18 May 2017

3i Group plc announces full year results to 31 March 2017

An excellent year

- Total return of **£1,592m** or **36%** and NAV per share of **604 pence** (31 March 2016: 463 pence)
- Very strong Private Equity gross investment return of **£1,624m** or **43%**, driven by Action, Scandlines, and more recent investments, such as ATESTEO. The gross investment return from our investments completed between 2013 and 2016 was **29%**
- Disposals and refinancings in Private Equity generated **£982m** of proceeds
- **£409m** invested in three new portfolio companies, BoConcept, Ponroy Santé and Schlemmer as well as a further investment of **£62m** in Q Holding to support its acquisition of Degania
- Good progress in Infrastructure; advised 3i Infrastructure plc ("3iN") on **£479m** of investment in six companies and announced the launch of three Infrastructure fund platforms to complement our mandate as investment adviser to 3iN
- A **16%** total shareholder return from 3iN
- Successful sale of our Debt Management business to Investcorp for **£270m**
- Proposed final dividend of **18.5** pence per share, bringing the total dividend for FY2017 to **26.5** pence per share, subject to shareholder approval

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

"FY2017 was another important year for 3i. Our Private Equity and Infrastructure businesses performed well and we simplified the Group by selling our Debt Management platform. Our efforts over the last few years in reshaping the portfolio mean we are now able to focus on active asset management and origination. We have made a good start to FY2018 with c.€500m of new investments signed and strong value growth potential in our current portfolio."

Financial highlights

	Year to/as at 31 March 2017	Year to/as at 31 March 2016
Group		
Total return including discontinued operations	**£1,592m**	£824m
Total return[1]	**£1,501m**	£797m
Operating expenses including discontinued operations	**£130m**	£134m
Operating expenses[1]	**£117m**	£107m
Operating cash profit including discontinued operations	**£33m**	£37m
Operating cash profit/(loss)[1]	**£5m**	£(9)m
Realisation proceeds	**£1,005m**	£794m
- Uplift over opening book value[2]	**£38m/5%**	£70m/13%
- Money multiple[3]	**3.7x**	2.4x
Proceeds from the sale of Debt Management	**£270m**	nil
Gross investment return	**£1,755m**	£1,051m
- As a percentage of opening 3i portfolio value	**40%**	28%
Cash investment	**£638m**	£433m
3i portfolio value	**£5,675m**	£4,497m
Gross debt	**£575m**	£837m
Net cash	**£419m**	£165m
Gearing[4]	**nil**	nil
Liquidity	**£1,323m**	£1,352m
Net asset value	**£5,836m**	£4,455m
Diluted net asset value per ordinary share	**604p**	463p

1 The sale of our Debt Management business completed on 3 March 2017. The FY2017 total return attributed to the business sold to Investcorp 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 The money multiple is calculated as cash proceeds over cash investment. As the total calculation includes the proceeds from partial disposals and refinancings, the valuations of the remaining investments are included in the multiple.

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

ENDS

For further information, please contact:

Silvia Santoro Tel: 020 7975 3258
Investor Relations Director
Kathryn Van Der Kroft Tel: 020 7975 3021
Communications Director

For further information regarding the announcement of 3i's annual results to 31 March 2017, including a live videocast of the results presentation at 10.00am, please visit www.3i.com.

Notes to editors

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

Notes to the announcement of the results

Note 1
All of the financial data in this announcement is taken from the Investment basis financial statements. The statutory accounts are prepared under IFRS for the year to 31 March 2017 and have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2016 have been delivered to the Registrar of Companies. The auditors' reports on the statutory accounts for these years are unqualified and do not contain any matters to which the auditor drew attention by way of emphasis or any statements under section 498(2) or (3) of the Companies Act 2006. This announcement does not constitute statutory accounts.

Note 2
Copies of the Report and accounts 2017 will be distributed to shareholders on or soon after 31 May 2017.

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

Note 4
Subject to shareholder approval, the proposed final dividend is expected to be paid on 21 July 2017 to holders of ordinary shares on the register on 16 June 2017.

Chairman’s statement

“Our clear strategy and focus on investment discipline and effective asset management delivered strong returns in FY2017.”

The Group delivered another robust performance in FY2017. The sale of Debt Management, completed in March 2017, has simplified and focused the Group on its two principal businesses, both of which performed well. Private Equity delivered very strong returns, driven by significant portfolio earnings growth. Infrastructure continues to execute its updated strategy effectively, generating good returns with a strong pipeline of new business.

Market environment

FY2017 was dominated by unexpected political events, including the UK’s decision to leave the EU and the result of the US presidential election. These events created volatile conditions, but with supportive debt markets and high volumes of capital still seeking attractive investment opportunities in both Private Equity and Infrastructure, the market environment remains intensely competitive. Under these conditions, our permanent capital base, strong balance sheet and long-established business networks in our target sectors and geographies represent a distinct competitive advantage. They enable the Group to be agile and opportunistic while remaining focused on investment discipline and effective asset management.

Performance and dividend

The Group’s total return increased by 93% to £1,592 million (2016: £824 million). Net asset value increased to 604 pence per share (31 March 2016: 463 pence) and our return on opening shareholders’ funds was 36% (2016: 22%). A strong market for realisations meant that we were, as anticipated, net divestors during FY2017. We repaid our €331 million bond in March 2017 and ended the year with a net cash balance of £419 million and liquidity of £1,323 million (31 March 2016: net cash of £165 million and liquidity of £1,352 million).

In recognition of the strong level of cash realisations (including the proceeds from the sale of our Debt Management business) and taking into account the strength of the investment pipeline, the Board has recommended a final dividend of 18.5 pence per share (2016: 16 pence per share) for FY2017. This is made up of the balance of the base dividend (8 pence per share, after the 8 pence interim dividend paid in January 2017) and an additional final dividend of 10.5 pence per share. The total dividend for the year of 26.5 pence per share reflects the Board’s continuing confidence in the Group’s future prospects and cash generation capability.

Board changes

I am pleased to welcome Stephen Daintith, Chief Financial Officer of Rolls-Royce Holdings, who joined the Board on 1 October 2016. Stephen brings financial, operating and international experience across a range of relevant sectors, including consumer and digital, and has already made a strong contribution to the Board and its committees. Martine Verluyten has decided not to seek re-election at the Annual General Meeting on 29 June 2017. I would like to thank Martine for her valuable contribution since 2012 during a period of significant transformation for the Group.

Outlook

We enter FY2018 with a capable and experienced team of investors, a strong balance sheet, a high performing portfolio of assets, a good pipeline of new investment opportunities and a broadened platform in Infrastructure with good growth prospects. I am confident that the Group will remain opportunistic but disciplined as we navigate what promises to be another year of significant uncertainty.

Simon Thompson
Chairman

Chief Executive's review

"FY2017 was another important year for 3i. Our Private Equity and Infrastructure businesses performed well and we simplified the group by selling our Debt Management platform. Our efforts over the last few years in reshaping the portfolio mean we are now able to focus on active asset management and origination."

We continued to make very strong progress at 3i in FY2017. Our financial results were excellent and underpinned by strong fundamentals.

Our Private Equity investment portfolio has undergone a major transformation over the last five years as we have sold many of the weaker, legacy assets and made new investments in good quality companies at attractive prices. Our Infrastructure team has also been busy and assembled a sizeable economic infrastructure portfolio for 3i Infrastructure plc ("3iN"), as well as pursuing a number of new initiatives to broaden our investment capability.

We sold our Debt Management business for £270 million during the year, as we were not confident that this business would meet our return requirements and justify its relative complexity in a more onerous regulatory environment in the future.

A measure of the success of these changes can be seen in this year's financial results; 3i generated a total return on shareholders' funds of £1,592 million, or 36% (2016: £824 million, or 22%), ending the year with a NAV per share of 604 pence (31 March 2016: 463 pence). Our results include the benefit of currency movements; 71% of the Group's assets are denominated in euros or US dollars and we generated a £297 million gain (2016: £143 million gain) from the weakness of sterling in the year. Cash realisations, including the proceeds from the sale of Debt Management, were strong at £1,308 million and we saw a good step forward in cash investment to £638 million. We finished the year with net cash of £419 million (31 March 2016: £165 million) and have announced a further good lift in the pay out to shareholders.

A high quality Private Equity investment portfolio

Our plan with new Private Equity investments is simple, but the execution is not and requires diligence, discipline and good judgement. We aim to double the earnings of new investments under our ownership through operational improvements, international growth and careful M&A strategies. This year, 93% of our portfolio companies by value grew their earnings (2016: 84%).

Action was the strongest performer again; it is a very special company and a low price, consumer champion. As a fast growth, disruptive retailer, Action has been transformed by the successful execution of its international expansion strategy. Store openings increased from 52 in 2012 to 197 in 2016 and Action now has more than 890 stores and annual sales in excess of €2.6 billion. The compound annual growth rates for sales and EBITDA since 2012 exceed 30%, like for like growth rates are 6%–7% per annum and cash flow is strong. This sector-leading performance under our ownership has already resulted in cash distributions to 3i equivalent to 4.9x our original investment.

There is still plenty of runway for expansion at Action and potential for further rapid value growth for 3i. Action has been welcomed in each country it has opened in and its store opening programme now covers six countries and more new stores are planned in 2017 over 2016. Action is also set to open its fourth and fifth distribution centres in 2017. Such material growth requires strong operational capability and Action, with support from 3i, is focused on managing the risks associated with this rapid growth by enhancing its teams and other resources in logistics, direct sourcing, IT and inventory control to meet the increasing demands of the business.

But 3i is not just about Action. The portfolio we have constructed in recent years, our 2013–16 vintage, produced a gross investment return of 29% in FY2017, and is already a top quartile performer, valued on a multiple of 1.7x (31 March 2016: 1.5x).

The performance of Scandlines has accelerated since our further investment in 2013. We expect further delays to the competing Rødby Puttgarten tunnel project, while the business continues to generate good levels of cash flow and earnings growth.

A fundamental part of our investment strategy is to facilitate the international expansion of our portfolio companies. Since our investment in 2013, ATESTEO, the world's leading drivetrain testing services provider to the automotive industry, has increased the utilisation of its testing facilities in Germany and expanded its Chinese footprint. As a result, its Chinese capacity has doubled and sales have increased by more than 100%. The outlook looks promising, with further expansion in China and North America in progress.

Aspen Pumps, Audley Travel, Basic-Fit, Q Holding and Euro-Diesel also performed well, with strong, organic earnings growth. However, it is inevitable that there will be some challenges in any broad-based Private Equity portfolio and our high street retailer, Christ, suffered from declining footfall.

As mentioned earlier, we have refocused our model and have largely exited the older and often minority investments that we invested in before the strategic review in 2012. Many of these assets have required a great deal of asset management. Some, but not all, have been a significant drag on the value growth of our portfolio over the last few years.

In August 2016, we became aware of accounting irregularities at Agent Provocateur which had concealed its true financial position and lack of liquidity. We wrote down the investment to nil and the business was subsequently sold through an administration process, with the proceeds being insufficient to return any value to 3i, resulting in a total write-down in the year of £49 million.

In total, our Private Equity realisation activity produced approximately £1 billion of cash proceeds this year (2016: £718 million) at good return multiples and we now own a leaner, higher-performing portfolio of 37 assets and three quoted stakes (2016: 47 assets and five quoted stakes).

Our permanent capital is a distinct competitive advantage. It ensures we can be flexible and opportunistic and it is a fundamental aspect of our differentiated strategy. It enables us to hold assets for longer periods if we believe that there is potential for additional value creation. This is particularly important in an economic environment where there are limited opportunities for attractive new investment at sensible prices.

We are well established in continental Europe and were the first private equity firm to set up a number of offices across Europe. Our brand and local investment teams are held in high regard in these markets and we enjoy good visibility over the deal flow in our chosen sectors. As the requirements of managing the older assets have diminished, we have been able to source and complete more new investment opportunities.

We completed new investments in BoConcept, Schlemmer and Ponroy Santé together with a further investment in Q Holding to support its acquisition of Degania in FY2017. A German investment, Lampenwelt, and a Dutch investment, Hans Anders, were announced in March 2017 and April 2017 respectively and should complete by the end of June 2017. We also announced an investment in Formel D in May 2017.

A year of exceptional investment activity in Infrastructure

Our Infrastructure business has achieved good growth since 3iN's change of strategy and update to its return target, announced in May 2015. Although the infrastructure market is very competitive, particularly for larger economic infrastructure assets, 3iN's revised investment strategy enabled the business to compete with confidence for assets that fitted its current mid-market remit. We advised 3iN on £479 million of new investments in total in the year and have recruited selectively to ensure that we have the strength and depth to manage the investment portfolio, as well as boost origination.

To support this expansion, we maintained our 34% share of 3iN in its June 2016 capital raise, the proceeds of which have since been fully invested. The 3iN shares have performed strongly, generating a total shareholder return of 16% in the year (2016: 13%).

Over the last year, we have been working on a number of new fund platforms, one in North America and two in Europe, to broaden our capabilities and deal flow and complement our mandate as investment adviser to 3iN.

In Europe, we announced the launch of a new £700 million fund, managed by 3i, to purchase a portfolio of assets from the EISER Global Infrastructure fund. Post year end, 3i invested £35 million in this fund, alongside two pension fund investors. Our Infrastructure business manages two funds dedicated to operational PPP and renewables projects, one of which was coming to the end of its investment life. In April 2017, we seeded a new fund with substantially all of its remaining assets. 3i has committed up to €40 million to this fund alongside a group of external investors and we expect a final close later on in the year. We launched our North American Infrastructure business in March 2017 as a natural and key strategic extension of 3i's established European platform.

Continuing to focus on driving performance

Following our successful disposal of Debt Management we have a more streamlined investment capability, focused on Private Equity and Infrastructure, and built on our proprietary capital foundation, with a growing fund management capability in Infrastructure. The broader macro-economic back-drop has improved over the last year and we see generally decent GDP growth ahead in our main markets of northern Europe and North America.

However, the market for new investment remains challenging. High asset valuations, together with intense competition from corporate buyers and other private equity investors, mean that maintaining our selective and disciplined approach is essential in order to continue to generate attractive returns.

Outlook

3i is now performing as it should, with careful investment and active asset management generating very strong returns. The broader environment remains volatile and challenging but we remain confident in our ability to deliver continued, good growth for shareholders. We have strong investment capabilities in both our divisions and our well-established international network, together with our proprietorial approach, give us real competitive advantage.

We will avoid complacency and maintain our disciplined approach to investment and the costs of our platform, as well as maintaining our focus on the mid market where we see the most attractive opportunities. This approach should underpin high returns for shareholders, together with healthy cash dividends.

I would like to thank the 3i team for their hard work and contribution to what has been an excellent year for the Group. 3i is now a much more balanced and resilient business, with a clear strategy and a well-funded balance sheet.

Simon Borrows
Chief Executive

Business review - Private Equity

Private Equity performed very strongly in FY2017. Although it was a year of political change, with financial markets subject to periods of significant volatility, our portfolio generated excellent returns with a GIR of £1,624 million or 43% on the opening portfolio (2016: £1,011 million, 32%). We recognised value growth in excess of £1.25 billion, with strong performance from assets such as Action and Scandlines, together with very good progress from investments made in the more recent 2013–2016 vintage. With over 81% of the portfolio denominated in euros or US dollars, the sharp fall in sterling that followed the UK's decision to leave the EU resulted in a translation gain of £248 million (2016: £168 million).

Investment activity

We completed three new investments in the year and made a material further investment.

In July 2016, we invested DKK1,144 million (£132 million) in BoConcept, an urban living brand headquartered in Denmark. This was a public-to-private transaction where the majority of the shares were owned by the founding family. 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 January 2017, we completed our €141 million (£122 million) investment in Ponroy Santé, a manufacturer of natural healthcare and cosmetics products. All three companies have strong market positions and 3i will use its experience to help them expand internationally, maximise market opportunities and drive operational efficiencies.

An important component of enhancing the strategic value of our investments is our ability to enable transformative M&A in our portfolio companies. In December 2016, we invested £62 million in Q Holding to support its acquisition of Degania. This transaction almost doubles Q Holding's medical revenues and diversifies its product mix and geographic exposure.

The availability of capital, together with favourable debt financing terms, continues to attract investors to the Private Equity asset class and so our price discipline remains essential. Our local teams have been able to find an interesting range of investment opportunities, both for 3i and its portfolio companies, particularly in Europe.

In addition to the £478 million investment in the year to 31 March 2017, we announced investments in Lampenwelt (€120 million), a German online lighting retailer and Hans Anders (€200 million), a leading optical retailer in the Benelux, in March 2017 and April 2017 respectively. Both investments should complete by the end of June 2017. We also announced an investment in Formel D, the leading quality services provider for the automotive industry, in May 2017.

Table 1: Private Equity cash investment in the year to 31 March 2017

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £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
Ponroy Santé	New	Manufacturer of natural healthcare and cosmetics products	January 2017	135	122
Q Holding (Degania)	Further	Manufacturer of precision engineered elastomeric components	December 2016	63	62
Agent Provocateur	Further	Women's lingerie and associated products	Various	14	8
Other		n/a	n/a	(1)	(1)
Total Private Equity investment				**500**	**478**

Realisations activity

As market conditions remained favourable, we had a very strong year for realisations and generated £982 million of proceeds at an average money multiple of 3.7x. We disposed of nine unquoted investments, including older investments such as Mayborn, Lekolar and Polyconcept, and more recent investments such as Geka. We also took advantage of supportive equity market conditions to exit or reduce a number of quoted holdings, generating proceeds of £154 million (2016: £111 million).

We continue to refinance our most cash generative assets where appropriate for the business, and where market conditions allow. Due to Action's strong growth and cash flow generation, it was able to de-lever rapidly during 2016 ahead of a €1.675 billion refinancing in December 2016. The proceeds were used to refinance the existing debt and fund a distribution to shareholders. As a result, 3i received £187 million of proceeds.

Since investment, Action has returned £526 million of refinancing proceeds to 3i, a 4.9x sterling cash return on the original investment.

In addition, we took the opportunity to refinance the debt in ATESTEO in June 2016. Its strong EBITDA growth since our investment facilitated a refinancing and return of £48 million to 3i.

During the year, we completed the successful exits of Mayborn (3.5x) and Amor (2.3x). Both had been valued on an imminent sales basis at 31 March 2016. In March 2017, Agent Provocateur went into administration, giving rise to a realised loss of £49 million on our investment. In aggregate, we generated total realised profits of £38 million in the year, an uplift over opening value of 5%, excluding refinancings (2016: £67 million and 14%).

We continue to make good progress towards our longer-term plan to hold a portfolio of 30 to 40 assets. As at 31 March 2017, the portfolio had reduced to 37 assets and three quoted stakes (31 March 2016: 47 assets and five quoted stakes).

Table 2: Private Equity realisations in the year to 31 March 2017

Investment	Country/region	Calendar year invested	31 March 2016 value[1] £m	3i realised proceeds £m	Profit/(loss) in the year[2] £m	Uplift on opening value[2] %	Residual value £m	Money multiple over cost[3]	IRR
Full realisations									
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	44	3	7%	nil	2.1x	7%
Eltel	Sweden	2007	20	20	1	5%	nil	1.0x	(1)%
UFO Moviez	India	2007	12	16	3	23%	nil	2.9x	16%
GO Outdoors	UK	2012	17	21	5	31%	nil	1.0x	1%
Loxam	France	2011	22	40	16	67%	nil	1.9x	13%
Lekolar	Sweden	2007	29	34	4	13%	nil	1.6x	5%
ESG	UK	2007	22	30	8	36%	nil	1.4x	12%
Agent Provocateur	UK	2006	42	–	(49)	(100)%	nil	–	–%
Partial realisations[1,3]									
Basic-Fit[4]	Benelux	2013	82	82	nil	–%	184	3.3x	49%
Scandlines	Denmark/ Germany	2007/2013	16	16	nil	–%	538	4.6x	31%
Refresco Gerber	Benelux	2010	13	11	(2)	(15)%	32	1.8x	11%
Other	n/a	n/a	13	10	1	n/a	60	n/a	n/a
Refinancings[3]									
ATESTEO	Germany	2013	48	48	nil	–%	160	2.7x	40%
Action	Benelux	2011	187	187	nil	–%	1,708	20.8x	84%
Deferred consideration									
Other	n/a	n/a	1	7	6	n/a	1	n/a	n/a
Total Private Equity realisations			**930**	**982**	**38**	**4%**	**2,683**	**3.7x**	**n/a**

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 valuation

The strong performance of the portfolio resulted in unrealised value growth of £1,274 million (2016: £690 million).

Performance

The continued strong performance of the investments valued on an earnings basis resulted in an increase in value of £827 million (2016: £460 million) with the most significant contribution coming from Action. For its year ended 31 December 2016, Action reported sales of €2.675 billion (a 34% increase over 2015), a 37% increase in operating EBITDA, and 6.9% like-for-like sales growth and opened 197 new stores in six countries. Action has delivered EBITDA CAGR growth in excess of 30% p.a. since 3i's investment in 2011. Since 2013, our previous valuations have used run-rate adjusted earnings for the 12 months to the quarter end preceding the reporting period. For the valuation of Action at 31 March 2017, we have refined our valuation methodology better to reflect its consistent financial delivery. As is typical for retail businesses, Action prepares its results in four weekly periods. At 31 March 2017, we are valuing this investment using run-rate earnings to 26 March 2017, the closest period end to 3i's. The valuation earnings increased by 33% in the last 12 months and, as at 31 March 2017, Action was valued at £1,708 million (2016: £902 million). As the largest Private Equity investment by value, it represented 35% of the Private Equity portfolio (2016: 24%).

The investments in our 2013–16 vintage are delivering good earnings growth, with assets such as ATESTEO, Aspen Pumps, Audley Travel, Q Holding and Euro-Diesel showing good value uplifts in the year.

We invested in ATESTEO in 2013 and have transformed it from an owner-managed diversified engineering company into a world leading testing and industrial specialist for the automotive industry. Its earnings have almost doubled under our ownership; driven by a 30% increase in testing capacity through opening a new facility in Germany and the expansion of its Chinese operations.

Aspen Pumps is the global leader in the design and assembly of condensate removal pumps, accessories for air conditioning ("AC") installers and rooftop support systems for AC products. It had a strong 2016, financially and operationally, as it continued to gain market share in its core markets. It also completed two small acquisitions, designed to allow direct control of its distribution channels and product bolt-ons.

Euro-Diesel designs and assembles standby power supply systems for data centres and other customers for whom power security is critical. The business performed well in 2016 and the order book for 2017 is promising.

Macro-economic developments are impacting a small number of our investments, especially those exposed to capital expenditure in the oil and commodities sector (Dynatect) or weaker consumer sentiment and decelerating tourist flows which have reduced spending on the high street in Europe (Christ).

Overall, the majority of the portfolio (93% of assets valued on an earnings basis, as well as Scandlines and Basic-Fit) grew their earnings in the year (2016: 84%). One investment was valued using forecast earnings at 31 March 2017 (31 March 2016: two), representing 2% of the portfolio by value (31 March 2016: 3%). Table 4 shows the earnings growth of our top 20 assets.

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

	2017 £m	2016 £m
Earnings based valuations		
Performance	**827**	460
Multiple movements	**239**	95
Other bases		
Uplift to imminent sale	**8**	13
Discounted cash flow	**158**	124
Other movements on unquoted investments	**(1)**	5
Quoted portfolio	**43**	(7)
Total	**1,274**	690

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section of our Annual report.

Table 4: Portfolio earnings growth of the top 20 – Private Equity[1] investments £m

	3i carrying value at 31 March 2017
<0%	**241**
0 - 9%	**1,327**
10 - 19%	**370**
20 - 30%	**112**
>30%	**2,362**

1 Includes top 20 Private Equity companies by value. This represents 91% of the Private Equity portfolio by value (31 March 2016: 86%).

Overall, net debt across the portfolio increased to 3.1x EBITDA (31 March 2016: 2.9x) principally due to the refinancing of Action. Table 5 shows the ratio of net debt to EBITDA by portfolio value at 31 March 2017.

Table 5: Ratio of net debt to EBITDA[1] £m

	3i carrying value at 31 March 2017
<1x	**595**
1 - 2x	**545**
2 - 3x	**32**
3 - 4x	**3,181**
4 - 5x	**472**
>5x	**–**

1 This represents 99.9% of the Private Equity portfolio by value (31 March 2016: 99.2%).

Multiple movements

Due to its consistent financial and operational outperformance, we increased the post discount run-rate multiple used to value Action from 14.0x at 31 March 2016 to 16.0x post discount at 31 March 2017. As at 31 March 2017, a 1.0x movement of Action's multiple would increase or decrease the valuation of 3i's investment by £135 million. Excluding Action, the weighted average EBITDA multiple declined to 10.6x before liquidity discount (2016: 10.8x) and was 9.9x after liquidity discount (2016: 10.1x). The decline in multiple is principally due to Basic-Fit, which listed in June; it was previously valued using a multiple materially higher than the portfolio average at 31 March 2016, and is now held on a quoted basis.

When setting multiples, we consider factors such as exit plans, relative performance and investment size. As a result of market volatility in the year, we continued our practice of adjusting multiples down, relative to their comparable set, in 14 out of the 22 companies (2016: 17 out of 29) valued on an earnings basis. The pre-discount multiples used to value the portfolio ranged between 5.0x and 16.8x (2016: 6.5x and 14.7x) and the post-discount multiples ranged between 4.8x and 16.0x (2016: 5.5x and 14.0x).

The combined effect of changes in multiples across the portfolio resulted in an increase in value of £239 million in the period (2016: £95 million increase).

Uplift to imminent sale

We announced the sale of MKM in March 2017 and recognised an increase in value of £8 million. The sale is expected to complete by the end of June 2017.

In October 2016, we announced an implementation agreement to sell ACR to two Shenzhen government sponsored investment companies, subject to regulatory and other approvals. This approval process remains ongoing and, as a result, we did not value ACR on an imminent sales basis as at 31 March 2017. Its valuation movement in FY2017 is classified within the other movements on unquoted investments category.

Discounted cash flow ("DCF")

As at 31 March 2017, the largest Private Equity investment valued on a DCF basis was Scandlines, valued at £538 million (31 March 2016: £369 million). It generated value growth of £155 million due to continued strong trading, the expectation of further delays in the opening date of a competing tunnel on its key route between Rødby and Puttgarden, as well as a modest reduction in its weighted average cost of capital.

Quoted portfolio

The Private Equity quoted portfolio generated an unrealised value gain of £43 million (2016: £7 million loss) in the year.

Basic-Fit's strong FY2016 financial and operational performance, resulting in the business ending the year with 419 clubs and 1.2 million members, was reflected in the share price increasing from its June 2016 IPO price of €15.00 to close at €16.27 and an unrealised value gain of £51 million in the year. 3i's remaining stake was valued at £184 million at 31 March 2017.

Table 6: Quoted portfolio movement for the year to 31 March 2017

Investment	IPO date	Opening value at 1 April 2016 £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements[1] £m	**Closing value at 31 March 2017 £m**
Quintiles	May 2013	92	(92)	–	–	**–**
Dphone	July 2014	25	–	(5)	1	**21**
Eltel	February 2015	20	(20)	–	–	**–**
Refresco Gerber	March 2015	44	(13)	(3)	4	**32**
UFO Moviez	May 2015	12	(12)	–	–	**–**
Basic-Fit	June 2016	208	(82)	51	7	**184**
		401	(219)	43	12	**237**

1 Other movements include foreign exchange.

Assets under management

The value of Eurofund V ("EFV"), covering buyout investments made in the period between 2007 and 2012, continued to grow and at 31 March 2017 the fund had a gross money multiple of 2.2x (31 March 2016: 1.7x).

Investments made since the change in investment strategy in 2012, including the further investment in Scandlines, are making good progress with a sterling multiple of 1.7x at 31 March 2017 (31 March 2016: 1.5x).

The value of 3i's Proprietary Capital increased to £4.8 billion in the year (2016: £3.7 billion). The value of the portfolio including third-party capital increased to €8.1 billion (2016: €7.0 billion).

Business review - Infrastructure

Infrastructure contributed a gross investment return of £87 million, or 17% on the opening portfolio (2016: £47 million, 8%). This was driven by 3iN's strong share price appreciation together with good levels of dividend and fee income from both 3iN and the other funds managed by the team.

In May 2016, 3iN announced a 7.55 pence per share annual dividend target for FY2017, as well as a £350 million capital raise. Both initiatives were well received and the final amount raised in the placing, gross of fees, was £385 million. 3i invested £131 million in this placing to maintain its 34% stake in 3iN. The shares were offered at 165 pence per share and closed at 189 pence on 31 March 2017, generating a total shareholder return for investors in that placing of 17%.

We made excellent progress in sourcing assets in 3iN's target markets of economic infrastructure and greenfield projects. In total we advised 3iN on £479 million of new investment in the year (2016: £193 million). 3iN completed six new investments: Wireless Infrastructure Group, TCR, Valorem, the Hart van Zuid greenfield PPP project, the A27/A1 greenfield PPP project and Infinis. As a result, all of the proceeds from the capital raise were deployed.

Overall, the 3iN portfolio continues to perform well and the company generated a total return of 9% in the year (2016: 14%). Under the terms of the investment advisory agreement, 3iN paid an advisory fee of £25 million to 3i (2016: £16 million), with the increase attributable to new investment activity, and a NAV-based performance fee of £4 million (2016: £20 million). Of this, £3 million (2016: £15 million) was accrued as payable to the team.

Investment portfolio performance

The Group's infrastructure portfolio consists primarily of its 34% stake in 3iN.

3iN's share price performed strongly in the year as the yield offered by 3iN continues to be attractive to investors in the current low interest rate environment. 3iN's TSR for the year was 16% (2016: 13%) and 3iN generated £23 million (2016: £21 million) of dividend income for 3i. 3i also has an investment in the 3i India Infrastructure Fund, where the team continues to focus on managing this portfolio to maximise value for fund investors.

In total, the Infrastructure portfolio generated unrealised value growth of £59 million (2016: £22 million).

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

	2017 £m	2016 £m
Quoted	**63**	31
Discounted cash flow	**(4)**	(9)
Total	**59**	22

1 More information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation - an explanation section of our Annual report.

Assets under management

Infrastructure AUM increased to £2.9 billion (31 March 2016: £2.3 billion) principally due to 3iN's fundraising and strong portfolio performance.

We are focused on managing the 3iN portfolio actively and embedding the new assets to ensure that they meet or exceed the investment plan. While we continue to see a good flow of new investment opportunities, there remains strong demand for infrastructure assets as capital flows towards more defensive sectors. In this environment, we remain disciplined and focused on maintaining a balanced and attractive portfolio in 3iN.

We remain committed to the importance of our 3iN mandate and sourcing and managing its attractive portfolio of assets. To broaden 3i's infrastructure strategy, and generate increased cash income for the Group in the medium term, we have also announced several complementary new initiatives. In each case, we are adding resources to ensure that the new initiatives are successful, and that our focus on the 3iN mandate is not compromised. We launched a new £700 million fund to purchase assets from the EISER Global Infrastructure Fund. In addition, we announced a new fund, the 3i European Operational Projects Fund SCSP. 3i will provide seed capital of c.£35 million to each of these funds. Finally, we announced the launch of a US Infrastructure platform in March 2017.

Financial review

Strong financial performance

FY2017 was another year of strong financial performance. It was also the year in which we sold our Debt Management business to Investcorp. The sale of Debt Management completed on 3 March 2017 and the business we sold to Investcorp is classified as discontinued operations throughout this report. We retained the CLO investments not required for regulatory or contractual purposes, as well as investments in the Global Income Fund and Senior Loan Fund. These investments are classified within Other in the Financial review and our segmental reporting.

We generated an excellent gross investment return from Private Equity, Infrastructure and the retained Debt Management investments of £1,755 million (2016: £1,051 million) and an operating profit before carried interest of £1,675 million (2016: £911 million). This was driven by the strong unrealised value growth from our investments, together with the positive impact of foreign exchange translation.

Total return was £1,592 million, or a profit on opening shareholders' funds of 36% (2016: £824 million or 22%) and, as a result, the diluted NAV per share at 31 March 2017 increased by 30% to 604 pence (31 March 2016: 463 pence).

Table 8: **Total return** for the year to 31 March

Investment basis	12 months to 31 March 2017 £m	12 months to 31 March 2016[1] £m
Realised profits over value on the disposal of investments	38	72
Unrealised profits on the revaluation of investments	1,342	690
Portfolio income		
Dividends	50	49
Interest income from investment portfolio	50	59
Fees receivable	6	7
Foreign exchange on investments	269	174
Gross investment return	1,755	1,051
Fees receivable from external funds	46	41
Operating expenses	(117)	(107)
Interest received	2	4
Interest paid	(49)	(47)
Exchange movements	28	(31)
Other income	10	–
Operating profit before carried interest	1,675	911
Carried interest		
Carried interest and performance fees receivable	279	78
Carried interest and performance fees payable	(434)	(186)
Operating profit from continuing operations	1,520	803
Income taxes	3	–
Re-measurements of defined benefit plans	(22)	(6)
Total comprehensive income: continuing operations ("Total return from continued operations")	1,501	797
Total comprehensive income from discontinued operations, net of tax ("Total return from discontinued operations")	91	27
Total comprehensive income ("Total return")	1,592	824
Total return on opening shareholders' funds	36%	22%

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

Alternative performance measures ("APMs")

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

Realised profits

Supportive market conditions, together with the co-incidental maturity of our exit pipeline, resulted in realised proceeds of £1,005 million (2016: £796 million). Profits on disposal of £38 million (2016: £72 million) were net of the £49 million realised loss on Agent Provocateur which was sold after it was entered into administration in March 2017. This, combined with the fact that the successful exits of Mayborn and Amor were valued on an imminent sales basis at 31 March 2016, meant realisations (excluding refinancings) were achieved at an uplift over opening value of 5% (2016: 13%) in the year.

Unrealised value movements

The unrealised value movement of £1,342 million (2016: £690 million) was due to strong earnings growth in a number of our Private Equity assets. Action contributed £911 million to value growth and we also saw improved performance from Private Equity investments in our 2013–16 vintage, such as Scandlines (a further investment in 2013), ATESTEO, Basic‑Fit and Euro‑Diesel.

Table 9: **Unrealised profits on revaluation of investments (continuing operations)** for the year to 31 March

	2017 £m	2016 £m
Private equity	**1,274**	690
Infrastructure	**59**	22
Other (residual Debt Management)	**9**	(22)
Total	**1,342**	690

Our residual Debt Management positions recovered some of the mark-to-market losses seen in the first quarter of calendar year 2016 and generated an unrealised value gain of £9 million (2016: £22 million loss) in the year.

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

Portfolio income

The portfolio generated income of £106 million during the year (2016: £115 million). The increase in dividends from 3iN (up from £21 million to £23 million) was offset by a reduction in dividends from Private Equity, as income in FY2016 included a significant dividend from Scandlines as well as dividends from older assets which have been sold. Interest income on loans in Private Equity reduced to £50 million (2016: £59 million) due to the timing of asset disposals or IPOs relative to the completion of our three new investments. Portfolio fees were broadly stable as the increase in deal fees on new investments completed in the year was offset by abort costs incurred on prospective transactions.

Fees receivable from external funds

Fees increased to £46 million (2016: £41 million) due to increased fee income from 3iN. 3i, as investment adviser, receives a fee for sourcing and completing new investments for 3iN; 3iN completed six new investments in FY2017 and invested £479 million (2016: four investments and £193 million).

Operating expenses

Operating expenses were £117 million (2016: £107 million), principally due to a £4 million increase in the Infrastructure team's share of the 3iN fee income referred to above. The share-based payment expense also increased by £3 million due to the strong performance of 3i Group's share price.

We continue to invest in the front office capability in Private Equity and Infrastructure but remain disciplined on cost. We expect that expenses in FY2018 will be broadly double the second half costs of £63 million.

Operating cash profit

Operating cash profit is a Group KPI; by covering the operating costs of running our business with income, we reduce the dilution of shareholder returns. Since its introduction in 2012, this measure has been defined as cash portfolio and fee income less accrued operating expenses, the latter being used as it was not considered to be materially different from cash operating expenses. The definition has been updated to be cash portfolio income and fee income less cash expenses. The principal non-cash expense now excluded from the measure is share-based payments; these have become significantly more material since the measure was originally implemented, as more compensation is delivered in the form of shares, and as the share price has increased.

Table 10: Operating cash profit for the year to 31 March

	2017 £m	2016[2] £m
Third-party capital fees	47	40
Cash portfolio fees	12	8
Cash portfolio dividends and interest	62	60
Cash income from continuing operations	121	108
Operating expenses[1] from continuing operations	(116)	(117)
Operating cash profit/(loss): continuing operations	5	(9)
Operating cash profit: discontinued operations	28	46
Operating cash profit	33	37

1 Operating expenses are now calculated on a cash basis and the 2016 comparative has been re-presented.
2 Comparatives have been re-presented to reflect the classification of the Group's Debt Management business, sold to Investcorp, as discontinued operations.

Excluding the Debt Management business sold to Investcorp, 3i made an operating cash profit of £5 million in the year (2016: £9 million loss). Cash income increased to £121 million (2016: £108 million) principally due to the increase in the third-party capital fees in Infrastructure to £37 million (2016: £29 million).

The Debt Management business was a significant contributor to the Group's operating cash profit. Including the contribution of the Debt Management business, the Group made an operating cash profit of £33 million in the year (2016: £37 million).

Net interest payable

Gross interest payable was £49 million (2016: £47 million), of which £15 million related to interest charges on the €331 million bond which was repaid in March 2017. The undrawn revolving credit facility was extended by one year to September 2021 at no additional 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 on cash balances was £2 million (2016: £4 million).

Carried interest and performance fees

We receive carried interest from third-party funds and pay a portion to participants in our carry plans. We also pay carried interest to participants on our proprietary capital invested. The accounting recognition of carried interest is driven by the valuation of the underlying investment portfolio and is accounted for by assuming that all investments are realised at the balance sheet value.

Our carried interest plans pay cash to participants when the underlying investments are realised, for example through a disposal or a refinancing event, but only when a performance hurdle has been met. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants are both current and previous employees of 3i.

We generated a very strong gross investment return of £1,624 million in Private Equity (2016: £1,011 million) and this material valuation uplift has resulted in significant increases in our carried interest balances in FY2017. The consequence of this year's valuation increase is that our largest Private Equity fund, EFV, went through its performance hurdle and consequently we recognised significant carried interest receivable. A share of this receivable is accrued as carried interest payable to the associated plan participants. The strong run of realisations from investments made between 2010 and 2012 that have completed over the last few years meant that we went through the cash hurdle on the Group's associated proprietary capital plan (the so-called Buyouts 2010–12 carried interest scheme) and began paying carried interest to its participants for the first time this year.

Table 11: Carried interest and performance fees (continuing operations) for the year to 31 March

Statement of comprehensive income	2017 £m	2016 £m
Carried interest and performance fees receivable		
Private Equity	**275**	58
Infrastructure	**4**	20
Total	**279**	78
Carried interest and performance fees payable		
Private Equity	**(431)**	(171)
Infrastructure	**(3)**	(15)
Total	**(434)**	(186)
Net carried interest payable	**(155)**	(108)

We typically accrue carried interest payable on 3i's investment portfolio at between 10% and 15% of gross investment return. The majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 31 March 2017 valuation.

We accrued carried interest payable of £431 million (2016: £171 million) for Private Equity, of which £202 million relates to the carry plan participant's share of carried interest receivable from EFV (2016: £48 million). Carried interest payable accrued on 3i's investment portfolio was £229 million (2016: £123 million). £159 million (31 March 2016: £71 million) of this £229 million balance relates to the carry payable on the Buyouts 2010–12 plan, which includes Action.

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 year, £127 million of cash was paid out to the participants in the Private Equity plans (2016: £9 million). Of this £98 million related to the carry payable on the Buyouts 2010–12 scheme which went through its cash hurdle in the year.

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high watermark. The continued good performance of the assets held by 3iN resulted in the recognition of £4 million (2016: £20 million) of performance fees receivable. Carried interest of £3 million was accrued as payable to the Infrastructure team.

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 £685 million (31 March 2016: £404 million) and the receivable increased to £366 million (31 March 2016: £122 million).

Table 12: Carried interest and performance fees for the year to 31 March 2017

Statement of financial position	2017 £m	2016 £m
Carried interest and performance fees receivable		
Private Equity	**359**	92
Infrastructure	**4**	20
Other	**3**	10
Total	**366**	122
Carried interest and performance fees payable		
Private Equity	**(650)**	(356)
Infrastructure	**(35)**	(43)
Other	**–**	(5)
Total	**(685)**	(404)

Net foreign exchange movements

At 31 March 2017, 71% of the Group's net 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 £297 million (2016: £143 million) in the year.

The Group is a long-term investor and does not hedge its foreign currency denominated portfolio. Where possible, flows from currency realisations are matched with currency investments. Short-term derivative contracts are used occasionally 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 13: **Net assets and sensitivity by currency** at 31 March 2017

	FX rate	£m	%	1% sensitivity £m
Sterling	n/a	1,420	24%	n/a
Euro	1.1701	3,373	58%	34
US dollar	1.2516	751	13%	8
Danish krona	8.7015	147	3%	1
Other	n/a	145	2%	n/a

Pension

On an IAS 19 basis the pension scheme remains in a surplus. There was a re-measurement loss on the Group's pension scheme of £22 million during the year (2016: £6 million loss). The liability of the Group's UK defined benefit pension scheme increased in the year following a decrease in the discount rate. This was partially offset by an increase in the underlying asset valuations.

During the year, the Trustees of the 3i Group Pension Plan implemented a buy-in transaction, which is a bulk annuity purchase that partially reduces member longevity risk while improving the investment returns of the pension scheme. The transaction is expected to improve the actuarial funding position of the plan, which in turn influences the future cash contributions by 3i. The transaction resulted in an accounting charge in accordance with IAS 19 of £14 million.

The triennial valuation of the scheme's funding position at 30 June 2016 is underway and will be completed no later than 30 September 2017.

Tax

The Group's parent company has operated in the UK as an approved investment trust company since its listing on the London Stock Exchange in 1994. An approved investment trust is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK. Approved investment trust companies are particularly suited for investment vehicles as their tax status allows them to ensure that their shareholders do not suffer double taxation of their investment returns. The Group recognised a tax credit in the period of £3 million (2016: nil).

Sale of Debt Management

On 3 March 2017, we completed the sale of our Debt Management business to Investcorp for total proceeds of £270 million. The sale comprised the entire Debt Management fund management business, which had teams based in London and New York, and the CLO investments required by the buyer for regulatory and contractual purposes. We retained the CLO investments in excess of those requirements. During the period between signing and completion we continued to support CLO warehouses in the US and Europe, and the outstanding balances of £33 million were repaid in full on completion. In addition, we retained our investments in the Global Income Fund and the Senior Loan Fund.

Table 14: Debt Management investments as at 31 March

Valuation	2017 £m	Net movement[1] £m	2016 £m
CLO equity sold	–	(119)	119
CLO warehouses repaid	1	(16)	17
CLO equity retained	50	16	34
Global Income Fund	79	27	52
Senior Loan Fund	8	1	7
Total	138	(91)	229

1 Net movement is inclusive of investments, currency translation and mark to market adjustments.

The transaction was signed on 25 October 2016, and the economic benefit of the fund management business and relevant CLO equity interest transferred with effect from 1 October 2016. The total return from discontinued operations of £91 million (2016: £27 million) includes the economics of the business up to 30 September 2016, compensation for the period to closing and the profit on disposal.

The £270 million of proceeds was split between £232 million for the sale of the subsidiaries, proceeds of £22 million from the sale of directly held investments in CLO equity and warehouses and £16 million for the settlement of an inter-company loan.

Balance sheet

Net cash and liquidity

Table 15: Net cash as at 31 March

	2017 £m	2016 £m
Cash and cash equivalents	954	962
Deposits	40	40
Loans and borrowings	(575)	(837)
Net cash	419	165

Net cash is calculated as cash and cash equivalents and deposits less total loans and borrowings. As at 31 March 2017, net cash was £419 million (2016: £165 million). The increase reflects the significant level of realisations which, including the proceeds of the sale of Debt Management, were £1,275 million (2016: £796 million). The balance will reduce by c.£272 million (c.€320 million) when the signed investments in Hans Anders and Lampenwelt complete (expected by the end of June 2017). Subject to shareholder approval, the final dividend of £178 million will also be paid in July 2017.

Liquidity

Liquidity remained strong at £1,323 million (31 March 2016: £1,352 million) after the repayment of our €331 million bond in March 2017. Liquidity comprised cash and deposits of £994 million (31 March 2016: £1,002 million) and undrawn facilities of £329 million (31 March 2016: £350 million).

Gross debt and gearing

Table 16: Gross debt and gearing as at 31 March

	2017 £m	2016 £m
£331 million notes at 5.625% (2017)	–	262
£200 million notes at 6.875% (2023)	200	200
£375 million notes at 5.750% (2032)	375	375
Loans and borrowings	575	837
Gearing	nil	nil

On 17 March 2017, the €310 million outstanding balance of the €331 million bond was repaid out of cash resources. This reduced the total gross debt outstanding to £575 million as at 31 March 2017 (31 March 2016: £837 million). As a result, the annual interest cost on the remaining bonds will reduce to £35 million per annum in FY2018 (2017: £49 million).

Gearing

Gearing is defined as net debt as a percentage of the Group's net assets. As the Group was in a net cash position at 31 March 2017 and 2016 under both the Investment basis and IFRS, gearing was nil.

Key accounting judgements and estimates

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

Given the importance of this area the Board has a separate Valuations Committee to review the valuation policy, process and application to individual investments. However, asset valuations for unquoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2017, 84% by value of the investment assets were unquoted (31 March 2016: 85%).

The valuation of the Proprietary Capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2017 and the underlying investment management agreements.

Accounting for investment entities

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

Investment basis

Consolidated statement of comprehensive income

	Total 2017 £m	Total 2016[1] £m
Realised profits over value on the disposal of investments	38	72
Unrealised profits on the revaluation of investments	1,342	690
Portfolio income		
Dividends	50	49
Interest income from investment portfolio	50	59
Fees receivable	6	7
Foreign exchange gain on investments	269	174
Gross investment return	1,755	1,051
Fees receivable from external funds	46	41
Operating expenses	(117)	(107)
Interest receivable	2	4
Interest payable	(49)	(47)
Foreign exchange gain/(loss)	28	(31)
Other income	10	–
Operating profit before carried interest	1,675	911
Carried interest		
Carried interest and performance fees receivable	279	78
Carried interest and performance fees payable	(434)	(186)
Operating profit from continuing operations	1,520	803
Income taxes	3	–
Profit for the year from continuing operations	1,523	803
Profit for the year from discontinued operations, net of tax	91	27
Profit for the year	1,614	830
Other comprehensive income		
Re-measurements of defined benefit plans	(22)	(6)
Total comprehensive income for the year ("Total return")	1,592	824

1 Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations. See Note 8.

Investment basis

Consolidated statement of financial position

	Total 2017 £m	Total 2016 £m
Assets		
Non-current assets		
Investments		
Quoted investments	893	658
Unquoted investments	4,782	3,839
Investment portfolio	5,675	4,497
Carried interest and performance fees receivable	359	94
Other non-current assets	106	37
Intangible assets	–	12
Retirement benefit surplus	121	132
Property, plant and equipment	5	5
Deferred income taxes	–	3
Total non-current assets	6,266	4,780
Current assets		
Carried interest and performance fees receivable	7	28
Other current assets	10	53
Current income tax receivable	2	–
Deposits	40	40
Cash and cash equivalents	954	962
Total current assets	1,013	1,083
Total assets	7,279	5,863
Liabilities		
Non-current liabilities		
Trade and other payables	(29)	(27)
Carried interest and performance fees payable	(644)	(290)
Loans and borrowings	(575)	(575)
Retirement benefit deficit	(22)	(20)
Deferred income taxes	(1)	(2)
Provisions	(2)	(1)
Total non-current liabilities	(1,273)	(915)
Current liabilities		
Trade and other payables	(125)	(107)
Carried interest and performance fees payable	(41)	(114)
Acquisition related earn-out charges payable	–	(1)
Loans and borrowings	–	(262)
Current income taxes	–	(2)
Provisions	(4)	(7)
Total current liabilities	(170)	(493)
Total liabilities	(1,443)	(1,408)
Net assets	5,836	4,455
Equity		
Issued capital	719	719
Share premium	785	784
Other reserves	4,370	3,006
Own shares	(38)	(54)
Total equity	5,836	4,455

Investment basis

Consolidated cash flow statement

	Total 2017 £m	Total 2016 £m
Cash flow from operating activities		
Purchase of investments	**(692)**	(449)
Proceeds from investments	**1,063**	771
Net cash flow from derivatives	**–**	(14)
Portfolio interest received	**16**	15
Portfolio dividends received	**66**	71
Portfolio fees received	**11**	7
Fees received from external funds	**71**	78
Carried interest and performance fees received	**39**	52
Carried interest and performance fees paid	**(131)**	(15)
Carried interest held in non-current assets	**(56)**	–
Acquisition related earn-out charges paid	**(1)**	(30)
Operating expenses	**(131)**	(134)
Income taxes paid	**(2)**	–
Other cash income	**2**	–
Net cash flow from operating activities	**255**	352
Cash flow from financing activities		
Issue of shares	**1**	–
Dividends paid	**(230)**	(190)
Interest received	**2**	4
Interest paid	**(51)**	(51)
Repayment of short-term borrowings	**(264)**	–
Repurchase of short-term borrowings	**(17)**	–
Co-investment loans	**1**	–
Net cash flow from financing activities	**(558)**	(237)
Cash flow from investing activities		
Purchase of property, plant and equipment	**(1)**	(1)
Proceeds from sale of Debt Management business	**232**	–
Cash held in sold subsidiaries	**(4)**	–
Net cash flow from deposits	**–**	(40)
Net cash flow from investing activities	**227**	(41)
Change in cash and cash equivalents	**(76)**	74
Cash and cash equivalents at the start of year	**962**	864
Effect of exchange rate fluctuations	**68**	24
Cash and cash equivalents at the end of year	**954**	962

Background to Investment basis financial statements

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

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

Reconciliation of Investment basis and IFRS

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

Reconciliation of Investment basis and IFRS

Reconciliation of consolidated statement of comprehensive income

	Notes	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m	Investment basis 2016[5] £m	IFRS adjustments 2016[5] £m	IFRS basis 2016[5] £m
Realised profits/(losses) over value on the disposal of investments	1,2	38	(63)	(25)	72	(61)	11
Unrealised profits on the revaluation of investments	1,2	1,342	(1,080)	262	690	(576)	114
Fair value movements on investment entity subsidiaries	1	–	1,041	1,041	–	591	591
Portfolio income							
Dividends	1,2	50	(12)	38	49	(13)	36
Interest income from investment portfolio	1,2	50	(40)	10	59	(37)	22
Fees receivable	1,2	6	3	9	7	2	9
Foreign exchange on investments	1,3	269	(205)	64	174	(145)	29
Gross investment return		1,755	(356)	1,399	1,051	(239)	812
Fees receivable from external funds	1,4	46	–	46	41	–	41
Operating expenses	1,4	(117)	1	(116)	(107)	2	(105)
Interest receivable		2	–	2	4	–	4
Interest payable		(49)	–	(49)	(47)	–	(47)
Exchange movements	1,3	28	14	42	(31)	95	64
Other income		10	–	10	–	–	–
Income/(expense) from investment entity subsidiaries	1	–	18	18	–	(10)	(10)
Operating profit before carried interest		1,675	(323)	1,352	911	(152)	759
Carried interest							
Carried interest and performance fees receivable	1,4	279	1	280	78	(5)	73
Carried interest and performance fees payable	1,4	(434)	326	(108)	(186)	148	(38)
Operating profit from continuing operations		1,520	4	1,524	803	(9)	794
Income taxes	1,4	3	–	3	–	(2)	(2)
Profit for the year from continuing operations		1,523	4	1,527	803	(11)	792
Profit for the year from discontinued operations		91	7	98	27	(2)	25
Profit for the year		1,614	11	1,625	830	(13)	817
Other comprehensive income							
Exchange differences on translation of foreign operations	1,3	–	(4)	(4)	–	11	11
Re-measurements of defined benefit plans		(22)	–	(22)	(6)	–	(6)
Other comprehensive (expense)/income for the year from continuing operations		(22)	(4)	(26)	(6)	11	5
Other comprehensive (expense)/income for the year from discontinued operations		–	(7)	(7)	–	2	2
Total comprehensive income for the year ("Total return")		1,592	–	1,592	824	–	824

The Notes relating to the table above are on the following page.

Notes:

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

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

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

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

5 Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations. See Note 8 to the IFRS financial statements.

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

Reconciliation of consolidated statement of financial position

	Notes	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	893	(503)	390	658	(361)	297
Unquoted investments	1	4,782	(3,466)	1,316	3,839	(2,596)	1,243
Investments in investment entity subsidiaries	1,2	–	3,483	3,483	–	2,680	2,680
Investment portfolio		5,675	(486)	5,189	4,497	(277)	4,220
Carried interest and performance fees receivable	1	359	(5)	354	94	(5)	89
Other non-current assets		106	(56)	50	37	–	37
Intangible assets		–	–	–	12	–	12
Retirement benefit surplus		121	–	121	132	–	132
Property, plant and equipment		5	–	5	5	–	5
Deferred income taxes		–	–	–	3	–	3
Total non-current assets		6,266	(547)	5,719	4,780	(282)	4,498
Current assets							
Carried interest and performance fees receivable		7	2	9	28	–	28
Other current assets	1	10	2	12	53	(22)	31
Current income tax receivable		2	–	2	–	–	–
Deposits		40	–	40	40	–	40
Cash and cash equivalents	1,2	954	(23)	931	962	(5)	957
Total current assets		1,013	(19)	994	1,083	(27)	1,056
Total assets		7,279	(566)	6,713	5,863	(309)	5,554
Liabilities							
Non-current liabilities							
Trade and other payables		(29)	5	(24)	(27)	–	(27)
Carried interest and performance fees payable	1	(644)	520	(124)	(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)
Total non-current liabilities		(1,273)	526	(747)	(915)	207	(708)
Current liabilities							
Trade and other payables	1	(125)	22	(103)	(107)	8	(99)
Carried interest and performance fees payable	1	(41)	18	(23)	(114)	94	(20)
Acquisition related earn-out charges payable		–	–	–	(1)	–	(1)
Loans and borrowings		–	–	–	(262)	–	(262)
Current income taxes		–	–	–	(2)	–	(2)
Provisions		(4)	–	(4)	(7)	–	(7)
Total current liabilities		(170)	40	(130)	(493)	102	(391)
Total liabilities		(1,443)	566	(877)	(1,408)	309	(1,099)
Net assets		5,836	–	5,836	4,455	–	4,455
Equity							
Issued capital		719	–	719	719	–	719
Share premium		785	–	785	784	–	784
Other reserves	3	4,370	–	4,370	3,006	–	3,006
Own shares		(38)	–	(38)	(54)	–	(54)
Total equity		5,836	–	5,836	4,455	–	4,455

The Notes relating to the table above are on the following page.

Reconciliation of consolidated statement of financial position continued

Notes:

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

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

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

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

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

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

Reconciliation of consolidated cash flow statement

	Notes	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m
Cash flow from operating activities							
Purchase of investments	1	(692)	358	(334)	(449)	362	(87)
Proceeds from investments	1	1,063	(753)	310	771	(535)	236
Cash inflow from investment entity subsidiaries	1	–	246	246	–	206	206
Net cash flow from derivatives		–	–	–	(14)	–	(14)
Portfolio interest received	1	16	(9)	7	15	(10)	5
Portfolio dividends received	1	66	(12)	54	71	(13)	58
Portfolio fees received		11	(2)	9	7	–	7
Fees received from external funds	1	71	–	71	78	–	78
Carried interest and performance fees received		39	–	39	52	–	52
Carried interest and performance fees paid	1	(131)	104	(27)	(15)	2	(13)
Carried interest held in non-current assets		(56)	56	–	–	–	–
Acquisition related earn-out charges paid		(1)	–	(1)	(30)	–	(30)
Operating expenses	1	(131)	–	(131)	(134)	–	(134)
Income taxes paid		(2)	–	(2)	–	–	–
Other cash income		2	–	2	–	–	–
Net cash flow from operating activities		255	(12)	243	352	12	364
Cash flow from financing activities							
Issue of shares		1	–	1	–	–	–
Dividends paid		(230)	–	(230)	(190)	–	(190)
Interest received		2	–	2	4	–	4
Interest paid		(51)	–	(51)	(51)	–	(51)
Repayment of short-term borrowings		(264)	–	(264)	–	–	–
Repurchase of short-term borrowings		(17)	–	(17)	–	–	–
Co-investment loans		1	1	2	–	–	–
Net cash flow from financing activities		(558)	1	(557)	(237)	–	(237)
Cash flow from investing activities							
Purchase of property, plant and equipment	1	(1)	–	(1)	(1)	–	(1)
Proceeds from sale of Debt Management business		232	–	232	–	–	–
Cash held in sold subsidiaries		(4)	–	(4)	–	–	–
Net cash flow from deposits		–	–	–	(40)	–	(40)
Net cash flow from investing activities		227	–	227	(41)	–	(41)
Change in cash and cash equivalents	2	(76)	(11)	(87)	74	12	86
Cash and cash equivalents at the start of year	2	962	(5)	957	864	(3)	861
Effect of exchange rate fluctuations	1	68	(7)	61	24	(14)	10
Cash and cash equivalents at the end of year	2	954	(23)	931	962	(5)	957

Notes:

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

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

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

Alternative Performance Measures ("APMs")

We assess our performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies. Our Investment basis is itself an APM.

The explanation of and rationale for the Investment basis and its reconciliation to IFRS is provided above.

The table below defines our additional APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Gross investment return as a percentage of opening portfolio value	A measure of the performance of our proprietary investment portfolio. For further information see the Group KPIs in our Annual report.	It is calculated as the gross investment return, as shown in the Investment basis Consolidated statement of comprehensive income, as a % of the opening portfolio value.	The equivalent balances under IFRS and the reconciliation to the Investment basis are shown in the Reconciliation of the consolidated statement of comprehensive income and the Reconciliation of the consolidated statement of financial position respectively.
Cash realisations	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities. For further information see the Group KPIs in our Annual report.	The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Cash investment	Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns. For further information see the Group KPIs in our Annual report.	The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Operating cash profit	By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 10 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Net cash/(net debt)	A measure of the financial risk in the Group's balance sheet.	Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.
Gearing	A measure of the financial risk in the Group's balance sheet.	Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.

Risk management

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

Understanding our risk appetite and culture

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

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

Risk appetite

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

Investment risk

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

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

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

Capital management

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

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

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

Culture

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

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

Approach to risk governance

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

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

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, and guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly and the Chief Executive provides quarterly updates to each Audit and Compliance Committee meeting where the Committee members contribute views and raise questions. The last risk review was completed in May 2017.

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

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

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

In addition to the above, a number of other committees contribute to the Group's overall risk governance structure.

Risk management framework

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

The key principles that underpin risk management in the Group are:

- the Board and the Executive Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- the Investment Committee ensures a centralised process-led approach to investment; and
- the over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns.

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

In practice, the Group operates a "three lines of defence" framework for managing and identifying risk. The first line of defence against outcomes outside our risk appetite is the business function and the respective Managing Partners across Private Equity and Infrastructure, and Debt Management (until 3 March 2017).

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

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

Risk review process

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

- Group and business line KPIs;
- portfolio analysis;
- risk reports for managed AIFs; and
- quarterly Group risk log.

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

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

A number of focus topics are also agreed in advance of each meeting. In FY2017, the GRC covered the following:

- a preliminary analysis of the potential impact of the UK's decision to leave the EU on the Group;
- a refresh of the Group's risk review process and reporting;
- an update on ESG issues and themes, especially with respect to its portfolio companies;
- a review of the Group's stress tests to support its Internal Capital Adequacy Assessment Process ("ICAAP") and Viability Statement;
- a review of the Group's IT framework including cyber security;
- the proposed risk disclosures in the 2017 Annual report and accounts; and
- an overview of the main risk management aspects of the Group's remuneration and performance management structures.

There were no significant changes to the Group's approach to risk governance or its operation in FY2017 but we have continued to refine our framework for risk management where appropriate, including further steps to monitor our investment in Action.

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

Principal risks and mitigations

Aligning risk to our strategic objectives

Review of principal risks

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

Although the business environment over the last 12 months 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 sale of our Debt Management business, which completed on 3 March 2017, will allow the Group to focus on proprietary capital investment, its advisory relationship with 3iN, as well as new fund management initiatives in Infrastructure. The sale of the Debt Management business has reduced the regulatory complexity of the Group as it is no longer subject to the CRDIV regime.

The Group believes that its consistent strategy of focusing on core sectors and geographies, its institutional process-led approach to investment and strong culture will help it to navigate what it expects will be another challenging year for financial markets.

External

The external environment remains difficult. There has been a significant amount of uncertainty in the Eurozone and the wider emerging markets economies, fuelled by a challenging global macro-economic context and ongoing geo-political tensions. There has been a significant amount of uncertainty in the global economy over the last year and in particular following the result of the US election and the UK's referendum on its membership of the EU. This has been shown by the significant volatility seen in foreign exchange and quoted markets this year. Our well-funded balance sheet and diverse portfolio of international companies position us well to address the wider implications of the EU referendum as they unfold.

Notwithstanding this, large amounts of capital are focused on Private Equity and Infrastructure which requires us to be diligent and selective in our investment approach.

The Group is subject to a range of regulatory and tax reporting requirements. In particular, as a multinational investment company, the changes to the tax landscape require careful monitoring as countries begin to consider and adopt the recommendations made by the OECD's Base Erosion and Profit Shifting ("BEPS") project. The UK has been among the first to adopt a number of the BEPS recommendations, including the tax deductibility for corporate interest expense, the tax treatment of hybrid instruments and country-by-country reporting. The Group continues to monitor these tax developments. Whilst the increased reporting is expected to lead to an increase in the Group's interaction with the tax authorities in the various jurisdictions in which it operates, it is not currently expected to lead to a significant change in the Group's overall tax profile.

Managing these requirements is a priority and regular updates are provided to the Executive Committee and the Board. To date, whilst complex to interpret and implement, they have had limited practical impact on 3i's ability to deliver its strategy.

Investment

Investment risks are those in respect of specific asset investment decisions and the subsequent performance of an investment or exposure concentrations across business line portfolios. They could materially impact our ability to achieve our strategic objectives. To mitigate these risks, we focus on Private Equity and Infrastructure sectors and geographies where our expertise and network can drive significant outperformance.

Our overarching objectives are to source attractive investment opportunities at the right price and execute their investment plans successfully.

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

The execution of this investment case is monitored through two key review processes. Our monthly portfolio monitoring reviews current performance against budget and prior year and a set of traffic light indicators and KPIs. Our semi-annual reviews focus on the longer term plan for the investment together with any strategic developments.

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

The Investment Committee is involved in and approves every step of the investment and realisation process.

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

Private Equity

Regular and robust portfolio monitoring procedures remain critical given the volatile economic backdrop and as the investment portfolio becomes more concentrated. The Private Equity partners' detailed monthly portfolio monitoring meeting is attended by the Group Chief Executive and the Group Finance Director. In addition, the Valuations Committee reviews the valuation assumptions of our more material assets quarterly. Individual portfolio company failures could have adverse reputational consequences for the Group, even though the value impact may not be material. We review our internal processes and investment decisions in light of actual outcomes on an ongoing basis.

Infrastructure

Infrastructure remains focused on investing selectively within its target sectors and developing both organic and inorganic growth opportunities. The Infrastructure business was very active in FY2016 and FY2017, where 3iN saw particularly strong levels of investment, and a £385 million capital raise, in FY2017. In addition, the team has launched three initiatives in Europe and North America to broaden its coverage of the infrastructure sector in areas of the market complementary to the core investment focus of 3iN, which remains the primary investment vehicle for the business line. To mitigate risks associated with managing this strong growth in 3iN and the wider infrastructure business, the team has invested in its origination and asset management capability through new hires and internal promotions to Partner and Director level in Europe and an Infrastructure team in the US, and has enhanced its finance, strategy and investor relations teams. Further hires will be made in FY2018. We also hold monthly portfolio monitoring meetings and bi-annual investment reviews.

Operational

Following an external review of 3i's cyber security capabilities and controls, the Group implemented a number of new protection and detection tools. This, together with a major upgrade to our IT infrastructure, has delivered a more robust cyber security framework.

The Board also received regular updates on ESG risks and whether our investors' skill sets and business development capabilities could support the Group's strategic delivery. Detailed resource plans are in place at the business line level and the Board conducts an annual review of the Group's organisational capability and succession plans (which include contingencies against loss of key staff). The last review was conducted in September 2016.

Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2020. 3i conducts its strategic planning over a five-year period; this statement is based on the first three years, which provides more certainty over the forecasting assumptions used. 3i's strategic plan, ICAAP and associated principal risks (as set out in the Review of principle risks) are the foundation of the Directors' assessment.

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

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

The Group's ICAAP and viability testing considers multiple severe, yet plausible, scenarios including a severe downside economic scenario and the impact of a material single asset event. The severe downside used in FY2017 assumes that the global economy enters a severe recession; global equities fall and long-term interest rates reach new lows. The material single asset event considers the impact of a significant asset experiencing a severe downturn in performance.

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

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

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to at least March 2020.

By order of the Board
Simon Borrows
Chief Executive
17 May 2017

Consolidated statement of comprehensive income
for the year to 31 March

	Notes	2017 £m	2016[1] £m
Realised (losses)/profits over value on the disposal of investments		**(25)**	11
Unrealised profits on the revaluation of investments		**262**	114
Fair value movements on investment entity subsidiaries		**1,041**	591
Portfolio income			
Dividends		**38**	36
Interest income from investment portfolio		**10**	22
Fees receivable		**9**	9
Foreign exchange on investments		**64**	29
Gross investment return		**1,399**	812
Fees receivable from external funds		**46**	41
Operating expenses		**(116)**	(105)
Interest received		**2**	4
Interest paid		**(49)**	(47)
Exchange movements		**42**	64
Income/(expense) from investment entity subsidiaries		**18**	(10)
Other income		**10**	–
Carried interest			
Carried interest and performance fees receivable		**280**	73
Carried interest and performance fees payable		**(108)**	(38)
Operating profit before tax		**1,524**	794
Income taxes	2	**3**	(2)
Profit for the year from continuing operations		**1,527**	792
Profit for the year from discontinued operations, net of tax	8	**98**	25
Profit for the year		**1,625**	817
Other comprehensive (expense)/income that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		**(4)**	11
Other comprehensive expense that will not be reclassified to the income statement			
Re-measurements of defined benefit plans		**(22)**	(6)
Other comprehensive (expense)/income for the year from continuing operations		**(26)**	5
Other comprehensive (expense)/income for the year from discontinued operations	8	**(7)**	2
Total comprehensive income for the year (“Total return”)		**1,592**	824
Earnings per share from continuing operations			
Basic (pence)	3	**159.0**	83.0
Diluted (pence)	3	**158.3**	82.6
Earnings per share			
Basic (pence)	3	**169.2**	85.6
Diluted (pence)	3	**168.4**	85.2
Dividend per share			
Interim dividend per share paid (pence)	4	**8.0**	6.0
Final dividend per share (pence)	4	**18.5**	16.0

1 Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group’s Debt Management business, sold on 3 March 2017, as discontinued operations. See Note 8.

The Notes to the accounts form an integral part of these financial statements.

Consolidated statement of financial position
as at 31 March

	Notes	2017 £m	2016 £m
Assets			
Non-current assets			
Investments			
Quoted investments		390	297
Unquoted investments		1,316	1,243
Investments in investment entity subsidiaries		3,483	2,680
Investment portfolio		5,189	4,220
Carried interest and performance fees receivable		354	89
Other non-current assets		50	37
Intangible assets		–	12
Retirement benefit surplus		121	132
Property, plant and equipment		5	5
Deferred income taxes	2	–	3
Total non-current assets		5,719	4,498
Current assets			
Carried interest and performance fees receivable		9	28
Other current assets		12	31
Current income tax		2	–
Deposits		40	40
Cash and cash equivalents		931	957
Total current assets		994	1,056
Total assets		6,713	5,554
Liabilities			
Non-current liabilities			
Trade and other payables		(24)	(27)
Carried interest and performance fees payable		(124)	(85)
Loans and borrowings	6	(575)	(575)
Retirement benefit deficit		(22)	(20)
Provisions		(2)	(1)
Total non-current liabilities		(747)	(708)
Current liabilities			
Trade and other payables		(103)	(99)
Carried interest and performance fees payable		(23)	(20)
Acquisition related earn-out charges payable		–	(1)
Loans and borrowings	6	–	(262)
Current income taxes		–	(2)
Provisions		(4)	(7)
Total current liabilities		(130)	(391)
Total liabilities		(877)	(1,099)
Net assets		5,836	4,455
Equity			
Issued capital		719	719
Share premium		785	784
Capital redemption reserve		43	43
Share-based payment reserve		30	32
Translation reserve		218	229
Capital reserve		3,390	2,080
Revenue reserve		689	622
Own shares		(38)	(54)
Total equity		5,836	4,455

The Notes to the accounts form an integral part of these financial statements.

Simon Thompson
Chairman
17 May 2017

Consolidated statement of changes in equity

for the year to 31 March

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

2016[1]	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve[2] £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	784	43	31	216	1,519	573	(79)	3,806
Profit for the year	–	–	–	–	–	705	112	–	817
Exchange differences on translation of foreign operations	–	–	–	–	11	–	–	–	11
Re-measurements of defined benefit plans	–	–	–	–	–	(6)	–	–	(6)
Other comprehensive income from discontinued operations	–	–	–	–	2	–	–	–	2
Total comprehensive income for the year	–	–	–	–	13	699	112	–	824
Share-based payments	–	–	–	15	–	–	–	–	15
Release on exercise / forfeiture of share options	–	–	–	(14)	–	–	14	–	–
Exercise of share awards	–	–	–	–	–	(25)	–	25	–
Ordinary dividends	–	–	–	–	–	–	(77)	–	(77)
Additional dividends	–	–	–	–	–	(113)	–	–	(113)
Total equity at the end of the year	719	784	43	32	229	2,080	622	(54)	4,455

1 Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business sold on 3 March 2017, as discontinued operations. See Note 8.
2 Translation reserve balance at 31 March 2016 included £7 million in relation to discontinued operations.

The Notes to the accounts form an integral part of these financial statements.

Consolidated cash flow statement
for the year to 31 March

	Notes	2017 £m	2016 £m
Cash flow from operating activities			
Purchase of investments		**(334)**	(87)
Proceeds from investments		**310**	236
Cash inflow from investment entity subsidiaries		**246**	206
Net cash flow from derivatives		**–**	(14)
Portfolio interest received		**7**	5
Portfolio dividends received		**54**	58
Portfolio fees received		**9**	7
Fees received from external funds		**71**	78
Carried interest and performance fees received		**39**	52
Carried interest and performance fees paid		**(27)**	(13)
Acquisition related earn-out charges paid		**(1)**	(30)
Operating expenses paid		**(131)**	(134)
Other cash income		**2**	–
Income taxes paid		**(2)**	–
Net cash flow from operating activities		**243**	364
Cash flow from financing activities			
Issue of shares		**1**	–
Dividend paid	4	**(230)**	(190)
Repayment of short-term borrowings		**(264)**	–
Repurchase of short-term borrowings		**(17)**	–
Interest received		**2**	4
Interest paid		**(51)**	(51)
Co-investment loans		**2**	–
Net cash flow from financing activities		**(557)**	(237)
Cash flow from investing activities			
Proceeds from sale of Debt Management business	8	**232**	–
Cash held in disposed subsidiaries	8	**(4)**	–
Purchases of property, plant and equipment		**(1)**	(1)
Net cash flow from deposits		**–**	(40)
Net cash flow from investing activities		**227**	(41)
Change in cash and cash equivalents		**(87)**	86
Cash and cash equivalents at the start of year		**957**	861
Effect of exchange rate fluctuations		**61**	10
Cash and cash equivalents at the end of year		**931**	957

The Notes to the accounts form an integral part of these financial statements.

Significant accounting policies

Reporting entity

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The Consolidated financial statements ("the Group accounts") for the year to 31 March 2017 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

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

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

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

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

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

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

The impact of future standards and amendments on the financial statements is being assessed by the Group and the Company. The Group does not anticipate that IFRS 9 and IFRS 16 will have a material impact on its results. The detailed assessment of the extent to which IFRS 15 may affect the carried interest receivable recognition in the Group's financial statements is ongoing.

B Basis of preparation

The financial statements are prepared on a going concern basis as disclosed in the Directors' report and presented to the nearest million.

C Basis of consolidation

(i) Subsidiaries

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

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

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

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

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

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

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

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

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

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

Structured entities – Fair valued
The Group has retained interests in a number of unconsolidated structured entities, being CLO equity investments.

D Critical accounting estimates and judgements

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

The judgements, assumptions and estimates involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are the following:

(a) The fair valuation of the investment portfolio
The investment portfolio is held at fair value. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee is included in the Governance section of the Annual report.

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

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

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

(c) Valuation of the defined benefit schemes

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

E Other accounting policies

(a) Revenue recognition

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

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

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

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

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

- Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders' rights to receive payment have been established. Income received on the investment in the most junior ranked level of CLO capital is recognised as a dividend. £26 million was received in the year (2016: £31 million) from continuing and discontinued operations.

- Interest income from investment portfolio is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value. Income received on the instruments in the most junior level of CLO capital is recognised as a dividend as detailed above. £26 million was received in the year (2016: £31 million) from continuing and discontinued operations.

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

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

(b) Foreign currency translation

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

The statements of financial position of subsidiaries and associates denominated in foreign currencies are translated into sterling at the closing rates. The statements of comprehensive income for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to other comprehensive income. Such exchange differences are reclassified to the Consolidated statement of comprehensive income in the period in which the subsidiary or associate is disposed of.

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the Consolidated statement of comprehensive income, where appropriate. No forward foreign exchange contracts were held in the current year and in 2016 a £14 million loss was recognised in exchange movements.

(c) Treasury assets and liabilities

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

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

Notes to the accounts

1 Segmental analysis

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

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

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

1 Segmental analysis

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

1 Discontinued operations relate to the Debt Management business sold to Investcorp. Other relates to the residual Debt Management investments retained by 3i.
2 Private Equity does not include proceeds paid from investee holding companies of £33 million. Total proceeds from the sale of the Debt Management business were £270 million, of which £17 million related to the investment made by 3i Group plc on behalf of Debt Management Investments Ltd and £16 million related to an intercompany loan provided by 3i Group plc to Debt Management US LLC and not included within the consolidated Group.
3 The opening portfolio values have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations. See Note 8. The residual Debt Management stakes are included within Other.
4 Includes capitalised interest and other non-cash investment.
5 Other movement relates to foreign exchange and the provisioning of capitalised interest.

1 Segmental analysis continued

Investment basis Year to 31 March 2016	Private Equity £m	Infrastructure £m	Other[1] £m	Total continuing operations £m	Discontinued Operations[1] £m	Total £m
Realised profits over value on the disposal of investments	69	3	–	72	–	72
Unrealised profits/(losses) on the revaluation of investments	690	22	(22)	690	(21)	669
Portfolio income						
Dividends	18	21	10	49	22	71
Interest income from investment portfolio	59	–	–	59	4	63
Fees receivable/(payable)	7	–	–	7	(1)	6
Foreign exchange on investments	168	1	5	174	14	188
Gross investment return	1,011	47	(7)	1,051	18	1,069
Fees receivable from external funds	13	28	–	41	38	79
Operating expenses[2]	(75)	(32)	–	(107)	(27)	(134)
Interest receivable				4	–	4
Interest payable				(47)	–	(47)
Exchange movements				(31)	–	(31)
Operating profit before carry				911	29	940
Carried interest						
Carried interest and performance fees receivable	58	20	–	78	5	83
Carried interest and performance fees payable	(171)	(15)	–	(186)	(2)	(188)
Acquisition related earn-out charges	–	–	–	–	(5)	(5)
Operating profit				803	27	830
Income taxes				–	–	–
Other comprehensive income						
Re-measurements of defined benefit plans				(6)	–	(6)
Total return				797	27	824
Net divestment/(investment)						
Realisations[3]	743	51	–	794	2	796
Cash investment[4]	(365)	–	(68)	(433)	(20)	(453)
	378	51	(68)	361	(18)	343
Balance sheet						
Opening portfolio value at 1 April 2015	3,148	553	51	3,752	125	3,877
Investment[5]	464	–	68	532	20	552
Value disposed	(674)	(48)	–	(722)	(2)	(724)
Unrealised value movement	690	22	(22)	690	(21)	669
Other movement[6]	113	–	(5)	108	15	123
Closing portfolio value at 31 March 2016	3,741	527	92	4,360	137	4,497

1 Discontinued operations comprise the Debt Management business sold to Investcorp on 3 March 2017. Operating expenses have been re-presented to reflect only direct expenses relating to Debt Management within discontinued operations. Other relates to the residual Debt Management investments retained by 3i.
2 Includes restructuring costs of £5 million for Private Equity.
3 £25 million in Private Equity relates to proceeds held back in the holding company of the investee company.
4 Includes £4 million of Debt Management investment awaiting settlement at 31 March 2016.
5 Includes capitalised interest and other non-cash investment.
6 Other movement relates to foreign exchange and the provisioning of capitalised interest. Within discontinued operations, £9 million relates to capital withdrawn from the Palace Street I portfolio.

1 Segmental analysis continued

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

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

2 Income taxes

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

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

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

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

The main rate of UK corporation tax is to be reduced from 20% to 19% from 1 April 2017, and further to 17% from 1 April 2020. These changes will affect future UK corporate taxes payable and the rate at which deferred tax assets are expected to reverse.

	2017 £m	2016 £m
Current taxes		
Current year	1	4
Prior year	(4)	(1)
Deferred taxes		
Deferred income taxes	–	(1)
Total income tax (credit)/charge in the Consolidated statement of comprehensive income	(3)	2

Reconciliation of income taxes in the Consolidated statement of comprehensive income
The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 20% (2016: 20%), and the differences are explained below:

	2017 £m	2016 £m
Profit before tax	1,524	794
Profit before tax multiplied by rate of corporation tax in the UK of 20% (2016: 20%)	305	159
Effects of:		
Non-taxable capital profits due to UK approved investment trust company status	(309)	(165)
Non-taxable dividend income	(6)	(5)
	(10)	(11)
Other differences between accounting and tax profits:		
Permanent differences – non-deductible items	–	4
Temporary differences on which deferred tax is not recognised	4	2
Overseas countries taxes	(3)	2
Excess unutilised tax losses arising in the period	6	5
Total income tax (credit)/charge in the Consolidated statement of comprehensive income	(3)	2

The affairs of the Group’s parent company are directed so as to allow it to meet the requisite conditions to continue to operate as an approved investment trust company for UK tax purposes. An approved investment trust company is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK. Approved investment trust companies are particularly suited for investment vehicles as their tax status allows them to ensure that their shareholders do not suffer double taxation of their returns.

Including a net tax charge of nil (2016: £2 million credit) in the fair valued entities, the Group recognised a total tax credit of £3 million (2016: nil) under the Investment basis.

2 Income taxes continued

Deferred income taxes

	2017 £m	2016 £m
Opening deferred income tax asset		
Tax losses	7	7
Income in accounts taxable in the future	(7)	(7)
Other	3	2
	3	2
Recognised through Consolidated statement of comprehensive income		
Tax losses recognised	1	–
Income in accounts taxable in the future	(1)	–
Other	–	1
	–	1
Recognised within discontinued operations		
Deferred tax asset transferred with discontinued operations	(3)	–
	(3)	–
Closing deferred income tax asset		
Tax losses	8	7
Income in accounts taxable in the future	(8)	(7)
Other	–	3
	–	3

At 31 March 2017, the Group had carried forward tax losses of £1,390 million (31 March 2016: £1,375 million), capital losses of £93 million (31 March 2016: £88 million) and other temporary differences of £94 million (31 March 2016: £69 million). It is uncertain that the Group will generate sufficient or relevant taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 19% (2016: 19%).

3 Per share information

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

As at 31 March	2017	2016[1]
Earnings per share (pence)		
Basic earnings per share	169.2	85.6
- of which from continuing operations	159.0	83.0
- of which from discontinued operations	10.2	2.6
Diluted earnings per share	168.4	85.2
- of which from continuing operations	158.3	82.6
- of which from discontinued operations	10.1	2.6
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	1,625	817
- of which from continuing operations	1,527	792
- of which from discontinued operations	98	25

1 Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 8.

As at 31 March	2017	2016
Weighted average number of shares in issue		
Ordinary shares	972,734,609	972,569,633
Own shares	(12,580,145)	(18,427,460)
	960,154,464	954,142,173
Effect of dilutive potential ordinary shares		
Share options and awards	4,710,808	4,735,616
Diluted shares	964,865,272	958,877,789

As at 31 March	2017	2016
Net assets per share (£)		
Basic	6.07	4.66
Diluted	6.04	4.63
Net assets (£m)		
Net assets attributable to equity holders of the Company	5,836	4,455

Basic NAV per share is calculated on 961,458,801 shares in issue at 31 March 2017 (31 March 2016: 956,417,466). Diluted NAV per share is calculated on diluted shares of 966,553,549 at 31 March 2017 (31 March 2016: 961,323,047).

4 Dividends

	2017 pence per share	2017 £m	2016 pence per share	2016 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	16.0	154	14.0	133
Interim dividend	8.0	76	6.0	57
	24.0	230	20.0	190
Proposed final dividend	18.5	178	16.0	154

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

The distribution policy covers the Group's total annual dividend, which is split between a base dividend (16 pence per share) and an additional dividend. The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules which state that at least 85% of revenue must be distributed by the Company.

5 Fair values of assets and liabilities

Accounting policy:
Financial instruments, other than those held at amortised cost, are held at fair value and are designated irrevocably at inception. In particular, 3i designates groups of financial instruments as being at fair value when they are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis.

(A) Classification

The following tables analyse the Group's assets and liabilities in accordance with the categories of financial instruments in IAS 39:

At 31 March	Group 2017 Designated at fair value through profit and loss £m	Group 2017 Other financial instruments at amortised cost £m	Group 2017 Total £m	Group 2016 Designated at fair value through profit and loss £m	Group 2016 Other financial instruments at amortised cost £m	Group 2016 Total £m
Assets						
Quoted investments	390	–	390	297	–	297
Unquoted investments	1,316	–	1,316	1,243	–	1,243
Investments in investment entities	3,483	–	3,483	2,680	–	2,680
Other financial assets	–	425	425	-	185	185
Total	5,189	425	5,614	4,220	185	4,405
Liabilities						
Loans and borrowings	–	575	575	–	837	837
Other financial liabilities	–	274	274	–	232	232
Total	–	849	849	–	1,069	1,069

At 31 March	Company 2017 Designated at fair value through profit and loss £m	Company 2017 Other financial instruments at amortised cost £m	Company 2017 Total £m	Company 2016 Designated at fair value through profit and loss £m	Company 2016 Other financial instruments at amortised cost £m	Company 2016 Total £m
Assets						
Quoted investments	390	–	390	297	–	297
Unquoted investments	1,295	–	1,295	1,103	–	1,103
Other financial assets	–	384	384	-	113	113
Total	1,685	384	2,069	1,400	113	1,513
Liabilities						
Loans and borrowings	–	575	575	–	837	837
Other financial liabilities	–	522	522	–	419	419
Total	–	1,097	1,097	–	1,256	1,256

Within the Company £3,483 million (31 March 2016: £2,680 million) of the Interest in Group entities is held at fair value.

(B) Valuation

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values with the exception of loans and borrowings. The fair value of the loans and borrowings is £741 million (31 March 2016: £967 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2016: £837 million).

5 Fair values of assets and liabilities continued

Valuation hierarchy

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

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

Unquoted equity instruments and debt instruments are measured in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2017:

	Group 2017 Level 1 £m	Group 2017 Level 2 £m	Group 2017 Level 3 £m	Group 2017 Total £m	Group 2016 Level 1 £m	Group 2016 Level 2 £m	Group 2016 Level 3 £m	Group 2016 Total £m
Assets								
Quoted investments	390	–	–	390	297	–	–	297
Unquoted investments	–	–	1,316	1,316	–	–	1,243	1,243
Investment in investment entity subsidiaries	–	–	3,483	3,483	–	–	2,680	2,680
Total	390	–	4,799	5,189	297	–	3,923	4,220

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

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Opening book value	1,243	1,272	1,103	1,082
Additions from continuing operations	213	164	228	95
– of which loan notes with nil value	(10)	(13)	(10)	(13)
Additions from discontinued operations	70	–	18	–
Disposals, repayments and write-offs from continuing operations	(292)	(166)	(288)	(165)
Disposals, repayments and write-offs from discontinued operations	(191)	–	(24)	–
Fair value movement from continuing operations[1]	224	72	218	98
Fair value movement from discontinued operations	3	–	–	–
Other movements and net cash movements from continuing operations	75	(86)	69	6
Other movements and net cash movements from discontinued operations	(19)	–	(19)	–
Closing book value	1,316	1,243	1,295	1,103

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

5 Fair values of assets and liabilities continued

Other movements include the effects of foreign exchange.

On a continuing basis, unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised losses over value on disposal of investment of £26 million (2016: £10 million (realised profit)), dividend income of £24 million (2016: £46 million) and foreign exchange gains of £63 million (2016: £40 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2017, classified as Level 3, 33% (31 March 2016: 28%) were valued using a multiple of earnings and the remaining 67% (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 earnings multiple used when valuing the portfolio at 31 March 2017 was 10.23x (2016: 9.83x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2017 decreased by 5%, the investment portfolio would decrease by £18 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 entities, this would have a negative impact of £224 million (31 March 2016: £173 million) or 6% (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 entities, this would have a positive impact of £215 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.

Each methodology is used for a proportion of assets by value, and at year end the following techniques were used under an IFRS basis: 41% DCF (31 March 2016: 30%), 4% broker quotes (31 March 2016:18%), 2% imminent sale (31 March 2016: 11%), 10% industry metric (31 March 2016: 10%), and 10% other (31 March 2016: 3%).

If the value of all of the investments valued under alternative methodologies moved by 5%, this would have an impact on the investment portfolio of £44 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 entities, this would have an impact of £7 million (31 March 2016: £9 million) or 0.2% (31 March 2016: 0.3%).

6 Loans and borrowings

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

	Group 2017 £m	Group 2016 £m
Loans and borrowings are repayable as follows:		
Within one year	**–**	262
Between the second and fifth year	**–**	–
After five years	**575**	575
	575	837

Principal borrowings include:

	Rate	Maturity	**Group 2017 £m**	Group 2016 £m	**Company 2017 £m**	Company 2016 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
€331 million notes (public issue)	5.625%	2017	**–**	262	**–**	262
£200 million notes (public issue)	6.875%	2023	**200**	200	**200**	200
£375 million notes (public issue)	5.750%	2032	**375**	375	**375**	375
			575	837	**575**	837
Committed multi-currency facilities						
£329 million	LIBOR+0.60%	2021	–	–	–	–
			–	–	–	–
Total loans and borrowings			**575**	837	**575**	837

The maturity of the Company's £329 million (31 March 2016: £350 million) syndicated multi-currency facility was extended by one year to September 2021 in the current financial year, following an agreement with all but one of the participating banks. The £329 million facility has no financial covenants.

During the year, the €331 million outstanding of the Company's €350 million fixed rate notes were repaid in full.

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

The fair value of the loans and borrowings is £741 million (31 March 2016: £967 million), determined with reference to their published market prices. The loans and borrowings are included in Level 2 of the fair value hierarchy.

In accordance with the FCA Handbook (FUNDS 3.2.2. R and Fund 3.2.6. R), 3i Investments plc, as AIFM of the Company is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with the relevant requirements, leverage for the Group is 115% (31 March 2016: 116%) and the Company is 107% (31 March 2016: 119%) under both the gross method and the commitment method. The leverage for 3i Investments plc is 100% (31 March 2016: 100%) under both the gross method and the commitment method.

Under the Securities Financing Transactions Regulation ("SFTR") and AIFMD, 3i is required to disclose certain information relating to the use of securities financing transactions ("SFTs") and total return swaps. At 31 March 2017, 3i was not party to any transactions involving SFTs or total return swaps.

7 Related parties and interests in other entities

Related-party transactions which took place in the year and have materially affected performance or the financial position of the Group, are described below. There were no material changes in the Group's related parties as disclosed in the Annual report and accounts 2016. The full list of all related-party transactions will be disclosed in the Annual report and accounts 2017.

Related parties

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

Statement of comprehensive income	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Carried interest receivable	276	53	276	53
Fees receivable from external funds	26	28	–	–

Statement of financial position	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Carried interest receivable	356	87	356	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. IFRS presumes that it is possible to exert significant influence when the equity holding is greater than 20%. The Group has taken the investment entity exception as permitted by IFRS 10 and has not equity accounted for these investments, in accordance with IAS 28, but they are related parties. The total amounts included for investments where the Group has significant influence but not control are as follows:

Statement of comprehensive income	Group 2017 £m	Group 2016[1] £m	Company 2017 £m	Company 2016[1] £m
Realised profit over value on the disposal of investments	–	4	–	4
Unrealised profits on the revaluation of investments	57	(21)	51	(13)
Portfolio income	17	12	7	7
Profit for the year from discontinued operations	21	4	4	3

Statement of financial position	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Unquoted investments	429	480	407	341

1 Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 8.

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

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

Statement of comprehensive income	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Realised profit over value on the disposal of investments	–	2	–	2
Unrealised profits on the revaluation of investments	38	20	38	20
Fees receivable from external funds	21	12	–	–
Performance fees receivable	4	20	–	–
Dividends	14	12	14	12

Statement of financial position	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Quoted equity investments	390	277	390	277
Performance fees receivable	4	20	–	–

8 Discontinued operations

On 3 March 2017, the Group completed the disposal of its Debt Management business to Investcorp and received cash proceeds of £270 million. Included within the cash proceeds was £33 million which related to the repayment of loans provided to Debt Management to fund two CLO warehouses. At 31 March 2017, the Group retained residual stakes in a number of CLO funds which were not required by Investcorp for risk retention or other contractual requirements together with its holdings in the Global Income Fund and the Senior Loan Fund. These investments are treated as continuing operations and there were no assets held for sale on 31 March 2017. Since the publication of the Half-yearly report 2016 and following completion of the transaction on 3 March 2017, it is now expected that some of the investments not sold to Investcorp will be retained beyond the 12 month period prescribed by IFRS 5. Accordingly they are no longer classified as assets held for sale and have been included in continuing operations in these financial statements. As these investments are held at fair value through profit or loss, the reclassification out of held for sale had no impact on the carrying value of these investments.

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.

Consolidated statement of comprehensive income

	Group 2017 £m	Group 2016 £m
Realised profits over value on the disposal of investments	–	–
Unrealised profits/(losses) on the revaluation of investments	3	(22)
Fair value movements on investment entity subsidiaries	–	–
	3	(22)
Portfolio income		
Dividends	16	22
Interest income from investment portfolio	3	4
Fees receivable/(payable)	–	(1)
Foreign exchange on investments	16	12
Gross investment return from discontinued operations	38	15
Fees receivable from external funds	25	38
Operating expenses	(13)	(27)
Exchange movements	(2)	1
Other income	2	–
Carried interest		
Carried interest and performance fees receivable	1	5
Carried interest and performance fees payable	–	(2)
Acquisition related earn-out charges	–	(5)
Operating profit before tax from discontinued operations	51	25
Profit on disposal of Debt Management business before tax	48	–
Income taxes		
Income taxes on disposal of Debt Management business	(1)	–
Other income taxes	–	–
Profit for the year from discontinued operations, net of tax	98	25
Other comprehensive income for the year from discontinued operations	(7)	2
Total comprehensive income for the year from discontinued operations	91	27

Cash flows

	Group 2017 £m	Group 2016 £m
Purchase of investments	**(51)**	(46)
Proceeds from the sale of investments[1]	**25**	2
Cash income, net carried interest, operating expenses and other	**33**	18
Net cash flow from operating activities	**7**	(26)
Sale of subsidiaries[1]	**232**	–
Cash held in sold subsidiaries	**(4)**	–
Net cash flow from investing activities	**228**	–
Total net cash flows from discontinued operations	**235**	(26)

1 Total proceeds from the sale of the Debt Management business were £270 million, consisting of sale of subsidiaries (£232m), proceeds from the sale of investments (£22 million of the £25 million total above) and settlement of an inter-company loan (£16 million).

Earnings per share (pence)

	Group 2017	Group 2016
Basic, profit for the year from discontinued operations	**10.2**	2.6
Diluted, profit for the year from discontinued operations	**10.1**	2.6

Portfolio and other information

20 Large investments

The 20 investments listed below account for 89% of the portfolio at 31 March 2017 (31 March 2016: 70%). This table does not include two investments that have been excluded for commercial reasons. For each of our investments we have assessed whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

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

In accordance with Part 5 of The Alternative Investment Fund Managers Regulations 2013 ("the Regulations"), 3i Investments plc, as AIFM, requires all controlled portfolio companies to make available to employees an annual report which meets the disclosure requirements of the Regulations. These are available either on the portfolio company's website or through filing with the relevant local authorities.

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2016 £m	**Residual cost[1] March 2017 £m**	Valuation March 2016 £m	**Valuation March 2017 £m**	Relevant transactions in the year
Action* Non-food discount retailer	Private Equity Benelux 2011 Earnings	1	**1**	902	**1,708**	Refinancing returned £187m of proceeds
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	270	**399**	464	**655**	Invested £131m in 3iN's capital raise
Scandlines* Ferry operator between Denmark and Germany	Private Equity Denmark/ Germany 2007/2013 DCF	114	**114**	369	**538**	
Q Holding* Manufacturer of engineered precision elastomeric components	Private Equity US 2014 Earnings	100	**162**	120	**222**	Further investment to support Q Holding's investment in Degania
Weener Plastic* Supplier of plastic packaging solutions	Private Equity Germany 2015 Earnings	151	**161**	173	**200**	
Audley Travel* Provider of experiential tailor made travel	Private Equity UK 2015 Earnings	161	**177**	158	**185**	
Basic-Fit Discount gyms operator	Private Equity Benelux 2013 Quoted	99	**11**	208	**184**	Listed on Amsterdam Stock Exchange in June 2016 and returned £82m of proceeds
ATESTEO* International transmission testing specialist	Private Equity Germany 2013 Earnings	83	**39**	130	**160**	Refinancing returned £48m of proceeds
Schlemmer* Provider of cable management solutions for the automotive industry	Private Equity Germany 2016 Earnings	–	**162**	–	**154**	New investment
BoConcept* Urban living brand	Private Equity Denmark 2016 Earnings	–	**140**	–	**146**	New investment
Ponroy Santé* Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	–	**123**	–	**122**	New investment

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2016 £m	**Residual cost[1] March 2017 £m**	Valuation March 2016 £m	**Valuation March 2017 £m**	Relevant transactions in the year
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	**30**	92	**113**	
Tato Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	2	**2**	80	**112**	
Christ* Distributor and retailer of jewellery	Private Equity Germany 2014 Earnings	99	**101**	117	**98**	
Euro-Diesel* Manufacturer of uninterruptible power supply systems	Private Equity Benelux 2015 Earnings	52	**57**	59	**95**	
Aspen Pumps* Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	70	**78**	64	**88**	
Global Income Fund Debt Management open ended fund with exposure to North America and western European issuers	Other UK 2015 Fund	48	**66**	52	**79**	Further investment of £24m
MKM Building materials supplier	Private Equity UK 2006 Imminent sale	23	**24**	53	**68**	Sale announced with proceeds of £70m
OneMed Group* Distributor of consumable medical products, devices and technology	Private Equity Sweden 2011 Earnings	124	**130**	60	**59**	
Dynatect* Manufacturer of engineered, mission critical protective equipment	Private Equity US 2014 Earnings	65	**65**	63	**56**	
		1,492	**2,042**	3,164	**5,042**	

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

Glossary

Alternative Investment Funds ("AIFs") At 31 March 2017, 3i Investments plc as AIFM, managed five AIFs.

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

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

Assets under management ("AUM") A measure of the total assets that 3i has to invest or manages on behalf of shareholders and third-party investors for which it receives a fee. AUM is measured at fair value. The measurement changed in the year from residual value to fair value to reflect the scale of 3i's business and, in the absence of a third-party fund in Private Equity, it is not a measure of fee generating capability.

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

Board The Board of Directors of the Company.

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

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

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

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

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

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

Company 3i Group plc.

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

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

Disposal Group is comprised of the assets and liabilities associated with the Group's Debt Management business sold to Investcorp in March 2017.

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.

EBITDA is defined as earnings before interest, taxation, depreciation and amortisation and is used as the typical measure of portfolio company performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating cash profit 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 Cash flow statement).

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

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, interest income from investment portfolio 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 interest income from investment portfolio 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.

Value weighted earnings growth The growth in the last 12-month earnings, when comparing to the preceding 12 months.

List of Directors and their functions

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

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

By order of the Board
K J Dunn
Company Secretary
17 May 2017

Registered Office: 16 Palace Street, London SW1E 5JD