



14 November 2019

3i Group plc announces results for the six months to 30 September 2019

Good momentum across our portfolios

- **Total return of £767 million or 10%** on opening shareholders' funds (30 September 2018: £728 million, 10%) and **NAV per share of 873 pence** (31 March 2019: 815 pence) after paying the 20 pence second FY2019 dividend in July 2019.
- Good trading performance across the **Private Equity** portfolio, with underlying earnings growth underpinning a **gross investment return of £666 million or 11%**. This was driven by assets including Action, Hans Anders and Aspen Pumps.
- **Considered approach to new investment in Private Equity**, with the new investments in Magnitude Software completed and in Evernex announced in the period. We also made seven bolt-on acquisitions for portfolio companies and announced a further since the period end, most of which were self-funded.
- We have been working with our Eurofund V ("EFV") investors, and have agreed a **transaction to provide liquidity** for the fund's investors from the sale of their holding in Action. This transaction values Action at a post-discount enterprise value of €10.25 billion, representing a **net multiple of 18.2x 30 September 2019 run-rate EBITDA and 20.3x 30 September 2019 LTM EBITDA**. The transaction is scheduled to close in early January 2020.
- Good contribution from our **Infrastructure** business, with a **gross investment return of £88 million, or 9%**, driven principally by share price appreciation and dividend income from 3i Infrastructure plc ("3iN"). Strong levels of investment activity across our Infrastructure portfolios, with new investments and bolt-on acquisitions completed or announced for 3iN, the 3i European Operational Projects Fund and for our US Infrastructure portfolio.
- Positive contribution from **Scandlines**, which delivered a **gross investment return of £44 million in the period, or 8%**, driven by good trading performance. Scandlines also completed a refinancing in the period, returning capital proceeds to 3i of £70 million, in addition to dividend income of £21 million. A further £6 million of dividend income was received earlier in the period.
- **First FY2020 dividend of 17.5 pence per share** to be paid in respect of the first six months of the financial year, in line with our dividend policy.

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

"We saw good performance across our portfolios in the first half of the year, reflected in an attractive total return of 10% for our shareholders. Despite the uncertain macroeconomic environment, the majority of our investments have moved into the second half of the year with decent momentum. We are very pleased with the progress made in providing liquidity to EFV investors through the sale of their holdings in Action. Importantly, the proposed new shareholding structure will maintain the 3i-led governance model at Action."

Summary financial highlights under the Investment basis

3i prepares its statutory financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). However, we also report a non-GAAP “Investment basis” which we believe aids users of our report to assess the Group’s underlying operating performance. The investment basis (which is unaudited) is an alternative performance measure (“APM”) and is described on page 18. Total return and net assets are the same under the Investment basis and IFRS and we provide a reconciliation of our Investment basis financial statements to the IFRS statements from page 19.

Investment basis	Six months to/as at 30 September 2019	Six months to/as at 30 September 2018	12 months to/as at 31 March 2019
Total return	£767m	£728m	£1,252m
% return on opening shareholders’ funds	10%	10%	18%
Dividend per ordinary share	17.5p	15.0p	35.0p
Gross investment return	£798m	£789m	£1,407m
As a percentage of opening 3i portfolio value	11%	12%	21%
Cash investment	£312m	£779m	£859m
Realisation proceeds	£71m	£1,057m	£1,242m
Realised profit in the period ¹	–	£75m	£132m
Money multiple on full realisations in Private Equity ²	n/a	4.8x	3.0x
3i portfolio value	£8,551m	£7,119m	£7,553m
Gross debt	£575m	£575m	£575m
Net cash	£50m	£512m	£495m
Liquidity	£975m	£1,437m	£1,420m
Diluted net asset value per ordinary share	873p	776p	815p

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

2 Cash proceeds over cash invested.

Disclaimer

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

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

For further information, including a live videocast of the results presentation at 10.00am on 14 November 2019, please visit www.3i.com

Half-year report

Chief Executive's review

Introduction

Our portfolio performed well in the six months to 30 September 2019 generating a total return of £767 million, or 10% (September 2018: £728 million, or 10%) on opening shareholders' funds. There has been little change in the high level of competition for good mid-market private equity and infrastructure assets and so we have maintained our cautious positioning on new investment. We made one new investment and signed a second in Private Equity, and made three new investments in Infrastructure, including a proprietary capital investment in the US, for which we have already signed a significant bolt-on investment in October 2019. As expected, there were no material realisations in Private Equity in the period, whilst Scandlines completed an earlier than anticipated successful refinancing and distribution in August 2019.

NAV per share increased to 873 pence (31 March 2019: 815 pence), after the payment of the second FY2019 dividend of 20 pence in July 2019.

Private Equity

The macro-economic picture has clearly deteriorated this year with slowing growth in Europe and China. Consumer and investor confidence has also pulled back with weaker consumer spending and a reduction in flow in financial markets. Despite this deterioration in the macro economy, 91% (September 2018: 88%) of our top 20 investments by value grew earnings in the first half, although we have seen trading slow in a number of industrial investments, particularly those with exposure to the automotive sector.

Action performance

Action, our largest Private Equity investment, delivered another period of very strong growth. In the ten months to the end of October 2019, Action generated strong like-for-like ("LFL") sales growth of 5.6% and opened 148 net new stores, taking its total to 1,473 stores across seven countries. Action has opened three new distribution centres ("DCs") this year including its first DC in Poland, an important milestone in its expansion in that country. Action's supply chain has performed well this year with good stock availability across all markets. Over the next 12 months it plans to open two further DCs, one in Slovakia and its fourth in France. This extensive network of DCs across Europe strengthens its supply chain capabilities for existing stores and provides the foundation for further expansion across existing and new geographies.

Proposed Action transaction

3i has facilitated an Action transaction that provides liquidity to those investors in EuroFund V ("EFV") who need to exit as the fund comes to the end of its life. Action's strong management, ability to produce compounding growth, and excellent cash flow generation continue to make the company a very attractive long-term investment. As a result, a number of LP investors in EFV have decided to reinvest in Action, in some cases increasing their shareholdings. EFV's investment in Action is to be sold to new 3i managed entities, the 3i 2020 Co-investment vehicles, that in addition to reinvesting LP investors, will be backed by new institutional investors and 3i.

The transaction values Action at a post discount enterprise value of €10.25 billion, a net multiple of 18.2x 30 September 2019 run-rate EBITDA and 20.3x 30 September 2019 LTM EBITDA. This is an exceptional return for EFV investors, delivering a gross 31.3x euro money multiple, or a 75% gross IRR over the eight years since the original investment. The transaction is scheduled to close in early January 2020, triggering the payment of EFV carry to 3i Group.

Prior to the transaction, Action is also expected to complete an additional all senior €625 million refinancing which, together with surplus cash in the business, will generate a total distribution of c.€745 million to all pre-sale shareholders. We intend to reinvest 3i's share of these proceeds back into Action, along with the excess of the EFV carry receivable over the amounts payable to the participants in the corresponding EFV carry payable arrangement.

Although the final position will not be known until completion, we expect to increase our net investment in Action to just under 50%. Importantly, the transaction preserves the 3i-led governance model that has been so instrumental in the stewardship and value creation of Action from the business since the investment was made in 2011.

Other portfolio performance and activity

We have constructed a Private Equity portfolio that includes a number of platform assets which are capable of growth through acquisition as well as organically. Following Hans Anders' acquisition of eyes + more in January 2019, the combined business has performed well, with good like-for-like sales growth in the year to date, on-budget store roll out and operational synergies starting to come through into performance. Aspen Pumps has had a strong half,

with good organic growth in the core business, and has integrated a number of bolt-on acquisitions, which have strengthened its performance across all product categories and the majority of its geographies. Outside of the newer investment vintages, we maintain minority stakes in Tato and AES, two long-standing UK assets, both of which performed well in the period.

Our goal is to buy companies which benefit from long-term secular growth trends and to apply disciplined, active management to these portfolio companies to maximise shareholder returns. We are, however, not immune to the more challenging macro-economic headwinds across Europe. The team at Schlemmer continues to work through operational challenges against a deteriorating automotive industry backdrop. Formel D and Q Holding also saw a reduction in the rate of growth as a result of contracting volumes in the automotive sector.

As proprietary capital investors, we are not under pressure to exit investments when market conditions are unfavourable or when we believe a longer-term hold would yield greater returns for shareholders. Excluding Action, 87% of the remaining value of our Private Equity portfolio is within our more recent 2013-16 and 2016-19 vintages, with very few legacy assets remaining following the significant number of exits completed over the past few years. This means that many of our newer investments are still in the active management phase of the investment life cycle, as we build value either organically or through bolt-on acquisitions. As a result, no Private Equity investments were sold in the first half. However, we expect an increase in realisation activity from the Private Equity portfolio in the second half, subject to market conditions.

We remained selective and disciplined in our investment approach, completing one new Private Equity investment in Magnitude Software, a business and technology services provider assisting corporates with data management within their SAP and Oracle systems. We also signed the acquisition of Evernex, headquartered in France, which provides third-party maintenance services for data centre infrastructure. This investment, of c.£214 million, completed at the end of October 2019. We also continued our focus on buy-and-build opportunities, with seven bolt-on acquisitions for our portfolio companies of which, one, Lampenwelt's acquisition of Lampenlicht/QLF, required further funding from 3i. This buy-and-build momentum has continued into October as Formel D completed the acquisition of CPS Quality.

Infrastructure

3i Infrastructure plc ("3iIN") performed strongly in the period with a 7% increase in the share price to 295 pence at 30 September 2019 (March 2019: 275 pence) and provided good dividend and fee income to 3i. The team completed investments in Joulz, which owns and provides essential energy infrastructure equipment and services in the Netherlands, and in Ionisos, a leading owner and operator of cold sterilisation facilities headquartered in France.

In July 2019, we completed our second US infrastructure investment, the £86 million acquisition of Regional Rail, which owns and operates short-line freight railroads and rail-related businesses throughout the Mid-Atlantic US. At the end of October 2019, we also announced the significant bolt-on acquisition of Pinsky Railroad Company's Florida operations for Regional Rail, which will be funded by 3i when it completes in Q4 FY2020. Our European Operational Projects Fund continues to grow. In October 2019, we announced a €70 million acquisition of an 80% stake in Sociedad Concesionaria Autovía Gerediaga Elorrio, S.A. ("AGESA"), a Spanish motorway PPP, meaning that on completion the fund will have deployed over 50% of its total commitments.

Corporate Assets

One of the reasons we decided to reinvest into Scandlines last year is its ability to generate a good cash yield to 3i over the longer term. In August 2019, and earlier than anticipated, Scandlines successfully refinanced a large portion of its debt, returning £91 million of total proceeds to 3i. Since our reinvestment in June 2018, Scandlines has already returned over 20% of our reinvestment amount.

Balance sheet and dividend

We closed the period with net cash of £50 million (31 March 2019: net cash of £495 million). In line with our dividend policy, we will pay a first FY2020 dividend of 17.5 pence, which is 50% of our total FY2019 dividend. This first FY2020 dividend will be paid to shareholders on 8 January 2020.

Outlook

Our investment teams remain busy while being cautious in their review of new investment opportunities.

Our portfolio overall is performing well and the majority of our investments have decent momentum going into the second half.

Simon Borrows
Chief Executive

Business and financial review

Private Equity

The Private Equity business generated a gross investment return of £666 million (September 2018: £667 million), or 11% of the opening portfolio value (September 2018: 11%), including a gain on foreign exchange of £176 million (September 2018: £116 million). Action's trading performance was strong, and the momentum in the rest of the Private Equity portfolio remains generally good, albeit with some more mixed performance from those investments challenged by macro-economic headwinds, for example in the automotive sector.

Table 1: Gross investment return for the six months to 30 September

	2019 £m	2018 £m
Investment basis		
Realised profits over value on the disposal of investments	–	75
Unrealised profits on the revaluation of investments	429	417
Dividends	5	–
Interest income from investment portfolio	52	52
Fees receivable	4	7
Foreign exchange on investments	176	116
Gross investment return	666	667
Gross investment return as a % of opening portfolio value	11%	11%

Investment

Table 2: Private Equity cash investment in the six months to 30 September 2019

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
Magnitude Software	New	Leading provider of unified application data management solutions	May 2019	139	139
EFV LP stakes	Further	Acquisition of stakes in EFV	June 2019	61	61
Schlemmer	Further	Manufacturer of cable management solutions for the global automotive industry	April 2019 and September 2019	10	10
Lampenwelt	Further	Online lighting specialist retailer	July 2019	8	8
Other	n/a	n/a	n/a	3	3
Total Private Equity investment				221	221

In the first half, we completed the £139 million new investment in Magnitude Software, and in July 2019 we signed our c.£214 million new investment in Evernex which completed at the end of October 2019 and will be the first in the new 2019-22 vintage of investments.

In June 2019, we purchased three additional LP stakes in EFV at the March 2019 valuation, with 3i's investment totalling £61 million. In April, we provided additional funding of £8 million to Schlemmer to support its operational restructuring and, in September, we also acquired equity from Schlemmer management for a value of £2 million.

We continued our focus on our buy-and-build acquisitions for a number of our portfolio companies, most of which were self-funded, with the exception of Lampenwelt's acquisition of Lampenlicht/QLF, for which we provided £8 million of further funding.

Table 3: Private Equity bolt-on acquisitions in the six months to 30 September 2019

Asset	Name of acquisition	Business description	Date	Proprietary capital investment £m
Lampenwelt	Lampenlicht/ QLF	One of the leading online lighting players in the Benelux	July 2019	8
Aspen	TNC	Manufacturer of clips	April 2019	–
Christ	Valmano	Online retailer of jewellery and watches in Germany	May 2019	–
Havea	Pasquali	A leading pharmaceutical company in Italy	May 2019	–
Basic-Fit	Fitland	The third largest fitness operator in the Dutch market by number of clubs with a network of 37 clubs	July 2019	–
Dynatect	Thodacon	A leading provider of waywipers and other critical components for the industrial machining and automation markets based in China	August 2019	–
Formel D	Vdynamics	A German automotive engineering service provider focused on physical and virtual testing of automotive software and ECUs (electronic control units)	September 2019	–
Total Private Equity bolt-on investment				8

In October 2019, we continued our buy-and-build strategy, with Formel D completing the acquisition of CPS Quality, a specialist in quality control activities with a focus on the automotive industry.

There were no material realisations from the Private Equity portfolio in the period to 30 September 2019.

Portfolio performance

Table 4: Unrealised profits/(losses) on the revaluation of Private Equity investments¹ in the six months to 30 September

	2019 £m	2018 £m
Action		
Earnings growth	381	271
Multiple movements	–	–
Earnings based valuations (excluding Action)		
Earnings growth	90	71
Multiple movements	(19)	30
Other bases		
Discounted cash flow	–	2
Other movements in unquoted investments	(11)	(7)
Quoted portfolio	(12)	50
Total	429	417

¹ More information on our valuation methodology, including definitions and rationale, is included in our Annual report and accounts 2019 on pages 157 to 158.

Action valuation and performance

Having made significant investment in its DC infrastructure and its planning, IT and purchasing functions, Action performed strongly in the nine months to the end of September 2019, delivering very good earnings growth, reflected in the £381 million (September 2018: £271 million) earnings-driven value growth shown in Table 4. As the largest Private Equity investment by value, it represented 47% of the Private Equity portfolio (31 March 2019: 45%).

At 30 September 2019, we did not change the methodology we use to value Action, using run-rate earnings to 30 September 2019 and a post discount run-rate multiple of 18.0x (31 March 2019: 18.0x). This results in a value of £3,243 million (31 March 2019: £2,731 million). The EFV transaction valuation which is described in the CEO statement is marginally ahead of this 30 September 2019 valuation. We intend to maintain our current valuation methodology going forward.

Earnings growth (excluding Action)

The implementation of buy-and-build plans is contributing to good earnings growth for a number of our investments. Hans Anders, the value for money optical retailer, performed well with organic growth in the underlying business and in eyes + more, an acquisition it completed in January 2019. Aspen Pumps and Royal Sanders are also examples of assets which completed recent bolt-on acquisitions that are performing well and recognising beneficial synergies. Two of our longest standing investments in the portfolio, Tato and AES, made good progress in the period.

A combination of market and operational challenges continued to impact Schlemmer's profitability and this was reflected in the decline in its earnings and a reduction in the multiple used to value our investment. As a result, we recognised a £35 million reduction in value on the asset in the period.

Overall, 91% of the top 20 assets by value (including Action) in our Private Equity portfolio grew their earnings in the period (September 2018: 88%). Two investments were valued using forecast earnings at 30 September 2019 (31 March 2019: one), representing 3% of the Private Equity portfolio by value (31 March 2019: 1%).

Table 5: Portfolio earnings growth of the top 20 Private Equity investments¹

Last 12 months' earnings growth ²	Number of companies at 30 September 2019	3i carrying value at 30 September 2019 £m
<0%	3	586
0 - 9%	5	963
10 - 19%	7	4,336
>20%	5	774

1 This represents 96% of the Private Equity portfolio by value (31 March 2019: 97%). ACR is excluded from this analysis because earnings are not its relevant valuation measure.

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

The weighted average net debt in the portfolio decreased to 3.7x valuation earnings at 30 September 2019 (31 March 2019: 3.9x) predominantly due to the strong performance and cash generation of Action. Excluding Action, which was in the 3-4x category at the end of the period, weighted average net debt was 3.8x (31 March 2019: 3.7x). Table 6 shows the ratio of net debt to valuation earnings by portfolio value at 30 September 2019.

Table 6: Ratio of net debt to valuation earnings¹

Ratio of net debt to Valuation earnings	Number of companies at 30 September 2019	3i carrying value at 30 September 2019 £m
<1x	—	—
1 - 2x	3	510
2 - 3x	3	334
3 - 4x	4	3,750
4 - 5x	6	976
5 - 6x	3	594

1 This represents 89% of the Private Equity portfolio by value (31 March 2019: 88%). Quoted holdings, deferred consideration and companies with net cash are excluded from the calculation.

Multiple movements

For each of our assets valued on an earnings basis we considered the impact of the new lease accounting standards, IFRS 16 and Accounting Standards Codification 842 and, where appropriate, made adjustments to aid the comparability of multiples. It is clear that it will take some time for the effect of these new standards to be fully absorbed into comparable multiples and so we are keeping our policy under review. More importantly, in setting or changing a multiple, we consider a number of factors such as relative performance, investment size, comparable recent transactions and exit plans, and monitor external equity markets.

As a result, at 30 September 2019, we selected multiples that were lower than the comparable set in 14 out of 22 companies valued on an earnings basis (31 March 2019: 12 out of 21).

The run-rate multiple used to value Action at 30 September 2019 remained unchanged at 18.0x post liquidity discount (31 March 2019: 18.0x). As at 30 September 2019, a 1.0x movement in Action's post-discount multiple would increase or decrease the valuation of 3i's investment by £225 million (31 March 2019: £197 million).

Excluding Action, the weighted average EBITDA multiple decreased marginally to 11.7x before liquidity discount (31 March 2019: 11.8x) and was 11.0x after liquidity discount (31 March 2019: 11.1x). The pre-discount multiples used to value the portfolio ranged between 7.3x and 18.9x (31 March 2019: 7.5x to 18.9x) and the post-discount multiples ranged between 6.9x and 18.0x (31 March 2019: 7.1x to 18.0x).

Quoted portfolio

Basic-Fit is currently the only quoted asset in the Private Equity portfolio. We recognised an unrealised value loss of £12 million from Basic-Fit in the period (September 2018: £50 million gain) as its share price decreased to €28.7 at 30 September 2019 (31 March 2019: €30.0). At 30 September 2019, our residual 18% shareholding was valued at £249 million (31 March 2019: 18% shareholding valued at £254 million).

Private Equity proprietary capital

At 30 September 2019, the portfolio consisted of 33 assets (31 March 2019: 32 assets). The value of 3i's Private Equity proprietary capital increased to £6.9 billion (31 March 2019: £6.0 billion) due to the value growth, investment in the period and gains from foreign exchange translation.

Table 7: Private Equity proprietary capital

Vintages ¹	Proprietary capital value 30 September 2019 £m	Vintage Multiple 30 September 2019	Proprietary capital value 31 March 2019 £m	Vintage Multiple 31 March 2019
Buyouts 2010-2012	3,115	9.4x	2,679	8.5x
Growth 2010-2012	23	2.1x	25	2.1x
2013-2016	1,414	2.4x	1,325	2.3x
2016-2019	1,757	1.2x	1,503	1.2x
Other	594	n/a	491	n/a
Total	6,903		6,023	

1 Assets included in these vintages are disclosed in the glossary on pages 42 and 43.

The value of the Private Equity portfolio including third-party capital increased to €10.7 billion (31 March 2019: €9.6 billion) due to the increase in Action's valuation and new investment in the period.

Table 8: Private Equity proprietary capital by 3i office location

3i office location	Number of companies	3i carrying value at 30 September 2019 £m
Benelux	6	4,199
France	1	187
Germany	5	672
UK	9	732
US	6	954
Other	6	159
Total	33	6,903

Infrastructure

The Infrastructure business generated a gross investment return of £88 million, or 9% of opening value in the period (September 2018: £107 million, 13%). This was mainly driven by 3iN's share price appreciation and dividend income. The value of 3i's proprietary capital invested in Infrastructure increased to £1,163 million in the first half (31 March 2019: £1,001 million) due to the increase in 3iN's share price and the new proprietary investment in Regional Rail.

Table 9: Gross investment return for the six months to 30 September

	2019	2018
	£m	£m
Investment basis		
Unrealised profits on the revaluation of investments	59	76
Dividends	12	11
Interest income from investment portfolio	5	5
Foreign exchange on investments	17	15
Movement in the fair value of derivatives	(5)	–
Gross investment return	88	107
Gross investment return as a % of opening portfolio value	9%	13%

3iN

On 11 October 2019, 3iN announced that it had completed a placing of 81 million shares (c.10% of its equity) at a price of 275 pence per share (representing a premium of c.19% on the March 2019 ex-dividend NAV per share), raising gross proceeds of c.£223 million. The proceeds were used to repay amounts drawn under 3iN's revolving credit facility and to provide liquidity for further investment. 3i, as the largest shareholder and Investment Manager of 3iN, was supportive of the 3iN board's objective of diversifying the company's shareholder base through the placing, and, accordingly, did not subscribe for new shares. 3i now has a 30% (31 March 2019: 33%) holding in 3iN.

The 3iN portfolio continued to perform well, generating a total return on opening NAV of 5.8% in the period (September 2018: 9%). The team completed new investments in Ionisos and Joulz, and assisted 3iN's portfolio company Valorem to acquire a 51% stake in Force Hydraulique Antillaise SAS.

3iN paid a management fee to 3i of £15 million for the six-month period to 30 September 2019 (September 2018: £15 million).

Table 10: Unrealised profits/(losses) on the revaluation of Infrastructure investments¹ in the six months to 30 September

	2019	2018
	£m	£m
Quoted	53	82
Discounted cashflow	4	3
Fund	2	1
Other	–	(10)
Total	59	76

¹ More information on our valuation methodology, including definitions and rationale, is included in our Annual report and accounts 2019 on pages 157 to 158.

3iN's share price performed well in the first half, increasing by 7% and closing at 295 pence on 30 September 2019 (31 March 2019: 275 pence). We recognised £53 million of unrealised value growth on our 3iN investment and £12 million of dividend income (September 2018: £82 million of unrealised value growth and £11 million of dividend income). At 30 September 2019, our investment in 3iN was valued at £794 million (31 March 2019: £744 million).

US Infrastructure

In July 2019, we completed our £86 million investment in Regional Rail, our second investment in US infrastructure after Smarte Carte. At the end of October 2019, Regional Rail agreed the significant acquisition of Pinsky Railroad Company's Florida operations. This acquisition will be funded from 3i's balance sheet when it completes in Q4 FY2020.

Both Smarte Carte and Regional Rail were valued on a DCF basis at 30 September 2019. We recognised a small uplift on our valuation of Smarte Carte, in addition to £5 million of interest income received (September 2018: £5 million).

We executed a short-term hedging programme to mitigate the foreign exchange translation risk of our investment in Regional Rail. We recognised a £5 million gain on foreign exchange translation for Regional Rail offset by a £5 million loss in the period from the movement on the fair value of these derivatives.

Fund management

The 3i European Operational Projects Fund announced investments in four projects across Europe in April 2019 and in addition, at the end of October 2019, the Fund agreed to invest €70 million for the acquisition of an 80% stake in AGESA, the project company for the Gerediaga–Elorrio motorway in Spain. The completion of this acquisition will take investment to over 50% of the fund.

Infrastructure AUM increased to £4.6 billion (31 March 2019: £4.2 billion) and we generated fee income of £22 million from our fund management activities in the period (September 2018: £23 million).

Table 11: Assets under management as at 30 September 2019

Fund/strategy	Close date	Fund size	3i commitment/ share	Remaining 3i commitment	% invested at September 2019	AUM £m	Fee income earned in the period £m
3iN ¹	Mar 07	n/a	£794m	n/a	n/a	2,391	15
3i Managed Infrastructure Acquisitions LP	Jun 17	£698m	£35m	£5m	86%	788	3
3i European Operational Projects Fund	Apr 18	€456m	€40m	€26m	36%	156	1
BIIF	May 08	£680m	n/a	n/a	90%	509	2
3i India Infrastructure Fund	Mar 08	US\$1,195m	US\$250m	US\$35m	73%	113	–
3i managed accounts	various	n/a	n/a	n/a	n/a	336	1
US Infrastructure	various	n/a	n/a	n/a	n/a	289	–
Total						4,582	22

1 AUM based on the share price at 30 September 2019.

Corporate Assets

Scandlines performed well in the period, contributing a gross investment return of £44 million (September 2018: £15 million¹) or 8% of opening portfolio value (September 2018: 3%¹). The business also completed an investment grade debt refinancing in August 2019, returning cash proceeds to 3i of £91 million.

Table 12: Gross investment return for the six months to 30 September

	2019	2018 ¹
Investment basis	£m	£m
Unrealised profit / (loss) on the revaluation of investments	10	(15)
Dividends	27	22
Foreign exchange on investments	16	8
Movement in the fair value of derivatives	(9)	–
Gross investment return	44	15
Gross investment return as a % of opening portfolio value	8%	3%

¹ September 2018 comparative is a three-month period from reinvestment in June 2018.

Portfolio performance

In August 2019, Scandlines raised an investment grade debt facility, maintaining its BBB rating from Fitch and returning £70 million of capital proceeds to 3i, in addition to £21 million of dividend income. A further £6 million of dividend income was received earlier in the period. Since our reinvestment in June 2018, Scandlines has already returned 23% of our reinvestment amount.

Scandlines is valued on a DCF basis and we recognised unrealised value growth of £10 million (September 2018: £15 million loss) from the investment in the period, as the successful refinancing had a net positive impact on unrealised profit. Car segment revenues have grown year to date, driven by leisure tickets and border-shoppers on both routes. The freight segment experienced lower volumes in the half, consistent with a slowdown in freight transit between Germany and Scandinavia.

At 30 September 2019, Scandlines was valued at £485 million (31 March 2019: £529 million) and the reduction in value reflects the £70 million capital return.

Foreign exchange

We hedge our investment in Scandlines for foreign exchange translation risks. We recognised a £7 million net gain on foreign exchange translation (September 2018: £8 million) including a £9 million fair value loss (September 2018: nil) from derivatives in our hedging programme.

Overview of financial performance

3i generated a total return of £767 million, or a profit on opening shareholders' funds of 10%, in the six months to 30 September 2019 (September 2018: £728 million, or 10%). The diluted NAV per share at 30 September 2019 increased to 873 pence (31 March 2019: 815 pence) after the payment of the second FY2019 dividend of £194 million, or 20 pence per share (September 2018: £213 million, 22 pence per share).

Table 13: Gross investment return for the six months to 30 September

	2019	2018
	£m	£m
Investment basis		
Private Equity	666	667
Infrastructure	88	107
Corporate Assets	44	15
Gross investment return	798	789
Gross investment return as a % of opening portfolio value	11%	12%
Total comprehensive income ("Total return")	767	728
Total return on opening shareholders' funds	10%	10%

Gross investment return was £798 million in the period (September 2018: £789 million) due to the strong earnings growth of Action, good levels of dividend income from Scandlines and 3iN and interest income generated from our more recent vintages. This also includes a £195 million net currency gain on translation of our investments (September 2018: £139 million gain). Further information on the Private Equity, Infrastructure and Scandlines valuations is included in their business reviews.

Operating expenses

Operating expenses decreased to £60 million in the first six months of the year (September 2018: £62 million) as we remain disciplined in managing our costs.

Table 14: Operating cash (loss)/profit for the six months to 30 September

	2019	2018
	£m	£m
Cash fees from external funds	19	30
Cash portfolio fees	3	6
Cash portfolio dividends and interest	55	37
Cash income	77	73
Cash operating expenses	(79)	(69)
Operating cash (loss)/profit	(2)	4

3i generated an operating cash loss of £2 million in the period (September 2018: £4 million profit). Cash income increased to £77 million (September 2018: £73 million) principally due to the £27 million of dividends received from Scandlines (September 2018: £22 million). Cash operating expenses incurred during the period increased to £79 million (September 2018: £69 million) principally due to higher variable compensation costs. Our cash operating expenses include £2 million of lease payments in relation to property; the costs are now shown as financing activities in the cash flow statement in accordance with IFRS 16 (September 2018: cash operating expenses include £2 million of operating lease payments under International Accounting Standards 17).

Foreign exchange

At 30 September 2019, 82% of the Group's assets were denominated in euros or US dollars (31 March 2019: 77%). The Group recorded a total foreign exchange gain of £196 million net of derivatives during the period (September 2018: £145 million gain) as sterling weakened significantly against most major currencies due to continued political uncertainty.

Table 15: Net assets and sensitivity by currency at 30 September 2019

	FX rate	Net assets £m	%	1% sensitivity £m
Sterling	n/a	1,386	16	n/a
Euro ¹	1.1306	5,492	65	50
US dollar ¹	1.2329	1,397	17	13
Danish krone	8.4414	165	2	1
Other	n/a	35	–	n/a
Total		8,475	100	

1 Sensitivity impact is net of derivatives.

Carried interest and performance fees payable and receivable

We pay carried interest to participants in plans relating to our proprietary capital invested. We also receive carried interest from third-party funds and pay a portion to participants in our carry plans. Carried interest at 30 September 2019 is calculated assuming that remaining assets in the portfolio were realised at their fair value at this date.

Table 16: Carried interest and performance fees for the six months to 30 September

Consolidated statement of comprehensive income	2019 £m	2018 £m
Carried interest and performance fees receivable		
Private Equity	81	53
Total	81	53
Carried interest and performance fees payable		
Private Equity	(63)	(79)
Infrastructure	(5)	(4)
Total	(68)	(83)
Net carried interest receivable/(payable)	13	(30)

Carried interest and performance fees receivable

The continued good performance of Action, the largest investment in EFV, led to a corresponding increase of £82 million in the carried interest receivable from EFV (September 2018: £54 million) and contributed to the increase in EFV's fund gross multiple to 3.0x at 30 September 2019 (31 March 2019: 2.8x).

The overall carried interest and performance fees receivable increased to £684 million (31 March 2019: £640 million), after receipt of the £31 million 3iN performance fee in the period, which had been accrued for at 31 March 2019.

Carried interest and performance fees payable

In Private Equity, we typically accrue net carried interest payable at between 10% and 12% of gross investment return. We accrued carried interest payable of £63 million (September 2018: £79 million) for Private Equity in the period, of which £57 million relates to the team's share of carried interest receivable from EFV (September 2018: £35 million). The PE 2013-16 vintage is through its performance hurdle and is accruing carried interest payable.

Carried interest is paid to participants when the performance hurdles are passed in cash terms following cash proceeds received from a realisation, refinancing event or other cash distribution. Due to the 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, £32 million was paid to participants in the Private Equity plans (September 2018: £37 million) predominantly as a result of the OneMed and Etanco realisations in FY2019.

Overall, the effect of the income statement charge, the cash payments, as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £1,020 million (31 March 2019: £970 million). As a result of the EFV transaction described in the CEO statement, it is expected that EFV's share, £481 million (31 March 2019: £413 million), of the accrued carried interest will become payable to participants in the Buyouts 2010-12 plan.

EFV carried interest receivable and payable

At 30 September 2019 the carried interest receivable accrued on 3i's balance sheet from EFV was £681 million (31 March 2019: £602 million). As a result of the EFV transaction described in the CEO statement, 3i should receive the carried interest receivable from EFV on completion which is expected in January 2020. The proceeds received will primarily be used to settle the amounts payable to the participants in the corresponding Buyouts 2010-12 carry payable plan.

Table 17: Carried interest and performance fees

Consolidated statement of financial position	30 September 2019 £m	31 March 2019 £m
Carried interest and performance fees receivable		
Private Equity	684	609
Infrastructure	–	31
Total	684	640
Carried interest and performance fees payable		
Private Equity	(998)	(942)
Infrastructure	(22)	(28)
Total	(1,020)	(970)

Impact of IFRS 15 on the recognition of carried interest receivable

IFRS 15 introduced the judgement that variable revenue, such as carried interest receivable, can only be recognised if it is highly probable that a significant reversal will not occur. On completion of the EFV transaction described in the CEO statement, EFV will go through its hurdle and it is expected that the EFV carry receivable will be crystallised. This increases the certainty that no significant reversal of carried interest receivable will occur.

Balance sheet and NAV**Table 18: Simplified consolidated balance sheet**

Investment basis	30 September 2019 £m	31 March 2019 £m
Investment portfolio	8,551	7,553
Gross debt	(575)	(575)
Cash and deposits	625	1,070
Net cash	50	495
Carried interest and performance fees receivable	684	640
Carried interest and performance fees payable	(1,020)	(970)
Other net assets	210	191
Net assets	8,475	7,909
Gearing¹	nil	nil

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

Net cash decreased to £50 million at 30 September 2019 (31 March 2019: £495 million) as a result of net investment of £241 million in the period and the payment of the second FY2019 dividend of £194 million.

The investment portfolio value increased to £8,551 million at 30 September 2019 (31 March 2019: £7,553 million) driven by unrealised value growth of £498 million, cash investment and gains on foreign exchange translation.

Table 19: Investments and realisations by business line

Investment basis	30 September 2019 £m	31 March 2019 £m
Cash investment		
Private Equity	(221)	(332)
Infrastructure	(91)	2
Corporate Assets	–	(529)
Total cash investment	(312)	(859)
Cash realisations		
Private Equity	1	1,235
Infrastructure	–	7
Corporate Assets	70	–
Total cash realisations	71	1,242

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

Liquidity

Liquidity reduced to £975 million at 30 September 2019 (31 March 2019: £1,420 million) and comprised cash and deposits of £625 million (31 March 2019: £1,070 million) and undrawn facilities of £350 million (31 March 2019: £350 million).

Alternative Performance Measures (“APMs”)

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

The explanation of and rationale for the Investment basis and its reconciliation to IFRS is provided from page 18. The table below defines our additional APMs and should be read in conjunction with the Annual report and accounts 2019.

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 2019.	It is calculated as the gross investment return, as shown in the Investment basis Consolidated statement of comprehensive income, as a % of the opening portfolio value.	The equivalent balances under IFRS and the reconciliation to the Investment basis are shown in the Reconciliation of consolidated statement of comprehensive income and the Reconciliation of consolidated statement of financial position respectively.
Cash realisations	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities. For further information, see the Group KPIs in our Annual report and accounts 2019.	The cash received from the disposal of investments in the period as shown in the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of consolidated cash flow statement.
Cash investment	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 2019.	The cash paid to acquire investments in the period as shown on the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of consolidated cash flow statement.
Operating cash profit/(loss)	By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns. For further information, see the Group KPIs in our Annual report and accounts 2019.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses and leases payments as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 14 of the Overview of financial performance.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of consolidated cash flow statement.
Net cash/(net debt)	A measure of the 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 consolidated statement of financial position.
Gearing	A measure of the financial risk in the Group’s balance sheet.	Net debt (as defined above) as a % of the Group’s net assets under the Investment basis. It cannot be less than zero.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of consolidated statement of financial position.

Principal risks and uncertainties

3i's risk appetite statement, approach to risk management and governance structure are set out in the Risk section of the Annual report and accounts 2019, which can be accessed on the Group's website at www.3i.com.

The principal risks to the achievement of the Group's strategic objectives for the remaining six months of its financial year are unchanged from those reported on pages 48 to 53 of the Annual report and accounts 2019, except for UK political uncertainty which has been added as a separate risk. Otherwise, there have been no material changes to the impact and likelihood of the Group's other principal risks, which are summarised below. This is not a comprehensive list of all potential risks and uncertainties faced by the Group, but rather a summary of the risks which may have a significant impact on its performance and future prospects.

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

Given that the longer-term implications of the UK's negotiations to leave the EU have been unclear for some time, we implemented an alternative regulatory strategy in 2018 to ensure continuity of our business across a range of reasonably foreseeable scenarios. This includes permission from the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier, to establish and operate an Alternative Investment Fund Manager ("AIFM") in Luxembourg. Currently 65% of our portfolio is invested in northern Europe, and our Luxembourg operation enables 3i to continue the Group's activities in the region, if, as expected, the UK leaves the EU.

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

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

The Half-year report provides an update on 3i's strategy and business performance, as well as on market conditions, which is relevant to the Group's overall risk profile and should be viewed in the context of the Group's risk management framework and principal risks as disclosed in the Annual report and accounts 2019.

Reconciliation of the Investment basis to IFRS

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

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

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

A more detailed explanation of the effect of IFRS 10 is provided in the Annual report and accounts 2019 on page 39.

Reconciliation between Investment basis and IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the consolidated statement of comprehensive income, consolidated statement of financial position and consolidated cash flow statement is shown on pages 19 to 23.

Reconciliation of consolidated statement of comprehensive income

	Notes	Six months to 30 September 2019			Six months to 30 September 2018		
		Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m	Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m
Realised profits over value on the disposal of investments	1,2	–	–	–	75	(44)	31
Unrealised profits on the revaluation of investments	1,2	498	(436)	62	478	(386)	92
Fair value movements on investment entity subsidiaries	1	–	602	602	–	502	502
Portfolio income							
Dividends	1,2	44	(31)	13	33	(26)	7
Interest income from investment portfolio	1,2	57	(39)	18	57	(40)	17
Fees receivable	1,2	4	1	5	7	1	8
Foreign exchange on investments	1,4	209	(168)	41	139	(108)	31
Movement in the fair value of derivatives		(14)	–	(14)	–	–	–
Gross investment return		798	(71)	727	789	(101)	688
Fees receivable from external funds		23	–	23	26	–	26
Operating expenses	1,3	(60)	–	(60)	(62)	–	(62)
Interest received		2	–	2	1	–	1
Interest paid		(18)	–	(18)	(17)	–	(17)
Exchange movements	1,4	1	19	20	6	(4)	2
Income from investment entity subsidiaries	1	–	10	10	–	10	10
Other income		3	(1)	2	1	–	1
Operating profit before carried interest		749	(43)	706	744	(95)	649
Carried interest							
Carried interest and performance fees receivable	1,3	81	(18)	63	53	5	58
Carried interest and performance fees payable	1,3	(68)	59	(9)	(83)	89	6
Operating profit before tax		762	(2)	760	714	(1)	713
Income taxes	1,3	(1)	–	(1)	2	(1)	1
Profit for the period		761	(2)	759	716	(2)	714
Other comprehensive income that may be reclassified to the income statement							
Exchange differences on translation of foreign operations	1,4	–	2	2	–	2	2
Other comprehensive income that will not be reclassified to the income statement							
Re-measurement of defined benefit plans		6	–	6	12	–	12
Other comprehensive income for the period		6	2	8	12	2	14
Total comprehensive income for the period (“Total return”)		767	–	767	728	–	728

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

Reconciliation of consolidated statement of comprehensive income continued

Notes:

- 1 Applying IFRS 10 to the consolidated statement of comprehensive income consolidates the line items of a number of previously consolidated subsidiaries into a single line item "Fair value movements on investment entity subsidiaries". In the Investment basis accounts we have disaggregated these line items to analyse our total return as if these investment entity subsidiaries were fully consolidated, consistent with prior periods. The adjustments simply reclassify the consolidated statement of comprehensive income of the Group, and the total return is equal under the Investment basis and the IFRS basis.
- 2 Realised profits, unrealised profits and portfolio income shown in the IFRS accounts only relate to portfolio companies that are held directly by 3i Group plc and not those portfolio companies held through investment entity subsidiaries. Realised profits, unrealised profits and portfolio income in relation to portfolio companies held through investment entity subsidiaries are aggregated into the single "Fair value movement on investment entity subsidiaries" line. This is the most significant reduction of information in our IFRS accounts.
- 3 Other items also aggregated into the "Fair value movements on investment entity subsidiaries" line include fees receivable from external funds, audit fees, administration expenses, carried interest and tax.
- 4 Foreign exchange movements have been reclassified under the Investment basis as foreign currency asset and liability movements. Movements within the investment entity subsidiaries are included within "Fair value movements on investment entity subsidiaries".

Reconciliation of consolidated statement of financial position

	Notes	As at 30 September 2019			As at 31 March 2019		
		Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m	Investment basis £m	IFRS adjustments £m	IFRS basis (audited) £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	1,043	(544)	499	998	(529)	469
Unquoted investments	1	7,508	(6,078)	1,430	6,555	(5,362)	1,193
Investments in investment entity subsidiaries	1,2	–	5,805	5,805	–	5,159	5,159
Investment portfolio		8,551	(817)	7,734	7,553	(732)	6,821
Carried interest and performance fees receivable	1	684	–	684	605	–	605
Other non-current assets	1	131	(106)	25	117	(93)	24
Intangible assets		10	–	10	11	–	11
Retirement benefit surplus		142	–	142	134	–	134
Property, plant and equipment		4	–	4	4	–	4
Right of use asset		21	–	21	–	–	–
Derivative financial instruments		5	–	5	11	–	11
Total non-current assets		9,548	(923)	8,625	8,435	(825)	7,610
Current assets							
Carried interest and performance fees receivable	1	–	1	1	35	–	35
Other current assets	1	30	(1)	29	29	(5)	24
Current income taxes		1	–	1	12	–	12
Derivative financial instruments		4	–	4	7	–	7
Deposits		50	–	50	50	–	50
Cash and cash equivalents	1	575	(10)	565	1,020	(37)	983
Total current assets		660	(10)	650	1,153	(42)	1,111
Total assets		10,208	(933)	9,275	9,588	(867)	8,721
Liabilities							
Non-current liabilities							
Trade and other payables	1	(6)	6	–	(8)	7	(1)
Carried interest and performance fees payable	1	(1,014)	926	(88)	(926)	840	(86)
Loans and borrowings		(575)	–	(575)	(575)	–	(575)
Derivative financial instruments		(1)	–	(1)	–	–	–
Lease liability		(18)	–	(18)	–	–	–
Retirement benefit deficit		(27)	–	(27)	(27)	–	(27)
Deferred income taxes		(1)	–	(1)	(1)	–	(1)
Provisions		(1)	–	(1)	(1)	–	(1)
Total non-current liabilities		(1,643)	932	(711)	(1,538)	847	(691)
Current liabilities							
Trade and other payables	1	(73)	1	(72)	(95)	1	(94)
Carried interest and performance fees payable	1	(6)	–	(6)	(44)	19	(25)
Derivative financial instruments		(6)	–	(6)	–	–	–
Lease liability		(4)	–	(4)	–	–	–
Current income taxes		(1)	–	(1)	(1)	–	(1)
Provisions		–	–	–	(1)	–	(1)
Total current liabilities		(90)	1	(89)	(141)	20	(121)
Total liabilities		(1,733)	933	(800)	(1,679)	867	(812)
Net assets		8,475	–	8,475	7,909	–	7,909
Equity							
Issued capital		719	–	719	719	–	719
Share premium		787	–	787	787	–	787
Other reserves	3	7,006	–	7,006	6,445	–	6,445
Own shares		(37)	–	(37)	(42)	–	(42)
Total equity		8,475	–	8,475	7,909	–	7,909

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

Reconciliation of consolidated statement of financial position continued

Notes:

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

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

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

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

Reconciliation of consolidated cash flow statement

	Notes	Six months to 30 September 2019			Six months to 30 September 2018		
		Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m	Investment basis £m	IFRS adjustments £m	IFRS basis (unaudited) £m
Cash flow from operating activities							
Purchase of investments	1	(312)	158	(154)	(779)	686	(93)
Proceeds from investments	1	71	(71)	–	985	(164)	821
Cash outflow to investment entity subsidiaries	1	–	(31)	(31)	–	(525)	(525)
Net cash flow from derivatives		1	–	1	–	–	–
Portfolio interest received	1	9	(3)	6	4	–	4
Portfolio dividends received	1	46	(31)	15	33	(26)	7
Portfolio fees received	1	3	1	4	6	1	7
Fees received from external funds		19	–	19	30	–	30
Carried interest and performance fees received	1	53	(19)	34	102	(1)	101
Carried interest and performance fees paid	1	(40)	14	(26)	(46)	36	(10)
Carried interest held in non-current assets	1	(11)	11	–	–	–	–
Operating expenses paid		(77)	–	(77)	(69)	–	(69)
Co-investment loans (paid)/received	1	–	–	–	(6)	7	1
Income taxes received/(paid)		10	–	10	(10)	–	(10)
Other cash income		2	–	2	–	–	–
Net cash flow from operating activities		(226)	29	(197)	250	14	264
Cash flow from financing activities							
Purchase of own shares		(18)	–	(18)	–	–	–
Dividend paid		(194)	–	(194)	(213)	–	(213)
Lease payments		(2)	–	(2)	–	–	–
Interest received	1	1	1	2	1	–	1
Interest paid		(12)	–	(12)	(12)	–	(12)
Net cash flow from financing activities		(225)	1	(224)	(224)	–	(224)
Cash flow from investing activities							
Purchase of property, plant and equipment		(1)	–	(1)	(1)	–	(1)
Net cash flow from investing activities		(1)	–	(1)	(1)	–	(1)
Change in cash and cash equivalents	2	(452)	30	(422)	25	14	39
Cash and cash equivalents at the start of the period	2	1,020	(37)	983	1,054	(82)	972
Effect of exchange rate fluctuations	1	7	(3)	4	8	–	8
Cash and cash equivalents at the end of the period	2	575	(10)	565	1,087	(68)	1,019

Notes:

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

IFRS Financial statements

Condensed consolidated statement of comprehensive income

	Notes	Six months to 30 September 2019 (unaudited) £m	Six months to 30 September 2018 (unaudited) £m
Realised profits over value on the disposal of investments		–	31
Unrealised profits on the revaluation of investments	2	62	92
Fair value movements on investment entity subsidiaries	7	602	502
Portfolio income			
Dividends		13	7
Interest income from investment portfolio		18	17
Fees receivable	3	5	8
Foreign exchange on investments		41	31
Movement in the fair value of derivatives		(14)	–
Gross investment return		727	688
Fees receivable from external funds	3	23	26
Operating expenses		(60)	(62)
Interest received		2	1
Interest paid		(18)	(17)
Exchange movements		20	2
Income from investment entity subsidiaries		10	10
Other income		2	1
Carried interest			
Carried interest and performance fees receivable	3	63	58
Carried interest and performance fees payable		(9)	6
Operating profit before tax		760	713
Income taxes		(1)	1
Profit for the period		759	714
Other comprehensive income that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		2	2
Other comprehensive income that will not be reclassified to the income statement			
Re-measurements of defined benefit plans		6	12
Other comprehensive income for the period		8	14
Total comprehensive income for the period (“Total return”)		767	728
Earnings per share			
Basic (pence)	4	78.4	73.8
Diluted (pence)	4	78.2	73.5

Condensed consolidated statement of financial position

	Notes	30 September 2019 (unaudited) £m	31 March 2019 (audited) £m
Assets			
Non-current assets			
Investments			
Quoted investments	6	499	469
Unquoted investments	6	1,430	1,193
Investments in investment entity subsidiaries	7	5,805	5,159
Investment portfolio		7,734	6,821
Carried interest and performance fees receivable		684	605
Other non-current assets		25	24
Intangible assets		10	11
Retirement benefit surplus		142	134
Property, plant and equipment		4	4
Right of use asset		21	–
Derivative financial instruments		5	11
Total non-current assets		8,625	7,610
Current assets			
Carried interest and performance fees receivable		1	35
Other current assets		29	24
Current income taxes		1	12
Derivative financial instruments		4	7
Deposits		50	50
Cash and cash equivalents		565	983
Total current assets		650	1,111
Total assets		9,275	8,721
Liabilities			
Non-current liabilities			
Trade and other payables		–	(1)
Carried interest and performance fees payable		(88)	(86)
Loans and borrowings		(575)	(575)
Derivative financial instruments		(1)	–
Lease liability		(18)	–
Retirement benefit deficit		(27)	(27)
Deferred income taxes		(1)	(1)
Provisions		(1)	(1)
Total non-current liabilities		(711)	(691)
Current liabilities			
Trade and other payables		(72)	(94)
Carried interest and performance fees payable		(6)	(25)
Derivative financial instruments		(6)	–
Lease liability		(4)	–
Current income taxes		(1)	(1)
Provisions		–	(1)
Total current liabilities		(89)	(121)
Total liabilities		(800)	(812)
Net assets		8,475	7,909
Equity			
Issued capital		719	719
Share premium		787	787
Capital redemption reserve		43	43
Share-based payment reserve		31	36
Translation reserve		(1)	(3)
Capital reserve		6,044	5,590
Revenue reserve		889	779
Own shares		(37)	(42)
Total equity		8,475	7,909

Condensed consolidated statement of changes in equity

For the six months to 30 September 2019 (unaudited)	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 period ¹	719	787	43	36	(3)	5,590	779	(42)	7,909
Profit for the period	-	-	-	-	-	665	94	-	759
Exchange differences on translation of foreign operations	-	-	-	-	2	-	-	-	2
Re-measurements of defined benefit plans	-	-	-	-	-	6	-	-	6
Total comprehensive income for the period	-	-	-	-	2	671	94	-	767
Share-based payments	-	-	-	11	-	-	-	-	11
Release on exercise/forfeiture of share awards	-	-	-	(16)	-	-	16	-	-
Exercise of share awards	-	-	-	-	-	(23)	-	23	-
Ordinary dividends	-	-	-	-	-	(194)	-	-	(194)
Purchase of own shares	-	-	-	-	-	-	-	(18)	(18)
Total equity at the end of the period	719	787	43	31	(1)	6,044	889	(37)	8,475

1 The adoption of IFRS 16 on 1 April 2019 resulted in the recognition of a right of use asset of £23 million and lease liability of £23 million, with nil impact on retained earnings. See page 28 for further details.

For the six months to 30 September 2018 (unaudited)	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 period	719	786	43	32	(8)	4,700	778	(26)	7,024
Profit for the period	-	-	-	-	-	622	92	-	714
Exchange differences on translation of foreign operations	-	-	-	-	2	-	-	-	2
Re-measurements of defined benefit plans	-	-	-	-	-	12	-	-	12
Total comprehensive income for the period	-	-	-	-	2	634	92	-	728
Share-based payments	-	-	-	9	-	-	-	-	9
Release on exercise/forfeiture of share awards	-	-	-	(12)	-	-	12	-	-
Exercise of share awards	-	-	-	-	-	(13)	-	13	-
Ordinary dividends	-	-	-	-	-	(164)	(49)	-	(213)
Total equity at the end of the period	719	786	43	29	(6)	5,157	833	(13)	7,548

Condensed consolidated cash flow statement

	Six months to 30 September 2019 (unaudited) £m	Six months to 30 September 2018 (unaudited) £m
Cash flow from operating activities		
Purchase of investments	(154)	(93)
Proceeds from investments	–	821
Cash outflow to investment entity subsidiaries	(31)	(525)
Net cash flow from derivatives	1	–
Portfolio interest received	6	4
Portfolio dividends received	15	7
Portfolio fees received	4	7
Fees received from external funds	19	30
Carried interest and performance fees received	34	101
Carried interest and performance fees paid	(26)	(10)
Operating expenses paid	(77)	(69)
Co-investment loans received	–	1
Income taxes received/(paid)	10	(10)
Other cash income	2	–
Net cash flow from operating activities	(197)	264
Cash flow from financing activities		
Purchase of own shares	(18)	–
Dividend paid	(194)	(213)
Lease payments	(2)	–
Interest received	2	1
Interest paid	(12)	(12)
Net cash flow from financing activities	(224)	(224)
Cash flow from investing activities		
Purchase of property, plant and equipment	(1)	(1)
Net cash flow from investing activities	(1)	(1)
Change in cash and cash equivalents	(422)	39
Cash and cash equivalents at the start of the period	983	972
Effect of exchange rate fluctuations	4	8
Cash and cash equivalents at the end of the period	565	1,019

Notes to the financial statements

Basis of preparation and accounting policies

Compliance with International Financial Reporting Standards (“IFRS”)

The Half-year condensed consolidated financial statements of 3i Group plc have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board (‘IASB’) and as endorsed by the European Union. The Half-year condensed consolidated financial statements should be read in conjunction with the Annual report and accounts 2019. The accounting policies applied by 3i Group plc for the Half-year condensed consolidated financial statements are consistent with those described on pages 104 to 144 of the Annual report and accounts 2019, except for the adoption of certain new accounting standards, further details of which are outlined below. There was no change in the current period to the critical accounting estimates and judgements applied in 2019, which are stated on page 106 of the Annual report and accounts 2019.

The financial information for the year ended 31 March 2019 contained within this Half-year report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The statutory accounts for the year to 31 March 2019, prepared under IFRS as endorsed by the EU, have been reported on by Ernst & Young LLP and delivered to the Registrar of Companies. The report of the Auditor on these statutory accounts was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

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

Accounting developments

On 1 April 2019, the Group adopted IFRS 16 Leases, which replaces IAS 17 Leases.

The only impact on the Group relates to leases for use of office space. These were previously classified as operating leases under IAS 17, with lease rentals charged to operating expenses on a straight line basis over the lease term. IFRS 16 requires lessees to recognise a lease liability, representing the present value of the obligation to make lease payments, and a related right of use (“ROU”) asset. The lease liability is calculated based on expected future lease payments, discounted using the relevant incremental borrowing rate. The ROU asset is recognised at cost less accumulated depreciation and impairment losses, with depreciation charged on a straight line basis over the life of the lease. In determining the value of the ROU asset and lease liabilities, the Group considers whether any leases contain lease extensions or termination options that the Group is reasonably certain to exercise.

The Group has applied the simplified retrospective approach to IFRS 16 and therefore comparative information has not been restated. On adoption of IFRS 16, the Group recognised an additional £23 million ROU asset and £23 million lease liability, with nil impact on retained earnings at 1 April 2019. When measuring the lease liability at 1 April 2019, future lease payments were discounted using a range of incremental borrowing rates between 0.75% and 3.35%, with a weighted average incremental borrowing rate of 2.04%. A reconciliation of the operating lease commitment as at 31 March 2019 (Note 24 in our Annual report and accounts 2019) to the opening lease liability at 1 April 2019 is presented below:

	£m
Operating lease commitments at 31 March 2019 as disclosed in the Annual report and accounts 2019 (Note 24)	24
Impact of discounting using incremental borrowing rates at 1 April 2019	(1)
Opening lease liability at 1 April 2019	23

During the period, £2 million was recognised in operating expenses relating to depreciation of the ROU asset and nil was recognised in interest paid relating to effective interest on the lease liability, these amounts are not materially different to the amounts which would have been recognised under IAS 17.

1 Segmental analysis

The tables below are presented on the Investment basis which is the basis used by the chief operating decision maker, the Chief Executive, to monitor the performance of the Group. A description of the Investment basis and a reconciliation of the Investment basis to the IFRS financial statements is provided on pages 18 to 23. Further detail on the Group's segmental analysis can be found on pages 108 to 110 of the Annual report and accounts 2019. The remaining Notes are prepared on an IFRS basis.

Investment basis	Private Equity £m	Infrastructure £m	Corporate Assets £m	Total £m
Six months to 30 September 2019				
Realised profits over value on the disposal of investments	–	–	–	–
Unrealised profits/(losses) on the revaluation of investments	429	59	10	498
Portfolio income				
Dividends	5	12	27	44
Interest income from investment portfolio	52	5	–	57
Fees receivable	4	–	–	4
Foreign exchange on investments	176	17	16	209
Movement in the fair value of derivatives	–	(5)	(9)	(14)
Gross investment return	666	88	44	798
Fees receivable from external funds	1	22	–	23
Operating expenses	(38)	(21)	(1)	(60)
Interest received				2
Interest paid				(18)
Exchange movements				1
Other income				3
Operating profit before carried interest				749
Carried interest				
Carried interest and performance fees receivable	81	–	–	81
Carried interest and performance fees payable	(63)	(5)	–	(68)
Operating profit				762
Income taxes				(1)
Other comprehensive income				
Re-measurements of defined benefit plans				6
Total return				767
Net divestment/(investment)				
Realisations	1	–	70	71
Cash investment	(221)	(91)	–	(312)
	(220)	(91)	70	(241)
Balance sheet				
Opening portfolio value at 1 April 2019	6,023	1,001	529	7,553
Investment ¹	289	91	–	380
Value disposed	(1)	–	(70)	(71)
Unrealised value movement	429	59	10	498
Other movement (including foreign exchange)	163	12	16	191
Closing portfolio value at 30 September 2019	6,903	1,163	485	8,551

1 Includes capitalised interest and other non-cash investment.

1 Segmental analysis continued

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

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

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

3 Includes capitalised interest and other non-cash investment.

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

Six months to 30 September 2019	Unquoted investments £m	Quoted investments £m	Total £m
Movement in the fair value of investments	29	33	62
Of which:			
- unrealised gains	60	33	93
- unrealised losses	(31)	–	(31)
	29	33	62
<hr/>			
Six months to 30 September 2018	Unquoted investments £m	Quoted investments £m	Total £m
Movement in the fair value of investments	44	48	92
Of which:			
- unrealised gains	71	48	119
- unrealised losses	(27)	–	(27)
	44	48	92

3 Revenue

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

Six months to 30 September 2019	Private Equity £m	Infrastructure £m	Total £m
Total revenue by geography¹			
UK	64	21	85
Northern Europe	2	1	3
North America	3	–	3
Total	69	22	91
Revenue by type			
Fees receivable ² from portfolio	5	–	5
Fees receivable from external funds	1	22	23
Carried interest and performance fees receivable ²	63	–	63
Total	69	22	91
<hr/>			
Six months to 30 September 2018	Private Equity £m	Infrastructure £m	Total £m
Total revenue by geography¹			
UK	61	7	68
Northern Europe	4	16	20
North America	4	–	4
Total	69	23	92
Revenue by type			
Fees receivable ² from portfolio	8	–	8
Fees receivable from external funds	3	23	26
Carried interest and performance fees receivable ²	58	–	58
Total	69	23	92

1 For fees receivable from external funds and carried interest and performance fees receivable the geography is based on the domicile of the fund.

2 Fees receivable and carried interest receivable above are different to the Investment basis figures included in Note 1. This is due to the fact that Note 1 is disclosed on the Investment basis and the table above is shown on the IFRS basis. For an explanation of the Investment basis and a reconciliation between Investment basis and IFRS basis see pages 18 to 23.

4 Per share information

The calculation of basic net assets per share is based on the net assets and the number of shares in issue. When calculating the diluted net assets per share, the number of shares in issue is adjusted for the effect of all dilutive share awards.

	30 September 2019	31 March 2019
Net assets per share (£)		
Basic	8.75	8.19
Diluted	8.73	8.15
Net assets (£m)		
Net assets attributable to equity holders of the Company	8,475	7,909
	30 September 2019	31 March 2019
Number of shares in issue		
Ordinary shares	973,041,002	973,000,665
Own shares	(4,764,635)	(7,014,008)
	968,276,367	965,986,657
Effect of dilutive potential ordinary shares		
Share awards	2,420,256	3,994,492
Diluted shares	970,696,623	969,981,149

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

	6 months to 30 September 2019	6 months to 30 September 2018
Earnings per share (pence)		
Basic	78.4	73.8
Diluted	78.2	73.5
Earnings (£m)		
Profit for the period attributable to equity holders of the Company	759	714

Basic earnings per share is calculated on weighted average shares in issue of 968,015,436 for the period to 30 September 2019 (2018: 967,256,411). Diluted earnings per share is calculated on diluted weighted average shares of 970,176,172 for the period to 30 September 2019 (2018: 971,004,710).

5 Dividends

	6 months to 30 September 2019 pence per share	6 months to 30 September 2019 £m	6 months to 30 September 2018 pence per share	6 months to 30 September 2018 £m
Declared and paid during the period				
Second dividend	20.0	194	22.0	213
	20.0	194	22.0	213
Proposed first dividend	17.5	169	15.0	145

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 as at 31 March 2019 were £2,226 million (31 March 2018: £1,941 million) and the Board reviews the distributable reserves bi-annually, including consideration of any material changes since the most recent audited accounts, ahead of proposing any dividend. The Board also reviews the proposed dividends in the context of the requirements of being an approved investment trust. Shareholders are given the opportunity to approve the total dividend for the year at the Company's Annual General Meeting. Details of the Group's continuing viability and going concern can be found in the Risk management section of the Annual report and accounts 2019.

6 Investment portfolio

This section should be read in conjunction with Note 11 on page 117 of the Annual report and accounts 2019, which provides more detail about initial recognition and subsequent measurement of investments at fair value.

Non-current	6 months to 30 September 2019	Year to 31 March 2019
	£m	£m
Opening fair value	1,662	2,096
Additions	173	150
- of which loan notes with nil value	(6)	(5)
Disposals, repayments and write offs	—	(793)
Fair value movement ¹	62	168
Other movements and net cash movements ²	38	46
Closing fair value	1,929	1,662
Quoted investments	499	469
Unquoted investments	1,430	1,193
Closing fair value	1,929	1,662

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

2 Other movements includes the impact of foreign exchange and transfers of investments to/from investment entity subsidiaries.

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

Additions include cash investment of £154 million (31 March 2019: £125 million) and £19 million (31 March 2019: £25 million) in capitalised interest received by way of loan notes, of which £6 million (31 March 2019: £5 million) was written down in the period to nil.

Included within the Consolidated statement of comprehensive income is £18 million (31 March 2019: £33 million) of interest income. This comprised the £19 million of capitalised interest noted above, £6 million (31 March 2019: £6 million) of cash income and the capitalisation of prior year accrued income and non-capitalised income of £(7) million (2019: £7 million).

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

7 Investments in investment entity subsidiaries

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and loss in accordance with IFRS 9. We determine that in the ordinary course of business, the net asset value of investment entity subsidiaries is considered to be the most appropriate to determine fair value. At each reporting period, we consider whether any additional fair value adjustments need to be made to the net asset value of the investment entity subsidiaries. These adjustments may be required to reflect market participants' considerations about fair value that may include, but are not limited to, liquidity and the portfolio effect of holding multiple investments within the investment entity subsidiary. There was no particular circumstance to indicate that a fair value adjustment was required and, after due consideration, we concluded that the net asset values were the most appropriate reflection of fair value at 30 September 2019.

Level 3 fair value reconciliation – investments in investment entity subsidiaries

	6 months to 30 September 2019 £m	Year to 31 March 2019 £m
Non-current		
Opening fair value	5,159	4,034
Net cash flow to investment entities	31	264
Fair value movement on investment entity subsidiaries	602	827
Transfer of assets to investment entity subsidiaries	13	34
Closing fair value	5,805	5,159

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

A 5% movement in the closing fair value of investments in investment entity subsidiaries would have an impact of £290 million (31 March 2019: £258 million).

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no restrictions on the ability to transfer funds from these subsidiaries to the Group except for a cash balance of £106 million (31 March 2019: £93 million) held on escrow in investment entity subsidiaries for carried interest payable.

Support

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

8 Fair values of assets and liabilities

This section should be read in conjunction with Note 13 on pages 119 to 121 of the Annual report and accounts 2019 which provides more detail about accounting policies adopted, the definitions of the three levels of fair value hierarchy, valuation methods used in calculating fair value, and the valuation framework which governs oversight of valuations. There have been no changes in the accounting policies adopted or the valuation methodologies used.

Valuation

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

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

8 Fair values of assets and liabilities continued

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 30 September 2019:

	As at 30 September 2019				As at 31 March 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Quoted investments	499	–	–	499	469	–	–	469
Unquoted investments	–	–	1,430	1,430	–	–	1,193	1,193
Investments in investment entity subsidiaries	–	–	5,805	5,805	–	–	5,159	5,159
Other financial assets	–	9	36	45	–	18	34	52
Total	499	9	7,271	7,779	469	18	6,386	6,873
Liabilities								
Other financial liabilities	–	7	–	7	–	–	–	–
Total	–	7	–	7	–	–	–	–

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

The fair values of the Group's other financial assets and liabilities are not materially different from their carrying values with the exception of loans and borrowings. At 30 September 2019 the fair value of loans and borrowings was £737 million (31 March 2019: £709 million), determined with reference to their published market prices and the carrying value of the loans and borrowings was £575 million (31 March 2019: £575 million).

Level 3 fair value reconciliation – unquoted investments

	Six months to 30 September 2019 £m	Year to 31 March 2019 £m
Opening fair value	1,193	1,751
Additions	173	150
- of which loan notes with nil value	(6)	(5)
Disposals and repayments	–	(793)
Fair value movement	29	66
Other movements and net cash movements	41	24
Closing fair value	1,430	1,193

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 nil (September 2018: £31 million), dividend income of £6 million (September 2018: £1 million) and foreign exchange gains of £42 million (September 2018: £31 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section on pages 157 to 158 of the Annual report and accounts 2019. On an IFRS basis, of the unquoted assets held at 30 September 2019 classified as Level 3, 74% (31 March 2019: 77%) were valued using a multiple of earnings and the remaining 26% (31 March 2019: 23%) were valued using alternative valuation methodologies. Of the underlying portfolio held by investment entity subsidiaries, 90% (31 March 2019: 88%) were valued using a multiple of earnings and the remaining 10% (31 March 2019: 12%) 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 into or out of Level 3 in the period.

8 Fair values of assets and liabilities continued

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 multiples are 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 30 September 2019 was 12.0x (31 March 2019: 12.1x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 30 September 2019 decreased by 5%, the investment portfolio value would decrease by £69 million (31 March 2019: £57 million) or 4% (31 March 2019: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative value impact of £364 million (31 March 2019: £318 million) or 5% (31 March 2019: 5%).

If the multiple increased by 5% then the investment portfolio value would increase by £68 million (31 March 2019: £57 million) or 4% (31 March 2019: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive value impact of £362 million (31 March 2019: £318 million) or 5% (31 March 2019: 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 on pages 157 to 158 of the Annual report and accounts 2019. Each methodology is used for a proportion of assets by value, and at 30 September 2019 the following techniques were used under an IFRS basis: 13% DCF (31 March 2019: 7%), 9% industry metric (31 March 2019: 11%) and 4% other (31 March 2019: 5%).

If the value of all of the investments valued under alternative methodologies moved by 5%, this would have an impact on the investment portfolio value of £19 million (31 March 2019: £14 million) or 1% (31 March 2019: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a value impact of £31 million (31 March 2019: £33 million) or 0.5% (31 March 2019: 0.6%).

9 Contingent liabilities

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012 the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc) as defined by the agreement to a wholly owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets held by this subsidiary at 30 September 2019 was £295 million (31 March 2019: £275 million). As part of the latest triennial valuation of the Plan, the Company has agreed to pay up to £50 million to the Plan if the Group's gearing increases above 20%, gross debt rises above £1 billion or net assets fall below £2 billion. In addition, if the gearing, gross debt or net asset limits noted are reached, the Group may also be required to increase the potential cover provided by the contingent asset arrangement until the gearing, gross debt or net assets improve.

At 30 September 2019, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

10 Related parties

All related party transactions that took place in the six months ending 30 September 2019 are consistent in nature with the disclosures in Note 30 on pages 137 to 139 of the Annual report and accounts 2019. Related party transactions which took place in the period and materially affected performance or the financial position of the Group, together with any material changes in related party transactions as described in the Annual report and accounts 2019 that could materially affect the performance or the financial position of the Group are detailed below.

Limited partnerships

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

Consolidated statement of comprehensive income	Six months to 30 September 2019 £m	Six months to 30 September 2018 £m
Carried interest and performance fees receivable	63	58
Fees receivable from external funds	6	10
Consolidated statement of financial position	30 September 2019 £m	31 March 2019 £m
Carried interest and performance fees receivable	685	609

Investments

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

Consolidated statement of comprehensive income	Six months to 30 September 2019 £m	Six months to 30 September 2018 £m
Unrealised profits on the revaluation of investments	18	25
Portfolio income	5	–
Consolidated statement of financial position	30 September 2019 £m	31 March 2019 £m
Unquoted investments	440	415

Management arrangements

The Group acted as Investment Manager to 3i Infrastructure plc (“3iN”), which is listed on the London Stock Exchange, for the period to 30 September 2019. During the prior period, the Group acted as an adviser until 3iN’s decision to move its tax residence and management to the UK, effective from 15 October 2018. The following amounts have been recognised in respect of the management and advisory relationship:

Consolidated statement of comprehensive income	Six months to 30 September 2019 £m	Six months to 30 September 2018 £m
Unrealised profits on the revaluation of investments	33	48
Dividends	7	6
Fees receivable from external funds	16	15
Consolidated statement of financial position	30 September 2019 £m	31 March 2019 £m
Quoted equity investments	499	469
Performance fees receivable	–	31

Independent review report to 3i Group plc

Introduction

We have been engaged by 3i Group plc (the 'Company' or the 'Group') to review the condensed consolidated financial statements in the Half-year report for the six months ended 30 September 2019 which comprises the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statement of changes in equity, the Condensed consolidated cash flow statement, Basis of preparation and accounting policies and the related notes 1 to 10 (together the 'condensed consolidated financial statements'). We have read the other information contained in the Half-year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements in the Half-year report for the six months ended 30 September 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London, United Kingdom
13 November 2019

Statement of Directors' responsibilities

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

The Directors confirm that to the best of their knowledge:

- a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU;
- b) the Half-year report includes a fair review of the information required by:
 - i) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 March 2020 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - ii) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being (i) related party transactions that have taken place in the first six months of the financial year ending 31 March 2020 which have materially affected the financial position or performance of 3i Group during that period; and (ii) any changes in the related party transactions described in the Annual report and accounts 2019 that could materially affect the financial position or performance of 3i Group during the first six months of the financial year ending 31 March 2020.

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

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

K J Dunn, Secretary
13 November 2019

List of Directors and their functions

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

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

Portfolio and other information

20 large investments

The 20 investments listed below account for 92% of the portfolio value at 30 September 2019 (31 March 2019: 94%). One investment has been excluded for commercial reasons.

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost ¹ March 2019 £m	Residual cost¹ September 2019 £m	Valuation March 2019 £m	Valuation September 2019 £m	Relevant transactions in the period
Action* Non-food discount retailer	Private Equity Netherlands 2011 Earnings	24	24	2,731	3,243	
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	307	305	744	794	
Scandlines Ferry operator between Denmark and Germany	Corporate Assets Denmark/Germany 2018 DCF	529	529	529	485	Completed refinancing in August 2019 and returned £91 million to 3i.
Hans Anders* Value-for-money optical retailer	Private Equity Netherlands 2017 Earnings	250	262	246	303	
Q Holding* Manufacturer of precision engineered elastomeric components	Private Equity US 2014 Earnings	162	162	241	277	
Audley Travel* Provider of experiential tailor-made travel	Private Equity UK 2015 Earnings	189	198	270	270	
Cirtec Medical* Outsourced medical device manufacturing	Private Equity US 2017 Earnings	172	172	248	262	
WP* Supplier of plastic packaging solutions	Private Equity Netherlands 2015 Earnings	187	196	241	253	
Basic-Fit Discount gyms operator	Private Equity Netherlands 2013 Quoted	8	8	254	249	
Smarte Carte* Provider of self-serve vended luggage carts, electronic lockers and concession carts	Infrastructure US 2017 DCF	164	164	181	194	
Havea* (formerly Ponroy Santé) Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	147	153	174	187	Acquired Pasquali Healthcare in May 2019.
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	30	172	178	
Formel D* Quality assurance provider for the automotive industry	Private Equity Germany 2017 Earnings	147	152	169	177	
BoConcept* Urban living designer	Private Equity Denmark 2016 Earnings	156	164	152	165	

20 large investments continued

Investment	Business line Geography	Residual cost ¹ March 2019	Residual cost¹ September 2019	Valuation March 2019	Valuation September 2019	Relevant transactions in the period
Description of business	First invested in Valuation basis	£m	£m	£m	£m	
Royal Sanders*	Private Equity Netherlands	135	135	147	163	
Private label and contract manufacturing producer of personal care products	2018 Earnings					
ICE*	Private Equity US	129	129	155	156	
Global travel and loyalty company that connects leading brands, travel suppliers and end consumers	2018 Earnings					
Magnitude Software*	Private Equity US	-	139	-	145	New investment.
Leading provider of unified application data management solutions	2019 Earnings					
Tato	Private Equity UK	2	2	117	139	£5m dividend received.
Manufacturer and seller of speciality chemicals	1989 Earnings					
Lampenwelt*	Private Equity Germany	101	111	119	128	
Online lighting specialist retailer	2017 Earnings					
ACR	Private Equity Singapore	105	105	129	125	
Pan-Asian non-life reinsurance	2006 Industry metric					

* Controlled in accordance with IFRS.

¹ Residual cost includes capitalised interest.

Glossary

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

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

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

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

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

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

Capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act, 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 payable 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 when the relevant performance hurdles are met and the accrual is discounted to reflect expected payment periods.

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

Company 3i Group plc.

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

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

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

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

Fee income (or Fees receivable) is earned for providing services to 3i's portfolio companies and predominantly falls into one of two categories. Negotiation and other transaction fees are earned for providing transaction related services. Monitoring and other ongoing service fees are earned for providing a range of services over a period of time.

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

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, movements in the fair value of derivatives and foreign exchange movements. GIR is measured as a percentage of the opening portfolio value.

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

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

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

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

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

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

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

Portfolio income is that which is directly related to the return from individual investments. It is comprised of dividend income, income from loans and receivables and fee income.

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

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

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

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

Information for shareholders

Note

The first FY2020 dividend is expected to be paid on 8 January 2020 to holders of ordinary shares on the register on 13 December 2019. The ex-dividend date will be 12 December 2019.

3i Group plc

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

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