17 May 2018

3i Group plc announces results for the year to 31 March 2018

Strong all-round performance

- Total return of **£1,425 million** or **24%** on opening shareholders' funds and NAV per share of **724 pence** (31 March 2017: 604 pence)

- Continued strong performance from Private Equity, with gross investment return of **£1,438 million** or **30%**, driven by Action, Scandlines, ATESTEO and Basic-Fit in particular. The gross investment return from investments completed between 2013 and 2016 was **29%**

- Private Equity team generated excellent realisations of **£1,002 million,** announced a further **c.£350 million** of proceeds to complete by the summer of 2018 and invested a total of **£587 million** in four new portfolio companies, as well as two important further investments

- A very good year for Infrastructure, which advised 3i Infrastructure plc ("3iN") on six investments and commitments totalling **£525 million** and the disposals of Elenia and AWG, which helped to generate a total return of **29%** for 3iN as well as a special dividend of **£143 million** for 3i

- Closed two European Infrastructure fund platforms, raising assets of more than £1 billion, and invested **£177 million** in our first US infrastructure investment, Smarte Carte

- Total dividend of **30** pence per share for FY2018, with **22** pence to be paid in July subject to shareholder approval

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

"3i delivered another strong all-round performance in FY2018, generating a total return of 24%. Our investment teams had a very busy year. We received £1,323 million of proceeds, announced a further c.£350 million of realisations to complete by July 2018, and invested £827 million, including in five new companies.

We enter FY2019 with good momentum across the Group. Our fund management initiatives in Infrastructure, together with our reinvestment into Scandlines, will generate important cash income while our Private Equity portfolio remains well positioned to generate top-tier capital returns. We remain confident in our ability to deliver continued growth and our new dividend policy provides shareholders with clarity on future distributions."

Financial highlights

	Year to/as at 31 March 2018	Year to/as at 31 March 2017
Group		
Total return[1]	**£1,425m**	£1,592m
Operating expenses	**£121m**	£117m
Operating cash profit	**£11m**	£5m
Realisation proceeds[1]	**£1,323m**	£1,275m
- of which are the proceeds from the sale of Debt Management	***£152m***	*£270m*
Gross investment return	**£1,552m**	£1,755m
- As a percentage of opening 3i portfolio value	**27%**	40%
Cash investment	**£827m**	£638m
3i portfolio value	**£6,657m**	£5,675m
Gross debt	**£575m**	£575m
Net cash	**£479m**	£419m
Gearing[2]	**nil**	nil
Liquidity	**£1,404m**	£1,323m
Net asset value	**£7,024m**	£5,836m
Diluted net asset value per ordinary share	**724p**	604p

1 The FY2017 total return and realisation proceeds includes discontinued operations. Unless stated, all balances are on continuing operations.

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

ENDS

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For further information regarding the announcement of 3i's annual results to 31 March 2018, including a live videocast of the results presentation at 09.30am, please visit www.3i.com.

Notes to editors

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

Notes to the announcement of the results

Note 1

All of the financial data in this announcement is taken from the Investment basis financial statements. The statutory accounts are prepared under IFRS for the year to 31 March 2018 and have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2017 have been delivered to the Registrar of Companies. The auditor's reports on the statutory accounts for these years are unqualified and do not contain any matters to which the auditor drew attention by way of emphasis or any statements under section 498(2) or (3) of the Companies Act 2006. This announcement does not constitute statutory accounts.

Note 2

Copies of the Annual report and accounts 2018 will be distributed to shareholders on or soon after 29 May 2018.

Note 3

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

Note 4

Subject to shareholder approval, the proposed dividend is expected to be paid on 20 July 2018 to holders of ordinary shares on the register on 15 June 2018.

Chairman's statement

FY2018 was another successful year for 3i. Our two divisions generated strong returns and we maintained our excellent track record of realisations, generating proceeds of £1,323 million (2017: £1,275 million). Importantly, we completed or announced over £700 million of investment in Private Equity. In addition, we completed our first Infrastructure investment in North America and launched two Infrastructure funds in Europe to complement our mandate for 3iN.

Market environment

FY2018 was a year dominated by global politics and increasing tensions across the world stage. This, coupled with the expectation of interest rate rises in the US, led to an increase in volatility across capital markets, even though the broad macro-economic picture remained strong. Financing markets remained relatively robust throughout the year, more closely reflecting the healthy macro-economic outlook.

The Group used this strong back-drop to sell a number of significant investments across both divisions, which delivered outstanding investment returns for shareholders. At the same time, the Group's investment teams in key geographies originated attractive new investments while remaining focused on price discipline.

Performance and dividend

The Group's total return for the year was £1,425 million (2017: £1,592 million). Net asset value increased to 724 pence per share (31 March 2017: 604 pence) and our return on opening shareholders' funds was 24% (2017: 36%). We remained net divestors in FY2018, ending the year with net cash of £479 million and liquidity of £1,404 million (31 March 2017: net cash of £419 million and liquidity of £1,323 million). Immediately after the year end, on 3 April 2018, we completed the £135 million investment in Royal Sanders announced in February 2018.

In recognition of the Group's financial performance in FY2018 and the strength of its balance sheet, the Board has recommended a dividend of 22.0 pence (2017: 18.5 pence). This is made up of the balance of the base dividend (8 pence per share, after the 8 pence paid in January 2018) and an additional dividend of 14.0 pence. Subject to shareholder approval, the dividend will be paid to shareholders in July 2018 and makes a total dividend for the year of 30.0 pence (2017: 26.5 pence).

Our policy of paying a base and additional dividend was introduced in May 2012. It has worked well as we reshaped the Group's strategy and simplified our business model. Six years of successful strategic delivery since then have supported an increase in the total dividend from 8.1 pence in FY2013 to 30.0 pence in FY2018.

In light of the Group's continued progress in executing its strategy, we now propose to replace our base and additional dividend policy with a simpler policy. The Board will maintain its conservative balance sheet strategy, which excludes structural gearing at the Group level, and will carefully consider the outlook for investments and realisations and market conditions. Subject to that, the Board will aim to maintain or grow the dividend each year, from the 30.0 pence this year. We will continue to pay an interim dividend, which we expect to set at 50% of the prior year's total dividend, subject to the same considerations.

Board and management

After last year's changes, this year the composition of the Board was stable. I would like to thank the Board, the management team and all of our employees for their contribution to this year's excellent results.

Outlook

We enter FY2019 with a high-performing portfolio of investments in both of our divisions and a strong balance sheet. Competition in both private equity and infrastructure remains intense, with high asset prices demanding a disciplined approach to investment. But I remain confident that the Group will be agile and opportunistic as we navigate what looks likely to be another year of significant economic and geo-political uncertainty.

Simon Thompson
Chairman

Chief Executive's statement

3i delivered another strong all-round performance in FY2018, with NAV per share increasing by 20% to 724 pence (31 March 2017: 604 pence). Unlike FY2017, which included a £297 million gain on currency translation, our total return of £1,425 million (2017: £1,592 million) was after a £16 million loss on currency. This return was 24% of opening shareholders' funds, marking the fourth consecutive year of greater than 20% returns. This was a profitable year for realisations; we received £1.3 billion of cash and announced a further c.£350 million of proceeds which will complete by summer 2018. It was also a good year for new investment, with £827 million invested, including in five new companies. So FY2018 was a very active year and further confirmation of the Group's strategy and return potential.

A strong portfolio in Private Equity

In Private Equity, we have a quality investment portfolio, which is performing strongly overall. Earnings increased in 91% of the portfolio by value in the year (2017: 93%) and generated attractive returns for shareholders.

Longer-term hold assets

Our largest Private Equity investment, Action, had another strong year. Action's expansion continued at an impressive rate, with 243 net new stores opened in calendar year 2017. Revenue grew by 28% to €3.4 billion, like-for-like sales by 5.3% and EBITDA by 25% to €387 million (2017: €2.7 billion, 6.9% and €310 million). Action now has over 1,100 stores and intends to open more stores in 2018 than 2017. New Action stores become profitable in one year on average and the rapid expansion programme led to another year of strong value growth.

Action's straightforward business model, built on a consistent, one-store format and good quality but inexpensive products, has been proven to work in seven countries so far. However, growth at this pace requires very significant investment in logistics, supply chain, IT, risk management and HR. To manage the enormous volume of goods, Action opened a further two distribution centres ("DCs") in 2018 and commenced building two more.

The newer DCs will help support Action's expansion and reduce costs in the future, as those stores that are a long distance from a DC incur materially higher transport costs. Growth on this scale is very challenging to manage and Action encountered its share of issues in logistics and distribution and within certain product categories in 2017. These challenges, together with building a pan-European infrastructure to cope with the medium-term ambition of €10 billion of revenues, will have a dampening effect on the rate of profit growth expected this year, as they did in 2017. But Action is an exceptional business, it is still likely to generate sector-leading sales and profit growth in 2018 and this ongoing investment in logistics and infrastructure will facilitate its considerable medium-term growth potential.

Notwithstanding the above, Action remains very cash generative due to its asset-light model and structurally negative working capital, and the company completed its fifth refinancing in March 2018. The proceeds of the €2.4 billion refinancing supported a return of capital to shareholders, of which 3i received £307 million, taking total distributions to 3i since investment to £834 million, a 7.1x cash return to date.

Our other long-term hold asset, Scandlines, had a significant year. 3i, together with Eurofund V ("EFV"), initially invested €81 million (3i only: £31 million) to acquire a 40% stake in Scandlines in 2007. We purchased a further 10% stake for €43 million (3i only: £21 million) in 2010 before acquiring the final 50% stake for €165 million (3i only: £77 million) in 2013. Scandlines now has two highly efficient ferry routes linking Continental Europe to Scandinavia and as a result of investing in its ferry capacity, increasing the frequency of crossings and investing in its border shops, generates significant and stable cash flows. This characteristic meant that, in July 2017, Scandlines completed an €862 million infrastructure debt refinancing, which substantially reduced its long-term cost of debt.

Together, these initiatives enabled us to announce the sale of Scandlines to funds managed by First State Investments and Hermes Investment Management for an equity value of €1.7 billion in March 2018. This represents a 7.4x money multiple on our total investment, and a 5.8x multiple on our further investment in 2013. 3i remains committed to the business and will reinvest c.€600 million to hold a 35% stake, alongside First State Investments and Hermes Investment Management, as we expect to generate attractive returns and receive regular cash dividends over the medium term. This will provide an important contribution to the Group's operating cash position.

Portfolio performance

The portfolio of investments put together between 2013 and 2016 is creating significant value with notable increases from Basic-Fit, Scandlines, Audley Travel and Weener Plastic ("WP"). In addition, we sold ATESTEO for a money multiple of 4.8x in February 2018. As at 31 March 2018, our 2013-2016 vintage had already achieved a money multiple of 2.1x (31 March 2017: 1.7x).

It is inevitable that there will be some challenges in any Private Equity portfolio and our German high street jeweller, Christ, continues to suffer from structural changes in the retail sector such as the heavily discounted Black Friday weekend and the relentless shift to online. Christ saw the largest decline in value of the year at £53 million and we are working with management to develop a medium-term plan to help protect its strong brand as it meets these headwinds.

We have been active investors over the last two years and, because of the competitive environment, we have specifically targeted primary buy-out or family company investments, as well as companies that require a degree of operational improvement. Our agenda on buying these companies can be very intensive in terms of reshaping the business, restructuring finances, improving operational efficiency, investing for growth and changing or professionalising management. These situations often involve significant early cash investment, as well as being operationally disruptive.

This in turn means that returns can be modest in the early years of our ownership but then accelerate rapidly towards exit. Schlemmer, Formel D and BoConcept are good examples of investments which are undergoing this type of radical change programme.

Our proprietary capital model means that we do not have the same pressure to invest capital for the sake of generating fees. Our teams have the time to seek out interesting companies and build relationships with management teams long before any auction process starts.

FY2018 was a good year for investment. We invested £587 million in four companies at sensible prices: Hans Anders, Lampenwelt, Formel D and Cirtec Medical (including a follow-on investment to support its acquisition of Vascotube). Our £135 million investment in Royal Sanders, announced in February 2018, completed in April 2018. We also announced our c.$150 million investment in ICE (International Cruise & Excursions), a leading provider of loyalty and travel solutions in April 2018, which is expected to complete by June 2018.

We have invested in a number of companies in recent years, such as WP, Cirtec Medical ("Cirtec"), Ponroy Santé and Q Holding, which are platform assets that can pursue growth through bolt-on acquisitions or strategic M&A. All of these companies are in sectors with high growth potential where there is significant opportunity to scale up and build value. Recent acquisitions in our portfolio ranged from smaller add-ons in WP to Cirtec's transformative acquisition of Vascotube and Ponroy Santé's acquisition of Aragan.

An outstanding year for Infrastructure

We have two broad priorities in Infrastructure. First, we are focused on our advisory relationship with 3iN and the delivery of good returns from its portfolio. Second, our expertise in the sector is allowing us to develop complementary fund management initiatives in Europe and North America in order to build the Group's fund management income and contribute to our operating cash position.

Our Infrastructure team had a very strong year. It advised 3iN on its disposals of Elenia and AWG, 3iN's last investments in regulated utilities, generating proceeds of £1.1 billion and returns of 4.5x and 3.3x cost respectively. The value uplifts from these sales were returned to 3iN shareholders via a £425 million special dividend in March 2018, of which 3i received £143 million. In addition, we advised 3iN on six investments in mid-market economic infrastructure businesses totalling £525 million. Our main priority this year will be to ensure that these recent investments deliver good performance. The 3i team, together with the 3iN Board, has done an outstanding job in repositioning 3iN's portfolio away from an increasing level of regulatory risk. The realisations of Elenia and AWG produced excellent financial returns and reinforced 3i's reputation as one of the leading infrastructure investment teams in Europe.

3iN's total return for the year was 29%, the highest since its IPO in 2007 and, for those shareholders who invested in 3iN's £385 million capital raise in June 2016 (including 3i Group), the 31% return on their investment is impressive.

During the year, we raised two new funds, the £700 million 3i Managed Infrastructure Acquisitions LP and the 3i European Operational Projects Fund ("EOPF"). There was strong investor demand for EOPF, which had its final close in April 2018 with €456 million of commitments, ahead of its €400 million target. The team is focused on sourcing assets for the fund and has invested or committed to invest €85 million of that capital so far.

Our new US Infrastructure team completed its first investment in Smarte Carte in November 2017 as a seed for the North America fund management strategy. We made a further investment in January 2018 to support Smarte Carte's acquisition of Aviation Mobility, and the team completed a $225 million refinancing of Smarte Carte in March 2018. Over the last 12 months, we have recruited selectively to build a team in the US and they are now busy with an interesting pipeline of opportunities.

Our Infrastructure platform is an important source of fund management fee income. As a result of the increase in investment activity, we generated £50 million of fee income (2017: £36 million), a performance fee of £90 million from 3iN (2017: £4 million) and closed the year with assets under management of £3.4 billion (31 March 2017: £2.9 billion).

Proprietary capital model underpinned by our strong balance sheet

We ended the year with net cash of £479 million (31 March 2017: £419 million). FY2018 was an outstanding year for realisations but generally we expect to hold high levels of cash and liquidity to ensure that we can continue to invest without having to accelerate realisations ahead of their full potential.

Our proprietary capital is the cornerstone of the 3i business model, supported by a complementary fund management platform in Infrastructure, which ensures our shareholders benefit from access to our Private Equity investment returns with minimal dilution from the costs of running our business. 3i aims to be the investor of choice in its core sectors of Business and Technology Services, Consumer and Industrial. Our long history of investing in the mid-market with a consistent, local, on the ground, presence in northern Europe and North America gives us a sustainable origination advantage. Our ungeared balance sheet allows us to be competitive and move fast for the right businesses.

To ensure that our proprietary capital model is as efficient as possible, we remain disciplined on firm costs. We closed our Madrid office this year following the sale of Mémora, our last significant Private Equity asset in Spain. Operating cash profit increased to £11 million (2017: £5 million) as advisory income from Infrastructure improved and cash operating expenses declined marginally to £115 million (2017: £116 million).

Outlook

We enter FY2019 with a good level of momentum across the Group and, while the wider geo-political environment remains challenging, we are confident in our ability to deliver continued strong growth for shareholders together with healthy dividends. We will stay focused on the mid market, maintain our discipline on pricing for new investments and use the rigour of our investment processes to manage our two portfolios actively.

I would like to thank the 3i team for their good work and contribution to yet another strong year for the Group. These excellent results are a further demonstration that 3i's strategy is capable of delivering consistently good returns. Our fund management initiatives, together with our reinvestment into Scandlines, will generate important cash income for the Group while our proprietary capital portfolio remains well positioned to generate top tier capital returns.

Simon Borrows
Chief Executive

Private Equity

Business review

Our Private Equity business generated very strong returns in FY2018 with a GIR of £1,438 million, or 30% on the opening portfolio (2017: £1,624 million, 43%), and realisations of £1,002 million (2017: £982 million). Despite continued political uncertainty and highly competitive markets, assets including Action, Audley Travel and Basic-Fit performed well. The team made investments of £587 million and delivered very strong returns from the realisation of ATESTEO and the upcoming exit of Scandlines.

Investment activity

We had a very busy year, completing four new investments and a number of further acquisitions. We invested £95 million in Lampenwelt, the largest European online specialist retailer in the lighting space and £172 million in Hans Anders, a value-for-money optical retailer based in the Netherlands. We invested £132 million in Formel D, a service provider to the automotive and component supply industry based in Germany, bringing in CITIC Capital as a co-investor to facilitate Formel D's expansion in China and £103 million in Cirtec, a leading provider of outsourced medical device design, engineering and manufacturing, headquartered in the US.

An important component of our investment strategy is our ability to facilitate transformative M&A in our portfolio companies. In November 2017, we completed a further investment in Cirtec to support its acquisition of Vascotube, an outsourced medical device manufacturer based in Germany. This transaction represented an attractive opportunity to add a European manufacturer whose product is used in the fast-growing minimally invasive sector that Cirtec specialises in. We also invested £10 million in Ponroy Santé to support its acquisition of Aragan, a designer and distributor of premium pharmaceutical food supplements. Finally, together with EFV, 3i acquired £11 million of Action shares from other shareholders.

In addition to the £587 million investment completed in the year to 31 March 2018, our £135 million investment in Royal Sanders, a leading European private label and contract manufacturing producer of personal care products, completed on 3 April 2018.

In April 2018, we also announced a c.$150 million investment in International Cruises and Excursions, a global travel and loyalty company that connects leading brands, travel suppliers and end consumers. The acquisition is expected to complete by June 2018.

Table 1: Private Equity cash investment in the year to 31 March 2018

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
Lampenwelt	New	Online lighting specialist retailer	May 2017	96	95
Hans Anders	New	Value-for-money optical retailer	May 2017	173	172
Formel D	New	Quality assurance service provider for the automotive industry	July 2017	150	132
BoConcept	Over-funding	Urban living designer	July 2017	(11)	(11)
Cirtec	New/Further	Outsourced medical device manufacturing	August/November 2017	173	172
Ponroy Santé	Further (M&A)	Manufacturer of natural healthcare and cosmetics products	November 2017	11	10
Action	Further	Non-food discount retailer	March 2018	19	11
Other	n/a	n/a	n/a	8	6
Total Private Equity investment				**619**	**587**

Realisations activity

Market conditions remained favourable, resulting in some highly competitive exit processes. As a result, we generated proceeds of £603 million from the sale of eight companies, realising an average money multiple of 2.4x (2017: £621 million, 1.8x). The sale of ATESTEO generated proceeds of £278 million and a money multiple on our investment of 4.8x. This is an excellent result from one of our 2013-2016 vintage investments. In addition, we completed the sale of some of our older investments, such as Mémora and MKM, as well as Óticas Carol, our last remaining investment in Brazil. We sold all of our remaining quoted stakes in Dphone and Refresco Gerber.

Where appropriate, we refinance our strongest assets when market conditions and trading performance allow. In July 2017, Scandlines completed an €862 million refinancing, which resulted in £50 million of proceeds for 3i. In November 2017, we completed the second refinancing of ATESTEO, which generated proceeds of £30 million. Action's strong growth and cash flow generation enabled it to de-lever rapidly during 2017, allowing a €2.4 billion refinancing in March 2018, which resulted in a £307 million distribution to 3i. Since our investment in 2011, Action has returned £834 million of refinancing proceeds to 3i, a 7.1x cash return on our investment to date.

In aggregate, we generated total proceeds of £1,002 million (2017: £982 million) and realised profits of £199 million in the year (2017: £38 million).

As at 31 March 2018, the portfolio comprised 35 assets and one quoted stake (31 March 2017: 37 assets and three quoted stakes).

In March 2018, we announced the sale of Scandlines and our partial reinvestment together with funds managed by First State Investments and Hermes Investment Management. The effect of these transactions will be accounted for when the transaction completes, expected to be in the summer of 2018.

Table 2: Private Equity realisations in the year to 31 March 2018

Investment	Country	Calendar year invested	31 March 2017 value[1] £m	3i realised proceeds £m	Profit/(loss) in the year[2] £m	Uplift on opening value[2] %	Residual value £m	Money multiple[3]	IRR
Full realisations									
ATESTEO	Germany	2013	130	278	139	100%	–	4.8x	51%
Mémora	Spain	2008	86	119	32	37%	–	1.4x	4%
MKM	UK	2006	68	70	2	3%	–	5.9x	19%
Refresco Gerber	Netherlands	2010	32	43	10	30%	–	2.0x	13%
Foster and Partners	UK	2007	34	33	(1)	(3)%	–	1.8x	9%
Óticas Carol	Brazil	2013	19	27	9	50%	–	1.9x	15%
Dphone	Hong Kong	2006	21	26	6	30%	–	2.2x	7%
Hobbs	UK	2004	9	7	(2)	(22)%	–	0.2x	(14)%
Total realisations			**399**	**603**	**195**	**48%**	**–**	**2.4x**	**n/a**
Refinancings[3]									
Action	Netherlands	2011	307	307	–	–	2,064	24.5x	79%
Scandlines	Denmark/Germany	2007/2013	50	50	–	–	803	7.4x	34%
ATESTEO	Germany	2013	30	30	–	–	–	n/a	n/a
Total refinancings			**387**	**387**	**–**	**–**	**2,867**	**n/a**	**n/a**
Partial realisations[1,3]									
Other	n/a	n/a	4	6	–	–	36	n/a	n/a
Deferred consideration									
Other	n/a	n/a	1	6	4	n/a	–	n/a	n/a
Total Private Equity realisations			**791**	**1,002**	**199**	**25%**	**2,903**	**n/a**	**n/a**

1 For partial realisations, 31 March 2017 value represents value of stake sold.
2 Cash proceeds realised in the period over opening value.
3 Cash proceeds over cash invested. For partial realisations and refinancings, valuations of any remaining investment are included in the multiple.

Portfolio valuation

The strong performance of the portfolio resulted in unrealised value growth of £1,080 million (2017: £1,274 million).

Performance

The strong performance of the investments valued on an earnings basis resulted in an increase in value of £541 million (2017: £827 million) with the most significant contribution coming from Action. At 31 March 2018, Action was valued using run-rate earnings at 31 March 2018. Action's post discount run-rate multiple increased to 16.5x (31 March 2017: 16.0x) resulting in a value of £2,064 million (31 March 2017: £1,708 million) after the receipt of £307 million from its refinancing. As the largest Private Equity investment by value, it represented 35% of the Private Equity portfolio (31 March 2017: 35%).

A number of investments in our 2013–2016 vintage such as Audley Travel, Aspen Pumps, Q Holding and WP are delivering good earnings growth, and therefore we recognised good value uplifts on these assets in the year.

Audley Travel is a provider of luxury, tailor-made, holidays to over 80 destinations worldwide, and serves clients principally in the UK and the US. Since our investment in December 2015, Audley has seen two successive years of strong revenue growth in the UK and US and has continued to invest in order to further scale the business. As a result, our £156 million investment was valued at £233 million at 31 March 2018. 3i invested in WP, an innovative plastic packaging manufacturer, in August 2015. The business performed well in 2017, increasing market share. It completed one small acquisition in 2017, as well as two further acquisitions in early 2018. Our investment was valued at £244 million at 31 March 2018 (31 March 2017: £200 million).

The good performance of our strongest assets was partially offset by specific weaknesses in a small number of portfolio companies which are either exposed to the high street retail sector or are undergoing a change programme. Christ, our German jewellery retailer, saw the largest decline in value in the year (£53 million). Consistent with other retailers, Christ is subject to structural changes in the market such as the increasing shift to online shopping. Although Christ is maintaining market share, these changes have impacted earnings.

Schlemmer has undertaken a significant operational reorganisation of its activities in Germany and the US, which have impacted earnings and liquidity this year. BoConcept was acquired in the knowledge that its organisational and retail structure would need careful review and good progress is being made to address this. Finally, Euro-Diesel's growth was lower than expected this year. Notwithstanding this, the company has a strong customer base and a full pipeline of orders for 2018.

Overall, 91% of the assets in the portfolio valued on an earnings basis, together with Scandlines and Basic-Fit, grew their earnings in the year (2017: 93%). One investment was valued using forecast earnings at 31 March 2018 (31 March 2017: one), representing 1% of the portfolio by value (31 March 2017: 2%). Table 4 shows the earnings growth of our top 20 assets.

Overall, net debt across the portfolio increased to 4.0x earnings (31 March 2017: 3.3x) principally due to the refinancing of Action and Scandlines. Excluding Action and Scandlines, the ratio was 3.3x (31 March 2017: 2.9x). Table 5 shows the ratio of net debt to earnings by portfolio value at 31 March 2018.

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

	2018 £m	2017 £m
Earnings based valuations		
Performance	**541**	827
Multiple movements	**144**	239
Other bases		
Uplift to imminent sale	**3**	8
Scandlines transaction value	**302**	–
Discounted cash flow	**3**	158
Other movements on unquoted investments	**6**	(1)
Quoted portfolio	**81**	43
Total	**1,080**	1,274

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section of the Annual report and accounts 2018.

Multiple movements

The increase in value due to multiple movements was £144 million (2017: £239 million increase). The run-rate multiple used to value Action increased to 16.5x post liquidity discount at 31 March 2018 (31 March 2017: 16.0x) to reflect its continued strong performance and potential for further growth in the seven countries it operates in. Based on the valuation at 31 March 2018, a net 1x movement in Action's post discount multiple would increase or decrease the valuation of 3i's investment by £176 million (31 March 2017: £142 million).

Across the remainder of the portfolio, we increased multiples for a number of assets where their performance or the strength of their sector merited a review. Generally, we consider a number of factors such as relative performance, investment size, comparable recent transactions and exit plans. We also consider the current strength of equity markets and, as a result, we selected multiples that were lower than the comparable set in 14 out of the 21 companies valued on an earnings basis (31 March 2017: 14 out of 22).

Excluding Action, the weighted average EBITDA multiple increased to 11.7x before liquidity discount (31 March 2017: 10.6x) and was 11.0x after liquidity discount (31 March 2017: 9.9x). The increase in the weighted average multiple reflects in part the recent investment in companies in higher rated sectors, such as Cirtec and Lampenwelt, and the sale of assets held at lower multiples.

The pre-discount multiples used to value the portfolio ranged between 8.5x and 17.4x (31 March 2017: 5.0x to 16.8x) and the post discount multiples ranged between 6.3x and 16.5x (31 March 2017: 4.8x to 16.0x).

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

	Number of companies	3i carrying value at 31 March 2018 £m
<0%	5	**452**
0 - 9%	6	**1,599**
10 - 19%	5	**870**
>20%	4	**2,590**

1 Includes top 20 Private Equity companies by value. This represents 95% of the Private Equity portfolio by value (31 March 2017: 91%).

Table 5: Ratio of net debt to earnings[1]

	Number of companies	3i carrying value at 31 March 2018 £m
<1x	1	**29**
1 - 2x	4	**489**
2 - 3x	4	**615**
3 - 4x	3	**395**
4 - 5x	8	**3,581**
of which Action		*2,064*
of which Scandlines		*803*
>5x	–	–

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

Scandlines transaction value

In March 2018, we announced the sale of Scandlines for a total equity value of €1.7 billion (31 March 2017 value: €1.1 billion). 3i valued its stake at £803 million at 31 March 2018 (31 March 2017: £538 million) and we recognised unrealised value growth of £302 million to reflect the value of the transaction, less a 2.5% discount.

At the completion of the sale, 3i will reinvest to hold a 35% stake.

Quoted portfolio

Basic-Fit generated strong growth in its 2017 financial year with revenue and profit up by 26% and 25% respectively. The business ended the year with 521 clubs and 1.5 million members. This strong performance was reflected in the share price increasing to €23.35 at 31 March 2018 (31 March 2017: €16.27) and resulted in an unrealised value gain of £81 million in the year. 3i's stake was valued at £270 million at 31 March 2018 (31 March 2017: £184 million). Our quoted holdings in Dphone and Refresco Gerber were sold during the year.

Assets under management

The value of 3i's proprietary capital increased to £5.8 billion in the year (31 March 2017: £4.8 billion).

The value of the portfolio including third-party capital increased to €9.5 billion (31 March 2017: €8.1 billion).

Table 6: Quoted portfolio value movement for the year to 31 March 2018

Investment	IPO date	Opening value at 1 April 2017 £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements[1] £m	Closing value at 31 March 2018 £m
Dphone	July 2014	21	(21)	–	–	–
Refresco Gerber	March 2015	32	(33)	–	1	–
Basic-Fit	June 2016	184	–	81	5	270
Total		237	(54)	81	6	270

1 Other movements include foreign exchange.

Table 7: Private Equity assets by geography as at 31 March

3i office location	Number of companies	3i carrying value 2018 £m
Benelux	6	2,789
France	2	211
Germany	6	1,493
UK	11	632
US	4	497
Other	7	203
Total	36	5,825

Table 8: Proprietary capital as at 31 March

Vintages	Proprietary capital value 2018 £m	Multiple 2018	Proprietary capital value 2017 £m	Multiple 2017
Buyouts 2010–2012	2,139	7.2x	1,779	5.9x
Growth 2010–2012	33	2.2x	33	2.2x
2013–2016[1]	1,695	2.1x	1,607	1.7x
2016–2019[1]	1,057	1.1x	422	1.0x
Other	901	n/a	990	n/a
Total	5,825		4,831	

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

Infrastructure

Business review

Infrastructure contributed a gross investment return of £113 million, or 16% on the opening portfolio (2017: £87 million, 17%). This was driven by 3iN's strong share price appreciation together with good levels of dividend and fee income from both 3iN and the other funds managed by the team.

Investment adviser to 3iN

In its capacity as 3iN's investment adviser, 3i advised on six new investments, including the £186 million further investment to acquire a majority position in Wireless Infrastructure Group and the £125 million follow-on investment in Infinis to support its acquisition of Alkane Energy. We also advised 3iN on its €201 million investment in Attero, announced at the end of March 2018. In total, we advised 3iN on investments and commitments of £525 million in 2018 (2017: £479 million).

We advised 3iN on the realisation of its holdings in Elenia and AWG, generating proceeds of £1,137 million. Elenia, the owner and operator of the second largest electricity distribution business in Finland and a complementary district heating business, was acquired by 3iN in January 2012 as part of a consortium. In December 2017, the consortium partners agreed to sell the business, which resulted in proceeds of £738 million for 3iN.

3iN agreed to sell its stake in AWG, the supplier of water and water recycling services to the east of England and Hartlepool, in December 2017, having held its stake since its IPO in 2007. It received proceeds of £399 million from the transaction in February 2018.

In March 2018, £425 million of the proceeds were returned to shareholders as a special dividend, representing substantially all of the value uplift recorded on Elenia and AWG during the year. As a 34% shareholder, 3i received £143 million of the special dividend.

Overall, the 3iN portfolio continues to perform well and the company generated an excellent total return of 29% in the year (2017: 9%).

Under the terms of the investment advisory agreement, 3iN paid an advisory fee of £34 million to 3i (2017: £25 million), with the increase attributable to new investment activity, and a NAV-based performance fee of £90 million (2017: £4 million). Of this, £67 million is expected to be payable to the Infrastructure team, with £9 million recognised during the year and the balance deferred and expensed over a number of years.

Infrastructure portfolio performance

Quoted

The most significant component of the Group's infrastructure portfolio is its 34% quoted stake in 3iN.
3iN's shares performed well in the year and the share price closed at 214 pence on 31 March 2018 (31 March 2017: 189 pence). 3iN generated £27 million (2017: £23 million) of dividend income as well as a special dividend of £143 million (2017: nil) for 3i.

Discounted cash flow

As at 31 March 2018, 3i's largest Infrastructure investment valued on a DCF basis was the investment in Smarte Carte, valued at £167 million (31 March 2017: nil). Following the initial investment in November 2017 as a seed for the North America fund management strategy, 3i supported Smarte Carte's acquisition of Aviation Mobility in January 2018. In March 2018, we completed a $225 million refinancing of Smarte Carte.

3i also has an investment in the 3i India Infrastructure Fund, which the team continues to manage to maximise value for fund investors.

In total, the Infrastructure portfolio generated unrealised value growth of £83 million (2017: £59 million).

Table 9: Unrealised profits/(losses) on the revaluation of Infrastructure investments[1] in the year to 31 March

	2018 £m	2017 £m
Quoted	**67**	63
Discounted cash flow	**8**	(4)
Fund NAV	**8**	–
Total	**83**	59

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section in our Annual report and accounts 2018.

Fund Management

We launched two funds in the year to complement our 3iN mandate and generate increased cash income for 3i in the medium term.

In June 2017, we closed the c.£700 million 3i Managed Infrastructure Acquisitions LP and invested £30 million into the fund alongside two pension funds, ATP and APG. The fund holds investments in East Surrey Pipelines, Belfast City Airport, HerAmbiente and a number of discrete PPP projects.

In April 2018, we announced the final close of the 3i European Operational Projects Fund with commitments of €456 million, including a €40 million commitment from 3i. This fund purchased the majority of the PPP assets held by 3i's existing BEIF II fund. The fund has invested and committed to invest approximately €85 million in operational PPP projects across Europe.

Assets under management and advisory agreement

Infrastructure AUM increased to £3.4 billion (31 March 2017: £2.9 billion) principally due to the new fund management initiatives launched in the year, as well as to 3iN's share price increase.

Table 10: Infrastructure portfolio value movement in the year to 31 March 2018

Investment	Valuation	Opening value at 1 April 2017 £m	Investment £m	Disposals at opening book value[1] £m	Unrealised value movement £m	Other movements[2] £m	**Closing value at 31 March 2018 £m**
3iN	Quoted	655	–	(137)	67	(4)	**581**
Smarte Carte	DCF	–	177	(11)	7	(6)	**167**
3i Managed Infrastructure Acquisitions LP	NAV	–	30	(1)	7	–	**36**
3i European Operational Projects Fund	NAV	–	10	–	1	(1)	**10**
3i India Infrastructure Fund	DCF	41	–	(1)	1	(3)	**38**
Other	DCF	10	–	(10)	–	–	**–**
Total		706	217	(160)	83	(14)	**832**

1 For Smarte Carte, the disposal is shown at investment value.
2 Other movements include foreign exchange.

Table 11: Assets under management and advisory agreement as at 31 March 2018

Fund	Close date	Fund size	3i commitment/ share	Remaining 3i commitment	% invested at 31 March 2018	**AUM £m**	**Fee income earned in 2018 £m**
3iN[1]	Mar 07	n/a	£581m	n/a	n/a	**1,731**	**34**
3i Managed Infrastructure Acquisitions LP	Jun 17	£698m	£35m	£5m	85%	**707**	**5**
3i European Operational Projects Fund[2]	Nov 17	€251m	€40m	€29m	27%	**65**	**–**
BIIF	May 08	£680m	n/a	n/a	90%	**551**	**5**
3i India Infrastructure Fund	Mar 08	US$1,195m	US$250m	US$35m	73%	**139**	**4**
Other	various	various	various	n/a	n/a	**167**	**2**
Total						**3,360**	**50**

1 AUM based on the share price at 31 March 2018.
2 The final close of the 3i European Operational Projects Fund took place on 10 April 2018 with commitments of €456 million. At 10 April 2018, the percentage invested was 15%.

Financial review

Strong financial performance

FY2018 was another year of strong financial performance. We generated a gross investment return of £1,552 million (2017: £1,755 million) and operating profit before carried interest of £1,428 million (2017: £1,675 million).

The performance was driven by strong unrealised value growth from Action, Scandlines and Basic-Fit, and the material uplifts from the disposals of ATESTEO and Mémora in the year.

The Group recognised a loss of £16 million on foreign exchange translation (2017: £297 million gain).

We generated a total return of £1,425 million or a profit on opening shareholders' funds of 24% (2017: £1,592 million or 36%). As a result of the strong performance in the year, the diluted NAV per share at 31 March 2018 increased by 20% to 724 pence (31 March 2017: 604 pence).

Table 12: Total return for the year to 31 March

Investment basis	2018 £m	2017 £m
Realised profits over value on the disposal of investments	207	38
Unrealised profits on the revaluation of investments	1,163	1,342
Portfolio income		
Dividends	41	50
Interest income from investment portfolio	116	50
Fees receivable	14	6
Foreign exchange on investments	11	269
Gross investment return	1,552	1,755
Fees receivable from external funds	57	46
Operating expenses	(121)	(117)
Interest received	2	2
Interest paid	(37)	(49)
Exchange movements	(27)	28
Other income	2	10
Operating profit before carried interest	1,428	1,675
Carried interest		
Carried interest and performance fees receivable	228	279
Carried interest and performance fees payable	(205)	(434)
Operating profit from continuing operations	1,451	1,520
Income taxes	(26)	3
Re-measurements of defined benefit plans	–	(22)
Total comprehensive income: continuing operations ("Total return from continued operations")	1,425	1,501
Total comprehensive income from discontinued operations, net of tax[1] ("Total return from discontinued operations")	–	91
Total comprehensive income ("Total return")	1,425	1,592
Total return on opening shareholders' funds	24%	36%

1 Discontinued operations included the results from 3i's Debt Management business, sold to Investcorp in March 2017.

Alternative performance measures ("APMs")

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

Realised profits

We generated total proceeds of £1,323 million (2017: £1,005 million) and a profit on disposal of £207 million (2017: £38 million). The majority of the realisations and uplift over opening value were from the Private Equity portfolio, which contributed £1,002 million of proceeds (2017: £982 million). Private Equity realisations included the sales of ATESTEO (£278 million, 100% uplift over opening value) and Mémora (£119 million, 37% uplift over opening value) together with refinancing proceeds of £387 million from Action, Scandlines and ATESTEO.

Unrealised value movements

We recognised an unrealised value movement of £1,163 million (2017: £1,342 million). Action's continued strong performance contributed £610 million (2017: £911 million) to value growth. Following the announcement of our agreement to sell Scandlines at the end of March 2018, we recognised an unrealised value gain of £302 million (2017: £155 million). The majority of the portfolio continued to perform well, notably Basic-Fit, Audley Travel, Q Holding, WP and AES.

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

Table 13: Unrealised profits on revaluation of investments (continuing operations) for the year to 31 March

	2018 £m	2017 £m
Private Equity	**1,080**	1,274
Infrastructure	**83**	59
Other (residual Debt Management)	**–**	9
Total	**1,163**	1,342

Portfolio income

Portfolio income grew to £171 million during the year (2017: £106 million) principally as a result of an increase in loan interest income receivable following the material increase in investment activity over the last two years. The majority of this interest income is non-cash. We recognised £14 million of fee income (2017: £6 million) due to transaction fees generated from our investment activity and to a reduction in abort costs incurred on prospective transactions. Dividend income reduced to £41 million (2017: £50 million) following the disposal of the remaining Debt Management investments in the year.

Fees receivable from external funds

Fees receivable increased to £57 million (2017: £46 million) due to increased advisory fee income from 3iN. 3i, as investment adviser, receives a fee for sourcing and completing new investments for 3iN. We advised 3iN on six investments with commitments of £525 million, including the further investments in Wireless Infrastructure Group and Infinis (2017: six investments and £479 million). In addition, we started to generate fee income from the 3i Managed Infrastructure Acquisitions LP, which closed in June 2017.

Operating expenses

Operating expenses increased to £121 million (2017: £117 million), principally due to a planned increase in staff costs as we invest to support our origination and asset management capability, as well as an increase in the Infrastructure team's share of the 3iN advisory fee income referred to above.

Operating cash profit

3i generated an operating cash profit of £11 million in the year (2017: £5 million). Cash income increased to £126 million (2017: £121 million) principally due to the increase in third-party capital fees in Infrastructure to £47 million (2017: £37 million).

Table 14: Operating cash profit for the year to 31 March

	2018 £m	2017 £m
Third-party capital fees	55	47
Cash portfolio fees	13	12
Cash portfolio dividends and interest	58	62
Cash income from continuing operations	**126**	**121**
Operating expenses from continuing operations	(115)	(116)
Operating cash profit: continuing operations	**11**	**5**
Operating cash profit: discontinued operations	–	28
Operating cash profit	**11**	**33**

Net interest payable

Gross interest payable reduced to £37 million (2017: £49 million), following the repayment of the €331 million bond in March 2017. Interest receivable on cash balances was £2 million (2017: £2 million).

Carried interest and performance fees

The continued good performance of Action and the announcement of the sale of Scandlines, the largest investments in our Private Equity fund EFV, led to a £136 million increase in carried interest receivable from EFV (2017: £272 million). This was calculated assuming that the portfolio was realised at the 31 March 2018 valuation. The fund's gross multiple was 2.5x at 31 March 2018 (31 March 2017: 2.2x).

In Private Equity, we typically accrue carried interest payable at between 10% and 15% of gross investment return. The majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 31 March 2018 valuation. We accrued carried interest payable of £196 million (2017: £431 million) for Private Equity, of which £77 million relates to the Private Equity team's share of carried interest receivable from EFV (2017: £202 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, £43 million was paid to participants in the Private Equity plans (2017: £127 million).

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high watermark. The continued strong performance of the assets held by 3iN, including the significant uplifts achieved on the sales of Elenia and AWG, resulted in the recognition of £90 million (2017: £4 million) of performance fees receivable. The Infrastructure team receives a share of the performance fee received from 3iN, with the majority of payments deferred and expensed over a number of years. £9 million (2017: £3 million) was accrued as payable to the Infrastructure team during the year out of a total potential payable of £67 million.

Overall, the effect of the income statement charge, the cash movement, as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £870 million (31 March 2017: £685 million) and the receivable increased to £596 million (31 March 2017: £366 million).

Table 15: Carried interest and performance fees for the year to 31 March

Statement of comprehensive income	2018 £m	2017 £m
Carried interest and performance fees receivable		
Private Equity	138	275
Infrastructure	90	4
Total	**228**	**279**
Carried interest and performance fees payable		
Private Equity	(196)	(431)
Infrastructure	(9)	(3)
Total	**(205)**	**(434)**
Net carried interest receivable/(payable)	**23**	**(155)**

Table 16: Carried interest and performance fees at 31 March

Statement of financial position	2018 £m	2017 £m
Carried interest and performance fees receivable		
Private Equity	**505**	359
Infrastructure	**90**	4
Other	**1**	3
Total	**596**	366
Carried interest and performance fees payable		
Private Equity	**(839)**	(650)
Infrastructure	**(31)**	(35)
Total	**(870)**	(685)

Impact of IFRS 15

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

The substantial majority of 3i's carried interest receivable is due from EFV which went through its performance hurdle on an accounting basis in FY2017. EFV has been extended to November 2019, when we expect the fund to be closed. Following the announcement of the sale of Scandlines on 26 March 2018, there are only four remaining investments in the fund: Action, Christ, Etanco and OneMed. Carried interest is only payable by the fund when proceeds are received and the cash hurdle is met.

At 31 March 2018, EFV investments had generated proceeds of €3.5 billion, including the proceeds from the upcoming sale of Scandlines, and the fund was over 75% of the way towards its cash hurdle. However, given the relative size and performance of Christ, Etanco and OneMed, the actual payment of carried interest receivable is dependent on the fund's realisation of Action. At 31 March 2018, the EFV investment in Action was valued at €1,815 million (31 March 2017: €1,540 million). Given the strong performance of Action, and its forecast growth profile, and consistent with our investment strategy for and valuation of the asset, our current assessment is that we do not expect the adoption of IFRS 15 to have a material impact on our recognition of carry receivable from EFV.

As at 31 March 2018, the carried interest receivable accrued on 3i's balance sheet from EFV was £484 million (2017: £340 million), with a corresponding £334 million (31 March 2017: £251 million) accrued as payable to the carry plan participants. The overall net impact from EFV carried interest is £150 million (31 March 2017: £89 million) or 15 pence per share (2017: 9 pence per share).

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

Net foreign exchange movements

At 31 March 2018, 77% of the Group's net assets were denominated in euros or US dollars. Following the strengthening of sterling against the US dollar, the Group recorded a total net foreign exchange loss of £16 million (2017: £297 million gain) in the year.

The Group is a long-term investor and does not hedge its foreign currency denominated portfolio. Where possible, flows from currency realisations are matched with currency investments. Short-term derivative contracts are used occasionally.

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

Table 17: Net assets and sensitivity by currency at 31 March 2018

	FX rate	£m	%	1% sensitivity £m
Sterling	n/a	**1,390**	20%	**n/a**
Euro	1.1409	**4,542**	65%	**45**
US dollar	1.4031	**862**	12%	**9**
Danish krona	8.5047	**137**	2%	**1**
Other	n/a	**93**	1%	**n/a**

Pension

The latest triennial valuation for the Group's UK defined benefit scheme was completed on 25 September 2017, based on the scheme's position at 30 June 2016. The outcome was an actuarial deficit of £50 million but it was agreed with the trustees that it was not necessary for the Group to make any immediate contributions to the plan, taking into account the volatile market conditions at the valuation date (immediately after the UK's referendum to leave the EU), and improvements in market conditions and liability management actions implemented since then. As part of this valuation, the Group has agreed to pay up to £50 million to the scheme if its gearing increases above 20%, gross debt exceeds £1 billion, or net assets fall below £2 billion.

The scheme also benefits from a contingent asset arrangement, details of which are provided in Note 25 of the Annual report and accounts 2018. If the gearing, net debt or net asset thresholds noted are crossed, the Group may be required to increase the potential cover provided by the contingent arrangement until the gearing, gross debt or net assets improve.

On an IAS 19 basis, there was a £1 million re-measurement gain on the Group's UK pension scheme during the year (March 2017: £22 million loss) and the pension scheme remains in a surplus of £125 million (31 March 2017: £121 million).

The triennial valuation uses assumptions set at 30 June 2016. It considers expected future returns on the Plan's assets against the expected liabilities using a generally more prudent set of assumptions. The IAS 19 accounting valuation compares the 31 March 2018 fair value of plan assets and liabilities, with the liabilities calculated based on the expected future payments discounted using AA corporate bond yields.

Tax

The Group's parent company has operated in the UK as an approved investment trust company since its listing on the London Stock Exchange in 1994. An approved investment trust is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK.

The Group recognised a corporate tax expense of £26 million for the year (2017: £3 million credit). This is higher than in previous years due to increased levels of taxable income from portfolio companies, reduced interest expenditure following the repayment of a bond in March 2017 and a £90 million performance fee from 3iN. Finally, the use of brought forward losses has been restricted with effect from 1 April 2017.

Other assets

In March 2017, we sold our Debt Management business to Investcorp. As part of the agreement we retained certain investments, which are detailed in Table 18. We redeemed all of our holdings by 31 December 2017, generating proceeds of £152 million.

Table 18: Other assets for the year to 31 March 2018

Consolidated statement of financial position	Currency	Opening value at 1 April 2017 £m	Investment £m	Divestment £m	Other movement[1] £m	Closing value at 31 March 2018 £m
CLO warehouses repaid	€	1	–	(1)	–	**–**
CLO equity retained	€/US$	50	–	(46)	(4)	**–**
Global Income Fund	US$	79	23	(97)	(5)	**–**
Senior Loan Fund	US$	8	–	(8)	–	**–**
Total		138	23	(152)	(9)	**–**

1 Other movements include realised losses and foreign exchange.

Balance sheet

Net cash increased to £479 million (31 March 2017: £419 million) as the Group remained a net divestor in FY2018. The investment portfolio value increased to £6,657 million at 31 March 2018 (31 March 2017: £5,675 million) as unrealised value growth of £1,163 million and cash investment offset the value of realisations in the year. Further information on investments and realisations is included in the Private Equity and Infrastructure business reviews.

Liquidity

Liquidity remained strong at £1,404 million (31 March 2017: £1,323 million). Liquidity comprised cash and deposits of £1,054 million (31 March 2017: £994 million) and undrawn facilities of £350 million (31 March 2017: £329 million).

Dividend

The Board has recommended a dividend of 22.0 pence (2017: 18.5 pence). This is made up of the balance of the base dividend (8 pence per share, after the 8 pence paid in January 2018) and an additional dividend of 14.0 pence. Subject to shareholder approval, the dividend will be paid to shareholders in July 2018 and takes the total dividend for the year to 30.0 pence (2017: 26.5 pence).

In light of the Group's continued progress in executing its strategy, we propose to replace our base and additional dividend policy with a simpler policy. The Board will maintain its conservative balance sheet strategy, which excludes structural gearing at the Group level, and will carefully consider the outlook for investments and realisations, and market conditions. Subject to that, the Board will aim to maintain or grow the dividend each year. We will continue to pay an interim dividend, which we expect to set at 50% of the prior year's total dividend, subject to the same considerations.

With net cash of £479 million and liquidity of over £1 billion at 31 March 2018, the Group is well positioned to fund the 22.0 pence dividend. We expect to hold high levels of liquidity to ensure that we can fund new investments without having to either accelerate realisations ahead of plan or dispose of investments when market conditions are not supportive. However, there may be occasions in the future when the cash we hold materially exceeds this need. If that is the case, the Board may consider other methods of shareholder distributions and returns at that time.

Table 19: Simplified consolidated balance sheet at 31 March

Statement of financial position	2018 £m	2017 £m
Investment portfolio	**6,657**	5,675
Gross debt	**(575)**	(575)
Cash	**1,054**	994
Net cash	**479**	419
Carried interest and performance fees receivable	**596**	366
Carried interest and performance fees payable	**(870)**	(685)
Other net assets	**162**	61
Net assets	**7,024**	5,836
Gearing[1]	**nil**	nil

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

Key accounting judgements and estimates

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

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

Given the importance of the valuation of investments, the Board has a separate Valuations Committee to review the valuation policy, process and application to individual investments. However, asset valuations for unquoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2018, 87% by value of the investment assets were unquoted (31 March 2017: 84%).

The valuation of the proprietary capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2018 and the underlying investment management agreements.

Investment basis

Consolidated statement of comprehensive income

for the year to 31 March

	2018 £m	2017 £m
Realised profits over value on the disposal of investments	**207**	38
Unrealised profits on the revaluation of investments	**1,163**	1,342
Portfolio income		
Dividends	**41**	50
Interest income from investment portfolio	**116**	50
Fees receivable	**14**	6
Foreign exchange gain on investments	**11**	269
Gross investment return	**1,552**	1,755
Fees receivable from external funds	**57**	46
Operating expenses	**(121)**	(117)
Interest receivable	**2**	2
Interest payable	**(37)**	(49)
Exchange movements	**(27)**	28
Other income	**2**	10
Operating profit before carried interest	**1,428**	1,675
Carried interest		
Carried interest and performance fees receivable	**228**	279
Carried interest and performance fees payable	**(205)**	(434)
Operating profit from continuing operations	**1,451**	1,520
Income taxes	**(26)**	3
Profit for the year from continuing operations	**1,425**	1,523
Profit for the year from discontinued operations, net of tax	**–**	91
Profit for the year	**1,425**	1,614
Other comprehensive income		
Re-measurements of defined benefit plans	**–**	(22)
Total comprehensive income for the year (“Total return”)	**1,425**	1,592

Consolidated statement of financial position

as at 31 March

	2018 £m	2017 £m
Assets		
Non-current assets		
Investments		
Quoted investments	**851**	893
Unquoted investments	**5,806**	4,782
Investment portfolio	**6,657**	5,675
Carried interest and performance fees receivable	**503**	359
Other non-current assets	**113**	106
Intangible assets	**12**	–
Retirement benefit surplus	**125**	121
Property, plant and equipment	**4**	5
Total non-current assets	**7,414**	6,266
Current assets		
Carried interest and performance fees receivable	**93**	7
Other current assets	**60**	10
Current income taxes	**3**	2
Deposits	**–**	40
Cash and cash equivalents	**1,054**	954
Total current assets	**1,210**	1,013
Total assets	**8,624**	7,279
Liabilities		
Non-current liabilities		
Trade and other payables	**(14)**	(29)
Carried interest and performance fees payable	**(764)**	(644)
Loans and borrowings	**(575)**	(575)
Retirement benefit deficit	**(23)**	(22)
Deferred income taxes	**(3)**	(1)
Provisions	**(1)**	(2)
Total non-current liabilities	**(1,380)**	(1,273)
Current liabilities		
Trade and other payables	**(101)**	(125)
Carried interest and performance fees payable	**(106)**	(41)
Current income taxes	**(12)**	–
Provisions	**(1)**	(4)
Total current liabilities	**(220)**	(170)
Total liabilities	**(1,600)**	(1,443)
Net assets	**7,024**	5,836
Equity		
Issued capital	**719**	719
Share premium	**786**	785
Other reserves	**5,545**	4,370
Own shares	**(26)**	(38)
Total equity	**7,024**	5,836

Consolidated cash flow statement
for the year to 31 March

	2018 £m	2017 £m
Cash flow from operating activities		
Purchase of investments	(827)	(692)
Proceeds from investments	1,277	1,063
Net cash flow from derivatives	(10)	–
Portfolio interest received	17	16
Portfolio dividends received	41	66
Portfolio fees received	13	11
Fees received from external funds	55	71
Carried interest and performance fees received	6	39
Carried interest and performance fees paid	(48)	(131)
Carried interest held in non-current assets	(27)	(56)
Acquisition related earn-out charges paid	–	(1)
Operating expenses paid	(115)	(131)
Co-investment loans	3	1
Income taxes paid	(12)	(2)
Other cash income	–	2
Net cash flow from operating activities	373	256
Cash flow from financing activities		
Issue of shares	1	1
Dividends paid	(255)	(230)
Interest received	2	2
Interest paid	(36)	(51)
Repayment of short-term borrowings	–	(264)
Repurchase of short-term borrowings	–	(17)
Net cash flow from financing activities	(288)	(559)
Cash flow from investing activities		
Purchase of property, plant and equipment	(2)	(1)
Purchase of intangible assets	(13)	–
Proceeds from sale of Debt Management business	–	232
Cash held in sold subsidiaries	–	(4)
Net cash flow from deposits	41	–
Net cash flow from investing activities	26	227
Change in cash and cash equivalents	111	(76)
Cash and cash equivalents at the start of year	954	962
Effect of exchange rate fluctuations	(11)	68
Cash and cash equivalents at the end of year	1,054	954

Background to Investment basis financial statements

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

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

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

Reconciliation of Investment basis and IFRS

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

Reconciliation of Investment basis and IFRS

Reconciliation of consolidated statement of comprehensive income

for the year to 31 March

	Notes	**Investment basis 2018 £m**	**IFRS adjustments 2018 £m**	**IFRS basis 2018 £m**	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m
Realised profits/(losses) over value on the disposal of investments	1,2	**207**	**(189)**	**18**	38	(63)	(25)
Unrealised profits on the revaluation of investments	1,2	**1,163**	**(777)**	**386**	1,342	(1,080)	262
Fair value movements on investment entity subsidiaries	1	**–**	**848**	**848**	–	1,041	1,041
Portfolio income							
Dividends	1,2	**41**	**(12)**	**29**	50	(12)	38
Interest income from investment portfolio	1,2	**116**	**(90)**	**26**	50	(40)	10
Fees receivable	1,2	**14**	**3**	**17**	6	3	9
Foreign exchange on investments	1,3	**11**	**(23)**	**(12)**	269	(205)	64
Gross investment return		**1,552**	**(240)**	**1,312**	1,755	(356)	1,399
Fees receivable from external funds		**57**	**–**	**57**	46	–	46
Operating expenses	1,4	**(121)**	**1**	**(120)**	(117)	1	(116)
Interest receivable		**2**	**–**	**2**	2	–	2
Interest payable		**(37)**	**–**	**(37)**	(49)	–	(49)
Exchange movements	1,3	**(27)**	**84**	**57**	28	14	42
Other income		**2**	**–**	**2**	10	–	10
Income from investment entity subsidiaries	1	**–**	**19**	**19**	–	18	18
Operating profit before carried interest		**1,428**	**(136)**	**1,292**	1,675	(323)	1,352
Carried interest							
Carried interest and performance fees receivable	1,4	**228**	**–**	**228**	279	1	280
Carried interest and performance fees payable	1,4	**(205)**	**173**	**(32)**	(434)	326	(108)
Operating profit from continuing operations		**1,451**	**37**	**1,488**	1,520	4	1,524
Income taxes	1,4	**(26)**	**1**	**(25)**	3	–	3
Profit for the year from continuing operations		**1,425**	**38**	**1,463**	1,523	4	1,527
Profit for the year from discontinued operations		**–**	**–**	**–**	91	7	98
Profit for the year		**1,425**	**38**	**1,463**	1,614	11	1,625
Other comprehensive income							
Exchange differences on translation of foreign operations	1,3	**–**	**(38)**	**(38)**	–	(4)	(4)
Re-measurements of defined benefit plans		**–**	**–**	**–**	(22)	–	(22)
Other comprehensive expense for the year from continuing operations		**–**	**(38)**	**(38)**	(22)	(4)	(26)
Other comprehensive expense for the year from discontinued operations		**–**	**–**	**–**	–	(7)	(7)
Total comprehensive income for the year (“Total return”)		**1,425**	**–**	**1,425**	1,592	–	1,592

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

Notes:

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

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

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

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

Reconciliation of consolidated statement of financial position
as at 31 March

	Notes	Investment basis 2018 £m	IFRS adjustments 2018 £m	IFRS basis 2018 £m	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	851	(506)	345	893	(503)	390
Unquoted investments	1	5,806	(4,055)	1,751	4,782	(3,466)	1,316
Investments in investment entity subsidiaries	1,2	–	4,034	4,034	–	3,483	3,483
Investment portfolio		6,657	(527)	6,130	5,675	(486)	5,189
Carried interest and performance fees receivable	1	503	(5)	498	359	(5)	354
Other non-current assets	1	113	(85)	28	106	(56)	50
Intangible assets		12	–	12	–	–	–
Retirement benefit surplus		125	–	125	121	–	121
Property, plant and equipment		4	–	4	5	–	5
Total non-current assets		7,414	(617)	6,797	6,266	(547)	5,719
Current assets							
Carried interest and performance fees receivable	1	93	–	93	7	2	9
Other current assets	1	60	(26)	34	10	2	12
Current income tax receivable		3	–	3	2	–	2
Deposits		–	–	–	40	–	40
Cash and cash equivalents	1	1,054	(82)	972	954	(23)	931
Total current assets		1,210	(108)	1,102	1,013	(19)	994
Total assets		8,624	(725)	7,899	7,279	(566)	6,713
Liabilities							
Non-current liabilities							
Trade and other payables	1	(14)	13	(1)	(29)	5	(24)
Carried interest and performance fees payable	1	(764)	659	(105)	(644)	520	(124)
Loans and borrowings		(575)	–	(575)	(575)	–	(575)
Retirement benefit deficit		(23)	–	(23)	(22)	–	(22)
Deferred income taxes		(3)	–	(3)	(1)	1	–
Provisions		(1)	–	(1)	(2)	–	(2)
Total non-current liabilities		(1,380)	672	(708)	(1,273)	526	(747)
Current liabilities							
Trade and other payables	1	(101)	1	(100)	(125)	22	(103)
Carried interest and performance fees payable	1	(106)	51	(55)	(41)	18	(23)
Current income taxes	1	(12)	1	(11)	–	–	–
Provisions		(1)	–	(1)	(4)	–	(4)
Total current liabilities		(220)	53	(167)	(170)	40	(130)
Total liabilities		(1,600)	725	(875)	(1,443)	566	(877)
Net assets		7,024	–	7,024	5,836	–	5,836
Equity							
Issued capital		719	–	719	719	–	719
Share premium		786	–	786	785	–	785
Other reserves	3	5,545	–	5,545	4,370	–	4,370
Own shares		(26)	–	(26)	(38)	–	(38)
Total equity		7,024	–	7,024	5,836	–	5,836

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

Notes:

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

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

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

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

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

Reconciliation of consolidated cash flow statement

for the year to 31 March

	Notes	Investment basis 2018 £m	IFRS adjustments 2018 £m	IFRS basis 2018 £m	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m
Cash flow from operating activities							
Purchase of investments	1	(827)	357	(470)	(692)	358	(334)
Proceeds from investments	1	1,277	(863)	414	1,063	(753)	310
Cash inflow from investment entity subsidiaries	1	–	430	430	–	246	246
Net cash flow from derivatives		(10)	–	(10)	–	–	–
Portfolio interest received	1	17	(13)	4	16	(9)	7
Portfolio dividends received	1	41	(12)	29	66	(12)	54
Portfolio fees received	1	13	–	13	11	(2)	9
Fees received from external funds		55	–	55	71	–	71
Carried interest and performance fees received		6	–	6	39	–	39
Carried interest and performance fees paid	1	(48)	8	(40)	(131)	104	(27)
Carried interest held in non-current assets	1	(27)	27	–	(56)	56	–
Acquisition related earn-out charges paid		–	–	–	(1)	–	(1)
Operating expenses paid	1	(115)	1	(114)	(131)	–	(131)
Co-investment loans	1	3	2	5	1	1	2
Income taxes paid	1	(12)	2	(10)	(2)	–	(2)
Other cash income		–	–	–	2	–	2
Net cash flow from operating activities		373	(61)	312	256	(11)	245
Cash flow from financing activities							
Issue of shares		1	–	1	1	–	1
Dividends paid		(255)	–	(255)	(230)	–	(230)
Interest received		2	–	2	2	–	2
Interest paid		(36)	–	(36)	(51)	–	(51)
Repayment of short-term borrowings		–	–	–	(264)	–	(264)
Repurchase of short-term borrowings		–	–	–	(17)	–	(17)
Net cash flow from financing activities		(288)	–	(288)	(559)	–	(559)
Cash flow from investing activities							
Purchase of property, plant and equipment		(2)	–	(2)	(1)	–	(1)
Purchase of intangible assets		(13)	–	(13)	–	–	–
Proceeds from sale of Debt Management business		–	–	–	232	–	232
Cash held in sold subsidiaries		–	–	–	(4)	–	(4)
Net cash flow from deposits		41	–	41	–	–	–
Net cash flow from investing activities		26	–	26	227	–	227
Change in cash and cash equivalents	2	111	(61)	50	(76)	(11)	(87)
Cash and cash equivalents at the start of year	2	954	(23)	931	962	(5)	957
Effect of exchange rate fluctuations	1	(11)	2	(9)	68	(7)	61
Cash and cash equivalents at the end of year	2	1,054	(82)	972	954	(23)	931

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

Notes:

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

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

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

Alternative Performance Measures ("APMs")

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

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

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

The table below defines our additional APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Gross investment return as a percentage of opening portfolio value	A measure of the performance of our proprietary investment portfolio. For further information see the Group KPIs in our Annual report 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 the consolidated statement of comprehensive income and the Reconciliation of the consolidated statement of financial position respectively.
Cash realisations	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities. For further information see the Group KPIs in our Annual report and accounts 2018.	The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Cash investment	Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns. For further information see the Group KPIs in our Annual report and accounts 2018.	The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Operating cash profit	By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 14 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.
Net cash/net (debt)	A measure of the available cash to invest in the business and an indicator of the financial risk in the Group's balance sheet.	Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.
Gearing	A measure of the financial risk in the Group's balance sheet.	Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.

Risk management

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

Understanding our risk appetite and culture

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

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

Culture

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

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

Approach to risk governance

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

Non-executive oversight is also exercised through the Audit and Compliance Committee which focuses on upholding standards of integrity, financial reporting, risk management, going concern and internal control. The Audit and Compliance Committee's activities are discussed further in our Annual report and accounts 2018.

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, and guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly, with the last review in May 2018, and the Chief Executive provides quarterly updates to each Audit and Compliance Committee meeting. Investment Committee ensures a consistent approach to investment processes across the business.

In addition to the above, a number of other Board and Executive committees contribute to the Group's overall risk governance structure, as set out below.

Risk appetite

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

Investment risk

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

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

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

Capital management

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

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

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

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

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

The first line of defence against outcomes outside our risk appetite are our two divisions and their respective Managing Partners.

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

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

Role of Group Risk Committee in risk management

The quarterly Group risk review process includes the monitoring of key strategic and financial metrics (such as KPIs) considered to be indicators of potential changes in the Group's risk profile. The GRC uses these to identify its principal risks. It then evaluates the impact and likelihood of each risk, with reference to associated measures and key performance indicators. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

A number of focus topics are also agreed in advance of each meeting. In FY2018, the GRC covered the following:

- an update on the Group's Brexit planning process, including the incorporation of an approved Alternative Investment Fund Manager ("AIFM") in Luxembourg;
- a semi-annual update on Environmental, Social, business integrity and corporate Governance ("ESG") issues and themes, especially with respect to its portfolio companies;
- a review of the Group's stress tests to support its Internal Capital Adequacy Assessment Process ("ICAAP") and Viability statement;
- a review of the Group's IT framework including cyber security and business resilience; and
- the proposed risk disclosures in the 2018 Annual report and accounts.

There were no significant changes to the GRC's approach to risk governance or its operation in FY2018 but we continued to refine our framework for risk management where appropriate.

Role of Investment Committee in risk management

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

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

The execution of this investment case is closely monitored:

- our monthly portfolio monitoring reviews current performance against budget and prior year and a set of traffic light indicators and bespoke, forward looking KPIs; and
- both Private Equity and Infrastructure hold semi-annual reviews that focus on the longer-term performance and plan for the investment compared to the original investment case, together with any strategic developments and market outlook.

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

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

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

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

Principal risks and mitigations
Aligning risk to our strategic objectives

Business and risk environment in FY2018

Although the business environment over the last 12 months has been challenging, as a result of the ongoing political instability, economic uncertainty and volatile market conditions, there has been no significant change to our risk management approach.

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

External
External risks are the risks to our business which are usually outside of our direct control such as political, economic, regulatory and competitor risks. In FY2018, we saw a general deterioration in the geo-political environment, including an increased likelihood of a trade war and an uncertain political backdrop in the UK with the potential to impact investor confidence. We concluded that these risks were not currently material to our portfolio but we will continue to monitor developments closely.

The longer-term implications of the UK's negotiations to leave the EU on 3i's business remains 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 regulator, the CSSF, to establish an AIFM in Luxembourg, received in March 2018. 3i has had a presence in Luxembourg for many years. Currently 68% 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
Our overarching objective is to source attractive investment opportunities at the right price and execute our investment plans successfully.

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

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

In addition, detailed succession plans are in place for each division. The Board last completed its annual review of the Group's organisational capability and succession plans in September 2017. The success of the Group since the 2012 restructuring has led to very modest (8%) levels of staff turnover.

The risk in relation to the new Infrastructure business initiatives has decreased in view of the progress made to date. We continued to enhance our cyber security management and reporting and engaged an external firm to provide a dedicated Chief Information Security Officer service in the year. Due to the nature of our business, cyber security is not considered a principal risk but is included on our watch list and remains under regular review by the GRC and Audit and Compliance Committee.

Outlook
Competition for the best assets in our sectors remains intense, with an environment of high prices requiring a disciplined approach to investment. We remain focused on executing our strategy as we navigate what looks to be another year of uncertainty.

Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2021. 3i conducts its strategic planning over a five-year period; this statement is based on the first three years, which provides more certainty over the forecasting assumptions used. 3i's strategic plan, ICAAP and associated principal risks (as set out in our Annual report and accounts 2018) are the foundation of the Directors' assessment.

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

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

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

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

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

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to at least March 2021.

Audited financial statements

Consolidated statement of comprehensive income

for the year to 31 March

	Notes	2018 £m	2017 £m
Realised profits/(losses) over value on the disposal of investments		**18**	(25)
Unrealised profits on the revaluation of investments		**386**	262
Fair value movements on investment entity subsidiaries		**848**	1,041
Portfolio income			
Dividends		**29**	38
Interest income from investment portfolio		**26**	10
Fees receivable		**17**	9
Foreign exchange on investments		**(12)**	64
Gross investment return		**1,312**	1,399
Fees receivable from external funds		**57**	46
Operating expenses		**(120)**	(116)
Interest received		**2**	2
Interest paid		**(37)**	(49)
Exchange movements		**57**	42
Income from investment entity subsidiaries		**19**	18
Other income		**2**	10
Carried interest			
Carried interest and performance fees receivable		**228**	280
Carried interest and performance fees payable		**(32)**	(108)
Operating profit before tax		**1,488**	1,524
Income taxes	2	**(25)**	3
Profit for the year from continuing operations		**1,463**	1,527
Profit for the year from discontinued operations, net of tax		**–**	98
Profit for the year		**1,463**	1,625
Other comprehensive expense that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		**(38)**	(4)
Other comprehensive expense that will not be reclassified to the income statement			
Re-measurements of defined benefit plans		**–**	(22)
Other comprehensive expense for the year from continuing operations		**(38)**	(26)
Other comprehensive expense for the year from discontinued operations		**–**	(7)
Total comprehensive income for the year ("Total return")		**1,425**	1,592
Earnings per share from continuing operations			
Basic (pence)	3	**151.7**	159.0
Diluted (pence)	3	**151.0**	158.3
Earnings per share			
Basic (pence)	3	**151.7**	169.2
Diluted (pence)	3	**151.0**	168.4
Dividend per share			
Interim dividend per share paid (pence)	4	**8.0**	8.0
Dividend per share (pence)	4	**22.0**	18.5

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

Consolidated statement of financial position

as at 31 March

	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Investments			
Quoted investments		**345**	390
Unquoted investments		**1,751**	1,316
Investments in investment entity subsidiaries		**4,034**	3,483
Investment portfolio		**6,130**	5,189
Carried interest and performance fees receivable		**498**	354
Other non-current assets		**28**	50
Intangible assets		**12**	–
Retirement benefit surplus		**125**	121
Property, plant and equipment		**4**	5
Total non-current assets		**6,797**	5,719
Current assets			
Carried interest and performance fees receivable		**93**	9
Other current assets		**34**	12
Current income taxes		**3**	2
Deposits		**–**	40
Cash and cash equivalents		**972**	931
Total current assets		**1,102**	994
Total assets		**7,899**	6,713
Liabilities			
Non-current liabilities			
Trade and other payables		**(1)**	(24)
Carried interest and performance fees payable		**(105)**	(124)
Loans and borrowings	6	**(575)**	(575)
Retirement benefit deficit		**(23)**	(22)
Deferred income taxes	2	**(3)**	–
Provisions		**(1)**	(2)
Total non-current liabilities		**(708)**	(747)
Current liabilities			
Trade and other payables		**(100)**	(103)
Carried interest and performance fees payable		**(55)**	(23)
Current income taxes		**(11)**	–
Provisions		**(1)**	(4)
Total current liabilities		**(167)**	(130)
Total liabilities		**(875)**	(877)
Net assets		**7,024**	5,836
Equity			
Issued capital		**719**	719
Share premium		**786**	785
Capital redemption reserve		**43**	43
Share-based payment reserve		**32**	30
Translation reserve		**(8)**	218
Capital reserve		**4,700**	3,390
Revenue reserve		**778**	689
Own shares		**(26)**	(38)
Total equity		**7,024**	5,836

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

Simon Thompson
Chairman
16 May 2018

Consolidated statement of changes in equity

for the year to 31 March

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

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

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

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

Consolidated cash flow statement

for the year to 31 March

	Notes	2018 £m	2017 £m
Cash flow from operating activities			
Purchase of investments		**(470)**	(334)
Proceeds from investments		**414**	310
Cash inflow from investment entity subsidiaries		**430**	246
Net cash flow from derivatives		**(10)**	–
Portfolio interest received		**4**	7
Portfolio dividends received		**29**	54
Portfolio fees received		**13**	9
Fees received from external funds		**55**	71
Carried interest and performance fees received		**6**	39
Carried interest and performance fees paid		**(40)**	(27)
Acquisition related earn-out charges paid		**–**	(1)
Operating expenses paid		**(114)**	(131)
Co-investment loans received		**5**	2
Other cash income		**–**	2
Income taxes paid		**(10)**	(2)
Net cash flow from operating activities		**312**	245
Cash flow from financing activities			
Issue of shares		**1**	1
Dividend paid	4	**(255)**	(230)
Repayment of short-term borrowings		**–**	(264)
Repurchase of short-term borrowings		**–**	(17)
Interest received		**2**	2
Interest paid		**(36)**	(51)
Net cash flow from financing activities		**(288)**	(559)
Cash flow from investing activities			
Proceeds from sale of Debt Management business		**–**	232
Cash held in disposed subsidiaries		**–**	(4)
Purchases of property, plant and equipment		**(2)**	(1)
Purchase of intangibles		**(13)**	–
Net cash flow from deposits		**41**	–
Net cash flow from investing activities		**26**	227
Change in cash and cash equivalents		**50**	(87)
Cash and cash equivalents at the start of the year		**931**	957
Effect of exchange rate fluctuations		**(9)**	61
Cash and cash equivalents at the end of the year		**972**	931

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

Company statement of financial position

as at 31 March

	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Investments			
Quoted investments		345	390
Unquoted investments		1,751	1,295
Investment portfolio		2,096	1,685
Carried interest and performance fees receivable		539	358
Interests in Group entities		4,112	3,542
Other non-current assets		20	21
Total non-current assets		6,767	5,606
Current assets			
Carried interest and performance fees receivable		3	1
Other current assets		2	4
Deposits		–	40
Cash and cash equivalents		939	887
Total current assets		944	932
Total assets		7,711	6,538
Liabilities			
Non-current liabilities			
Carried interest and performance fees payable		–	(16)
Loans and borrowings	6	(575)	(575)
Total non-current liabilities		(575)	(591)
Current liabilities			
Trade and other payables		(527)	(506)
Total current liabilities		(527)	(506)
Total liabilities		(1,102)	(1,097)
Net assets		6,609	5,441
Equity			
Issued capital		719	719
Share premium		786	785
Capital redemption reserve		43	43
Share-based payment reserve		32	30
Capital reserve		5,015	3,874
Revenue reserve		40	28
Own shares		(26)	(38)
Total equity		6,609	5,441

The Company profit for the year to 31 March 2018 is £1,405 million (2017: £1,650 million).

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

Simon Thompson
Chairman
16 May 2018

Company statement of changes in equity

for the year to 31 March

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

2017	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	784	43	32	2,462	16	(54)	4,002
Profit for the year	–	–	–	–	1,569	81	–	1,650
Total comprehensive income for the year	–	–	–	–	1,569	81	–	1,650
Share-based payments	–	–	–	18	–	–	–	18
Release on exercise/forfeiture of share options	–	–	–	(20)	–	20	–	–
Exercise of share awards	–	–	–	–	(16)	–	16	–
Ordinary dividends	–	–	–	–	(39)	(89)	–	(128)
Additional dividends	–	–	–	–	(102)	–	–	(102)
Issue of ordinary shares	–	1	–	–	–	–	–	1
Total equity at the end of the year	719	785	43	30	3,874	28	(38)	5,441

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

Company cash flow statement

for the year to 31 March

	Notes	2018 £m	2017 £m
Cash flow from operating activities			
Purchase of investments		**(468)**	(274)
Proceeds from investments		**395**	307
Distributions from subsidiaries		**1,002**	1,241
Drawdowns by subsidiaries		**(624)**	(763)
Net cash flow from derivatives		**(10)**	–
Portfolio interest received		**4**	6
Portfolio dividends received		**25**	30
Portfolio fees paid		**(2)**	(3)
Carried interest and performance fees received		**4**	15
Carried interest and performance fees paid		**(23)**	(28)
Acquisition related earn-out charges paid		**–**	(1)
Co-investment loans received		**5**	2
Net cash flow from operating activities		**308**	532
Cash flow from financing activities			
Issue of shares		**1**	1
Dividend paid	4	**(255)**	(230)
Repayment of short-term borrowings		**–**	(264)
Repurchase of short-term borrowings		**–**	(17)
Interest received		**2**	2
Interest paid		**(36)**	(51)
Net cash flow from financing activities		**(288)**	(559)
Cash flow from investing activities			
Net cash flow from deposits		**41**	–
Net cash flow from investing activities		**41**	–
Change in cash and cash equivalents		**61**	(27)
Cash and cash equivalents at the start of the year		**887**	857
Effect of exchange rate fluctuations		**(9)**	57
Cash and cash equivalents at the end of the year		**939**	887

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

Significant accounting policies

Reporting entity

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The Consolidated financial statements ("the Group accounts") for the year to 31 March 2018 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

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

A Basis of preparation

The Group and Company accounts have been prepared and approved by the Directors in accordance with all relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee for the year ended 31 March 2018, endorsed by the European Union ("EU").

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

Effective for annual periods beginning on or after		
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Group does not anticipate that IFRS 9 will have a material impact on its results. IFRS 16 is expected to result in an increase in the Group's total assets and total liabilities but is not anticipated to have a material impact on net assets or total return.

The Group expects that IFRS 15 will only impact its accounting policy for carried interest and performance fees receivable. This is because IFRS 15 will introduce an assessment of the extent to which it is highly probable that there will not be a significant reversal of carried interest receivable when the uncertainty is resolved. When making our assessment, the following will be considered: remaining duration of the fund, position in relation to the cash hurdle, the number of assets remaining in the fund and the potential for clawback. The substantial majority of the Group's carried interest receivable is from EFV and dependent on the realisation of Action. Given Action's strong performance, its forecast growth profile, and consistent with our investment and expected exit strategy, our current assessment is that we do not expect the adoption of IFRS 15 to have a material impact on the recognition of carried interest receivable in the Group's results. More details on our assessment of IFRS 15 are included in the Financial review.

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

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

B Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

Further detail on our application of IFRS 10 can be found in the Reconciliation of Investment basis to IFRS section.

C Critical accounting judgements and estimates

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

(a) Critical judgements
In the course of preparing the financial statements, one judgement has been made in the process of applying the Group's accounting policies, other than those involving estimations, that has had a significant effect on the amounts recognised in the financial statements as follows:

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

(b) Critical estimates
In addition to this significant judgement the Directors have made two estimates, which they deem to have a significant risk of resulting in a material adjustment to the amounts recognised in the financial statements within the next financial year. The details of these estimates are as follows:

I. Fair valuation of the investment portfolio
The investment portfolio, a material asset of the Group, is held at fair value. Details of valuation methodologies used and the associated sensitivities are disclosed in Note 5 Fair values of assets and liabilities. Further information can be found in Portfolio valuation – an explanation in our Annual report and accounts 2018. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee (including a review of the assumptions made) is included in our Annual report and accounts 2018. In addition, sensitivity to a net 1x movement on Action's multiple, the largest investment in our portfolio, is included the Private Equity Business review.

II. Carried interest receivable and payable
Carried interest receivable and payable are calculated based on the underlying agreements, and assuming all portfolio investments are sold at their fair values at the balance sheet date. The actual amounts of carried interest received and paid will depend on the cash realisations of these portfolio investments and valuations may change significantly in the next financial year. The fair valuation of the investment portfolio is itself a critical estimate, as detailed above. The sensitivity of carried interest to movements in the investment portfolio is disclosed in our Annual report and accounts 2018.

Valuation of the defined benefit schemes
The Group considered that the required estimate of an appropriate discount rate in accordance with IAS 19 was not sensitive enough to change the valuation of the pension scheme materially and therefore it is no longer considered a critical estimate. The sensitivity to changes in discount rates is shown in our Annual report and accounts 2018.

D Other accounting policies

(a) Gross investment return
Gross investment return is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs and includes foreign exchange movements in respect of the investment portfolio. The substantial majority is investment income and outside the scope of IAS 18 (and IFRS 15 from 1 April 2019). It is analysed into the following components with the relevant standard shown where appropriate:

I. Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration in accordance with IFRS 13 received less any directly attributable costs, on the sale of equity and the repayment of interest income from the investment portfolio, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.
II. Unrealised profits or losses on the revaluation of investments are the movement in the fair value of investments in accordance with IFRS 13 between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of fair value assessment.
III. Fair value movements on investment entity subsidiaries are the movements in the fair value of Group subsidiaries which are classified as investment entities under IFRS 10. The Group makes investments in portfolio assets through these entities which are usually limited partnerships or corporate subsidiaries.
IV. Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria in accordance with IAS 18 must be met before the income is recognised:

  - Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders' rights to receive payment have been established.

  - Interest income from investment portfolio is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.

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

V. Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction in accordance with IAS 21. At each subsequent reporting date, investments are translated to sterling at the exchange rate ruling at that date.

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

The statements of financial position of subsidiaries and associates, which are not held at fair value, denominated in foreign currencies are translated into sterling at the closing rates. The statements of comprehensive income for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to other comprehensive income. Such exchange differences are reclassified to the Consolidated statement of comprehensive income in the period in which the subsidiary or associate is disposed of.

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the Consolidated statement of comprehensive income, where appropriate. No forward foreign exchange contracts were held at the year end.

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

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

Notes to the accounts

1 Segmental analysis

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

The Chief Executive, who is considered to be the chief operating decision maker, managed the Group on the basis of business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. A description of the activities, including products and services offered by these divisions and the allocation of resources, is given in the Strategic report of our Annual report and accounts 2018. For the geographical segmental split, revenue information is based on the locations of the assets held.

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

The segmental analysis is prepared on the Investment basis to provide the most meaningful information to the reader of the accounts.

1 Segmental analysis continued

Investment basis

Year to 31 March 2018	Private Equity £m	Infrastructure £m	Other[1] £m	Total £m
Realised profits/(losses) over value on the disposal of investments	199	10	(2)	207
Unrealised profits on the revaluation of investments	1,080	83	–	1,163
Portfolio income				
Dividends	5	27	9	41
Interest income from investment portfolio	112	4	–	116
Fees receivable	14	–	–	14
Foreign exchange on investments	28	(11)	(6)	11
Gross investment return	1,438	113	1	1,552
Fees receivable from external funds	7	50	–	57
Operating expenses	(75)	(46)	–	(121)
Interest receivable				2
Interest payable				(37)
Exchange movements				(27)
Other income				2
Operating profit before carry				1,428
Carried interest				
Carried interest and performance fees receivable	138	90	–	228
Carried interest and performance fees payable	(196)	(9)	–	(205)
Operating profit				1,451
Income taxes				(26)
Other comprehensive income				
Re-measurements of defined benefit plans				–
Total return				1,425
Net divestment/(investment)				
Realisations[2]	1,002	169	152	1,323
Cash investment	(587)	(217)	(23)	(827)
	415	(48)	129	496
Balance sheet				
Opening portfolio value at 1 April 2017	4,831	706	138	5,675
Investment[3]	674	217	23	914
Value disposed	(803)	(159)	(154)	(1,116)
Unrealised value movement	1,080	83	–	1,163
Other movement[4]	43	(15)	(7)	21
Closing portfolio value at 31 March 2018	5,825	832	–	6,657

1 The Other segment comprises the residual Debt Management portfolio.
2 £46 million in Private Equity relates to cash in transit at year end.
3 Includes capitalised interest and other non-cash investment.
4 Other movement relates to foreign exchange and the provisioning of capitalised interest.

A number of items are not managed by segment by the chief operating decision maker and therefore have not been allocated to a specific segment.

1 Segmental analysis continued

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

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

A number of items are not managed by segment by the chief operating decision maker and therefore have not been allocated to a specific segment.

1 Segmental analysis continued

Investment basis Year to 31 March 2018	UK £m	Northern Europe £m	North America £m	Rest of World £m	Total £m
Gross investment return					
Realised profits/(losses) over value on the disposal of investments	9	154	(5)	49	207
Unrealised profits on the revaluation of investments	148	932	67	16	1,163
Portfolio income	54	104	12	1	171
Foreign exchange on investments	–	91	(55)	(25)	11
	211	1,281	19	41	1,552
Net divestment/(investment)					
Realisations	270	782	91	180	1,323
Cash investment	(32)	(434)	(361)	–	(827)
	238	348	(270)	180	496
Balance sheet					
Closing portfolio value at 31 March 2018	1,249	4,504	664	240	6,657

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

2 Income taxes

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

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

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

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

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

	2018 £m	2017 £m
Current taxes		
Current year:		
UK	**22**	–
Overseas	**1**	1
Prior year:		
UK	**-**	-
Overseas	**(1)**	(4)
Deferred taxes		
Deferred income taxes	**3**	–
Total income tax charge/(credit) in the Consolidated statement of comprehensive income	**25**	(3)

Reconciliation of income taxes in the Consolidated statement of comprehensive income
The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 19% (2017: 20%), and the differences are explained below:

	2018 £m	2017 £m
Profit before tax	**1,488**	1,524
Profit before tax multiplied by rate of corporation tax in the UK of 19% (2017: 20%)	**283**	305
Effects of:		
Non-taxable capital profits due to UK approved investment trust company status	**(257)**	(309)
Non-taxable dividend income	**(9)**	(6)
	17	(10)
Other differences between accounting and tax profits:		
Permanent differences – non-deductible items	**2**	–
Temporary differences on which deferred tax is not recognised	**4**	4
Overseas countries taxes	**–**	(3)
Recognition of previously unrecognised deferred tax on losses	**5**	-
Excess unutilised tax losses arising in the period	**–**	6
Utilisation of brought forward losses	**(3)**	–
Total income tax charge/(credit) in the Consolidated statement of comprehensive income	**25**	(3)

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

2 Income taxes continued

The Group has recognised a current UK corporation tax liability of £22 million (2017: nil) for the year. This is higher than previous years due to increased levels of taxable interest income from portfolio companies, reduced interest expenditure following the repayment of a bond in March 2017, and a £90 million performance fee from 3iN following its disposals of AWG and Elenia in the year. Finally, the use of losses brought forward has been restricted with effect from 1 April 2017.

Including a net tax charge of £1 million (2017: nil) in the fair valued entities, the Group recognised a total tax charge of £26 million (2017: tax credit £3 million) under the Investment basis.

Deferred income taxes

	2018 £m	2017 £m
Opening deferred income tax asset		
Tax losses	8	7
Income in accounts taxable in the future	(8)	(7)
Other	–	3
	–	3
Recognised through Consolidated statement of comprehensive income		
Tax losses recognised	(5)	1
Income in accounts taxable in the future	2	(1)
	(3)	–
Recognised within discontinued operations		
Deferred tax asset transferred with discontinued operations	–	(3)
	–	(3)
Closing deferred income tax liability		
Tax losses	3	8
Income in accounts taxable in the future	(6)	(8)
	(3)	–

At 31 March 2018, the Group had carried forward tax losses of £1,400 million (31 March 2017: £1,390 million), capital losses of £102 million (31 March 2017: £93 million) and other temporary differences of £83 million (31 March 2017: £94 million). With the additional restrictions on utilising brought forward losses introduced from 1 April 2017, and the uncertainty that the Group will generate sufficient or relevant taxable profits in the foreseeable future to utilise these amounts, no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 19% (2017: 19%).

3 Per share information

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

	2018	2017
Earnings per share (pence)		
Basic earnings per share	151.7	169.2
- of which from continuing operations	151.7	159.0
- of which from discontinued operations	–	10.2
Diluted earnings per share	151.0	168.4
- of which from continuing operations	151.0	158.3
- of which from discontinued operations	–	10.1
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	1,463	1,625
- of which from continuing operations	1,463	1,527
- of which from discontinued operations	–	98

	2018	2017
Weighted average number of shares in issue		
Ordinary shares	972,849,842	972,734,609
Own shares	(8,758,180)	(12,580,145)
	964,091,662	960,154,464
Effect of dilutive potential ordinary shares		
Share options and awards	4,613,775	4,710,808
Diluted shares	968,705,437	964,865,272

	2018	2017
Net assets per share (£)		
Basic	7.28	6.07
Diluted	7.24	6.04
Net assets (£m)		
Net assets attributable to equity holders of the Company	7,024	5,836

Basic NAV per share is calculated on 965,040,405 shares in issue at 31 March 2018 (31 March 2017: 961,458,801). Diluted NAV per share is calculated on diluted shares of 969,773,150 at 31 March 2018 (31 March 2017: 966,553,549).

4 Dividends

	2018 pence per share	2018 £m	2017 pence per share	2017 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	18.5	178	16.0	154
Interim dividend	8.0	77	8.0	76
	26.5	255	24.0	230
Proposed dividend	22.0	212	18.5	178

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

The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules. The distributable reserves of the parent company are £1,941 million (31 March 2017: £1,742 million) and the Board reviews the distributable reserves bi-annually ahead of proposing any dividend. The Board also reviews the proposed dividends in the context of the requirements of being an approved Investment Trust. Details of the Group's continuing viability and going concern can be found in the Risk management section.

In light of the Group's continued progress in executing its strategy, we now propose to replace our base and additional dividend policy with a simpler policy. Further details are in the Financial review.

5 Fair values of assets and liabilities

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

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

	Group 2018 Designated at fair value through profit and loss £m	Group 2018 Other financial instruments at amortised cost £m	Group 2018 Total £m	Group 2017 Designated at fair value through profit and loss £m	Group 2017 Other financial instruments at amortised cost £m	Group 2017 Total £m
Assets						
Quoted investments	345	–	345	390	–	390
Unquoted investments	1,751	–	1,751	1,316	–	1,316
Investments in investment entities	4,034	–	4,034	3,483	–	3,483
Other financial assets	–	653	653	–	425	425
Total	6,130	653	6,783	5,189	425	5,614
Liabilities						
Loans and borrowings	–	575	575	–	575	575
Other financial liabilities	–	261	261	–	274	274
Total	–	836	836	–	849	849

	Company 2018 Designated at fair value through profit and loss £m	Company 2018 Other financial instruments at amortised cost £m	Company 2018 Total £m	Company 2017 Designated at fair value through profit and loss £m	Company 2017 Other financial instruments at amortised cost £m	Company 2017 Total £m
Assets						
Quoted investments	345	–	345	390	–	390
Unquoted investments	1,751	–	1,751	1,295	–	1,295
Other financial assets	–	564	564	–	384	384
Total	2,096	564	2,660	1,685	384	2,069
Liabilities						
Loans and borrowings	–	575	575	–	575	575
Other financial liabilities	–	527	527	–	522	522
Total	–	1,102	1,102	–	1,097	1,097

Within the Company £4,045 million (31 March 2017: £3,483 million) of the Interest in Group entities is held at fair value.

(B) Valuation
The fair values of the Group's financial assets and liabilities, not held at fair value, are not materially different from their carrying values with the exception of loans and borrowings. The fair value of the loans and borrowings is £718 million (31 March 2017: £741 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2017: £575 million) and accrued interest payable (included within trade and other payables) is £8 million (31 March 2017: £8 million).

5 Fair values of assets and liabilities continued

Valuation hierarchy

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

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

Unquoted equity instruments and debt instruments are measured in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments can be found in the section Portfolio valuation – an explanation in our Annual report and accounts 2018.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2018:

	Group 2018 Level 1 £m	**Group 2018 Level 2 £m**	**Group 2018 Level 3 £m**	**Group 2018 Total £m**	Group 2017 Level 1 £m	Group 2017 Level 2 £m	Group 2017 Level 3 £m	Group 2017 Total £m
Assets								
Quoted investments	**345**	**–**	**–**	**345**	390	–	–	390
Unquoted investments	**–**	**–**	**1,751**	**1,751**	–	–	1,316	1,316
Investments in investment entity subsidiaries	**–**	**–**	**4,034**	**4,034**	–	–	3,483	3,483
Total	**345**	**–**	**5,785**	**6,130**	390	–	4,799	5,189

The above disclosure only relates to the investment portfolio and the investments in our investment entity subsidiaries. We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries fair valued in accordance with the Group's accounting policies. The Directors' considerations about the fair value of the underlying investment entity subsidiaries are detailed in our Annual report and accounts 2018.

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

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Opening book value	**1,316**	1,243	**1,295**	1,103
Additions from continuing operations	**481**	213	**481**	228
– of which loan notes with nil value	**–**	(10)	**–**	(10)
Additions from discontinued operations	**–**	70	**–**	18
Disposals, repayments and write-offs from continuing operations	**(315)**	(292)	**(293)**	(288)
Disposals, repayments and write-offs from discontinued operations	**–**	(191)	**–**	(24)
Fair value movement from continuing operations[1]	**346**	224	**346**	218
Fair value movement from discontinued operations	**–**	3	**–**	–
Other movements and net cash movements from continuing operations[2]	**(77)**	75	**(78)**	69
Other movements and net cash movements from discontinued operations[2]	**–**	(19)	**–**	(19)
Closing book value	**1,751**	1,316	**1,751**	1,295

1 All fair value movements relate to assets held at the end of the period.
2 Other movements include the impact of foreign exchange and the transfer of an investment to an investment entity subsidiary.

5 Fair values of assets and liabilities continued

On a continuing basis, 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 £14 million (2017: realised loss of £26 million), dividend income of £13 million (2017: £24 million) and foreign exchange losses of £12 million (2017: foreign exchange gains of £63 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2018, classified as Level 3, 40% (31 March 2017: 33%) were valued using a multiple of earnings and the remaining 60% (31 March 2017: 67%) were valued using alternative valuation methodologies. Of the underlying portfolio held by investment entity subsidiaries, 95% (31 March 2017: 96%) were valued using a multiple of earnings and the remaining 5% (31 March 2017: 4%) were valued using alternative valuation methodologies.

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

Valuation multiple – The valuation multiple is the main assumption applied to a multiple of earnings based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and then adjusted for factors including liquidity risk, growth potential and relative performance. They are also adjusted to represent our longer term view of performance through the cycle or our exit assumptions. The value weighted average post discount earnings multiple used when valuing the portfolio at 31 March 2018 was 11.7x (31 March 2017: 10.2x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2018 decreased by 5%, the investment portfolio would decrease by £43 million (31 March 2017: £18 million) or 2% (31 March 2017: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative impact of £270 million (31 March 2017: £224 million) or 6% (31 March 2017: 6%).

If the multiple increased by 5% then the investment portfolio would increase by £35 million (31 March 2017: £16 million) or 2% (31 March 2017: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive impact of £260 million (31 March 2017: £215 million) or 6% (31 March 2017: 5%).

Alternative valuation methodologies – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and inputs that are used, are given in the Portfolio valuation – an explanation section in our Annual report and accounts 2018.

Each methodology is used for a proportion of assets by value, and at year end the following techniques were used under an IFRS basis: 5% DCF (31 March 2017: 41%), nil broker quotes (31 March 2017: 4%), 45% imminent sale (31 March 2017: 2%), 7% industry metric (31 March 2017: 10%) and 3% other (31 March 2017: 10%).

If the value of all of the investments valued under alternative methodologies moved by 5%, this would have an impact on the investment portfolio of £53 million (31 March 2017: £44 million) or 3% (31 March 2017: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have an impact of £10 million (31 March 2017: £7 million) or 0.3% (31 March 2017: 0.2%).

6 Loans and borrowings

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

	Group 2018 £m	Group 2017 £m
Loans and borrowings are repayable as follows:		
Within one year	–	–
Between the second and fifth year	200	–
After five years	375	575
	575	575

Principal borrowings include:

	Rate	Maturity	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2023	200	200	200	200
£375 million notes (public issue)	5.750%	2032	375	375	375	375
			575	575	575	575
Committed multi-currency facilities						
£350 million	LIBOR+0.60%	2021	–	–	–	–
			–	–	–	–
Total loans and borrowings			575	575	575	575

There has been no change in total financing liabilities for the Group or the Company during the year as the cash flows relating to the financing liabilities are equal to the income statement expense. Accordingly, no reconciliation between the movement in financing liabilities and the cash flow statement has been presented.

The maturity of the Company's £350 million (31 March 2017: £329 million) syndicated multi-currency facility is September 2021. The £350 million facility has no financial covenants.

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

The fair value of the loans and borrowings is £718 million (31 March 2017: £741 million), determined with reference to their published market prices. The loans and borrowings are included in Level 2 of the fair value hierarchy.

In accordance with the FCA Handbook (FUNDS 3.2.2. R and Fund 3.2.6. R), 3i Investments plc, as AIFM of the Company is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with this formula, leverage for the Group is 111% (31 March 2017: 115%) and the Company is 105% (31 March 2017: 107%) under both the gross method and the commitment method. The leverage for 3i Investments plc is 100% (31 March 2017: 100%) under both the gross method and the commitment method.

Under the Securities Financing Transactions Regulation ("SFTR") and AIFMD, 3i is required to disclose certain information relating to the use of securities financing transactions ("SFTs") and total return swaps. At 31 March 2018, 3i was not party to any transactions involving SFTs or total return swaps.

7 Related parties and interests in other entities

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio (including unconsolidated subsidiaries), its advisory arrangements and its key management personnel. In addition, the Company has related parties in respect of its subsidiaries. Some of these subsidiaries are held at fair value (unconsolidated subsidiaries) due to the treatment prescribed in IFRS 10.

Related parties

Limited partnerships

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

Statement of comprehensive income	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Carried interest receivable	**138**	276	**183**	276
Fees receivable from external funds	**29**	26	**–**	–

Statement of financial position	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Carried interest receivable	**500**	356	**541**	356

Investments

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

Statement of comprehensive income	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Realised profit over value on the disposal of investments	**7**	–	**11**	–
Unrealised profits on the revaluation of investments	**36**	57	**36**	51
Portfolio income	**9**	17	**5**	7
Profit for the year from discontinued operations	**–**	21	**–**	4

Statement of financial position	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Unquoted investments	**380**	429	**380**	407

Advisory arrangements

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

Statement of comprehensive income	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Realised profit over value on the disposal of investments	**4**	–	**4**	–
Unrealised profits on the revaluation of investments	**40**	38	**40**	38
Fees receivable from external funds	**29**	21	**–**	–
Performance fees receivable	**90**	4	**–**	–
Dividends	**16**	14	**16**	14

Statement of financial position	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Quoted equity investments	**345**	390	**345**	390
Performance fees receivable	**90**	4	**–**	–

20 Large investments

The 20 investments listed below account for 93% of the portfolio at 31 March 2018 (31 March 2017: 89%). For each of our investments we have assessed whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

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

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

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2017 £m	**Residual cost[1] March 2018 £m**	Valuation March[2] 2017 £m	**Valuation March[2] 2018 £m**	Relevant transactions in the year
Action* Non-food discount retailer	Private Equity Netherlands 2011 Earnings	1	**12**	1,708	**2,064**	Refinancing returned £307m of proceeds
Scandlines* Ferry operator between Denmark and Germany	Private Equity Denmark/ Germany 2007/2013 Imminent sale	114	**114**	538	**803**	Refinancing returned £50m of proceeds in July 2017, sale announced in March 2018
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	399	**310**	655	**581**	Special dividend returned £143m of proceeds
Basic-Fit Discount gyms operator	Private Equity Netherlands 2013 Quoted	11	**11**	184	**270**	
WP* Supplier of plastic packaging solutions	Private Equity Nertherlands 2015 Earnings	161	**175**	200	**244**	
Audley Travel* Provider of experiential tailor-made travel	Private Equity UK 2015 Earnings	177	**195**	185	**233**	
Q Holding* Manufacturer of precision engineered elastomeric components	Private Equity US 2014 Earnings	162	**162**	222	**229**	
Cirtec Medical* Outsourced medical device manufacturing	Private Equity US 2017 Earnings	–	**172**	–	**190**	New investment
Hans Anders* Value-for- money optical retailer	Private Equity Netherlands 2017 Earnings	–	**186**	–	**189**	New investment
Smarte Carte* Provider of self-serve vended luggage carts, electronic lockers and concession carts	Infrastructure US 2017 DCF	–	**166**	–	**167**	New investment
Schlemmer Group* Manufacturer of cable management solutions for the automotive industry	Private Equity Germany 2016 Earnings	162	**174**	154	**152**	

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2017 £m	**Residual cost[1] March 2018 £m**	Valuation March[2] 2017 £m	**Valuation March[2] 2018 £m**	Relevant transactions in the year
Ponroy Santé* Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	123	**139**	122	**145**	
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	**30**	113	**139**	
BoConcept* Urban living designer	Private Equity Denmark 2016 Earnings	140	**142**	146	**137**	
Formel D* Quality assurance provider for the automotive industry	Private Equity Germany 2017 Earnings	–	**138**	–	**133**	New investment
ACR Pan-Asian non-life reinsurance	Private Equity Singapore 2006 Industry metric	105	**105**	135	**129**	
Tato Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	2	**2**	112	**114**	
Lampenwelt* Online lighting specialist retailer	Private Equity Germany 2017 Earnings	–	**98**	–	**111**	New investment
Aspen Pumps* Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	78	**86**	88	**108**	
Euro-Diesel* Manufacturer of uninterruptible power supply systems	Private Equity Belgium 2015 Earnings	57	**62**	95	**82**	
		1,722	**2,479**	4,657	**6,220**	

* Controlled in accordance with IFRS.
1 Residual cost includes capitalised interest.
2 Numbers shown on an Investment basis.

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, Lampenwelt, Ponroy Santé and Schlemmer.

Alternative Investment Funds ("AIFs") At 31 March 2018, 3i Investments plc as AIFM, managed five AIFs. These were 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V, 3i Managed Infrastructure Acquisitions LP and 3i European Operational Projects Fund.

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

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

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

Automatic Exchange of Information ("AEOI") regulation covers the combined legislative requirements of Common Reporting Standards ("CRS") and the Foreign Account Tax Compliance Act ("FATCA"). Both sets of rules require financial groups to identify investors and report details to their local authority who will then exchange the information with other relevant tax authorities.

Board The Board of Directors of the Company.

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

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

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

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

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

Company 3i Group plc.

Country by Country reporting ("CbC Reporting") refers to a requirement for large multinational groups, operating in different countries, to file an annual report with their head office tax authority. This provides information about the activities of the entities in the Group, on a country-by-country basis, across the countries in which the Group operates. This new requirement applied to the Group from 1 April 2016.

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

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

Dividend income from CLO capital is recognised in the Statement of comprehensive income when the shareholders' rights to receive payment have been established.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OEM is an original equipment manufacturer.

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.

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

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

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

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

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

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

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

SORP means the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts.

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

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

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

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

List of Directors and their functions

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

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

By order of the Board
K J Dunn
Company Secretary
16 May 2018

Registered Office: 16 Palace Street, London SW1E 5JD