolio at 30 September 2016 was 10.45x (31 March 2016: 9.83x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 30 September 2016 decreased by 5%, the investment portfolio would decrease by £16 million (31 March 2016: £19 million) or 1% (31 March 2016: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative impact of £193 million (31 March 2016: £173 million) or 5% (31 March 2016: 6%).

If the multiple increased by 5% then the investment portfolio would increase by £16 million (31 March 2016: £19 million) or 1% (31 March 2016: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive impact of £189 million (31 March 2016: £172 million) or 5% (31 March 2016: 6%).

**Alternative valuation methodologies** – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and the inputs that are used, are given in the Portfolio valuation – an explanation section. Each methodology is used for a proportion of assets by value, and at 30 September 2016 the following techniques were used under an IFRS basis: 41% DCF, 12% industry metric, and 17% other. If the value of all of the investments under these methodologies moved by 5%, this would have an impact on the investment portfolio of £37 million (31 March 2016: £45 million) or 3% (31 March 2016: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have an impact of £13 million (31 March 2016: £9 million) or 0.4% (31 March 2016: 0.3%).

## 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 the agreement to a wholly owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets held by this subsidiary at 30 September 2016 was £272 million (31 March 2016: £187 million) of which £53 million relates to shares purchased as part of 3iN's recent equity raise.

At 30 September 2016, 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 2016 are consistent with the disclosures in Note 29 on pages 130 to 133 of the Annual report and accounts 2016. Related party transactions which have taken place in the period and have materially affected performance or the financial position of the Group, and any material changes in related party transactions described in the Annual report and accounts 2016 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:

| Statement of comprehensive income                | Six months to<br>30 September<br>2016<br>£m | Six months to<br>30 September<br>2015<br>£m |
|--|---|---|
| Carried interest and performance fees receivable | 205   | (15)  |
| Fees receivable from external funds              | 14  | 14  |

  

| Statement of financial position                  | 30 September<br>2016<br>£m | 31 March<br>2016<br>£m |
|--|----------------------------|------------------------|
| Carried interest and performance fees receivable | 293                        | 87                     |

### Investments

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

| Statement of comprehensive income                             | Six months to<br>30 September<br>2016<br>£m | Six months to<br>30 September<br>2015<br>£m |
|---|---|---|
| Realised profit over value on the disposal of investments     | -   | 3   |
| Unrealised profits/(losses) on the revaluation of investments | 20  | (21)  |
| Portfolio income  | -   | 1   |
| Profits/(losses) for the period from discontinued operations  | 47  | (2)   |

  

| Statement of financial position    | 30 September<br>2016<br>£m | 31 March<br>2016<br>£m |
|------------------------------------|----------------------------|------------------------|
| Unquoted investments               | 342                        | 480                    |
| Unquoted investments held for sale | 258                        | -                      |

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.

**10 Related parties** continued**Advisory arrangements**

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

| Statement of comprehensive income                          | <b>Six months to<br/>30 September<br/>2016<br/>£m</b> | Six months to<br>30 September<br>2015<br>£m |
|--|---|---|
| Realised profits over value on the disposal of investments | -   | 2   |
| Unrealised profits on the revaluation of investments       | 48  | 11  |
| Dividends  | 6   | 6   |
| Fees receivable from external funds                        | 9   | 6   |

  

| Statement of financial position | <b>30 September<br/>2016<br/>£m</b> | 31 March<br>2016<br>£m |
|---------------------------------|-------------------------------------|------------------------|
| Quoted equity investments       | 401                                 | 277                    |
| Performance fees receivable     | -                                   | 20                     |

The Group participated in 3iN's equity raise in June 2016 and invested £131 million at the offer price of 165 pence per share to maintain its 34% stake. £53 million is held by a wholly owned investment entity subsidiary of the Group as detailed in Note 9 with the balance held by the Company, 3i Group plc.

## 11 Discontinued operations

On 25 October 2016, the Group announced the sale of its Debt Management business to Investcorp for gross cash consideration of £222 million subject to the finalisation of a number of completion adjustments which are dependent on the transaction's completion date. The sale is expected to close by the end of 31 March 2017, contingent on the receipt of the required regulatory approvals.

The disposal group fulfilled the requirement of IFRS 5 to be classified as "discontinued operations" in the Consolidated statement of comprehensive income, the results of which are set out below:

### Condensed consolidated statement of comprehensive income

|   | Six months to<br>30 September<br>2016<br>£m | Six months to<br>30 September<br>2015<br>£m |
|---|---|---|
| Realised profits over value on the disposal of investments                    | 2   | -   |
| Unrealised profits on the revaluation of investments                          | 13  | (18)  |
| Fair value movements on investment entity subsidiaries                        | 1   | -   |
|   | <b>16</b>                                   | <b>(18)</b>                                 |
| Portfolio income  |   |   |
| Dividends   | 24  | 14  |
| Income from loans and receivables   | 3   | 2   |
| Fees receivable   | -   | (1)   |
| Foreign exchange on investments   | 23  | 6   |
| <b>Gross investment return from discontinued operations</b>                   | <b>66</b>                                   | <b>3</b>                                    |
| Fees receivable from external funds   | 24  | 17  |
| Operating expenses  | (12)  | (13)  |
| Exchange movements  | 1   | -   |
| Other expense   | (1)   | -   |
| Carried interest  |   |   |
| Carried interest and performance fees receivable                              | 1   | 5   |
| Carried interest and performance fees payable                                 | -   | (3)   |
| Acquisition related earn-out charges  | -   | (4)   |
| <b>Operating profit before tax from discontinued operations</b>               | <b>79</b>                                   | <b>5</b>                                    |
| Income taxes  | -   | -   |
| <b>Profit for the period from discontinued operations</b>                     | <b>79</b>                                   | <b>5</b>                                    |
| Other comprehensive income that may be reclassified to the income statement:  |   |   |
| Exchange differences on translation of foreign operations                     | 5   | -   |
| <b>Other comprehensive income for the period from discontinued operations</b> | <b>5</b>                                    | <b>-</b>                                    |
| <b>Total comprehensive income for the period from discontinued operations</b> | <b>84</b>                                   | <b>5</b>                                    |
| <b>Cash flows</b>   |   |   |
|   | Six months to<br>30 September<br>2016<br>£m | Six months to<br>30 September<br>2015<br>£m |
| Net cash flows from operating activities                                      | 43  | 63  |
| <b>Total net cash flows from discontinued operations</b>                      | <b>43</b>                                   | <b>63</b>                                   |



**11 Discontinued operations** continued**Assets and liabilities held for sale**

|  | <b>30 September 2016</b> |
|--|--------------------------|
|  | <b>£m</b>                |
| <b>Assets</b>  |                          |
| Unquoted investments <sup>1</sup>                                    | <b>311</b>               |
| Investments in investment entity subsidiaries <sup>1</sup>           | <b>8</b>                 |
| Carried interest and performance fees receivable                     | <b>9</b>                 |
| Intangible assets  | <b>11</b>                |
| Deferred income taxes  | <b>3</b>                 |
| Other current assets   | <b>10</b>                |
| Cash and cash equivalents  | <b>14</b>                |
| <b>Assets held for sale</b>  | <b>366</b>               |
| <b>Liabilities</b>   |                          |
| Trade and other payables   | <b>14</b>                |
| Carried interest and performance fees payable                        | <b>5</b>                 |
| <b>Liabilities directly associated with the assets held for sale</b> | <b>19</b>                |

1 Classified as Level 3 investments in line with valuation hierarchy as set out in Note 8.

# 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-yearly report for the six months ended 30 September 2016 which comprise 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 A to F and the related notes 1 to 11 (together the 'Condensed consolidated financial statements'). We have read the other information contained in the Half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of 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-yearly report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-yearly report in accordance with the Disclosure 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 (IFRSs) as adopted by the European Union. The Condensed consolidated financial statements included in this Half-yearly 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-yearly 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 Ireland) 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-yearly report for the six months ended 30 September 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Ernst & Young LLP**  
London, United Kingdom  
9 November 2016

## 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 Interim Management 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 2017 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 2017 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 2016 that could materially affect the financial position or performance of 3i Group during the first six months of the financial year ending 31 March 2017.

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  
9 November 2016

## Board of Directors

Simon Thompson, Chairman  
 Simon Borrows, Chief Executive and Executive Director  
 Julia Wilson, Group Finance Director and Executive Director  
 Jonathan Asquith, Non-executive Director  
 Caroline Banzky, Non-executive Director  
 Stephen Daintith, Non-executive Director  
 Peter Grosch, Non-executive Director  
 David Hutchison, Non-executive Director  
 Martine Verluyten, Non-executive Director

## Portfolio and other information

### Portfolio valuation – an explanation

#### Policy

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

This section should be read in conjunction with "Portfolio valuation – an explanation" on pages 148 to 149 of the Annual report and accounts 2016.

The table on the next page outlines in more detail the range of valuation methodologies available to us, as well as the inputs and adjustments necessary for each. It is prepared under the Investment basis and includes investments within assets held for sale.

| Methodology   | Description   | Inputs  | Adjustments  | % of investment basis portfolio valued on this basis |
|---|---|---|--|--|
| <b>Earnings (Private Equity)</b>                            | Most commonly used Private Equity valuation methodology used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions, where relevant, with similar characteristics | <p>Earnings multiples are applied to the earnings of the Company to determine the enterprise value</p> <p><b>Earnings</b><br/>Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings</p> <p>Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA")<br/>Earnings used are usually from the management accounts for the 12 months to the quarter end preceding the reporting period, unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings</p> <p><b>Earnings multiples</b><br/>The earnings multiple is derived from comparable listed companies or relevant market transaction multiples</p> <p>We select companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus</p> <p>We adjust for relative performance in the set of comparables, exit expectations and other company specific factors</p> | A liquidity discount is applied to the enterprise value, typically between 5% and 15%, using factors such as our alignment with management and other investors and our investment rights in the deal structure | 58%  |
| <b>Quoted (Infrastructure/Private Equity)</b>               | Used for investments in listed companies  | Closing bid price at balance sheet date   | No adjustments or discounts applied  | 17%  |
| <b>Imminent sale (Infrastructure/Private Equity)</b>        | Used where an asset is in a sales process, a price has been agreed but the transaction has not yet settled  | Contracted proceeds for the transaction, or best estimate of the expected proceeds  | A discount of typically 2.5% is applied to reflect any uncertain adjustments to expected proceeds  | 0%   |
| <b>Fund (Infrastructure/Private Equity/Debt Management)</b> | Used for investments in unlisted funds  | Net asset value reported by the fund manager  | Typically no further discount applied in addition to that applied by the fund manager  | 0%   |
| <b>Specific industry metrics (Private Equity)</b>           | Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters, or regulated asset bases for utilities  | <p>We create a set of comparable listed companies and derive the implied values of the relevant metric</p> <p>We track and adjust this metric for relative performance, as in the case of earnings multiples</p> <p>Comparable companies are selected using the same criteria as described for the earnings methodology</p>   | An appropriate discount is applied, depending on the valuation metric used   | 2%   |
| <b>Discounted cash flow (Private Equity/Infrastructure)</b> | Appropriate for businesses with long-term stable cash flows, typically in infrastructure  | Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment  | Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied  | 11%  |
| <b>Broker quotes (Debt Management)</b>                      | Used to value traded debt instruments   | Broker quotes obtained from banks which trade the specific instruments concerned, benchmarked to a range of other data such as DCF, trade data and other quotes   | No discount is applied   | 6%   |
| <b>Other (Private Equity)</b>                               | Used where elements of a business are valued on different bases   | Values of separate elements prepared on one of the methodologies listed above   | Discounts applied to separate elements as above  | 6%   |

## Twenty large investments from continuing operations

The 20 investments listed below account for 89% of the investment portfolio at 30 September 2016 (31 March 2016: 72%), under the Investment basis. This does not include one investment that has been excluded for commercial reasons.

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

| <b>Investment</b><br>Description of business  | <b>Business line</b><br>Geography<br>First invested in<br>Valuation basis | Residual<br>cost <sup>1</sup><br>March<br>2016<br>£m | Residual<br>cost <sup>1</sup><br><b>September</b><br><b>2016</b><br>£m | Valuation<br>March<br>2016<br>£m | Valuation<br><b>September</b><br><b>2016</b><br>£m | <b>Relevant transactions<br/>in the period</b>  |
|---|---|--|--|----------------------------------|--|---|
| <b>Action*</b><br>Non-food discount retailer  | <b>Private Equity</b><br>Benelux<br>2011<br>Earnings                      | 1  | 1  | 902                              | 1,549  |   |
| <b>3i Infrastructure plc*</b><br>Quoted investment company,<br>investing in infrastructure    | <b>Infrastructure</b><br>UK<br>2007/2016<br>Quoted                        | 270  | 399  | 464                              | 673  | Invested £131m to<br>maintain our 34%<br>interest   |
| <b>Scandlines*</b><br>Ferry operator between Denmark<br>and Germany                           | <b>Private Equity</b><br>Denmark/<br>Germany<br>2007/2013<br>DCF          | 114  | 114  | 369                              | 434  |   |
| <b>Basic-Fit</b><br>Discount gyms operator  | <b>Private Equity</b><br>Benelux<br>2013<br>Quoted                        | 99   | 11   | 208                              | 195  | Listed on Amsterdam<br>Stock exchange in June<br>2016. Proceeds of £82m<br>repaid shareholder loans |
| <b>Weener Plastic*</b><br>Supplier of plastic packaging<br>solutions                          | <b>Private Equity</b><br>Germany<br>2015<br>Earnings                      | 151  | 156  | 173                              | 187  |   |
| <b>Audley Travel*</b><br>Provider of experiential tailor<br>made travel                       | <b>Private Equity</b><br>UK<br>2015<br>Earnings                           | 161  | 156  | 158                              | 162  |   |
| <b>Schlemmer*</b><br>Provider of cable management<br>solutions for the automotive<br>industry | <b>Private Equity</b><br>Germany<br>2016<br>Price of recent<br>investment | -  | 156  | -                                | 157  | New investment  |
| <b>Q Holding*</b><br>Precision engineered<br>elastomeric components<br>manufacturer           | <b>Private Equity</b><br>US<br>2014<br>Earnings                           | 100  | 100  | 120                              | 134  |   |
| <b>BoConcept*</b><br>Urban living brand   | <b>Private Equity</b><br>Denmark<br>2016<br>Price of recent<br>investment | -  | 135  | -                                | 133  | New investment  |
| <b>Christ*</b><br>Distributor and retailer of<br>jewellery                                    | <b>Private Equity</b><br>Germany<br>2014<br>Earnings                      | 99   | 100  | 117                              | 121  |   |

\* Controlled in accordance with IFRS.

<sup>1</sup> Residual cost includes interest.

## Twenty large investments from continuing operations (continued)

| <b>Investment</b>   | <b>Business line</b>                              | Residual cost <sup>1</sup> | Residual cost <sup>1</sup> | Valuation        | Valuation            | <b>Relevant transactions in the period</b> |
|---|---|----------------------------|----------------------------|------------------|----------------------|--|
| Description of business   | Geography<br>First invested in<br>Valuation basis | March 2016<br>£m           | September 2016<br>£m       | March 2016<br>£m | September 2016<br>£m |  |
| <b>ATESTEO (formerly GIF)*</b><br>International transmission testing specialist   | Private Equity<br>Germany<br>2013<br>Earnings     | 83                         | 38                         | 130              | 115                  | Refinancing returned £48m of proceeds      |
| <b>AES Engineering</b><br>Manufacturer of mechanical seals and support systems  | Private Equity<br>UK<br>1996<br>Earnings          | 30                         | 30                         | 92               | 101                  |  |
| <b>Tato</b><br>Manufacture and sale of speciality chemicals   | Private Equity<br>UK<br>1989<br>Earnings          | 2                          | 2                          | 80               | 93                   |  |
| <b>Mémora*</b><br>Funeral service provider  | Private Equity<br>Spain<br>2008<br>Earnings       | 159                        | 159                        | 83               | 83                   |  |
| <b>Euro-Diesel*</b><br>Manufacturer of uninterruptible power supply systems   | Private Equity<br>Benelux<br>2015<br>Earnings     | 52                         | 56                         | 59               | 82                   |  |
| <b>Aspen Pumps*</b><br>Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry | Private Equity<br>UK<br>2015<br>Earnings          | 70                         | 75                         | 64               | 78                   |  |
| <b>MKM</b><br>Building materials supplier   | Private Equity<br>UK<br>2006<br>Earnings          | 23                         | 23                         | 53               | 60                   |  |
| <b>Dynatect*</b><br>Manufacturer of engineered, mission critical protective equipment                                     | Private Equity<br>US<br>2014<br>Earnings          | 65                         | 65                         | 63               | 59                   |  |
| <b>OneMed Group*</b><br>Distributor of consumable medical products, devices and technology                                | Private Equity<br>Sweden<br>2011<br>Earnings      | 124                        | 127                        | 60               | 55                   |  |
| <b>Refresco Gerber</b><br>European bottler of soft drinks and fruit juices for retailers and branded customers            | Private Equity<br>Benelux<br>2010<br>Quoted       | 23                         | 23                         | 44               | 46                   |  |
|   |   | <b>1,626</b>               | <b>1,926</b>               | <b>3,239</b>     | <b>4,517</b>         |  |

\* Controlled in accordance with IFRS.

<sup>1</sup> Residual cost includes interest.

# Glossary

**Alternative Investment Funds (“AIFs”)** At 30 September 2016, 3i Investments plc as AIFM, managed six AIFs.

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

**Alternative Investment Fund Managers Directive (“AIFMD”)** became effective from July 2013.

**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. Private Equity and Infrastructure AUM is measured at residual cost. Debt Management AUM is either measured at fair value (CLO equity or non CLO funds) or residual cost.

**Board** The Board of Directors of the Company.

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

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

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

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

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

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

**Company** 3i Group plc.

**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.

**Disposal Group** is comprised of all of the assets and liabilities associated with the Group’s Debt Management business.

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

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

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

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



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

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

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

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

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

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

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

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

The commentary in the Interim Management 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.

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

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

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

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

**Proprietary capital** Shareholders’ capital which is available to invest to generate profits.

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

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

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

**Segmental reporting** Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive who is considered to be the Group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

**Share-based payment reserve** is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

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

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

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

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

# Information for shareholders

## Note A

The Half-yearly report 2016 will be available as a pdf on our website at [www.3i.com](http://www.3i.com).

## Note B

The interim dividend is expected to be paid on 4 January 2017 to holders of ordinary shares on the register on 9 December 2016. The ex-dividend date will be 8 December 2016.

## Annual reports online

If you would prefer to receive shareholder communications electronically in future, including annual reports and notices of meetings, please visit our Registrars' website at [www.shareview.co.uk/clients/3isignup](http://www.shareview.co.uk/clients/3isignup) and follow the instructions there to register.

More general information on electronic communications is available on our website at [www.3i.com/investor-relations/shareholder-information](http://www.3i.com/investor-relations/shareholder-information)

## Registrars

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

### Equiniti

Aspect House,  
Spencer Road,  
Lancing,  
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Lines are open from 8.30am to 5.30pm, Monday to Friday  
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## 3i Group plc

Registered office:  
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Registered in England No. 1142830  
An investment company as defined by section 833 of the Companies Act 2006.