



15 November 2018

3i Group plc announces Half-year results to 30 September 2018

Another good half for 3i

- Total return of **£728 million**, or 10% on opening shareholders' funds, and NAV per share of **776 pence** (31 March 2018: 724 pence)
- Good performance from Private Equity with gross investment return of **£667 million**, or 11%, driven by growth across our larger investments in particular
- Completed two new Private Equity investments, totalling **£245 million**, in Royal Sanders and International Cruise and Excursions ("ICE")
- Cash realisations of **£1,057 million** in the first half, or **£528 million** net of the **£529 million** Group reinvestment into Scandlines
- Advised 3i Infrastructure plc ("3iN") on three investments and three refinancings. 3iN's share price increased by 14% in the first half
- Maintained our conservative balance sheet and ended the period with net cash of **£512 million**
- Interim dividend of **15.0 pence**, in line with our new dividend policy announced in May 2018

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

"This was another good half for 3i. We generated a total return of 10%, completed the sale and our subsequent 35% reinvestment into Scandlines, invested in two new Private Equity portfolio companies and advised 3iN on the acquisition of three new investments.

We remain confident in the growth plans across our investments and will maintain our focus on active management to maximise value for our shareholders and co-investors. We have good momentum across our portfolio, but remain cautious about the pricing of new investment in general and are focusing our origination efforts particularly on bilateral processes and on our buy-and-build platforms."

Summary financial highlights under the Investment basis

3i prepares its statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). However, we also report a non-GAAP “Investment basis” which we believe aids users of our report to assess the Group’s underlying operating performance. The investment basis (which is unaudited) is an alternative performance measure (“APM”) and is described on page 17. Total return and net assets are the same under the Investment basis and IFRS and we provide a reconciliation of our Investment basis financial statements to the IFRS statements from page 18.

	Six months to/as at 30 September 2018	Six months to/as at 30 September 2017	12 months to/as at 31 March 2018
Investment basis			
Total return	£728m	£655m	£1,425m
% return on opening shareholders’ funds	10%	11%	24%
Dividend per ordinary share	15.0p	8.0p	30.0p
Gross investment return	£789m	£746m	£1,552m
As a percentage of opening 3i portfolio value	12%	13%	27%
Cash investment ¹	£779m	£572m	£827m
Realisation proceeds ¹	£1,057m	£374m	£1,323m
Realised profit in the period ²	£75m	£53m	£207m
Money multiple on full realisations in Private Equity ³	4.8x	2.0x	2.4x
3i portfolio value	£7,119m	£6,584m	£6,657m
Gross debt	£575m	£575m	£575m
Net cash/(debt)	£512m	£(48)m	£479m
Liquidity	£1,437m	£877m	£1,404m
Diluted net asset value per ordinary share	776p	652p	724p

1 Realisation proceeds include £835 million from the sale of Scandlines. Cash investment includes £529 million from the Group’s reinvestment into Scandlines. Realisation proceeds, net of the Scandlines reinvestment, are £528 million and net cash investment is £250 million.

2 Realised profits over opening value on the disposal of investments.

3 Cash proceeds over cash invested.

Disclaimer

These half-year results have been prepared solely to provide information to shareholders. They should not be relied on by any other party or for any other purpose. These half-year results may contain statements about the future, including certain statements about the future outlook for 3i Group plc and its subsidiaries (“3i” or “the Group”). These are not guarantees of future performance and will not be updated. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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

For further information, including a live videocast of the results presentation at 10.30am on 15 November 2018, please visit www.3i.com

Half-year report

Chief Executive's review

Introduction

This was another good half for 3i. We completed the sale and our subsequent 35% reinvestment into Scandlines, acquired two new Private Equity portfolio companies and advised 3iN on the acquisition of three new investments. Overall we generated a total return of £728 million (September 2017: £655 million), or 10% on opening shareholders' funds. NAV per share increased to 776 pence (31 March 2018: 724 pence), after the payment of the FY2018 dividend of 22 pence in July 2018.

Private Equity

The Private Equity portfolio continued to perform strongly as earnings increased in 88% of our top 20 assets by value (September 2017: 91%). Our largest investment, Action, continued to deliver good growth, driven by opening 257 new stores and relocating and / or refurbishing a further 50 over the last 12 months to 30 September 2018. Action had 1,235 stores in seven countries at 30 September 2018 and, with value growth for 3i of £271 million in the half (September 2017: £247 million), was valued at £2.4 billion (31 March 2018: £2.1 billion).

Action is an exceptional business and to achieve its full potential of international growth, it is investing significantly in its commercial, stock planning, distribution and supply chain capabilities. During 2018, Action has recruited a new planning team and added further resource to its buying and supply chain teams. It is accelerating the roll out of its distribution centre ("DC") network: it currently has five operational DCs, with three more due to open in 2019, and a further three to open in the following 18 months. This investment will facilitate further store roll out in France, Germany, Poland, Austria and new countries. It will also mitigate the effect of the DC performance and product availability issues that Action has experienced over the last 12 months, particularly in France. The DC expansion is being accompanied by the roll out of new IT systems to support stock planning and DC organisation, in order to manage better the increasing complexity inherent in the end-to-end supply chain planning, given the rapid roll out of Action stores and DCs across Europe.

The supply chain and product availability challenges Action has been experiencing have had an impact on like-for-like sales in what are otherwise some of Action's most profitable stores. As a result, like-for-like sales growth across Action's three main markets (the Netherlands, Germany and France) is around 3% ahead year-to-date. In order to manage the peak December demand for its French store network, Action has decided to defer some 20 store openings in France from Q4 2018 into Q1 2019. As a result, total store openings for 2018 are expected to be approximately 230 across the group. In the meantime, management remains focused on investing in a more resilient supply chain to support significant further growth. The fundamentals of Action's format and business remain compelling.

Schlemmer, a German manufacturer of cable management solutions for the global automotive industry, has had a challenging 2018. Despite increasing revenue over the last six months, there have been pressures on profitability and cash flow. We have changed the Chief Executive and Chief Financial Officer to ensure that there is better focus on operations and cash generation and to put in place more robust controls and financial processes to manage what is a highly international business. We reduced the value by £53 million in the first half and are managing the asset intensively, working closely with the new management team to put the business back on track.

The remaining portfolio performed well overall, with some excellent returns from assets in our 2013-16 and 2016-19 vintages. We sold 24% of our shareholding in Basic-Fit at €30.50 per share, generating proceeds of £89 million, and retain an 18% stake in the business. The cash return is already over 2x and our overall investment is over 5x the original cost, with a 50% IRR. As highlighted at our Capital markets seminar in September 2018, Audley Travel is benefiting from investment in its people and operations and from strong demand in both the UK and US for experiential tailor-made travel. Assets with a buy and build strategy, such as Cirtec Medical, generated good earnings growth from their recent acquisitions. It is early days, but the initial signs for our most recent investments, ICE and Royal Sanders, are promising.

The pipeline for new investment has some interesting opportunities, but we remain disciplined in our pricing approach, and are also focused on further bolt-ons for our existing portfolio, where the acquisitions come with cash synergies and strategic benefits.

Infrastructure

Our Infrastructure team had another busy half year. We advised 3iN on its commitment to invest in Tampnet, in consortium with the Danish pension fund ATP, the completion of its Attero acquisition, including a subsequent partial syndication of 3iN's holding to two co-investors and the completion of the acquisition of Alkane, a bolt-on for Infinis. 3iN's portfolio is making good progress and this performance was reflected in its share price, which increased by 14% to 244 pence at 30 September 2018 (31 March 2018: 214 pence) and remained stable despite the subsequent market sell off in October 2018.

The remainder of our infrastructure platform performed well. The team is focused on asset management and origination in both Europe and the US. The pipeline remains active with a number of potential opportunities, but competition for all classes and sizes of infrastructure assets remains fierce.

Corporate Assets

We completed the sale and our subsequent 35% reinvestment into Scandlines in June 2018, generating net proceeds to 3i of £306 million. As Scandlines is now a longer-term hold asset, managed separately from the Group's Private Equity and Infrastructure businesses, we introduced a new category of segmental reporting, Corporate Assets, into our financial reporting this half.

A key part of our reinvestment case was Scandlines' ability to generate considerable cash flows. During the period, we received a dividend of £22 million from Scandlines and, as a result, generated a total Group operating cash profit of £4 million at 30 September 2018 (September 2017: £16 million loss).

Balance sheet and dividend

We closed the period with net cash of £512 million (31 March 2018: net cash of £479 million). In line with our new dividend policy, announced in May 2018, we have decided to pay an interim dividend of 15.0 pence, which is 50% of our FY2018 total dividend. This interim dividend will be paid to shareholders on 9 January 2019.

3i's strategic clarity and focus in the face of market uncertainty

Despite the political and economic uncertainty that we have seen over the last six months, competition for private assets is very strong. Dry powder is at record levels and investment managers continue to raise record-breaking fund commitments. Our proprietary capital model means that we are not under pressure to deploy funds or exit investments when market conditions are unfavourable. We have a diversified portfolio, which is not highly leveraged, and is built around significant developing megatrends, such as value-for-money retail and health and wellness. Our approach to origination and investment is flexible and can be adapted to respond to developing market dynamics.

Over the last 18 months, we have focused on investing in more fragmented markets where we think a buy-and-build strategy can generate material value without always requiring additional equity. In total, our portfolio companies announced or completed eight such bolt-on investments in the 12 months to 30 September 2018, with an enterprise value of c.€375 million, typically outside of competitive auction processes. These acquisitions can be transformative and offer good potential for operational synergies.

Outlook

This was another good half for 3i and the portfolio generated attractive returns. We remain confident in the growth plans of our investments and will maintain our focus on active management to maximise value for our shareholders and co-investors. We have good momentum across our portfolio, but remain cautious about the pricing of new investment in general and are focusing our origination efforts particularly on bilateral processes and on our buy-and-build platforms.

Overall, whilst we cannot be immune to market developments, careful asset management and clear strategic focus mean that our portfolio is better positioned than in the past. Our balance sheet strength allows us to withstand market turbulence, holding investments for longer if necessary, while maintaining our focus on delivering mid to high teens returns for shareholders through the cycle.

Simon Borrows
Chief Executive

Business and financial review

Basis of preparation: Scandlines transaction

On 21 June 2018, the Group and investors in Eurofund V (“EFV”) sold their 96% interest in Scandlines. Up to and including the transaction date of 21 June 2018, the investment was managed by the Private Equity division and reported in its results. On 21 June 2018, the Group subsequently reinvested into Scandlines, alongside First State Investments and Hermes, acquiring a 35% interest. This investment is now managed outside the Private Equity division and is reported in a new Corporate Assets segment. For this interim report, the performance of Scandlines as a Corporate Asset since 21 June 2018 is included within the Overview of financial performance.

Private Equity

The Private Equity business had a productive first half of the year, generating a gross investment return of £667 million (September 2017: £715 million), or 11% of the opening portfolio value (September 2017: 15%), including a gain on foreign exchange of £116 million (September 2017: £84 million).

Investment

Table 1: Private Equity cash investment in the six months to 30 September 2018

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
Royal Sanders	New	Private label and contract manufacturing producer of personal care products	April 2018	136	135
ICE	New	Global travel and loyalty company that connects leading brands, travel suppliers and end consumers	June 2018	111	110
Action	Further	Non-food discount retailer	September 2018	20	12
Other	n/a	n/a	n/a	(3)	(3)
Total Private Equity investment				264	254

We invested £245 million in two new portfolio companies. This included a £135 million investment in Royal Sanders, a private label and contract manufacturing producer of personal care products and a £110 million investment in ICE, a global travel and loyalty company that connects leading brands, travel suppliers and end consumers. In addition to our proprietary investment, we continued to originate acquisition opportunities for our portfolio companies. Royal Sanders announced its acquisition of McBride’s European personal care liquids business in July 2018 and Ponroy Santé continued its buy-and-build strategy with the acquisition of Densmore, a natural food supplement laboratory mainly specialising in ophthalmic solutions, in July 2018. WP completed its acquisition of Proenfar, a Colombia-based manufacturer of pharmaceutical and cosmetics plastic packaging solutions for the Latin American market, in May 2018. Finally, we acquired £12 million of Action shares from other shareholders, increasing the 3i holding to 44.23%.

Realisations

Private Equity generated proceeds of £1,052 million (September 2017: £350 million), principally from the gross £835 million proceeds from the sale of Scandlines. The Scandlines disposal generated a money multiple of 7.7x on our investment and contributed £31 million to realised profit in the period, representing principally the unwind of the 2.5% imminent sale discount. We also sold our investments in SLR and Etanco. The sale of Etanco, at 1.3x cost, was a good recovery for an asset that reached 0.4x cost at its lowest valuation point. We sold 24% of our holding in Basic-Fit, generating proceeds of £89 million, taking the cash return to date to 2.2x and the total multiple to 5.3x, which includes our 18% residual holding. In total, we generated realised profits on disposal of £75 million (September 2017: £53 million). The realisations were achieved at an uplift over opening value of 8% (September 2017: 18%) reflecting the fact that Scandlines and SLR were valued at imminent sale at 31 March 2018 and therefore substantially all of their uplift to sale was recognised in FY2018.

Table 2: Private Equity realisations in the six months to 30 September 2018

Investment	Country/ region	Calendar year invested	31 March 2018 value ¹ £m	3i Realised proceeds £m	Profit/(loss) in the period ² £m	Uplift on opening value ²	Residual value £m	Money multiple over cost ³	IRR
Full realisations									
Scandlines	Denmark/ Germany	2007/ 2013	803	835	31	4%	–	7.7x	34%
Etanco	France	2011	66	90	24	36%	1	1.3x	3%
SLR	UK	2008	29	30	1	3%	–	1.3x	2%
Total full realisations			898	955	56	6%	1	4.8x	n/a
Partial realisations^{1,3}									
Basic-Fit ⁴	Netherlands	2013	69	89	20	29%	256	5.3x	50%
Other	n/a	n/a	9	5	(4)	(44%)	285	n/a	n/a
Total partial realisations			78	94	16	n/a	541	n/a	n/a
Deferred consideration	n/a	n/a	–	3	3	n/a	–	n/a	n/a
Total Private Equity realisations			976	1,052	75	8%	542	n/a	n/a

1 For partial realisations, 31 March 2018 value represents the opening value of the stake disposed.

2 Cash proceeds in the period over opening value realised.

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

4 The cash proceeds from the partial realisation of Basic-Fit were recorded as a receivable at 30 September 2018 and received on 9 October 2018.

Portfolio performance

The Private Equity portfolio generated good returns, with strong contributions from Action, Cirtec Medical, Audley Travel, Formel D, ICE and AES in particular, resulting in unrealised value growth of £417 million (September 2017: £517 million) in the first half.

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

	2018 £m	2017 £m
Earnings based valuations		
Earnings growth	342	283
Multiple movements	30	59
Other bases		
Discounted cash flow ²	2	139
Other movements in unquoted investments	(7)	6
Quoted portfolio	50	30
Total	417	517

1 More information on our valuation methodology, including definitions and rationale, is included in our Annual report and accounts 2018 on pages 150 to 151.

2 The £139 million recognised on the discounted cash flow ("DCF") revaluation in the 6 months to 30 September 2017 included £136 million from Scandlines.

Earnings growth

Earnings growth in those investments valued on an earnings basis resulted in an increase in value of £342 million (September 2017: £283 million). The largest contributor to the increase was Action. At 30 September 2018, Action was valued using run-rate earnings to 30 September 2018. Action's post discount run-rate multiple was unchanged at 16.5x, which resulted in a valuation of £2,381 million (31 March 2018: £2,064 million). Action represented 42% of the Private Equity portfolio value and 33% of the 3i Group portfolio value at 30 September 2018 (31 March 2018: Private Equity, 35%, Group, 31%).

We are seeing strong earnings growth in a number of our larger assets. Capitalising on its position as a leader in the experiential tailor-made travel market, Audley Travel is performing strongly. Investment in country specialists and in new product development underpinned the continued growth of its UK and US businesses in the first half. Assets with a buy-and-build strategy in high growth sectors, such as Cirtec Medical, generated strong earnings growth as their recent acquisitions enabled them to scale up and generate synergies. Formel D, the quality assurance provider for the automotive industry, is seeing the early benefit of the initiatives we introduced during our first year of ownership to

improve its operating margins. Finally, AES is delivering good growth as it benefits from its leading position in the mechanical seal after-market and its well-diversified customer proposition.

We continue to see some portfolio company specific challenges. Operational issues at Schlemmer continued to affect its profitability and cash flows in the period. Although Schlemmer is generating good revenue growth, higher raw material prices and increased costs have impacted operating margins. We have changed the Chief Executive and Chief Financial Officer and our investment team is very focused on supporting the management team to execute the operational improvements required and increase the focus on profitability and cash flow management. Reflecting these challenges, we recognised a £53 million value reduction on our investment in Schlemmer in the period.

Overall, 88% of the top 20 assets by value in our portfolio grew their earnings in the period (September 2017: 91%) and one investment was valued using forecast earnings at 30 September 2018 (31 March 2018: one), representing 2% of the Private Equity portfolio by value (31 March 2018: 1%).

Table 4: Earnings growth of the top 20 Private Equity assets¹

	Number of companies at 30 September 2018	3i carrying value at 30 September 2018 £m
Last 12 months' earnings growth ²		
<0%	5	622
0 - 9%	4	490
10 - 19%	4	712
>20%	7	3,572

1 This represents 95% of the Private Equity portfolio by value (31 March 2018: 95%). ACR is excluded from this analysis because earnings are not its relevant valuation measure.

2 Calculated using valuation earnings in the top 20 investments, of which 17 used EBITDA, 2 used EBITA and 1 used run-rate earnings.

The weighted average net debt in the portfolio remained at 4.0x valuation earnings (31 March 2018: 4.0x) as the increase in gross debt in WP and Ponroy Santé to fund their respective acquisitions of Proenfar and Densmore offset the impact of the disposal of Scandlines (31 March 2018: 4-5x category). Excluding Action, which is in the 4-5x category, weighted average net debt was 3.6x (31 March 2018: 3.3x). Table 5 shows the ratio of net debt to valuation earnings by portfolio value at 30 September 2018.

Table 5: Ratio of net debt to Valuation earnings¹

	Number of companies at 30 September 2018	3i carrying value at 30 September 2018 £m
Ratio of net debt to Valuation earnings		
<1x	—	—
1 - 2x	4	518
2 - 3x	1	131
3 - 4x	5	628
4 - 5x	8	3,502
5 - 6x	1	163

1 This represents 87% of the Private Equity portfolio by value (31 March 2018: 88%). Quoted holdings, deferred consideration and companies with net cash are excluded from the calculation.

Multiple movements

The increase in value of £30 million due to movements in multiples (September 2017: £59 million) reflected moderate increases in the multiples of four of our stronger investments. As we invest in mid-market companies that often have limited direct quoted comparable sets, we consider a number of factors such as relative performance, enterprise value, geographic footprint, comparable recent transactions and our exit plans when setting our valuation multiples. Taking into account the strength of equity markets at 30 September 2018, we selected multiples that were adjusted downwards relative to the comparable set in 14 out of the 22 companies valued on an earnings basis (31 March 2018: 14 out of 21).

The run-rate multiple used to value Action at 30 September 2018 remained unchanged at 16.5x post liquidity discount (31 March 2018: 16.5x). As at 30 September 2018, a 1.0x movement in Action's post discount multiple would increase or decrease the valuation of 3i's investment by £196 million (31 March 2018: £176 million).

Excluding Action, the weighted average EBITDA multiple increased marginally to 11.8x before liquidity discount (31 March 2018: 11.7x) and was 11.1x after liquidity discount (31 March 2018: 11.0x). The pre-discount multiples used to value the portfolio ranged between 8.1x and 17.4x (31 March 2018: 8.5x to 17.4x) and the post discount multiples ranged between 7.2x and 16.5x (31 March 2018: 6.3x to 16.5x).

Quoted portfolio

Basic-Fit is currently the only quoted asset in the Private Equity portfolio. We generated an unrealised value gain of £50 million from Basic-Fit in the period (September 2017: £28 million gain) as its share price increased to €29.30 at 30 September 2018 (31 March 2018: €23.35) in addition to realised profits of £20 million on the disposal of 24% of our shareholding on 28 September 2018 at €30.50 per share. At 30 September 2018, our residual 18.0% shareholding was valued at £256 million (31 March 2018: 23.7% shareholding valued at £270 million).

Private Equity proprietary capital

At 30 September 2018, the portfolio contained 34 assets, including one quoted stake (31 March 2018: 36 assets including one quoted stake). The value of 3i's Private Equity proprietary capital decreased to £5.7 billion (31 March 2018: £5.8 billion) as the value growth and investment in the period was offset by the disposal of Scandlines.

Table 6: Private Equity proprietary capital

Vintages	Proprietary capital value 30 September 2018		Proprietary capital value 31 March 2018	
	£m	Multiple ¹ 30 September 2018	£m	Multiple ¹ 31 March 2018
Buyouts 2010-2012 ²	2,390	7.7x	2,139	7.2x
Growth 2010-2012 ²	30	2.2x	33	2.2x
2013-2016 ²	1,358	2.3x	1,695	2.1x
2016-2019 ²	1,401	1.1x	1,057	1.1x
Other	507	n/a	901	n/a
Total	5,686		5,825	

1 The multiple is calculated over the cost of the investments in the vintage and includes realised and unrealised value movements.

2 Assets included in these vintages are disclosed in the glossary on page 42.

The value of the Private Equity portfolio including third-party capital decreased to €8.7 billion (31 March 2018: €9.5 billion) as the increase in Action's valuation was offset by the disposals of Scandlines and Etanco.

Table 7: Private Equity proprietary capital by office location

3i office location	Number of companies	3i carrying value at 30 September 2018 £m
Benelux	7	3,257
France	1	163
Germany	5	686
UK	9	681
US	5	695
Other	7	204
Total	34	5,686

Infrastructure

The Infrastructure business had a good first half of the year, generating a gross investment return of £107 million, or 13% of opening value (September 2017: £32 million, 5%). Our investment in 3iN performed particularly strongly, generating a 16% gross investment return (September 2017: 5%) and contributing £28 million to cash income (September 2017: £26 million). Due to the increase in 3iN's share price, the value of 3i's proprietary capital invested in Infrastructure increased to £912 million in the first half (31 March 2018: £832 million).

Table 8: Gross investment return for the six months to 30 September

	2018	2017
Investment basis	£m	£m
Unrealised profits on the revaluation of investments	76	22
Dividends	11	13
Interest	5	–
Foreign exchange on investments	15	(3)
Gross investment return	107	32
Gross investment return as a % of opening portfolio value	13%	5%

Infrastructure portfolio performance

Table 9: Unrealised profits/(losses) on the revaluation of Infrastructure investments¹ in the six months to 30 September

	2018	2017
	£m	£m
Quoted portfolio	82	19
DCF	3	–
Fund NAV	1	3
Other	(10)	–
Total	76	22

¹ More information on our valuation methodology, including definitions and rationale, is included in our Annual report and accounts 2018 on pages 150 to 151.

Quoted

The 3iN share price increased by 14% in the period to close at 244 pence on 30 September 2018 (31 March 2018: 214 pence) as the infrastructure asset class and 3iN's well-diversified portfolio of assets remained attractive to investors. We recognised £82 million of unrealised value growth on our 3iN investment and £11 million of dividend income (September 2017: £19 million of unrealised value growth and £13 million of dividend income). At 30 September 2018, our investment in 3iN was valued at £659 million (31 March 2018: £581 million).

Discounted cash flow

The only asset included in the DCF category was Smarte Carte. We recognised a small uplift on our valuation, in addition to £5 million of interest income received (September 2017: nil).

Other

The investments in the 3i India Infrastructure Fund are valued on other bases, such as expected consideration. We remain focused on maximising value from the investments that remain in that Fund, but they are subject to significant challenges.

3iN

The 3iN portfolio continued to perform well and 3iN generated a total return on opening NAV of 9% in the period (September 2017: 7%), ahead of its target total return of between 8 and 10% per annum to be achieved over the medium term. The outperformance is due principally to a revision of the DCF assumptions for one of 3iN's investments, Cross London Trains, whose train fleet successfully moved into operation in the period.

In the first half, 3iN announced its investment in Tampnet, in a consortium with Danish pension fund ATP, and completed its investments in Attero and Alkane Energy. Our team also advised 3iN on the partial syndication of Attero, as well as on the refinancings of Infinis, WIG and TCR. Demand for infrastructure assets remains strong and, as a result, the team remains disciplined on price and focused on maintaining a balanced and carefully selected portfolio for 3iN.

3iN paid an advisory fee to 3i of £15 million for the six-month period to 30 September 2018 (September 2017: £13 million) with the uplift due to the increased investment activity.

In order to mitigate the risk of additional tax costs following the implementation of the OECD's Base Erosion and Profit Shifting ("BEPS") project, in May 2018 the Board of 3iN announced its intention to move 3iN's tax residence and management to the UK. Following 3iN shareholder approval of the terms of a new Investment Management Agreement ("IMA") at the Extraordinary General Meeting on 17 September 2018, 3i Investments plc became 3iN's Investment Manager on 15 October 2018. Under the terms of the IMA, from 1 April 2019, 3i will receive a management fee of between 1.2% and 1.4% on a tiered basis and a performance fee of 20% of returns above a hurdle of 8% of the growth in NAV per share with a deferral and clawback mechanism in the event of subsequent performance below the hurdle. The fees payable by 3iN to 3i for FY2019 will be calculated on the existing basis.

Assets under management

The 3i Managed Infrastructure Acquisitions LP and the 3i European Operational Projects Fund performed in line with expectations. The team is focused on the management of the funds' portfolios as well as identifying and completing appropriate and well-priced acquisitions for the 3i European Operational Projects Fund, which is currently 15% invested.

Infrastructure AUM increased to £3.7 billion (31 March 2018: £3.4 billion) and we generated fee income of £23 million from our fund management activities in the half (September 2017: £21 million), with the increases due mainly to the increased value of 3iN.

Table 10: Assets under management and advisory agreement at 30 September 2018

Fund	Close date	Fund size	3i commitment /share	Remaining 3i commitment	% invested at September 2018	AUM £m	Fee income earned in the period £m
3iN ¹	Mar 07	n/a	£659m	n/a	n/a	1,977	15
3i Managed Infrastructure Acquisitions LP	Jun 17	£698m	£35m	£5m	85%	727	3
3i European Operational Projects Fund	Apr 18	€456m	€40m	€34m	15%	67	–
BIIF	May 08	£680m	n/a	n/a	90%	535	2
3i India Infrastructure Fund	Mar 08	US\$1,195m	US\$250m	US\$35m	73%	112	2
Managed accounts	Various	n/a	n/a	n/a	n/a	94	1
Other	Various	n/a	n/a	n/a	n/a	180	–
Total						3,692	23

1 Value based on the share price at 30 September 2018.

Overview of financial performance

3i generated a total return of £728 million, or a profit on opening shareholders' funds of 10%, in the six months to 30 September 2018 (September 2017: £655 million, or 11%). The diluted NAV per share at 30 September 2018 increased to 776 pence (31 March 2018: 724 pence) after the payment of the final FY2018 dividend of £213 million, or 22 pence per share (September 2017: £178 million, 18.5 pence per share).

Table 11: Gross investment return for the six months to 30 September

	2018	2017
	£m	£m
Investment basis		
Private Equity	667	715
Infrastructure	107	32
Corporate Assets	15	–
Other	–	(1)
Gross investment return	789	746
Gross investment return as a % of opening portfolio value	12%	13%
Total comprehensive income (“Total return”)	728	655
Total return on opening shareholders' funds	10%	11%

Gross investment return was £789 million in the period (September 2017: £746 million) due to the continued good performance of our investment portfolio and to a £139 million currency gain on translation of our investments (September 2017: £73 million gain). Further information on the drivers of performance of Private Equity and Infrastructure is included in their respective business reviews.

As noted in the Basis of preparation: Scandlines transaction, the performance of Scandlines since our reinvestment on 21 June 2018 is shown in a new Corporate Assets segment. Scandlines generated £22 million of dividend income and a gain on foreign exchange revaluation of £8 million, partially offset by an unrealised reduction of £15 million in its DCF valuation. We have aligned our DCF valuation to the transaction value; the reduction in our valuation reflects the dividend we received. Overall, Scandlines delivered a gross investment return of 3% in the three-month period since our reinvestment.

Operating expenses

Operating expenses were £62 million in the first six months of the year (September 2017: £58 million) consistent with the second half run rate for FY2018 and reflecting recruitment in Infrastructure to support our asset management capability and the hiring of a new US infrastructure team.

Table 12: Operating cash profit/(loss) for the six months to 30 September

	2018	2017
	£m	£m
Cash fees from external funds	30	24
Cash portfolio fees	6	8
Cash portfolio dividends and interest	37	23
Cash income	73	55
Cash operating expenses	(69)	(71)
Operating cash profit/(loss)	4	(16)

3i generated an operating cash profit of £4 million in the period (September 2017: £16 million loss). Cash income increased to £73 million (September 2017: £55 million) due to the £22 million dividend received from Scandlines. Cash operating expenses incurred during the period decreased to £69 million (September 2017: £71 million) principally due to lower cash compensation costs.

Foreign exchange

At 30 September 2018, 78% of the Group's assets were denominated in euros or US dollars (31 March 2018: 77%). The Group recorded a total net foreign exchange gain of £145 million during the period (September 2017: £52 million gain) as sterling continued to weaken against both the US dollar and the euro largely due to the political and economic uncertainty created by the UK's upcoming exit from the European Union.

Table 13: Net assets and sensitivity by currency at 30 September 2018

	FX rate	Net assets £m	%	1% sensitivity £m
Sterling	1.00	1,450	19	n/a
Euro	1.1227	4,813	64	47
US dollar	1.3040	1,048	14	10
Danish krone	8.3721	146	2	2
Other	n/a	91	1	n/a
Total		7,548	100	

Carried interest and performance fees payable and receivable

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

Table 14: Carried interest and performance fees for the six months to 30 September

Consolidated statement of comprehensive income	2018 £m	2017 £m
Carried interest and performance fees receivable		
Private Equity	53	64
Total	53	64
Carried interest and performance fees payable		
Private Equity	(79)	(81)
Infrastructure	(4)	–
Total	(83)	(81)
Net carried interest payable	(30)	(17)

The continued good performance of Action and the sale of Scandlines, the largest investments in our Private Equity fund EFV, led to a corresponding increase of £54 million in the carried interest receivable from EFV (September 2017: £63 million). This is calculated assuming that the portfolio was realised at the 30 September 2018 valuation. The fund's gross multiple was 2.6x at 30 September 2018 (31 March 2018: 2.5x).

In Private Equity, we typically accrue net carried interest payable at between 10% and 12% of gross investment return. The majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 30 September 2018 valuation. We accrued carried interest payable of £79 million (September 2017: £81 million) for Private Equity in the period, of which £35 million relates to the team's share of carried interest receivable from EFV (September 2017: £29 million).

Carried interest is paid to participants when the performance hurdles are passed in cash terms and then only when the cash proceeds are actually received following a realisation, refinancing event or other cash distribution. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants are both current and previous employees of 3i. During the period, £37 million was paid to participants in the Private Equity plans (September 2017: £21 million).

Overall, the effect of the income statement charge, the cash payments, as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £910 million (31 March 2018: £870 million). The £90 million performance fee from 3iN, accrued at 31 March 2018, was received in the period, and the receivable therefore decreased to £556 million (31 March 2018: £596 million).

Table 15: Carried interest and performance fees

Consolidated statement of financial position	30 September 2018 £m	31 March 2018 £m
Carried interest and performance fees receivable		
Private Equity	556	505
Infrastructure	–	90
Other	–	1
Total	556	596
Carried interest and performance fees payable		
Private Equity	(885)	(839)
Infrastructure	(25)	(31)
Total	(910)	(870)

Impact of IFRS 15 on the recognition of carried interest receivable

The IFRS 15 revenue recognition standard became applicable to 3i from 1 April 2018. Carried interest receivable is the only material balance within the scope of the standard. Under IFRS 15, our calculation of carried interest is unchanged. IFRS 15 introduces the judgement that variable revenue, such as carried interest, can only be recognised if it is highly probable that a significant reversal will not occur. Therefore, we are now required to consider if there are any specific constraints to our revenue recognition. The factors that 3i considers when making its judgement include the remaining duration of the fund, the current position in relation to the cash hurdle, the remaining assets in the fund and the potential for clawback.

The substantial majority of 3i's carried interest receivable is due from EFV. EFV has been extended to November 2019, when the fund is due to come to an end. At 30 September 2018, there were only three assets left in the fund: Action, Christ and OneMed (31 March 2018: five). At 30 September 2018, EFV investments had generated proceeds of €3.6 billion, including €0.8 billion received from the disposals of Scandlines and Etanco in the period and the fund was over 80% of the way towards its cash hurdle. Given the relatively small size of Christ and OneMed, the payment of carried interest receivable is dependent on the performance of Action. At 30 September 2018, the EFV investment in Action was valued at €2,060 million (31 March 2018: €1,815 million). Due to Action's strong performance and forecast growth profile, and consistent with our investment strategy for and valuation of the asset together with an expected liquidity event for EFV investors in FY2020, we have concluded that IFRS 15 does not have an impact on our recognition of carried interest at 30 September 2018.

As at 30 September 2018, the carried interest receivable accrued on 3i's balance sheet from EFV was £546 million (31 March 2018: £484 million), with a corresponding £370 million (31 March 2018: £334 million) accrued as payable to carry plan participants. The net NAV impact from EFV carried interest is £176 million (31 March 2018: £150 million) or 18 pence per share (31 March 2018: 15 pence per share).

Balance sheet and NAV**Table 16: Simplified consolidated balance sheet**

	30 September 2018 £m	31 March 2018 £m
Investment basis		
Investment portfolio value	7,119	6,657
Gross debt	(575)	(575)
Cash	1,087	1,054
Net cash	512	479
Carried interest and performance fees receivable	556	596
Carried interest and performance fees payable	(910)	(870)
Other net assets	271	162
Net assets	7,548	7,024
Gearing¹	nil	nil

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

Net cash increased to £512 million at 30 September 2018 (31 March 2018: £479 million) because of the net realisations during the period, partially offset by the payment of the FY2018 final dividend. The net cash balance does not include the £89 million of cash proceeds from Basic-Fit, which were received on 9 October 2018.

The investment portfolio value increased to £7,119 million at 30 September 2018 (31 March 2018: £6,657 million) as unrealised value growth of £478 million and cash investment offset the book value of realisations in the period.

Table 17: Investments and realisations by business line

	30 September 2018	31 March 2018
	£m	£m
Investment basis		
Cash investment		
Private Equity	(254)	(587)
Infrastructure	4	(217)
Corporate Assets	(529)	–
Other	–	(23)
Total cash investment	(779)	(827)
Cash realisations		
Private Equity	1,052	1,002
Infrastructure	5	169
Other	–	152
Total cash realisations	1,057	1,323

Further information on investments and realisations is included in the Private Equity and Infrastructure business reviews.

Liquidity

Liquidity remained strong at £1,437 million at 30 September 2018 (31 March 2018: £1,404 million) and comprised cash and deposits of £1,087 million (31 March 2018: £1,054 million) and undrawn facilities of £350 million (31 March 2018: £350 million).

Alternative Performance Measures (“APMs”)

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

The explanation of and rationale for the Investment basis and its reconciliation to IFRS is provided from page 17. The table below defines our additional APMs and should be read in conjunction with the Annual report and accounts 2018.

APM	Purpose	Calculation	Reconciliation to IFRS
Gross investment return as a percentage of opening portfolio value	A measure of the performance of our proprietary investment portfolio. For further information, see the Group KPIs in our Annual report and accounts 2018.	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 consolidated statement of comprehensive income and the Reconciliation of consolidated statement of financial position respectively.
Cash realisations	Cash proceeds from our investments support our returns to shareholders, as well as our ability to make new investments. For further information, see the Group KPIs in our Annual report and accounts 2018.	The cash received from the disposal of investments in the period as shown in the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of consolidated cash flow statement.
Cash investment	Making new investments with our proprietary capital is the primary driver of the Group’s ability to deliver attractive returns. For further information, see the Group KPIs in our Annual report and accounts 2018.	The cash paid to acquire investments in the period as shown on the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of consolidated cash flow statement.
Operating cash profit/(loss)	By covering, as far as possible, the cash cost of running the business with cash income, we reduce the potential dilution of capital returns. For further information, see the Group KPIs in our Annual report and accounts 2018.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 12 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of 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 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 consolidated statement of financial position.

Principal risks and uncertainties

3i's risk appetite statement, approach to risk management and governance structure are set out in the Risk section of the Annual report and accounts 2018, which can be accessed on the Group's website at www.3i.com.

The principal risks to the achievement of the Group's strategic objectives for the remaining six months of its financial year are unchanged from those reported on pages 48 to 51 of the Annual report and accounts 2018 and summarised below. This is not a comprehensive list of all potential risks and uncertainties faced by the Group, but rather a summary of the risks which it currently believes may have a significant impact on its performance and future prospects.

External – Risks arising from external factors including political, legal, regulatory, economic and competitor changes, which affect the Group's operations. There has been a significant amount of uncertainty in the global economy over the last year and, more recently, due to the negotiations on the UK's planned exit from the EU. Although we cannot be immune to wider market conditions and political instability, our balance sheet is well funded with low holding company debt and a portfolio of international companies, and we believe 3i is better placed than in the past. However, we continue to monitor closely the wider implications of current geo-political uncertainties as they develop.

The longer-term implications of the UK's negotiations to leave the EU remain unclear. Therefore, we have implemented an alternative regulatory strategy to ensure continuity of our business across a range of reasonably foreseeable scenarios. This strategy includes permission from the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier, to establish an Alternative Investment Fund Manager ("AIFM") in Luxembourg. 3i has had a presence in Luxembourg for many years and our new AIFM has been in operation since June 2018. Currently 65% of our portfolio is invested in northern Europe, and this approval will enable 3i to continue the Group's activities in Europe after March 2019, when the UK is expected to leave the EU.

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

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

The Half-year report provides an update on 3i's strategy and business performance, as well as on market conditions, which is relevant to the Group's overall risk profile and should be viewed in the context of the Group's risk management framework and principal risks as disclosed in the Annual report and accounts 2018.

Reconciliation of the Investment basis to IFRS

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

The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures (“investment entity subsidiaries”). It also has other operational subsidiaries, which provide services and other activities such as employment, regulatory activities, management and advice (“trading subsidiaries”). The application of IFRS 10 requires us to fair value a number of investment entity subsidiaries. This fair value approach, applied at the investment entity subsidiary level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the investment entity subsidiaries. The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in investment entity subsidiaries are aggregated into a single value.

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

A more detailed explanation of the effect of IFRS 10 is provided in the Annual report and accounts 2018 on page 38.

Reconciliation between Investment basis and IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated cash flow statement is shown on pages 18 to 22.

Reconciliation of consolidated statement of comprehensive income

	Notes	Six months to 30 September 2018			Six months to 30 September 2017		
		Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m	Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m
Realised profits over value on the disposal of investments	1,2	75	(44)	31	53	(40)	13
Unrealised profits on the revaluation of investments	1,2	478	(386)	92	539	(363)	176
Fair value movements on investment entity subsidiaries	1	–	502	502	–	396	396
Portfolio income							
Dividends	1,2	33	(26)	7	22	(6)	16
Interest income from investment portfolio	1,2	57	(40)	17	49	(39)	10
Fees receivable	1,2	7	1	8	10	1	11
Foreign exchange on investments	1,4	139	(108)	31	73	(66)	7
Gross investment return		789	(101)	688	746	(117)	629
Fees receivable from external funds		26	–	26	24	–	24
Operating expenses	1,3	(62)	–	(62)	(58)	–	(58)
Interest received		1	–	1	1	–	1
Interest paid		(17)	–	(17)	(18)	–	(18)
Exchange movements	1,4	6	(4)	2	(21)	37	16
Income from investment entity subsidiaries	1	–	10	10	–	11	11
Other income		1	–	1	1	–	1
Operating profit before carried interest		744	(95)	649	675	(69)	606
Carried interest							
Carried interest and performance fees receivable	1,3	53	5	58	64	–	64
Carried interest and performance fees payable	1,3	(83)	89	6	(81)	67	(14)
Operating profit before tax		714	(1)	713	658	(2)	656
Income taxes	1,3	2	(1)	1	–	1	1
Profit for the period		716	(2)	714	658	(1)	657
Other comprehensive income that may be reclassified to the income statement							
Exchange differences on translation of foreign operations	1,4	–	2	2	–	1	1
Other comprehensive income/(expense) that will not be reclassified to the income statement							
Re-measurement of defined benefit plans		12	–	12	(3)	–	(3)
Other comprehensive income/(expense) for the period		12	2	14	(3)	1	(2)
Total comprehensive income for the period (“Total return”)		728	–	728	655	–	655

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

Reconciliation of consolidated statement of comprehensive income continued

Notes:

- 1 Applying IFRS 10 to the consolidated statement of comprehensive income consolidates the line items of a number of previously consolidated subsidiaries into a single line item "Fair value movements on investment entity subsidiaries". In the Investment basis accounts we have disaggregated these line items to analyse our total return as if these investment entity subsidiaries were fully consolidated, consistent with prior periods. The adjustments simply reclassify the consolidated statement of comprehensive income of the Group, and the total return is equal under the Investment basis and the IFRS basis.
- 2 Realised profits, unrealised profits and portfolio income shown in the IFRS accounts only relate to portfolio companies that are held directly by 3i Group plc and not those portfolio companies held through investment entity subsidiaries. Realised profits, unrealised profits and portfolio income in relation to portfolio companies held through investment entity subsidiaries are aggregated into the single "Fair value movement on investment entity subsidiaries" line. This is the most significant reduction of information in our IFRS accounts.
- 3 Other items 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.
- 4 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 entity subsidiaries".

Reconciliation of consolidated statement of financial position

	Notes	As at 30 September 2018			As at 31 March 2018		
		Investment basis	IFRS adjustments	IFRS basis	Investment basis	IFRS adjustments	IFRS basis
		£m	£m	(unaudited) £m	£m	£m	(audited) £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	916	(501)	415	851	(506)	345
Unquoted investments	1	6,203	(5,059)	1,144	5,806	(4,055)	1,751
Investments in investment entity subsidiaries	1,2	–	5,033	5,033	–	4,034	4,034
Investment portfolio		7,119	(527)	6,592	6,657	(527)	6,130
Carried interest and performance fees receivable	1	554	–	554	503	(5)	498
Other non-current assets	1	114	(87)	27	113	(85)	28
Intangible assets		11	–	11	12	–	12
Retirement benefit surplus		139	–	139	125	–	125
Property, plant and equipment		4	–	4	4	–	4
Total non-current assets		7,941	(614)	7,327	7,414	(617)	6,797
Current assets							
Carried interest and performance fees receivable	1	2	–	2	93	–	93
Other current assets	1	118	(92)	26	60	(26)	34
Current income taxes		2	–	2	3	–	3
Cash and cash equivalents	1	1,087	(68)	1,019	1,054	(82)	972
Total current assets		1,209	(160)	1,049	1,210	(108)	1,102
Total assets		9,150	(774)	8,376	8,624	(725)	7,899
Liabilities							
Non-current liabilities							
Trade and other payables	1	(7)	6	(1)	(14)	13	(1)
Carried interest and performance fees payable	1	(848)	753	(95)	(764)	659	(105)
Loans and borrowings		(575)	–	(575)	(575)	–	(575)
Retirement benefit deficit		(24)	–	(24)	(23)	–	(23)
Deferred income taxes		(1)	–	(1)	(3)	–	(3)
Provisions		(1)	–	(1)	(1)	–	(1)
Total non-current liabilities		(1,456)	759	(697)	(1,380)	672	(708)
Current liabilities							
Trade and other payables	1	(81)	2	(79)	(101)	1	(100)
Carried interest and performance fees payable	1	(62)	13	(49)	(106)	51	(55)
Current income taxes		(2)	–	(2)	(12)	1	(11)
Provisions		(1)	–	(1)	(1)	–	(1)
Total current liabilities		(146)	15	(131)	(220)	53	(167)
Total liabilities		(1,602)	774	(828)	(1,600)	725	(875)
Net assets		7,548	–	7,548	7,024	–	7,024
Equity							
Issued capital		719	–	719	719	–	719
Share premium		786	–	786	786	–	786
Other reserves	3	6,056	–	6,056	5,545	–	5,545
Own shares		(13)	–	(13)	(26)	–	(26)
Total equity		7,548	–	7,548	7,024	–	7,024

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

Reconciliation of consolidated statement of financial position continued

Notes:

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

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

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

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

Reconciliation of consolidated cash flow statement

	Notes	Six months to 30 September 2018			Six months to 30 September 2017		
		Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m	Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m
Cash flow from operating activities							
Purchase of investments	1	(779)	686	(93)	(572)	305	(267)
Proceeds from investments	1	985	(164)	821	360	(185)	175
Cash outflow to investment entity subsidiaries	1	–	(525)	(525)	–	(240)	(240)
Net cash flow from derivatives		–	–	–	(13)	–	(13)
Portfolio interest received	1	4	–	4	1	(1)	–
Portfolio dividends received	1	33	(26)	7	22	(6)	16
Portfolio fees received	1	6	1	7	8	–	8
Fees received from external funds		30	–	30	24	–	24
Carried interest and performance fees received		102	(1)	101	5	–	5
Carried interest and performance fees paid	1	(46)	36	(10)	(24)	7	(17)
Operating expenses paid		(69)	–	(69)	(71)	–	(71)
Co-investment loans (paid)/received	1	(6)	7	1	1	–	1
Income taxes paid	1	(10)	–	(10)	(2)	1	(1)
Net cash flow from operating activities		250	14	264	(261)	(119)	(380)
Cash flow from financing activities							
Issue of shares		–	–	–	1	–	1
Dividend paid		(213)	–	(213)	(178)	–	(178)
Interest received		1	–	1	1	–	1
Interest paid		(12)	–	(12)	(11)	–	(11)
Net cash flow from financing activities		(224)	–	(224)	(187)	–	(187)
Cash flow from investing activities							
Purchase of property, plant and equipment		(1)	–	(1)	(1)	–	(1)
Purchases of intangible assets		–	–	–	(13)	–	(13)
Net cash flow from investing activities		(1)	–	(1)	(14)	–	(14)
Change in cash and cash equivalents	2	25	14	39	(462)	(119)	(581)
Cash and cash equivalents at the start of the period	2	1,054	(82)	972	954	(23)	931
Effect of exchange rate fluctuations	1	8	–	8	(6)	(2)	(8)
Cash and cash equivalents at the end of the period	2	1,087	(68)	1,019	486	(144)	342

Notes:

- The consolidated cash flow statement is impacted by the application of IFRS 10 as cash flows to and from investment entity subsidiaries are disclosed, rather than the cash flows to and from the underlying portfolio.
Therefore, in our Investment basis financial statements, we have disclosed our consolidated cash flow statement on a “look through” basis, in order to reflect the underlying sources and uses of cash flows and disclose the underlying investment activity.
- There is a difference between the change in cash and cash equivalents of the Investment basis financial statements and the IFRS financial statements because there are cash balances held in investment entity subsidiaries. Cash held within investment entity subsidiaries will not be shown in the IFRS statements but will be seen in the Investment basis statements.

IFRS Financial statements

Condensed consolidated statement of comprehensive income

		Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m
	Notes		
Realised profits over value on the disposal of investments	2	31	13
Unrealised profits on the revaluation of investments	3	92	176
Fair value movements on investment entity subsidiaries	8	502	396
		625	585
Portfolio income			
Dividends		7	16
Interest income from investment portfolio		17	10
Fees receivable	4	8	11
Foreign exchange on investments		31	7
Gross investment return		688	629
Fees receivable from external funds	4	26	24
Operating expenses		(62)	(58)
Interest received		1	1
Interest paid		(17)	(18)
Exchange movements		2	16
Income from investment entity subsidiaries		10	11
Other income		1	1
Carried interest			
Carried interest and performance fees receivable	4	58	64
Carried interest and performance fees payable		6	(14)
Operating profit before tax		713	656
Income taxes		1	1
Profit for the period		714	657
Other comprehensive income that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		2	1
Other comprehensive income/(expense) that will not be reclassified to the income statement			
Re-measurement of defined benefit plans		12	(3)
Other comprehensive income/(expense) for the period		14	(2)
Total comprehensive income for the period ("Total return")		728	655
Earnings per share			
Basic (pence)	5	73.8	68.2
Diluted (pence)	5	73.5	67.9

Condensed consolidated statement of financial position

		30 September 2018 (unaudited) £m	31 March 2018 (audited) £m
	Notes		
Assets			
Non-current assets			
Investments			
Quoted investments	7	415	345
Unquoted investments	7	1,144	1,751
Investments in investment entity subsidiaries	8	5,033	4,034
Investment portfolio		6,592	6,130
Carried interest and performance fees receivable		554	498
Other non-current assets		27	28
Intangible assets		11	12
Retirement benefit surplus		139	125
Property, plant and equipment		4	4
Total non-current assets		7,327	6,797
Current assets			
Carried interest and performance fees receivable		2	93
Other current assets		26	34
Current income taxes		2	3
Cash and cash equivalents		1,019	972
Total current assets		1,049	1,102
Total assets		8,376	7,899
Liabilities			
Non-current liabilities			
Trade and other payables		(1)	(1)
Carried interest and performance fees payable		(95)	(105)
Loans and borrowings		(575)	(575)
Retirement benefit deficit		(24)	(23)
Deferred income taxes		(1)	(3)
Provisions		(1)	(1)
Total non-current liabilities		(697)	(708)
Current liabilities			
Trade and other payables		(79)	(100)
Carried interest and performance fees payable		(49)	(55)
Current income taxes		(2)	(11)
Provisions		(1)	(1)
Total current liabilities		(131)	(167)
Total liabilities		(828)	(875)
Net assets		7,548	7,024
Equity			
Issued capital		719	719
Share premium		786	786
Capital redemption reserve		43	43
Share-based payment reserve		29	32
Translation reserve		(6)	(8)
Capital reserve		5,157	4,700
Revenue reserve		833	778
Own shares		(13)	(26)
Total equity		7,548	7,024

Condensed consolidated statement of changes in equity

For the six months to 30 September 2018 (unaudited)	Share-based								
	Share capital	Share premium	Capital redemption reserve	payment reserve	Translation reserve	Capital reserve	Revenue reserve	Own shares	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total equity at the start of the period	719	786	43	32	(8)	4,700	778	(26)	7,024
Profit for the period	-	-	-	-	-	622	92	-	714
Exchange differences on translation of foreign operations	-	-	-	-	2	-	-	-	2
Re-measurements of defined benefit plans	-	-	-	-	-	12	-	-	12
Total comprehensive income for the period	-	-	-	-	2	634	92	-	728
Share-based payments	-	-	-	9	-	-	-	-	9
Release on exercise/forfeiture of share awards	-	-	-	(12)	-	-	12	-	-
Loss on sale of own shares	-	-	-	-	-	(13)	-	13	-
Dividends ¹	-	-	-	-	-	(164)	(49)	-	(213)
Issue of ordinary shares	-	-	-	-	-	-	-	-	-
Total equity at the end of the period	719	786	43	29	(6)	5,157	833	(13)	7,548

1 Following the new dividend policy, announced in May 2018, dividends are no longer split between ordinary and additional.

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

1 £188 million was transferred from the translation reserve to the capital reserve at 31 March 2018, which related to the translation reserve for Investment entity subsidiaries not reclassified on adoption of IFRS 10.

Condensed consolidated cash flow statement

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m
Cash flow from operating activities		
Purchase of investments	(93)	(267)
Proceeds from investments	821	175
Cash outflow to investment entity subsidiaries	(525)	(240)
Net cash outflow from derivatives	–	(13)
Portfolio interest received	4	–
Portfolio dividends received	7	16
Portfolio fees received	7	8
Fees received from external funds	30	24
Carried interest and performance fees received	101	5
Carried interest and performance fees paid	(10)	(17)
Operating expenses paid	(69)	(71)
Co-investment loans received	1	1
Income taxes paid	(10)	(1)
Net cash flow from operating activities	264	(380)
Cash flow from financing activities		
Issue of shares	–	1
Dividend paid	(213)	(178)
Interest received	1	1
Interest paid	(12)	(11)
Net cash flow from financing activities	(224)	(187)
Cash flow from investing activities		
Purchase of property, plant and equipment	(1)	(1)
Purchase of intangibles	–	(13)
Net cash flow from investing activities	(1)	(14)
Change in cash and cash equivalents	39	(581)
Cash and cash equivalents at the start of the period	972	931
Effect of exchange rate fluctuations	8	(8)
Cash and cash equivalents at the end of the period	1,019	342

Notes to the financial statements

Basis of preparation and accounting policies

Compliance with International Financial Reporting Standards (“IFRS”)

The Half-year condensed consolidated financial statements of 3i Group plc have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 ‘Interim Financial Reporting’ as issued by the International Accounting Standards Board (‘IASB’) and as endorsed by the European Union. The Half-year condensed consolidated financial statements should be read in conjunction with the Annual report and accounts 2018. The accounting policies applied by 3i Group plc for the Half-year condensed consolidated financial statements are consistent with those described on pages 99 to 138 of the Annual report and accounts 2018, except for the adoption of certain new accounting standards, further details of which are outlined below. There was no change in the current period to the critical accounting estimates and judgements applied in 2018, which are stated on page 101 of the Annual report and accounts 2018. However, the application of IFRS 15 has introduced a new key judgement on carried interest receivable, which is disclosed in the Accounting developments below.

The financial information for the year ended 31 March 2018 contained within this Half-year report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year to 31 March 2018, prepared under IFRS as endorsed by the EU, have been reported on by Ernst & Young LLP and delivered to the Registrar of Companies. The report of the Auditor on these statutory accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

The Half-year condensed consolidated financial statements are prepared on a going concern basis and presented to the nearest million sterling (£m), the functional currency of the Group.

Accounting developments

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

IFRS 9 ‘Financial Instruments’

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

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

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

IFRS 15 ‘Revenue from contracts with customers’

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

Items in the Group’s Consolidated statement of comprehensive income that are within the scope of IFRS 15 are fees receivable, fees receivable from external funds and carried interest and performance fees receivable. A definition of these items is shown in the glossary on pages 42 and 43. The Group’s accounting for fees receivable and fees receivable from external funds is unchanged. However, IFRS 15 has introduced a key judgement of the extent to which it is highly probable that there will not be a significant reversal of carried interest and performance fees receivable when the uncertainty is resolved. Following a detailed review, it was concluded that the adoption of IFRS 15 had no impact on the carried interest and performance fees receivable recognised by the Group. Further details of our considerations around the adoption of IFRS 15 are included on pages 32 and 99 of the Annual report and accounts 2018 and on page 13 of the Overview of financial performance.

The Group has applied IFRS 15 retrospectively. As our recognition remains unchanged, no adjustment to the opening balance of retained earnings was required.

Revenue has been disaggregated in accordance with IFRS 15 in Note 4, which should be read alongside pages 101, 116 and 117 of the Annual report and accounts 2018.

1 Segmental analysis

The tables below are presented on the Investment basis which is the basis used by the chief operating decision maker, the Chief Executive, to monitor the performance of the Group. A description of the Investment basis and a reconciliation of the Investment basis to the IFRS financial statements is provided on pages 17 to 22. Further detail on the Group's segmental analysis can be found on pages 104 to 106 of the Annual report and accounts 2018. The remaining Notes are prepared on an IFRS basis. On 21 June 2018, the Group completed the sale and re-investment into Scandlines. The re-investment in Scandlines is managed as a Corporate Asset separate from the Private Equity and Infrastructure businesses and, as such, is shown separately in the segmental analysis. Corporate Assets replaced Other as a segment in the half. In FY2018, Other comprised the residual investments retained following the sale of our Debt Management business. These residual investments were sold in FY2018.

Investment basis	Private Equity £m	Infrastructure £m	Corporate Assets £m	Total £m
Six months to 30 September 2018				
Realised profits over value on the disposal of investments	75	–	–	75
Unrealised profits/(losses) on the revaluation of investments	417	76	(15)	478
Portfolio income				
Dividends	–	11	22	33
Interest income from investment portfolio	52	5	–	57
Fees receivable	7	–	–	7
Foreign exchange on investments	116	15	8	139
Gross investment return	667	107	15	789
Fees receivable from external funds	3	23	–	26
Operating expenses	(39)	(23)	–	(62)
Interest received				1
Interest paid				(17)
Exchange movements				6
Other income				1
Operating profit before carried interest				744
Carried interest				
Carried interest and performance fees receivable	53	–	–	53
Carried interest and performance fees payable	(79)	(4)	–	(83)
Operating profit				714
Income taxes				2
Other comprehensive income				
Re-measurements of defined benefit plans				12
Total return				728
Net divestment/(investment)				
Realisations ^{1,2}	1,052	5	–	1,057
Cash investment ²	(254)	4	(529)	(779)
	798	9	(529)	278
Balance sheet				
Opening portfolio value at 1 April 2018	5,825	832	–	6,657
Investment³	320	(4)	529	845
Value disposed	(977)	(5)	–	(982)
Unrealised value movement	417	76	(15)	478
Other movement (including foreign exchange)	101	13	7	121
Closing portfolio value at 30 September 2018	5,686	912	521	7,119

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

2 The Scandlines transaction is presented gross in realisations (Private Equity: £835 million) and cash investment (Corporate Assets: £529 million). Total realisations, net of the Scandlines reinvestment, are £528 million and total net cash investment is £250 million.

3 Includes capitalised interest and other non-cash investment.

1 Segmental analysis continued

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

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

2 Includes capitalised interest and other non-cash investment.

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

Six months to 30 September 2018		Unquoted investments £m
Realisations		821
Valuation of disposed investments		(790)
		31
Of which:		
- profit recognised on realisations		31
- losses recognised on realisations		-
		31
Six months to 30 September 2017		Unquoted investments £m
Realisations		175
Valuation of disposed investments		(162)
		13
Of which:		
- profit recognised on realisations		14
- losses recognised on realisations		(1)
		13

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

Six months to 30 September 2018			
	Unquoted investments £m	Quoted investments £m	Total £m
Movement in the fair value of investments	44	48	92
Of which:			
- unrealised gains	71	48	119
- unrealised losses	(27)	-	(27)
	44	48	92
Six months to 30 September 2017			
	Unquoted investments £m	Quoted investments £m	Total £m
Movement in the fair value of investments	165	11	176
Of which:			
- unrealised gains	177	11	188
- unrealised losses	(12)	-	(12)
	165	11	176

4 Revenue

Items from the Consolidated statement of comprehensive income which fall within the scope of IFRS 15 are included in the table below:

	Private Equity £m	Infrastructure £m	Total £m
Six months to 30 September 2018			
Total revenue by geography¹			
UK	61	7	68
Northern Europe	4	16	20
North America	4	–	4
Total	69	23	92
Revenue by type			
Fees receivable ² from portfolio	8	–	8
Fees receivable from external funds	3	23	26
Carried interest and performance fees receivable ²	58	–	58
Total	69	23	92
Six months to 30 September 2017			
Total revenue by geography¹			
UK	66	10	76
Northern Europe	11	11	22
North America	1	–	1
Total	78	21	99
Revenue by type			
Fees receivable ² from portfolio	11	–	11
Fees receivable from external funds	3	21	24
Carried interest and performance fees receivable ²	64	–	64
Total	78	21	99

- For fees receivable from external funds and carried interest and performance fees receivable the geography is based on the domicile of the fund.
- Fees receivable and carried interest receivable above are different to the Investment basis figures included in Note 1. This is due to the fact that Note 1 is disclosed on the Investment basis and the table above is shown on the IFRS basis. For an explanation of the Investment basis and a reconciliation between Investment basis and IFRS basis see pages 17 to 22.

5 Per share information

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

	6 months to 30 September 2018	6 months to 30 September 2017
Earnings per share (pence)		
Basic	73.8	68.2
Diluted	73.5	67.9
Earnings (£m)		
Profit for the period attributable to equity holders of the Company	714	657
	6 months to 30 September 2018 Number	6 months to 30 September 2017 Number
Weighted average number of shares in issue		
Ordinary shares	972,917,256	972,828,742
Own shares	(5,660,845)	(9,611,495)
Basic shares	967,256,411	963,217,247
Effect of dilutive potential ordinary shares		
Share options and awards	3,748,299	4,520,532
Diluted shares	971,004,710	967,737,779
	30 September 2018	31 March 2018
Net assets per share (£)		
Basic	7.79	7.28
Diluted	7.76	7.24
Net assets (£m)		
Net assets attributable to equity holders of the Company	7,548	7,024

Basic NAV per share is calculated on 968,902,513 shares in issue at 30 September 2018 (31 March 2018: 965,040,405). Diluted NAV per share is calculated on diluted shares of 972,920,007 at 30 September 2018 (31 March 2018: 969,773,150).

6 Dividends

	6 months to 30 September 2018 pence per share	6 months to 30 September 2018 £m	6 months to 30 September 2017 pence per share	6 months to 30 September 2017 £m
Declared and paid during the period				
Final dividend	22.0	213	18.5	178
Proposed interim dividend	15.0	145	8.0	77

7 Investment portfolio

This section should be read in conjunction with Note 10 on pages 112 to 113 of the Annual report and accounts 2018, which provides more detail about initial recognition and subsequent measurement of investments at fair value.

Non-current	6 months to 30 September 2018	Year to 31 March 2018
	£m	£m
Opening fair value	2,096	1,706
Additions	110	481
- of which loan notes with nil value	(5)	–
Disposals and repayments	(790)	(396)
Fair value movement	92	386
Other movements and net cash movements ¹	56	(81)
Closing fair value	1,559	2,096
Quoted investments	415	345
Unquoted investments	1,144	1,751
Closing fair value	1,559	2,096

1 Other movements includes the impact of foreign exchange and the partial transfer of an investment from an investment entity subsidiary.

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

Additions include cash investment of £93 million (31 March 2018: £470 million) and £17 million (31 March 2018: £11 million) in capitalised interest received by way of loan notes, of which £5 million (31 March 2018: nil) was written down in the period to nil. Included within the Consolidated statement of comprehensive income is £17 million (31 March 2018: £26 million) of interest income, which reflects the net additions after write downs noted above, cash income of £4 million (31 March 2018: £4 million) and the capitalisation of prior year accrued income and non-capitalised income of £1 million (2018: £11 million).

Quoted investments are classified as Level 1 in the fair value hierarchy and unquoted investments are classified as Level 3 in the fair value hierarchy; see Note 9 for details.

8 Investments in investment entity subsidiaries

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and loss. We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate bases to determine fair value. At each reporting period, we consider whether any additional fair value adjustments need to be made to the net asset values of the investment entity subsidiaries. These adjustments may be required to reflect market participants' considerations about fair value that may include, but are not limited to, liquidity and the portfolio effect of holding multiple investments within the investment entity subsidiary. There was no particular circumstance to indicate that any fair value adjustment was required and after due consideration we concluded that the net asset values were the most appropriate reflection of fair value at 30 September 2018.

Level 3 fair value reconciliation – investments in investment entity subsidiaries

	6 months to 30 September 2018	Year to 31 March 2018
Non-current	£m	£m
Opening fair value	4,034	3,483
Net cash flow to/(from) investment entities	525	(430)
Fair value movement on investment entity subsidiaries	502	848
Transfer of assets (from)/to investment entity subsidiaries	(28)	133
Closing fair value	5,033	4,034

All investment entity subsidiaries are classified as Level 3 in the fair value hierarchy, see Note 9 for details.

A 5% movement in the closing fair value of investments in investment entity subsidiaries would have an impact of £252 million (31 March 2018: £202 million).

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no restrictions on the ability to transfer funds from these subsidiaries to the Group except for cash balances of £87 million (31 March 2018: £85 million) held in escrow in investment entity subsidiaries for carried interest payable.

Support

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

9 Fair values of assets and liabilities

This section should be read in conjunction with Note 12 on pages 114 to 116 of the Annual report and accounts 2018 which provides more detail about accounting policies adopted, the definitions of the three levels of fair value hierarchy, valuation methods used in calculating fair value, and the valuation framework which governs oversight of valuations. There have been no changes in the accounting policies adopted or the valuation methodologies used.

Valuation

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

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

9 Fair values of assets and liabilities continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 30 September 2018:

	As at 30 September 2018				As at 31 March 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Quoted investments	415	–	–	415	345	–	–	345
Unquoted investments	–	–	1,144	1,144	–	–	1,751	1,751
Investments in investment entity subsidiaries	–	–	5,033	5,033	–	–	4,034	4,034
Other assets	–	–	38	38	–	–	–	–
Total	415	–	6,215	6,630	345	–	5,785	6,130

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 bases to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries valued in accordance with the Group's accounting policies. Note 8 details the Directors' considerations about the fair value of the investment entity subsidiaries.

The fair values of the Group's other financial assets and liabilities are not materially different from their carrying values with the exception of loans and borrowings. At 30 September 2018 the fair value of loans and borrowings was £703 million (31 March 2018: £718 million), determined with reference to their published market prices and the carrying value of the loans and borrowings was £575 million (31 March 2018: £575 million).

Level 3 fair value reconciliation – unquoted investments

	Six months to 30 September 2018 £m	Year to 31 March 2018 £m
Opening fair value	1,751	1,316
Additions	110	481
- of which loan notes with nil value	(5)	–
Disposals and repayments	(790)	(315)
Fair value movement	44	346
Other movements and net cash movements	34	(77)
Closing fair value	1,144	1,751

Unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised profits over value on disposal of investment of £31 million (September 2017: £13 million), dividend income of £1 million (September 2017: £8 million) and foreign exchange gains of £31 million (September 2017: £7 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section on pages 150 to 151 in the Annual report and accounts 2018. On an IFRS basis, of the unquoted assets held at 30 September 2018 classified as Level 3, 76% (31 March 2018: 40%) were valued using a multiple of earnings and the remaining 24% (31 March 2018: 60%) were valued using alternative valuation methodologies. Of the underlying portfolio held by investment entity subsidiaries, 87% (31 March 2018: 95%) were valued using a multiple of earnings and the remaining 13% (31 March 2018: 5%) were valued using alternative valuation methodologies.

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

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

9 Fair values of assets and liabilities continued

The value weighted average multiple used when valuing the portfolio at 30 September 2018 was 12.0x (31 March 2018: 11.7x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 30 September 2018 decreased by 5%, the investment portfolio value would decrease by £54 million (31 March 2018: £43 million) or 3% (31 March 2018: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative impact of £302 million (31 March 2018: £270 million) or 5% (31 March 2018: 6%). If the multiple increased by 5% then the investment portfolio value would increase by £51 million (31 March 2018: £35 million) or 3% (31 March 2018: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive impact of £299 million (31 March 2018: £260 million) or 5% (31 March 2018: 6%).

Alternative valuation methodologies – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and the inputs that are used, are given in the Portfolio valuation – an explanation section on pages 150 to 151 in the Annual report and accounts 2018. Each methodology is used for a proportion of assets by value, and at 30 September 2018 the following techniques were used under an IFRS basis: 12% other (which includes DCF) and 12% industry metric. If the value of all of the investments under these methodologies moved by 5%, this would have an impact on the investment portfolio of £14 million (31 March 2018: £53 million) or 1% (31 March 2018: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have an impact of £34 million (31 March 2018: £10 million) or 1% (31 March 2018: 0.3%).

10 Contingent liabilities

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012 the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc) as defined by an agreement with a wholly owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. In September 2018, the subsidiary was able to transfer 10.8 million of shares back to the Company due to the significant increase in 3i Infrastructure plc's share price. The fair value of eligible assets held by this subsidiary at 30 September 2018 was £244 million (31 March 2018: £237 million). As part of the latest triennial valuation of the pension scheme, the Company has agreed to pay up to £50 million to the scheme if the Group's gearing increases above 20%, gross debt rises above £1 billion or net assets fall below £2 billion. If the gearing, gross debt or net asset limits noted are reached, the Group may be required to increase the potential cover provided by the contingent asset arrangement until the gearing, gross debt or net assets improve.

At 30 September 2018, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

11 Related parties

All related party transactions that took place in the six months ending 30 September 2018 are consistent in nature with the disclosures in Note 29 on pages 132 to 134 of the Annual report and accounts 2018. Related party transactions which took place in the period and materially affected performance or the financial position of the Group, together with any material changes in related party transactions as described in the Annual report and accounts 2018 that could materially affect the performance or the financial position of the Group are detailed below.

11 Related parties continued

Limited partnerships

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

Consolidated statement of comprehensive income	Six months to 30 September 2018 £m	Six months to 30 September 2017 £m
Carried interest and performance fees receivable	58	64
Fees receivable from external funds	10	13

Consolidated statement of financial position	30 September 2018 £m	31 March 2018 £m
Carried interest and performance fees receivable	556	500

Investments

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

Consolidated statement of comprehensive income	Six months to 30 September 2018 £m	Six months to 30 September 2017 £m
Realised profit over value on the disposal of investments	–	9
Unrealised profits on the revaluation of investments	25	25
Portfolio income	–	5

Consolidated statement of financial position	30 September 2018 £m	31 March 2018 £m
Unquoted investments	415	380

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

Advisory arrangements

The Group acted as an adviser to 3i Infrastructure plc ("3iN"), which is listed on the London Stock Exchange, for the period to 30 September 2018. Following the decision to move 3iN's tax residence and management to the UK, 3i Investments plc was appointed as 3iN's Investment Manager on 15 October 2018. The following amounts have been recognised in respect of the advisory relationship during the period:

Consolidated statement of comprehensive income	Six months to 30 September 2018 £m	Six months to 30 September 2017 £m
Unrealised profits on the revaluation of investments	48	11
Dividends	6	8
Fees receivable from external funds	15	11

Consolidated statement of financial position	30 September 2018 £m	31 March 2018 £m
Quoted equity investments	415	345
Performance fees receivable	–	90

Independent review report to 3i Group plc

Introduction

We have been engaged by 3i Group plc (the 'Company' or the 'Group') to review the condensed consolidated financial statements in the Half-year report for the six months ended 30 September 2018 which comprises the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statement of changes in equity, the Condensed consolidated cash flow statement, Basis of preparation and accounting policies and the related notes 1 to 11 (together the 'condensed consolidated financial statements'). We have read the other information contained in the Half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the Half-year report for the six months ended 30 September 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London, United Kingdom
14 November 2018

Statement of Directors' responsibilities

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

The Directors confirm that to the best of their knowledge:

- a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU;
- b) the Half-year report includes a fair review of the information required by:
 - i) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 March 2019 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - ii) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being (i) related party transactions that have taken place in the first six months of the financial year ending 31 March 2019 which have materially affected the financial position or performance of 3i Group during that period; and (ii) any changes in the related party transactions described in the Annual report and accounts 2018 that could materially affect the financial position or performance of 3i Group during the first six months of the financial year ending 31 March 2019.

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

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

K J Dunn, Secretary
14 November 2018

List of Directors and their functions

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

Simon Thompson, Chairman and Chairman of the Nominations Committee
Simon Borrows, Chief Executive and Executive Director
Julia Wilson, Group Finance Director and Executive Director
Jonathan Asquith, non-executive Director, Deputy Chairman and Chairman of the Remuneration Committee
Caroline Banzky, non-executive Director and Chairman of the Audit and Compliance Committee
Stephen Daintith, non-executive Director
Peter Grosch, non-executive Director
David Hutchison, non-executive Director and Chairman of the Valuations Committee
Coline McConville, non-executive Director (appointed on 1 November 2018)

Portfolio and other information

20 large investments

The 20 investments listed below account for 93% of the portfolio value at 30 September 2018 (31 March 2018: 93%).

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost ¹ March 2018 £m	Residual cost ¹ September 2018 £m	Valuation March 2018 £m	Valuation September 2018 £m	Relevant transactions in the period
Action* Non-food discount retailer	Private Equity Netherlands 2011 Earnings	12	24	2,064	2,381	
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	310	307	581	659	
Scandlines Ferry operator between Denmark and Germany	Corporate Assets Denmark/Germany 2018 DCF	–	529	–	521	Full realisation and 3i's partial reinvestment completed on 21 June 2018 and generated net proceeds of £306m. £22m dividend received in September 2018.
WP* Supplier of plastic packaging solutions	Private Equity Netherlands 2015 Earnings	175	180	244	259	
Audley Travel* Provider of experiential tailor-made travel	Private Equity UK 2015 Earnings	195	205	233	258	
Basic-Fit Discount gyms operator	Private Equity Netherlands 2013 Quoted	11	8	270	256	Sold 3.7m shares at €30.5 per share, generating proceeds of £89m.
Cirtec Medical* Outsourced medical device manufacturing	Private Equity US 2017 Earnings	172	172	190	239	
Q Holding* Manufacturer of precision engineered elastomeric components	Private Equity US 2014 Earnings	162	162	229	239	
Hans Anders* Value-for-money optical retailer	Private Equity Netherlands 2017 Earnings	186	190	189	203	
Smarte Carte* Provider of self-serve vended luggage carts, electronic lockers and concession carts	Infrastructure US 2017 DCF	166	163	167	180	
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	30	139	165	
Ponroy Santé* Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	139	143	145	163	Acquired Densmore in July 2018.
Formel D* Quality assurance provider for the automotive industry	Private Equity Germany 2017 Earnings	138	143	133	157	
BoConcept* Urban living designer	Private Equity Denmark 2016 Earnings	142	149	137	146	

20 large investments continued

Investment	Business line Geography First invested in	Residual cost ¹ March 2018 £m	Residual cost ¹ September 2018 £m	Valuation March 2018 £m	Valuation September 2018 £m	Relevant transactions in the period
Description of business	Valuation basis					
Royal Sanders* Private label and contract manufacturing producer of personal care products	Private Equity Netherlands 2018 Earnings	–	135	–	142	New investment.
ACR Pan-Asian non-life reinsurance	Private Equity Singapore 2006 Industry Metric	105	105	129	135	
ICE* Global travel and loyalty company that connects leading brands, travel suppliers and end consumers	Private Equity US 2018 Earnings	–	110	–	132	New investment.
Aspen Pumps* Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	86	90	108	131	
Tato Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	2	2	114	118	
Lampenwelt* Online lighting specialist retailer	Private Equity Germany 2017 Earnings	98	100	111	111	

* Controlled in accordance with IFRS.

¹ Residual cost includes capitalised interest.

Glossary

2013-2016 vintage includes Aspen Pumps, Audley Travel, Basic-Fit, Dynatect, Euro-Diesel, ATESTEO, JMJ, Q Holding, WP, Scandlines further (completed in December 2013), Christ, Geka, Óticas Carol and Blue Interactive.

2016-2019 vintage includes BoConcept, Cirtec, Formel D, Hans Anders, ICE, Lampenwelt, Ponroy Santé, Royal Sanders and Schlemmer.

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

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

Buyouts 2010-2012 vintage includes Action, Amor, Christ, Element, Etanco, Hilite, OneMed and Trescal.

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

Capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act 2006, 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 on a cash basis and the accrual is discounted to reflect expected payment periods.

Carried interest receivable The Group earns a share of profits from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions and are paid by the fund once these conditions have been met on a cash basis. The carried interest receivable may be subject to clawback provisions if the performance of the fund deteriorates following carried interest being paid.

Company 3i Group plc.

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

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

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

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.

Fee income (or Fees receivable) is earned for providing services to 3i's portfolio companies and predominantly falls into one of two categories. Negotiation and other transaction fees are earned for providing transaction related services. They are generally fixed in nature and the revenue is recognised in full at the point of transaction completion. Monitoring and other ongoing service fees are earned for providing a range of services over a period of time and the revenue is recognised over the period the service is provided.

Fees receivable from external funds Fees receivable from external funds are earned for providing management and advisory services to a variety of fund partnerships and other entities. Fees are typically calculated as a percentage of the cost or value of the assets managed during the year and are paid quarterly, based on the assets under management to date. The revenue is recognised over the period, in line with the services provided.

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.

Growth 2010-2012 vintage includes Element, Hilite, BVG, Go Outdoors, Loxam, Touchtunes and WFCI.

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

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.

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

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

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

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

Performance fees receivable The Group earns a performance fee from the investment advisory services it provides to 3i Infrastructure plc ("3iN") when 3iN's total return for the year exceeds a specified threshold. This fee is calculated on an annual basis and paid in cash early in the next financial year. A new fee arrangement will come into place on 1 April 2019.

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

Proprietary capital Shareholders' capital which is available to invest to generate profits.

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

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

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

Information for shareholders

Note

The interim dividend is expected to be paid on 9 January 2019 to holders of ordinary shares on the register on 14 December 2018. The ex-dividend date will be 13 December 2018.

3i Group plc

Registered office:
16 Palace Street,
London SW1E 5JD, UK

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