



3i Group plc

Half-yearly report

For the six months to 30 September 2014



Contents

Overview

- 01** Performance highlights
- 02** Strategic goal and the 3i Value Build
- 03** Chairman's statement

Interim strategic report

- 05** Chief Executive's statement
- 10** Key Performance Indicators
- 13** Business review
 - 13** Group overview
 - 16** Assets under management
 - 18** Investment and realisations activity
 - 20** Portfolio
- 22** Financial review
 - 22** Basis
 - 23** Returns
 - 32** Balance sheet
- 34** Risks and uncertainties

Financial statements

- 35** Investment basis financial statements
 - 35** Consolidated statement of comprehensive income
 - 36** Consolidated statement of financial position
 - 37** Consolidated cash flow statement
- 38** Reconciliation of Investment basis to IFRS
 - 39** Reconciliation of Statement of comprehensive income
 - 40** Reconciliation of Statement of financial position
 - 42** Reconciliation of Cash flow statement
- 43** IFRS financial statements
 - 43** Consolidated statement of comprehensive income
 - 44** Consolidated statement of changes in equity
 - 46** Consolidated statement of financial position
 - 47** Consolidated cash flow statement
- 48** Notes to the accounts and accounting policies
- 64** Independent review report to 3i Group plc

Statement of Directors' responsibilities

Portfolio and other information

- 66** Portfolio valuation – an explanation
- 70** Twenty five large investments
- 72** Portfolio composition
- 74** Information for shareholders

Disclaimer

This Half-yearly report has been prepared solely to provide information to shareholders. It should not be relied on by any other party or for any other purpose.

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

Basis

The numbers and commentary in the Overview and Interim strategic report reflects the Investment basis rather than IFRS. Detail on the differences and a reconciliation are included from page 38.

For more information on 3i's business, its portfolio and the latest news, please visit:
www.3i.com

To be kept up-to-date with 3i's latest financial news and press releases, sign up for alerts at:

www.3i.com/investor-relations

Overview

Performance highlights

Our performance for the six months to 30 September 2014

Continued realisations momentum

Delivered realisation proceeds of £324 million and realised profits of £35 million through careful exit planning, in supportive markets. A further £218 million proceeds received since the period end.

£324m

realisation proceeds

Strong portfolio performance

Value growth and income totalling £360 million, underpinned by last 12 months value weighted earnings growth in Private Equity of 17%.

£360m

value growth and income

Cost discipline maintained

Actual operating costs of £63 million are 7% lower than prior year, and now include the costs of the new PPP team who joined in November 2013.

1.0%

annualised costs as a percentage of AUM

Further improvement in Fund Management profitability and margin

Profit of £13 million and margin of 21% ahead of £8 million and 13% in the first half last year.

£13m

Profit in Fund Management

Continue to strengthen the balance sheet

Successfully refinanced 2016 revolving credit facility, extending maturity to 2019 and reducing interest costs by £1.5 million per annum.

£350m

Refinanced debt facilities

Strategic goal and the 3i Value Build

3i's strategic goal is to be a leading international investment manager of proprietary and third-party capital delivering top quartile cash investment returns over the longer term in:

- **mid-market Private Equity;**
- **Infrastructure;** and
- **Debt Management.**

Each of these businesses has different drivers and return characteristics. Together, they provide an attractive balance of income and capital returns.

We believe that the combination of our asset management skills across these complementary platforms, together with our strong balance sheet and access to permanent capital, represents a differentiated and attractive value proposition.

Grow investment portfolio earnings

Increase the underlying value of our investment portfolio

+

Realise investments at good uplifts to book value and strong cash-on-cash multiples

Demonstrate the value of our existing investment portfolio and enhance our P/NAV rating

+

Generate a sustainable operating profit from our Fund Management activities

Generate additional value beyond the value of our Proprietary Capital investments

+

Utilise our strong balance sheet

Invest in further value-creating growth opportunities across our business lines

+

Increase shareholder distributions through our enhanced distribution policy

Greater capital efficiency; focus on shareholder value

Chairman's statement



Sir Adrian Montague
Chairman
12 November 2014

“ It was another period of good performance for 3i, benefiting from our restructuring against an unstable economic and political landscape. ”

I am pleased to report another period of good financial performance in the first six months of FY2015. Investors continue to benefit from the restructuring of the Group and our enhanced distribution policy. Unfortunately the macro-economic and geo-political landscape shows no sign of stabilising in the near term, and so we remain careful and patient in our approach to investment and growth.

Dividend

Our distribution policy is designed to give shareholders a direct share in the success of the Group's realisation activities by returning to shareholders a proportion of gross cash realisations. Given the outlook for new investment, we expect to remain net divestors in the medium term and therefore have declared an interim dividend at the top end of the range indicated by our policy.

The Board has declared a total interim dividend of 6.0 pence per share (2013: 6.7 pence per share), comprising 2.7 pence, being a third of our annual base dividend, and 3.3 pence in relation to approximately 20% of gross realisation proceeds generated to date above the annual base dividend.

The pipeline for realisations is good and, subject to market factors, we currently expect to generate sufficient proceeds to support a total dividend for the year of at least 15 pence per share.

Board changes

Richard Meddings stepped down from the Board at the AGM in July 2014, having served as a non-executive Director since 2008 and as Audit and Compliance Committee Chairman and Senior Independent Director since 2010. His wise and invaluable counsel provided great support during a period of considerable change for 3i.

At the AGM I was delighted to announce the appointment of Caroline Banszky to the Board. Caroline is The Managing Director of The Law Debenture Corporation p.l.c. and brings a wealth of financial, banking, investment and operating experience. Caroline will succeed Richard as Audit and Compliance Committee Chair, after a period of familiarisation with the business.

Jonathan Asquith was appointed Senior Independent Director. He has also agreed to take on the chairmanship of the Audit and Compliance Committee on an interim basis pending Caroline Banszky's appointment to that role.

Outlook

The macro-economic and geo-political landscape has deteriorated in the last six months. The overall environment is uncertain and volatile, with the Eurozone moving back towards recession and deflation and escalating conflict across the world. This has led to increased volatility in currencies and other financial markets.

In this environment we are taking a cautious approach to costs, gearing and investment and retaining a strong focus on cash returns for shareholders and our fund investors, supported by a resilient investment portfolio.

Interim strategic report

Chief Executive's statement



Simon Borrows
Chief Executive
12 November 2014

“

The Group performed well in the first half and again demonstrated strong progress against our strategic plan. There is good earnings momentum in our larger investments and we have a number of realisation and refinancing projects in process. We continue to seek new investment opportunities, but we recognise the increasing political uncertainty and stagnating growth in Europe and are mindful of the risks of over-paying for new investments in this environment. We will continue to manage our portfolio energetically, capitalise on realisation opportunities and be selective in making new investments.

”

Introduction

The Group performed well in the first half of FY2015 and again demonstrated strong progress against our strategic plan.

We continued to see good earnings growth in our Private Equity portfolio and further improvements in the operating metrics of the Group. Market conditions were favourable for realisations in the period, but less so for making new investments. Our determined focus on consistency and discipline in our investment processes and asset management will continue to serve us well against an uncertain economic and political backdrop.

3i generated a total return of 7.1% in the first six months of the year. NAV increased from 348 pence per share at 31 March 2014 to 358 pence per share, after paying the 13.3 pence per share final dividend from last year in July 2014.

Taking account of realisations to date, we are confirming today that we will pay an interim dividend of 6.0 pence per share in January 2015, comprising a base dividend of 2.7 pence and an additional dividend of 3.3 pence. The pipeline for realisations for the remainder of the year is promising and, subject to market conditions outside of our control, it should support a total dividend for the year, including the 6 pence declared today, of at least 15 pence per share (including the 8.1 pence base dividend).

Business review

The positive momentum in the **Private Equity** business continues. Our portfolio companies continue to perform well with earnings growth of over 20% in the majority of our largest assets, and 17% on a value weighted average basis. We have taken advantage of positive markets for realisations, refinancings and IPOs, generating £316 million of proceeds in the first half, with a further £218 million received since the period end. The portfolio generated a gross investment return of £282 million, or 10% on the opening portfolio, after negative currency translation impacts.

A core element of the strategic review in June 2012 was the implementation of the asset management initiatives. Discipline in our investment and asset management processes is key to navigating an economic and political backdrop, which shows little sign of stabilising to support sustainable growth. Our larger investments such as Action, Mayborn and Element continue to trade well. The monthly portfolio dashboard monitoring put in place over two years ago gives the Private Equity team and Investment Committee early warning signs and therefore an ability to take effective action on a timely basis if performance in any investment falls behind plan. This portfolio monitoring has underpinned resilience in portfolio performance and valuations.

Detailed preparation and careful management of exit processes has enabled us to take opportunities in positive realisation and refinancing markets, generating £316 million of total proceeds from Private Equity for 3i in the period and a further £218 million since 30 September 2014. The realisations in the period generated profits of £34 million at an uplift over opening value of 12% and a money multiple of 1.8x on original cost. Including third-party funds, total proceeds were £427 million. The uplift over value of 12% may appear lower than in past periods but reflects the fact that some of the disposals completed early in the period, with the value substantially reflected in the NAV at 31 March 2014, and a proportionally higher level of refinancing activity. The largest category of companies sold were older and smaller investments or those in non-core geographies which were unlikely to achieve future returns in line with our thresholds. We have not sold any of our longer term hold assets. At 30 September 2014, we had 72 investments in our Private Equity portfolio, down from 81 at 31 March 2014, another important step to our target of a maximum of 40 Private Equity portfolio companies.

A consequence of the good performance is that, as noted in the last Annual report, we are accruing a higher level of carry payable. Encouragingly, the associated improvement in the performance of the Growth Capital Fund means that, on an accounting basis, we are now accruing for carry receivable on that fund for the first time. We recognised £6 million in the period and the fund multiple is now 1.5x. Eurofund V, our largest and most recent buyout focused fund, also continues to benefit from the strong portfolio performance and recovered to 1.3x at 30 September 2014 with the 2010-2012 vintage investments at 2.4x. However, we are not yet at the point where carry receivable would be recognised.

We have kept to our investment criteria, and avoided paying prices which could undermine our 2x return target. We made one significant new investment in the first half: \$106 million invested in Dynatect, a US headquartered manufacturer of protective equipment, where we will support international expansion, particularly into Europe. Our experience of executing similar plans in previous investments such as Mold-Masters, Hilite and Norma was key in securing Dynatect. We also took the opportunity to acquire a small interest in Eurofund V from a third-party investor. The investment of €34 million increased our proportion in the fund from 56% to 57%. Since the period end we have announced two more investments in regions and sectors where we have an established track record: Q Holdings, a US based international manufacturer of specialist moulded rubber and silicone products; and Christ, a leading German jewellery and watch retailer.

In **Infrastructure**, the European portfolio continues to perform well. The attraction of infrastructure assets as investors hunt for yield has been reflected in recent transactions. As a result of both operational performance and market activity giving new value benchmarks, the 3i Infrastructure plc ("3iN") portfolio increased by 7% in value in the six months to 30 September 2014. Our investment in 3iN was valued at 140 pence per share at 30 September 2014 and we received a dividend of £10 million from 3iN during the period.

Notwithstanding competition for assets, we have a growing pipeline of new opportunities in both the core infrastructure and primary PPP sectors. The new leadership team has brought a renewed focus and energy to the division and we will look to further grow assets under management by building on our primary PPP capability in particular. In that context, we advised 3iN on the purchase of a number of new primary PPP opportunities, such as the A12 motorway project in The Netherlands and Ayrshire College in the UK.

The **Debt Management** team had another busy six months. We launched two new CLOs, one in the US and one in Europe, adding £764 million in AUM, and secured \$39 million in third-party investment to the strongly performing US Senior Loan Fund. Since the period end, we have priced further CLOs in each of Europe and the US, secured a further \$50 million investment in the US Senior Loan Fund and announced a €250 million first close of a European Middle Market Loan fund.

We generated £18 million of fund management fee income in the period, up 13% on the same period last year. At 30 September 2014, the business managed £6.7 billion of assets through 32 funds, 20 in Europe and 12 in the US.

The investments held by 3i in the Debt Management funds generated good cash income of £11 million in the six months, an annualised yield of 15% on the opening book.

Market activity remained buoyant, as the cash yield generated by CLO and other debt funds remains attractive to investors. The US market is on track to achieve record CLO formation in 2014, exceeding the levels recorded in 2006. The European market has also seen strong growth since re-opening in 2013, with €12 billion of CLO issuance recorded so far in 2014 compared with €8 billion in the whole of 2013. Regulatory changes now in place in Europe, and being introduced to the US, relating to the need for managers of CLOs to invest their own capital in the structures, are resulting in market concentration. Larger managers with access to proprietary capital, such as 3i, are advantaged and are now raising the majority of new European CLOs. In the long term, these positive market conditions will be beneficial and support increased AUM and growth in fee income. However, in the shorter term, the high levels of CLO equity supply have depressed mark-to-market valuations. This, together with other factors including the effect of the income distributions from older funds, led to a reduction in the value of the CLO equity of £8 million.

At the **Group** level, operating cash profit of £16 million and further improvement in the profitability and margin of our Fund Management platform reflect the continued focus on tight cost discipline, and good income generation across our three businesses. Operating expenses reduced by 7% against the same period last year to £63 million, and are now 1.0% of AUM on an annualised basis. This includes the addition of the primary PPP team in Infrastructure in November 2013, and an increase in costs as a result of changes to the regulatory environment in which 3i operates. These changes are being handled carefully and we were authorised as a manager under the Alternative Investment Fund Manager Directive by the FCA in the period.

We have also taken the opportunity to simplify and strengthen the balance sheet further. Gross debt reduced marginally when we repaid our B shares in June. We also refinanced our revolving credit facilities, reducing the size from £500 million to £350 million while extending maturity to at least 2019, reducing ongoing financing costs as a result.

The strength of sterling relative to the euro in particular means we suffered a translation loss of £73 million during the period. Structural concerns about European growth mean that this translation volatility is likely to persist through the course of this financial year.

FY2014 Private Equity investment update

During FY2014, the Group invested £265 million of proprietary capital in three new Private Equity investments, GIF, JMJ and Basic-Fit, and one significant further investment to increase our stake in Scandlines.

All four investments are performing in line with, or ahead of, the investment case, with:

- Average earnings growth of 23% compared to the prior year
- Average entry multiple of 8x EBITDA
- September valuation at 1.19x entry cost on a local currency basis

An update on the three new investments is provided below.



German headquartered
international transmission
testing specialist

€79m

Proprietary Capital invested

€85m

September 2014 value

25%

adjusted EBITDA growth
expected for the current
financial year

40%

increase in share of sales
to China to 14%

Achievements since investment

- Strengthened management team: CEO and CFO
- Reduced organisational complexity and reviewed cash intensive non-core engineering project portfolio
- Invested in operations in China to double local capacity in 2015

Medium-term strategy

- Reposition business as a testing and inspection player for transmissions
- Focus service offering on value-added engineering
- International expansion (China, North America)



Global management
consultancy

\$72m

Proprietary Capital invested

\$73m

September 2014 value

7%

organic revenue growth

new clients won in oil,
aerospace and
manufacturing sectors

Achievements since investment

- Strengthened management, new CFO and CIO appointed
- Strategy review completed, resulting in increased sector focus
- Strong cash conversion

Medium-term strategy

- Growth in upstream oil and gas and manufacturing sectors
- Growth in key blue chip client accounts
- Continued development of global footprint



Discount fitness operator
in Europe

€97m

Proprietary Capital invested

€129m

September 2014 value

42

new clubs since investment

>200,000

new members since investment

>50%

EBITDA growth expected in 2014

Achievements since investment

- 42 new clubs added through openings and acquisitions. Total of 241 clubs at September 2014
- Became market leader in Belgium, in addition to The Netherlands
- Introduced Basic-Fit format in France and Spain
- EBITDA growth of >50% expected for 2014

Medium-term strategy

- Continue the roll-out in domestic markets
- Continue to implement international expansion
- Assess further add-on acquisition opportunities

Strategic objectives and progress

In our Annual report for the year to 31 March 2014, we set out four priorities for the current year:

- Focus on consistency and discipline of investment processes and asset management;
- Selective new investment;
- Maintain cost discipline; and
- Continue to improve capital allocation, focusing on enhanced shareholder distributions.

The consistency and discipline of our asset management process during the six months is demonstrated by the strong value growth of £307 million and realisations of £324 million, underpinned by the last 12 month value weighted earnings growth of 17% in our Private Equity portfolio.

The benefit of our disciplined asset management and investment processes will also come through in the performance of our most recent Private Equity investments. The FY2014 investment update, included in this report, highlights the progress we have made so far.

Eliminating the leakage from costs that the Group has suffered in the past and reducing interest expense was essential for 3i to become a more robust business. We have completed the fundamental restructuring the Group needed and we remain focused on maintaining cost discipline. Despite adding the PPP investment team and capability to the Infrastructure business in November 2013 and further cost to service the increasing regulatory requirements that the Group is subject to, total operating costs were only 1.0% of AUM at 30 September, down from 1.6% at 31 March 2012.

Finally, we continue to demonstrate good discipline in capital allocation. Our distribution policy ensures that shareholders benefit directly from our realisation activity as we have committed to distribute 15-20% of gross cash realisations. Whilst we are investing at the lower end of our capacity, we expect to be distributing at the 20% end of the range. We have made good progress on realisations to date and have generated £542 million proceeds so far this year. This means that our base dividend of 8.1 pence is already well covered, and allows for an additional distribution of 3.3 pence at the interim. Together with the one-third interim distribution of 2.7 pence we are therefore announcing a total interim dividend of 6.0 pence, which will be paid in January 2015. The pipeline for realisations for the remainder of the year is promising, and, subject to market factors outside of our control, should support a total dividend for the year of at least 15 pence per share, including the 8.1 pence base dividend.

Outlook

The first half of FY2015 saw 3i continue to deliver against its strategic plan and against all of the elements of the "3i Value Build".

Our portfolio of investments is performing well, with some excellent growth in our larger and more recent Private Equity investments. We also see growth opportunities in both Infrastructure and Debt Management where, alongside our teams, 3i's Proprietary Capital can be a differentiator.

Critical to our success are our people. After two years of significant reductions, we are now carefully investing in our people. We are taking opportunities to develop our existing teams and have been adding talent in the Group with investment professional hires in Private Equity and Infrastructure and investor relations professionals in Debt Management. We have also launched a 3i Graduate Recruitment scheme and I am delighted by the early interest from some excellent candidates.

We recognise the increasing political uncertainty and stagnating growth in Europe and are mindful of the risks of over-paying for new investments in this environment. We will continue to manage our portfolio energetically, capitalise on realisation opportunities and be selective in making new investments.

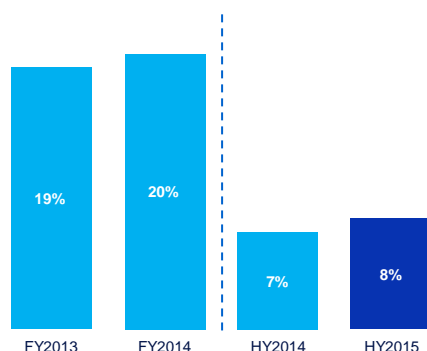
We are operating in difficult markets, which will no doubt hinder growth in general, but 3i is continuing to make excellent progress in delivering against its Strategic Priorities.

Key Performance Indicators

Gross investment return ("GIR")

% of opening portfolio value

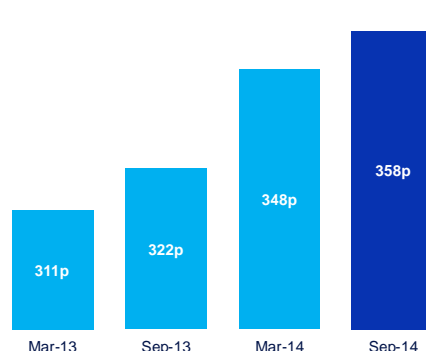
Financial year/Half year



NAV and dividends

NAV per share (pence)

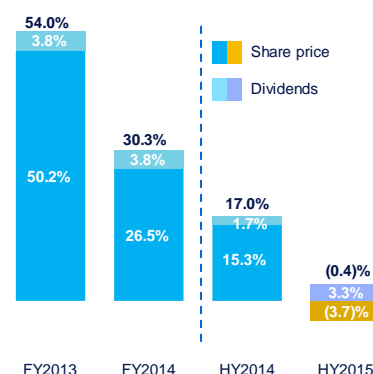
Financial year/Half year



Total shareholder return ("TSR")

%

Financial year/Half year



Rationale and definition

- GIR is how we measure the performance of our portfolio of proprietary investments
- GIR includes profit and loss on realisations, increases and decreases in the value of the investments we hold at the end of the period, any income received from the investments such as interest or dividends, and foreign exchange movements
- GIR, measured as a percentage, is calculated over the opening portfolio value

Comments

- Strong Private Equity portfolio performance underpinned by robust earnings growth
- Good flow of realisations, delivering realised profits over opening value of £35m, representing an uplift of 12%. Lower uplift than the prior year reflects a number of disposals made earlier in the period
- Good contribution from Infrastructure value growth and income
- Debt Management made a small loss as a reduction in valuation of CLO equity and negative foreign exchange movements offset good income distributions
- Sterling strength continues to impact portfolio valuations of non-sterling investments

Rationale and definition

- NAV is a measure of the fair value of our proprietary investments and the net costs of operating the business
- Dividends provide our shareholders with an annual yield as well as a direct participation in 3i's realisation activity in the period

Comments

- Good progression in NAV per share to 358p, up 3% over the period, after taking into account dividends paid in the period of 13p
- Sterling materially strengthened against the euro, Swedish krona and Brazilian real in the period, resulting in a translation loss, reducing NAV by 8p
- Good flow of realisations and strong balance sheet supports interim dividend of 6.0p per share, of which 2.7p is the base dividend and 3.3p is additional

Rationale and definition

- TSR measures the absolute return to our shareholders through the change in share price and dividends paid during the period

- Annualised three-year TSR is a key performance metric used as part of Executive Directors' remuneration

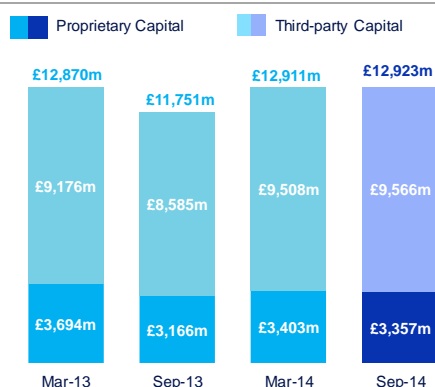
Comments

- TSR was relatively flat in the 6 months to 30 September 2014, reflecting the decrease in the share price from 398p at close 31 March 2014 to 383p at close 30 September 2014 and the final dividend from FY2014 of 13.3p paid in July 2014
- During the period from the June 2012 strategic review announcement to 30 September 2014, 3i generated an annualised TSR of 41%

Assets under management ("AUM")

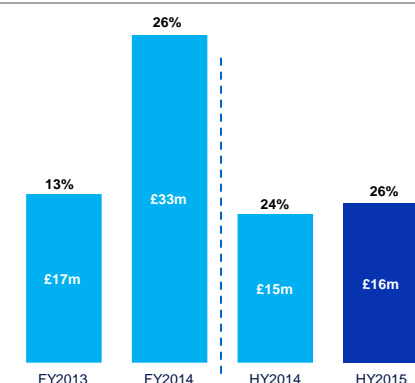
£m

Financial year/Half year



Underlying Fund Management Profit (£m) and Margin (%)

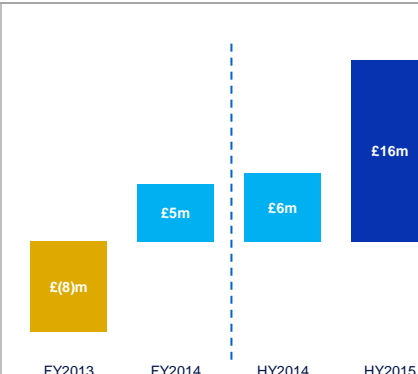
Financial year/Half year



Operating cash profit/loss

£m

Financial year/Half year



Rationale and definition

- We invest in companies using capital from our shareholders (Proprietary Capital) and third-party investors. The total amount of capital we have to invest or are managing on behalf of our shareholders and third-party investors is called assets under management ("AUM")
- AUM is an important measure since it forms the basis on which management fee income is generated

Comments

- Total AUM has remained flat at £12.9bn at 30 September 2014
- Third-party AUM has continued to grow absolutely, to £9.6bn, and as a proportion of total AUM, to 74%
- Debt Management has been successful in continuing to raise CLOs (one in the US and one in Europe), raised a further \$39m into the US Senior Loan Fund and, post period end, priced two further CLOs, secured a further \$50m into the US Senior Loan Fund and closed a €250m European Middle Market Loan fund
- Proprietary Capital AUM remained flat at £3.4bn

Rationale and definition

- 3i's Fund Management business comprises the teams that manage investments on behalf of our shareholders (Proprietary Capital) and third-party investors. The business incurs costs such as salary and rent, and receives fees from third-party investors. A "synthetic fee" from the Group is included for managing its Proprietary Capital
- Underlying Fund Management profit is calculated as fee income (defined as third-party fees, synthetic fees on Proprietary Capital and portfolio fees) minus operating expenses related to Fund Management activities, excluding restructuring and amortisation costs

Comments

- Profit of £13m and margin of 21% ahead of £8m and 13% last year
- On an underlying basis profit was £16m with a margin of 26% (September 2013: £15m, 24%) and was closer to actual profits as restructuring costs reduced

Rationale and definition

- We set a strategic objective of covering the annual cost of running our business (operating expenses) with the annual cash income received from our investments (portfolio dividend and interest income) and fees paid by third-party investors. We exclude the costs of restructuring the business, so that we can measure the profitability on a sustainable basis. We call this measure operating cash profit

Comments

- Exceeded objective of generating cash income sufficient to cover operating expenses, prior to restructuring costs in FY2014
- This has continued during the first 6 months of FY2015, with operating cash profit of £16m
- Portfolio income increased significantly, partly through portfolio activity in Private Equity

Business review



Julia Wilson
Finance Director
12 November 2014

“ The half-year results reflect the ongoing implementation of our strategic priorities and the improved stability and financial profile of the Group. ”

Group overview

3i Group is an international investment manager with three complementary business lines. All our business lines invest using a combination of proprietary capital from the Group's own balance sheet and third-party funds. This Business review provides detail on our performance for the six months to 30 September 2014 (“the period”) as well as our financial position as at that date.

The Group generated a total return of £234 million, or a profit on opening shareholders' funds of 7.1% (September 2013: £175 million or 6.0%). Our Proprietary Capital business provided strong value growth from our Private Equity portfolio, a continued good flow of realisations at strong money multiples and robust portfolio income. Our Fund Management business increased both its absolute profit and margin, particularly due to continued cost discipline but also as a result of assets under management growth in our Debt Management business. However, the relative strength of sterling has continued to impact the Group's results, with an unrealised translation loss from foreign exchange of £73 million.

The Group generated a gross investment return of £297 million (September 2013: £240 million) or 8.3% on opening portfolio value. Split by business line, Private Equity generated a gain of £282 million, Infrastructure a gain of £22 million and Debt Management generated a loss of £7 million, representing returns of 10%, 5% and (5)% respectively.

The Group's investment performance was subject to lower dilution from operating expenses and interest costs as a result of the significant reduction in these items since June 2012. Operating expenses of £63 million and interest costs of £26 million are both 7% lower than the first half last year.

As well as good total return, we continue to focus on creating sustainable operating cash profits. After securing the first annual operating cash profit for many years in the last financial year, the first six months saw a continued strong performance. In the first six months we recorded an operating cash profit of £16 million (September 2013: £6 million). Cash income was higher as a result of portfolio activity, which may not recur to the same extent in the second half.

In addition, the underlying profit we record in our Fund Management business has also grown in the period to £16 million with a margin of 26%. (September 2013: £15 million, 24%).

The focus on improving operational cash flows and profit from the Fund Management business means the Group is now operating from a more financially robust platform. During the period we refinanced the 2016 revolving credit facilities, reducing the total size of the facility from £500 million to £350 million, extending the maturity to 2019 and reducing interest costs by £1.5 million per annum.

Performance

Table 1: Summary financial data

	Six months to/as at 30 September 2014	Six months to/as at 30 September 2013	Year to/as at 31 March 2014
Group			
Total return	£234m	£175m	£478m
Total return on opening shareholders' funds	7.1%	6.0%	16.3%
Dividend per ordinary share			
Base dividend	2.7p	2.7p	8.1p
Additional dividend	3.3p	4.0p	11.9p
Total shareholder return ¹	(0.4)%	17.0%	30.3%
Operating expenses	£63m	£68m	£136m
As a percentage of assets under management ²	1.0%	1.1%	1.0%
Operating cash profit	£16m	£6m	£5m
Proprietary Capital			
Realisation proceeds	£324m	£528m	£677m
Uplift over opening book value	£35m/12%	£129m/32%	£202m/43%
Money multiple	1.8x	1.6x	1.8x
Gross investment return ³	£297m	£240m	£665m
As a percentage of opening 3i portfolio value	8.3%	7.3%	20.2%
Operating profit ⁴	£262m	£179m	£539m
Cash investment	£199m	£92m	£337m
Net interest payable	£25m	£27m	£51m
Portfolio value	£3,672m	£3,058m	£3,565m
Gross debt	£831m	£873m	£857m
Net debt/(cash)	£161m	£(28)m	£160m
Gearing	5%	n/a	5%
Liquidity	£1,020m	£1,401m	£1,197m
Net asset value	£3,426m	£3,062m	£3,308m
Diluted net asset value per ordinary share	358p	322p	348p
Fund Management			
Total assets under management	£12,923m	£11,751m	£12,911m
Third-party capital	£9,566m	£8,585m	£9,508m
Proportion of third-party capital	74%	73%	74%
Total fee income	£63m	£63m	£127m
Third-party fee income	£41m	£38m	£76m
Operating profit ⁴	£13m	£8m	£19m
Underlying Fund Management profit ^{4,5}	£16m	£15m	£33m
Underlying Fund Management margin	26%	24%	26%

¹ Total shareholder return is calculated as the share price movement between the close of business on the last trading day of the prior year and close of business on the last trading day of the period end plus shareholder distributions.

² Annualised actual operating expenses, excluding restructuring costs of nil in the six months to 30 September 2014, £4 million in the six months to 30 September 2013 and £9 million in the year to 31 March 2014, as a percentage of weighted average assets under management.

³ Gross investment return includes nil of portfolio fees allocated to Fund Management (September 2013: £2 million, March 2014: £3 million).

⁴ Operating profit for the Proprietary Capital and Fund Management activities excludes carried interest payable/receivable, which is not allocated between these activities.

⁵ Excluding Fund Management restructuring costs of nil and amortisation costs of £3 million (September 2013: £4 million, £3 million, March 2014 £8 million, £6 million).

The Group's **Proprietary Capital** portfolio performed well in the period with a gross investment return of £297 million, or 8% of opening portfolio, and an operating profit before carry of £262 million (September 2013: £240 million, 7%, £179 million). A good flow of realisations, delivering cash proceeds of £324 million and realised profits of £35 million (September 2013: £528 million and £129 million), and strong value growth of £307 million (September 2013: £137 million), were the largest contributors. The Private Equity portfolio performed strongly with value weighted last 12 month earnings growth of 17%. Portfolio income improved at £53 million (September 2013: £47 million) and benefited from an increased contribution from Debt Management and a number of income receipts on exit of Private Equity investments. This was offset by net interest payable of £25 million, (September 2013: £27 million). The Proprietary Capital business also incurred operating expenses of £13 million (September 2013: £13 million) and a synthetic fee for investment management, due to the Fund Management business, of £22 million (September 2013: £25 million).

The continued strength of sterling led to a net £73 million charge in the period (September 2013: £79 million charge). A charge of £98 million relates to the portfolio and is included in the gross investment return above, this is offset by £25 million relating to the translation of the Group's other net assets (September 2013: £75 million and £4 million loss).

Investment activity was higher than in the first half of last year with £199 million cash invested (September 2013: £92 million). This included £104 million invested in Private Equity, primarily funding a new investment into US headquartered A&A Manufacturing (since rebranded as Dynatect), and £95 million invested into new Debt Management funds and warehouses to support future fundraising. Since the period end we have announced investments into Q Holdings, a US manufacturer, and Christ, a German jewellery business, committing £196 million of proprietary capital in total and £72 million from Eurofund V in Christ. Although higher, investment levels remain below the Group's capacity as sourcing new investment opportunities at attractive prices remains challenging.

The Group's revolving credit facilities which were due to expire in 2016 were refinanced during the period. The facilities were reduced in size from £500 million to £350 million, the maturity extended to 2019 and interest costs reduced. As at 30 September 2014, gross debt was £831 million (March 2014: £857 million). Net divestment activity, offset by the payment of the final FY2014 dividend in the period, meant that net debt was stable at £161 million at 30 September 2014 (March 2014: £160 million) and gearing was 5% (March 2014: 5%).

The Group's **Fund Management** income is driven by total assets under management ("AUM") which were £12.9 billion at 30 September 2014 (March 2014: £12.9 billion). In the period we closed two new CLOs. In Europe, we launched Harvest IX in July 2014, raising €525 million, and in the US, we raised \$618 million with the launch of Jamestown IV in June 2014. Our Debt Management business had further success in securing \$39 million in further third-party investment into the US focused Senior Loan Fund. This offset reductions in AUM as the older Debt Management CLOs mature and as a result of net divestment in Private Equity. The proportion of third-party assets under management remained stable compared to March 2014 at 74%. After the period end, the Debt Management business priced two further CLOs, secured a further \$50 million commitment to the US Senior Loan Fund and announced the first close of a European Middle Market Loan fund at €250 million.

The Fund Management business earns fees on third-party capital, and recognises synthetic fee income on the proprietary capital that it manages. Fund Management income was stable in the period at £63 million (September 2013: £63 million), with additional fees generated by our PPP infrastructure team being offset by a reduction in fees from Private Equity. Within this, third-party fee income grew to £41 million (September 2013: £38 million).

For the Fund Management business to be profitable on a sustainable basis, tight cost control remains critical. Total Fund Management operating expenses fell by 9% in the period to £50 million (September 2013: £55 million). This includes £3 million of amortisation costs relating to previous acquisitions (September 2013: £3 million) but no new restructuring costs (September 2013: £4 million).

Consequently, the Fund Management business improved both its absolute profit and profit margin in the period. Fund Management operating profit before carry at £13 million represented a margin of 21% (September 2013: £8 million and 13%). On an underlying basis, excluding restructuring and amortisation costs, the profit and margin were £16 million and 26% (September 2013: £15 million, 24%).

The carried interest payable charge of £45 million is a consequence of the growth in value of the portfolio and, for the first time, we have recognised £6 million of carry receivable from our Growth Capital fund. This is as a result of a good recovery in value in that fund, meaning that the hurdle has been met on an accruals basis in the period. The increase in value of the infrastructure portfolio within 3i Infrastructure plc has also led to the recognition in the period of £8 million of performance fees receivable.

The financial profile of the **Group** with regard to both consistency and strength of Proprietary Capital performance, operating cash profit, Fund Management profit and balance sheet is robust. Realisation proceeds totalled £324 million in the period with a further £218 million generated after the period end. Prices for attractive investments remain high, indicating investment activity is likely to remain at the lower end of the Group's capacity. The Board have therefore announced an interim dividend of 6.0 pence per share, including a base dividend of 2.7 pence and an additional dividend of 3.3 pence. Realisations achieved to date support a total dividend of 11.4 pence per share and, based on the immediate pipeline, we expect to pay a minimum of 15 pence per share, in total for FY2015, including the base dividend of 8.1 pence.

Assets under management

Total AUM was broadly flat at £12,923 million during the period (March 2014: £12,911 million). Within this, third-party AUM was £9,566 million, or 74% of the total AUM at 30 September 2014 (March 2014: £9,508 million, or 74% of total AUM).

Private Equity AUM is calculated on invested rather than committed capital as all third-party funds are beyond their investment periods. The reduction in total Private Equity AUM to £3,904 million (March 2014: £4,132 million) therefore mainly reflects the net divestment activity seen in the period.

Infrastructure AUM increased marginally to £2,344 million (March 2014: £2,294 million) mainly as a result of value growth and new investment in 3i Infrastructure plc ("3iN").

Debt Management successfully launched one European CLO and one US CLO in the period, adding £764 million to AUM. A further \$39 million was invested by third-parties in the US focused senior loan fund, bringing the total AUM of that fund to \$118 million. New warehouse facilities were also established in the period in preparation for new CLO launches in Europe and the US, totalling £462m of AUM at 30 September 2014. These new additions were partially offset by a reduction in AUM in older CLOs, as portfolios mature and distributions are made to investors, as well as a reduction from currency movements in euro and US dollar denominated funds. Total Debt Management AUM grew in the period to £6,675 million (March 2014: £6,485 million). Since the period end we have priced two new CLOs, secured a further \$50 million into the US Senior Loan Fund and, on 11 November, we announced a first close for a European Middle Market Loan fund at €250 million which is an important step in diversifying the AUM base.

The table below summarises the key movements in the period.

Table 2: Reconciliation of movements in assets under management by business line

	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m
AUM at 31 March 2014	4,132	2,294	6,485	12,911
of which proprietary capital	2,788	483	132	3,403
of which third-party capital	1,344	1,811	6,353	9,508
Investment (cost)	150	-	-	150
Divestment/distributions (cost)	(404)	(38)	(738)	(1,180)
3i Infrastructure plc NAV movement	-	88	-	88
New funds raised	-	-	1,099	1,099
Foreign exchange movements and other	26	-	(171)	(145)
AUM at 30 September 2014	3,904	2,344	6,675	12,923
of which proprietary capital	2,631	503	223	3,357
of which third-party capital	1,273	1,841	6,452	9,566

Table 3: Assets under management

	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at September 2014	% invested at September 2014	Gross money multiple ¹ at September 2014	AUM	Fee income received in the period £m
Private Equity								
3i Growth Capital Fund	Mar-10	€1,192m	€800m	€374m	53%	1.5x	€561m	1.0
3i Eurofund V	Nov-06	€5,000m	€2,780m	€281m	90%	1.3x	€2,600m	5.8
3i Eurofund IV	Jun-04	€3,067m	€1,941m	€95m	95%	2.3x	€453m	0.1
3i Eurofund III	Jul-99	€1,990m	€995m	€90m	91%	2.1x	-	-
Other	various	various	various	n/a	n/a	n/a	£930m	0.1
Total Private Equity AUM							£3,904m	
Infrastructure								
3i Infrastructure plc	Mar-07	n/a	n/a	n/a	n/a	n/a	£1,172m ²	7.6
3i India Infrastructure Fund	Mar-08	US\$1,195m	US\$250m	US\$38m	73%	0.6x	US\$612m ³	2.8
BIIF	May-08	£680m	n/a	n/a	88%	n/a	£603m	3.0
BEIF II	Jul-06	£280m	n/a	n/a	93%	1.1x	£101m	0.8
Other	various	various	various	n/a	n/a	n/a	£102m	-
Total Infrastructure AUM							£2,344m	
Debt Management								
	Closing date	Reinvestment period end	Maturity date	Par value of fund at launch ⁴	Realised equity money multiple ⁵	Annualised equity cash yield ^{6, 7, 8}	AUM	Fee income received in the period £m
European CLO funds								
Harvest CLO IX	July-14	Aug-18	Aug-26	€525m	0.0x	n/a	€507m	0.4
Harvest CLO VIII	Mar-14	Apr-18	Apr-26	€425m	0.0x	n/a	€413m	0.8
Harvest CLO VII	Sep-13	Oct-17	Oct-25	€310m	0.0x	6.7%	€302m	0.3
Windmill CLO I	Oct-07	Dec-14	Dec-29	€500m	0.5x	7.8%	€477m	1.0
Axius CLO	Oct-07	Nov-13	Nov-23	€350m	0.5x	7.3%	€301m	1.1
Coniston CLO	Aug-07	Jun-13	Jul-24	€409m	0.9x	12.4%	€275m	0.7
Harvest CLO V	Apr-07	May-14	May-24	€632m	0.5x	7.4%	€593m	1.7
Garda CLO	Feb-07	Apr-13	Apr-22	€358m	1.2x	15.9%	€221m	0.8
Harvest CLO IV	Jun-06	Jul-13	Jul-21	€750m	1.0x	12.1%	€493m	1.0
Harvest CLO III	Apr-06	Jun-13	Jun-21	€650m	0.9x	11.1%	€426m	1.3
Pre 2006 CLOs	n/a	n/a	n/a	€1,711m	n/a	n/a	€377m	2.3
							£3,416m	
US CLO funds								
Jamestown CLO IV	Jun-14	Jul-18	Jul-26	US\$618m	0.0x	n/a	US\$600m	0.4
COA Summit CLO	Mar-14	Apr-15	Apr-23	US\$416m	0.2x	49.8%	US\$400m	0.3
Jamestown CLO III	Dec-13	Jan-18	Jan-26	US\$516m	0.1x	8.7%	US\$501m	0.6
Jamestown CLO II	Feb-13	Jan-17	Jan-25	US\$510m	0.3x	18.8%	US\$504m	0.7
Jamestown CLO I	Nov-12	Nov-16	Nov-24	US\$461m	0.3x	18.8%	US\$455m	0.7
Fraser Sullivan CLO VII	Apr-12	Apr-15	Apr-23	US\$459m	0.5x	21.2%	US\$455m	0.2
COA Caerus CLO	Dec-07	Jan-15	Dec-19	US\$240m	1.5x	23.8%	US\$241m	-
Fraser Sullivan CLO II	Dec-06	Dec-12	Dec-20	US\$500m	1.7x	22.3%	US\$267m	0.6
Fraser Sullivan CLO I	Mar-06	Mar-12	Mar-20	US\$500m	1.6x	18.7%	US\$185m	0.4
							£2,224m	
Other funds								
Vintage II	Nov-11	Sept-13	n/a	US\$400m	n/a	1.6x	US\$229m	0.6
Palace Street I	Aug-11	n/a	n/a	n/a	0.6x	18.5%	€50m	-
Senior Loan Fund	Jul-09	n/a	n/a	n/a	n/a	8.4%	US\$118m	0.1
COA Fund ⁹	Nov-07	n/a	n/a	n/a	n/a	(0.1)%	US\$56m	0.2
Vintage I	Mar-07	Mar-09	Jan-22	€500m	2.6x	5.9x	€334m	1.3
Friday Street	Aug-06	Aug-08	Aug-14	€300m	0.4x	5.7%	€33m	0.2
European Warehouse vehicles	n/a	n/a	n/a	n/a	n/a	n/a	€417m	-
US Warehouse	n/a	n/a	n/a	n/a	n/a	n/a	US\$224m	-
							£1,035m	
Total Debt Management AUM							£6,675m	

1 Gross money multiple is the cash returned to the fund plus value as at 30 September 2014, as a multiple of cash invested.

2 Based on latest published NAV (ex-dividend).

3 Adjusted to reflect 3i Infrastructure plc's US\$250 million share of the Fund.

4 Includes par value of assets and principal cash amount.

5 Multiple of total equity distributions over par value of equity at launch.

6 Average annualised returns since inception of CLOs calculated as annualised cash distributions over par value of equity. Excludes unrealised equity remaining in CLO.

7 Vintage I & II returns are shown as gross money multiple which is cash returned to the Fund plus value as at 30 September 2014, as a multiple of cash invested.

8 The annualised returns for the COA fund and Senior Loan Fund are the annualised net returns of the Funds since inception.

9 The COA Fund AUM excludes the market value of investments the fund has made in 3i US Debt Management CLO funds (US\$60 million as at 30 September 2014).

Investment and realisations activity

Merger and acquisition (“M&A”) volumes during the six months to 30 June 2014 increased marginally in Europe but fell in the smaller to mid-market segments (source: Capital IQ). This led to stable private equity deal flow and, with capital availability remaining high from both principal investors and debt providers (source: KPMG M&A Predictor, August 2014), highly competitive auctions and high prices were a significant feature of market conditions. Since the summer we have seen a reduction in M&A volumes across the market as confidence has reduced. In this environment, we continue to be more active sellers than buyers of investments, remaining cautious and focused only on new investments where we have a competitive advantage.

Private Equity invested in one new business in the period: A&A Manufacturing, now renamed Dynatect. Dynatect, headquartered in the US, is a leading manufacturer of speciality protective equipment and is well positioned to grow internationally with support from 3i. We also took an opportunity to purchase a small third-party interest in Eurofund V for €34 million, increasing our share in that fund by c.1%.

We invested in each of the new CLOs launched in the period and provided further support to grow our Debt Management business through ongoing warehouse facilities, used to establish portfolios ahead of future CLO launches.

Table 4 provides details of the investments made in the six month period.

Since the period end we have announced two Private Equity investments: €214 million, including third-party funds from Eurofund V, into Christ, a German jewellery retailer, and \$160 million into Q Holdings, a US headquartered moulded rubber and silicone components manufacturer.

Table 4: Cash investment in the six months to 30 September 2014

Investment	Type	Business description	Date	Total investment £m	Proprietary Capital investment £m
Private Equity					
Dynatect	New	Manufacturer of engineered, mission critical protective equipment	September 2014	66	65
EFV stake	New	Acquisition of LP stake in Eurofund V	June 2014	27	27
Other cash investment	Other		n/a	19	12
Total Private Equity investment				112	104
Debt Management					
Jamestown IV	New	North American senior debt CLO	June 2014	6	6
Harvest IX	New	European senior debt CLO	July 2014	22	22
Other cash investment	Other	Pre-CLO warehouses	n/a	67	67
Total Debt Management Investment				95	95
Total cash investment				207	199

Market conditions created opportunities for realisations, refinancing of portfolio companies and IPOs. Cash proceeds of £324 million (September 2013: £528 million) were received in the six months, at an uplift of 12% over opening portfolio value (September 2013: 32%). The uplift was lower than in previous periods due to a number of larger transactions occurring earlier in the half and, as such, being materially reflected in the 31 March 2014 valuations.

Private Equity generated the majority of the proceeds. Notable full exits in the six months included the sale of Vedici, which generated proceeds of £83 million and an uplift over opening value of 48%, and the sale of John Hardy, which generated proceeds of £25 million but no uplift over opening value as it was valued on an imminent sales basis at 31 March 2014. There were two large partial exits in the period where we sold c.70% of our equity stake in Phibro following an IPO in April 2014 and retained a residual loan to Foster + Partners, selling the equity in June 2014. Beijing Digital Telecom, the Chinese mobile phone retailer, listed on the Hong Kong stock exchange in July 2014 but our investment remains locked up until July 2015. Finally, refinancings at Element and Amor and a sale and leaseback of a new distribution centre at Action generated proceeds of £52 million in total.

As well as the larger exits noted above, we continued to sell smaller, legacy and non-core geography assets. Consequently, there were 72 investments in the Private Equity portfolio at 30 September 2014 down from 81 at 31 March 2014. Over time we expect to reduce the number of Private Equity investments to no more than 40.

The realisations from the Private Equity portfolio generated an aggregate money multiple of 1.8x (September 2013: 1.6x). Since the period end we have also completed the full exits of Hilite and LHi and sold a further share of our holding in Quintiles, generating a further £218 million of proceeds at a money multiple of 2.5x. The value of these exits was substantially reflected in the Group’s NAV at 30 September 2014.

The Infrastructure business made its first realisation from the Indian Fund, with a partial sale of the holding in Adani Power, a quoted power generation business based in Gujarat, India. 3i received proceeds of £8 million, at an uplift of £1 million over opening value.

Table 5: Realisations in the six months to 30 September 2014

Investment	Country/ region	Calendar year invested	31 March 2014 value £m	3i realised proceeds £m	Profit/(loss) in the year ¹ £m	Uplift on opening value ² %	Residual value £m	Money multiple over cost ²	IRR
Private Equity									
Full realisations									
Vedici	France	2010	58	83	27	48%	-	2.0x	17%
John Hardy	Hong Kong	2007	25	25	nil	-%	2	1.9x	9%
Derprocon	Spain	2000	5	6	1	20%	-	2.0x	7%
Café y Te	Spain	2006	4	5	1	25%	-	0.5x	(8)%
Other investments	n/a	n/a	nil	2	2	n/a	-	n/a	n/a
Partial realisations²									
Phibro	USA	2009	68	68	nil	-%	38	1.5x	9%
Foster + Partners	UK	2007	66	66	nil	-%	40	1.8x	10%
Element	Benelux	2010	23	23	nil	-%	112	2.5x	28%
Amor ³	Germany	2010	21	19	(2)	(10)%	51	1.5x	12%
Action	Benelux	2011	9	10	1	11%	573	6.0x	84%
Other investments	n/a	n/a	5	7	2	n/a	368	n/a	n/a
Deferred consideration									
Other investments	n/a	n/a	nil	2	2	n/a	-	n/a	n/a
Total Private Equity			284	316	34	12%	1,184	1.8x	n/a
Infrastructure									
Adani Power	India	2007	7	8	1	14%	9	0.5x	(11)%
Total Infrastructure			7	8	1	14%	9	0.5x	(11)%
Total			291	324	35	12%	1,193	1.8x	n/a

1 Cash proceeds in the period over opening value realised.

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

3 Loss on disposal offset by income received.

Portfolio

The value of the Proprietary Capital portfolio at 30 September 2014 was £3,672 million (31 March 2014: £3,565 million). Value growth in the period was offset in part by net divestment activity.

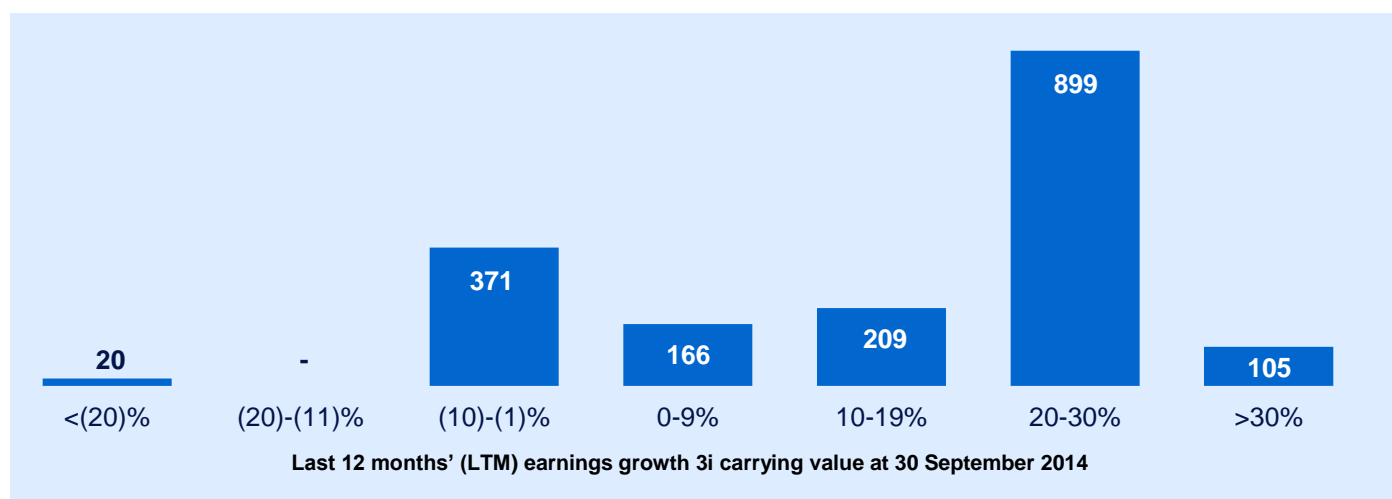
There was no material change to the portfolio composition by business line with Private Equity at 81% (March 2014: 82%), Infrastructure at 14% (March 2014: 14%) and Debt Management at 5% (March 2014: 4%) of the total portfolio.

Private Equity

In line with its strategy, the Group continues to reduce the number of assets held in the Private Equity portfolio to a more manageable level. There were 72 investments in the Private Equity portfolio at 30 September 2014 (31 March 2014: 81). The 10 largest investments accounted for 58% of the portfolio at the period end (31 March 2014: 54%) and the 25 largest for 84% (31 March 2014: 82%).

As shown in Chart 1, earnings grew in the majority of the portfolio (78% by value) with good earnings growth in the portfolio's largest assets in particular. The Private Equity portfolio's value weighted last 12 months earnings, the most relevant measure of NAV impact, grew by 17% (March 2014: 19%) year on year.

Chart 1: Portfolio earnings growth weighted by September 2014 carrying values (£m) ¹

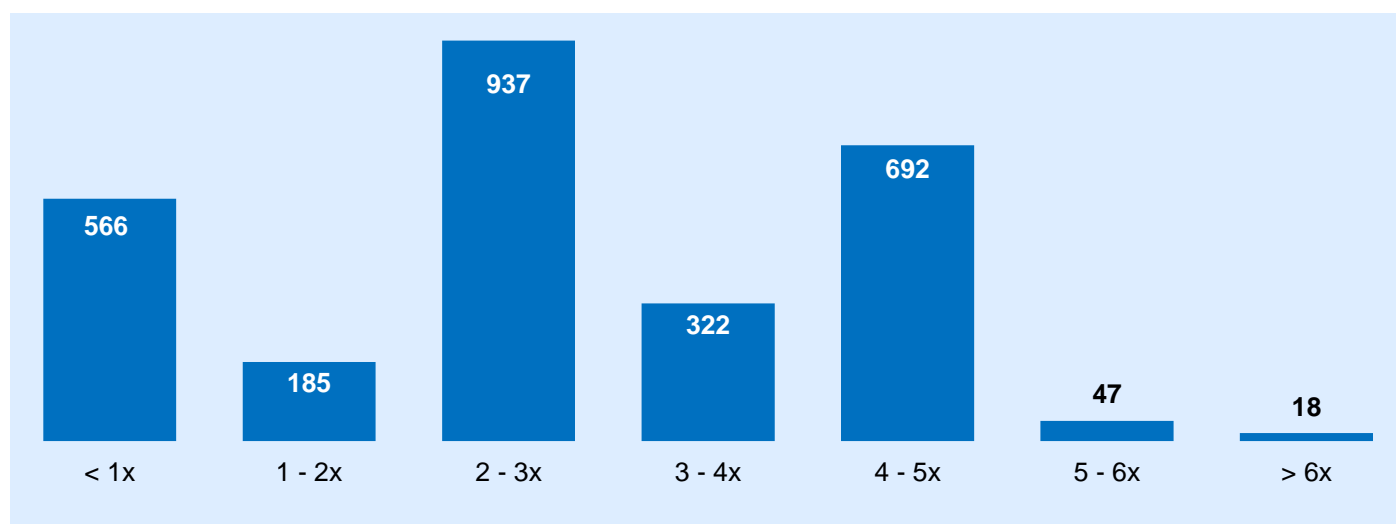


¹ Includes all companies valued on an earnings basis where comparable earnings data is available. This represents 59% of the Private Equity portfolio by value.

The weighted average EBITDA multiple used at 30 September 2014 was 11.0x pre discount (March 2014: 10.6x) and 10.2x post discount (March 2014: 9.9x). These multiples remain below those seen in relevant sector and geographic public markets; for example the FTSE 250 was valued on an average multiple of 12.0x at 30 September 2014.

Leverage in the Private Equity portfolio remained stable at 3.1x net debt to EBITDA weighted by value (31 March 2014: 3.1x). We have taken the opportunity to refinance and restructure debt in a number of portfolio companies including Element, Amor and Mémora. The ratio reduced on average across the rest of the portfolio. Chart 2 shows the ratio of net debt to EBITDA weighted by portfolio value.

Chart 2: Ratio of net debt to EBITDA – Private Equity portfolio September 2014 carrying values (£m)¹



¹ This represents 93% of the Private Equity portfolio, excluding assets valued on a sales basis.

The majority, or 88%, of the Private Equity portfolio by value, is now located in our focus areas of Northern Europe and the US (31 March 2014: 86%) as the exposure to Asia, Brazil and Southern Europe has reduced through realisations and some decline in value.

Infrastructure

3i's investment exposure to infrastructure assets is primarily through its 34% shareholding in 3i Infrastructure plc ("3iN") and through its commitment to the 3i India Infrastructure Fund ("IIF").

3iN is a listed company and our investment is therefore exposed not only to the underlying portfolio but also to fluctuations in its share price. 3iN's underlying European portfolio continues to perform well and represents 94% of the underlying portfolio (31 March 2014: 93%). Portfolio valuations of 3iN's rail rolling stock assets increased significantly to reflect both operational improvements and market returns compression in recent bids to finance the procurement of new train fleets. 3iN's share price increased from 134.4 pence to 140.0 pence in the period. Our 34% holding was valued at £421 million at 30 September 2014, or 11% of 3i's total portfolio. Further detail can be found at: www.3i-infrastructure.com.

The Group's commitment to IIF was valued at £62 million at 30 September 2014 (31 March 2014: £75 million).

Debt Management

The Debt Management portfolio consists of 22 investments, including the capital provided to CLOs managed by the Group, Palace Street I and the Senior Loan Fund and investments into warehouses in order to build portfolios prior to future fund launches. During the period the Group invested a total of £28 million into the equity tranches of Harvest IX and Jamestown IV, alongside a net £67 million investment in the warehouses. At 30 September 2014 the portfolio was valued at £197 million (March 2014: £143 million).

Financial review

Basis

Since the adoption of IFRS by the Group in the year ended 31 March 2006, there has been discussion about whether investment companies, such as 3i, should be exempt from consolidation for its portfolio investments. The introduction of the IFRS 10 accounting standard resolved this point by establishing an investment entity exception, which is an excellent outcome as consolidation of our portfolio investments would both be impractical and limit the usefulness of our statutory accounts.

However, the detailed application of the standard has reduced the transparency of the Group's underlying operating performance because we are now required to fair value a number of intermediate holding companies that were previously consolidated line by line. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the intermediate holding companies. As a result, in our 2014 Annual Report and Accounts we introduced separate "Investment basis" Statements of comprehensive income, financial position and cash flow to aid users of our report, and we continue to do so in this report. The numbers presented in the Overview and Interim Strategic Report refer to this Investment basis.

The commentary in this section refers to the Investment basis financial statements because we believe they provide a more understandable view of our performance. We provide more detail on the impact of IFRS10 and a reconciliation of our Investment basis financial statements to the audited IFRS statements which are presented at the end of this section. Total return and net assets are equal under each basis; the Investment basis is simply a "look through" of IFRS 10 to present the underlying performance.

Operating profit includes gross investment return, management fee income generated from managing external funds, the costs of running our business, net interest payable, movements in the fair value of derivatives, other losses and carried interest receivable or payable. Finally, total return comprises operating profit less any tax charge and movement in the actuarial valuation of the historic defined benefit pension scheme.

Each of these aspects of our returns are considered in greater detail in this Financial review, along with the remaining items that contribute to total return.

Returns

Table 6: Total return for the six months to 30 September 2014

	Six months to 30 September 2014 £m	Six months to 30 September 2013 £m	12 months to 31 March 2014 £m
Realised profits over value on disposal of investments	35	129	202
Unrealised profits on revaluation of investments	307	137	475
Portfolio income			
Dividends	21	18	44
Income from loans and receivables	30	25	50
Fees receivable	2	6	7
Foreign exchange on investments	(98)	(75)	(113)
Gross Investment Return	297	240	665
Fees receivable from external funds	41	36	73
Operating expenses	(63)	(68)	(136)
Interest receivable	1	1	3
Interest payable	(26)	(28)	(54)
Movement in the fair value of derivatives	(1)	10	10
Exchange movements	25	(4)	(3)
Other income	1	-	-
Operating profit before carry	275	187	558
Carried interest			
Carried interest receivable from external funds	19	3	3
Carried interest and performance fees payable	(45)	(25)	(85)
Acquisition related earn out charges	(5)	(4)	(6)
Operating profit	244	161	470
Income taxes	(3)	(2)	(3)
Re-measurements of defined benefit plans	(7)	16	11
Total comprehensive income ("Total return")	234	175	478
Total return on opening shareholders' funds	7.1%	6.0%	16.3%

Total operating expenses

Operating expenses incurred during the period were £63 million (September 2013: £68 million), and equated to 1.0% (September 2013: 1.1%) as a percentage of weighted average AUM. With the cost reduction initiatives outlined in the June 2012 strategic announcement largely complete, there were no restructuring costs provided for in this period (September 2013: £4 million). Excluding restructuring costs, the operating expenses were £1 million lower than the previous year, but include the additional costs associated with the new PPP Infrastructure team.

Table 7: Operating expenses for the six months to 30 September

	2014 £m	2013 £m
Operating expenses	63	68
Operating expenses excluding restructuring costs	63	64
Operating expenses/AUM ¹ (excluding restructuring costs)	1.0%	1.1%

¹ Annualised actual operating expenses measured as a percentage of weighted average AUM.

Operating cash profit

Table 8: Operating cash profit for the six months to 30 September

	2014 £m	2013 £m
Third-party capital fees	37	39
Cash portfolio fees ¹	4	6
Cash portfolio dividends and interest	38	25
Cash income	79	70
Operating expenses ²	63	68
Less: Restructuring costs	-	(4)
	63	64
Operating cash profit	16	6

1 Net of broken deal and due diligence costs incurred

2 Operating expenses on an accruals basis rather than cash, the effect of which is not considered material.

In June 2012, the Group set an objective of generating cash income, from third-party fees and portfolio income, sufficient to cover the operating expenses incurred in the year, prior to restructuring costs. We call this “operating cash profit”.

FY2014 was the first in which the Group achieved an operating cash profit in more than a decade, a significant step in improving the robustness of the Group’s operating model. This has continued and during the period the Group generated an operating cash profit of £16 million (September 2013: £6 million).

A focus on generating cash income from the portfolio has meant the Group was able to increase its cash income despite net divestment activity and a fall in third-party AUM in Private Equity. Cash income increased to £79 million (September 2013: £70 million), with a £11 million increase in portfolio income and a £2 million decrease in third-party fees.

The benefits of the cost reduction programme continue to be seen with actual costs (excluding restructuring costs but including acquisitions) stabilising at £63 million (September 2013: £64 million).

Proprietary Capital returns

Our Proprietary Capital business is assessed on operating profit before carry, which comprises gross investment return, operating expenses, a fee paid to the Fund Management business and balance sheet funding expenses such as interest payable. Overall operating profit before carry of £262 million (September 2013: £179 million) was £83 million higher than the prior year and this was underpinned by strong value growth within the portfolio.

By business line, the gross investment return on the opening portfolio was 10% from Private Equity (September 2013: 9%), 5% from Infrastructure (September 2013: (4)%) and (5)% from Debt Management (September 2013: 1%). Private Equity accounted for 81% of the Proprietary Capital portfolio at 30 September 2014 (March 2014: 82%) and remains the primary driver of performance for the Proprietary Capital segment.

Realised profits

Realised profits for the period of £35 million (September 2013: £129 million) were lower than the previous year, despite the Group continuing to achieve some strong exits and generating £324 million of realisation proceeds (30 September 2013: £528 million). The uplift was lower than in previous periods due to a number of larger transactions occurring earlier in the half year and, as such, being materially reflected in the 31 March 2014 valuations. We continue to pursue exits through careful planning, and in total fully divested 9 investments in the period.

The majority of the realisations were from the Private Equity portfolio, which contributed £316 million of the £324 million proceeds. Table 5 details the Realisations in the period and sets out the accounting uplift reflected in the total return and the longer-term cash-to-cash results. The Private Equity realisations completed in the period produced a money multiple of 1.8x over their investment life (September 2013: 1.6x).

Table 9: Proprietary Capital operating profit for the six months to 30 September

	2014 £m	2013 £m
Realised profits over value on disposal of investments	35	129
Unrealised profits on revaluation of investments	307	137
Portfolio income		
Dividends	21	18
Income from loans and receivables	30	25
Fees receivable	2	4
Foreign exchange on investments	(98)	(75)
Gross investment return	297	238
Fund Management synthetic fee	(22)	(25)
Operating expenses	(13)	(13)
Interest receivable	1	1
Interest payable	(26)	(28)
Movement in the fair value of derivatives	(1)	10
Exchange movements	25	(4)
Other income	1	-
Operating profit before carry	262	179

Unrealised value movements

Table 10: Unrealised profits/(losses) on revaluation of investments for the six months to 30 September

	2014 £m	2013 £m
Private Equity		
Earnings based valuations		
Performance	209	32
Multiple movements	13	78
Other bases		
Provisions	-	-
Uplift to imminent sale	34	(13)
Discounted Cash Flow	33	(11)
Other movements on unquoted investments	7	-
Quoted portfolio	12	75
Infrastructure		
Quoted portfolio	15	(4)
Discounted Cash Flow	(6)	(20)
Debt Management¹	(10)	-
Total	307	137

1 Debt Management includes value movement on equity stakes in CLO vehicles, direct holdings in warehouse vehicles, and the net asset value movement on Palace Street I. Unrealised profits/(losses) in the 6 months to 30 September 2013 have been restated for the change in treatment of Palace Street I under the Investment basis.

Performance

The performance category measures the impact of earnings and net debt movements for the portfolio companies valued on an earnings basis. In general, when valuing a portfolio investment on an earnings basis, the earnings used in the September valuations are the last 12 months' management accounts data to June, unless the current year forecast indicates a lower maintainable earnings level. Where appropriate, adjustments are made to earnings on a pro forma basis for acquisitions, disposals and non-recurring items. In the case of one company, Action, which is experiencing significant growth due to its store roll-out programme, a run-rate adjustment is made to its earnings to reflect the profitability of opened stores for valuation purposes.

Improvements in the performance of the portfolio valued on an earnings basis resulted in an increase in value of £209 million (September 2013: £32 million). Value weighted last 12 months earnings, the most relevant measure of NAV impact, increased by 17%, demonstrating that the portfolio's largest assets are delivering strong improvements in performance. Net debt in this portfolio remained flat at 3.1x EBITDA (March 2014: 3.1x). Excluding Action, value weighted last 12 months earnings grew 11%.

The number of investments valued using forecast earnings has increased to seven from four at 31 March 2014. These represent 12% of the 69% of the Private Equity portfolio valued on an earnings basis at the period end (March 2014: 3%, 79%).

Multiple movements

The weighted average EBITDA multiple of the Private Equity portfolio, valued on an earnings basis increased from 10.6x at 31 March 2014 to 11.0x at 30 September 2014 before marketability discount, and from 9.9x to 10.2x after marketability discount. Excluding Action, the largest asset by value and an asset with one of the highest multiples applied to earnings, the weighted average EBITDA multiple of the portfolio increased to 9.9x before marketability discount (March 2014: 9.8x) and 9.1x after marketability discount (March 2014: 9.0x). Stock market multiples generally fell in the period but, as noted in the Annual report, we consider other factors such as exit plans, relative performance and size when setting the multiples we use. We have felt for some time that market multiples were trading ahead of longer term averages and so had not followed markets up when valuing the portfolio. Consequently, we have not had to follow markets down in the period. Movements in multiples used for valuation led to a small increase in value of £13 million in the period to 30 September 2014 (September 2013: £78 million).

Provisions

A provision is recognised where we anticipate that there is a 50% or greater chance that the Group's investment in the portfolio company will fail within the next 12 months. No new provisions or reversals were made during the period.

Imminent sale

Portfolio companies which are well advanced in a negotiated sales process are valued on an imminent sale basis. Two assets, Hilite and LHi, were valued on this basis at 30 September 2014, with a total value of £193 million. Proceeds of £189 million for the completion of both sales were received post the period end and the difference to September 2014 value related to cash income and amounts held in escrow.

Discounted Cash Flow

The Discounted Cash Flow (DCF) valuation basis is used to value portfolio companies with predictable and stable cash flows. As at 30 September 2014, the largest portfolio company valued on this basis was Scandlines, valued at £218 million, with an unrealised profit in the period of £34 million. The majority of remaining assets valued using the DCF valuation basis were in the India Infrastructure Fund, which generated an unrealised loss of £8 million.

Other

Where a different valuation basis is more appropriate for a portfolio company, the "other" category is used to determine fair value, for example, the sum of the parts of the business or industry specific methods. The largest asset in this category is ACR, the Private Equity Asian reinsurance business, valued at £111 million at 30 September 2014 (March 2014: £101 million). Unrealised profits of £7 million were recognised in the period to 30 September 2014 (September 2013: nil).

Quoted portfolio

The quoted portfolio was valued at £641 million at 30 September 2014 and now represents 17% (March 2014: £554 million, 16%) of the Group's total portfolio. The Group's 34% investment in 3i Infrastructure plc is the largest asset in the quoted portfolio at £421 million. 3i Infrastructure plc's share price increased by 4% in the period, resulting in value growth of £17 million. Quintiles is the next largest quoted asset in the portfolio and was valued at £137 million at 30 September 2014. During the period to 30 September 2014 two portfolio companies completed IPO processes, Phibro and Beijing Digital Telecom, and together the Group's remaining holdings in these companies was valued at £68 million at 30 September 2014.

Debt Management

The Group has investments in a number of the CLOs which the Debt Management team manages, as well as in the Credit Opportunities Fund, Palace Street I and the US Senior Loan Fund. The Group also invests in warehouse facilities to support the creation of portfolios for future fund launches.

Where available, CLOs are valued on the basis of quotes from the arranging brokers, with reference to internal modelling of the future returns of the investment and third-party databases of prices. At 30 September 2014 the value of the equity stakes in CLOs was £83 million (March 2014: £67 million). Warehouses are valued using the mark-to-market prices of the underlying debt assets held in the facilities, and at 30 September 2014 these totalled £82 million (March 2014: £17 million).

Table 11: Proportion of total portfolio value by valuation basis

	30 September 2014 %	30 September 2013 %	31 March 2014 %
Earnings	56	60	65
Imminent sale	5	1	1
Quoted	17	19	16
Discounted Cash Flow	8	6	8
Other	9	9	6
Debt Management	5	5	4

Portfolio income

Table 12: Portfolio income for the six months to 30 September

	2014 £m	2013 £m
Dividends	21	18
Income from loans and receivables	30	25
Net fees receivable	2	4
Portfolio income	53	47
Received as cash¹	42	31
Cash income/opening portfolio value	1.2%	0.9%

1 Includes £2 million attributed to Fund Management (September 2013: £2 million).

Income from the portfolio was £53 million in the period (September 2013: £47 million). Dividends of £21 million were received (September 2013: £18 million), including £10 million from 3i Infrastructure plc and £6 million from Debt Management investments. Interest income totalled £30 million (September 2013: £25 million) and included interest of £4 million from Foster + Partners, which was partially sold in the period.

A further £2 million in net transaction fees was received in the period (September 2013: £4 million), principally relating to fees received for completing new investments and monitoring fees paid by portfolio companies.

Portfolio income received as cash during the period was £42 million (September 2013: £31 million). This reflected higher income from our Debt Management investments and income received following exits or refinancing of Private Equity investments.

Net foreign exchange movements

The Group recorded a total net foreign exchange loss of £73 million (September 2013: £79 million) during the period, driven by the strengthening of sterling against the euro (6.2%), Swedish krona (7.9%) and Brazilian real (5.2%) resulting in losses of £79 million, £7 million and £2 million respectively. This was partially offset by the weakening of sterling against the US dollar (2.5%) resulting in a gain of £13 million. The net foreign exchange loss also reflects the translation of non-portfolio net assets, including non-sterling cash held at the balance sheet date.

As at 30 September 2014, a 1% movement in the euro, US dollar and the Indian rupee would give rise to a £16 million, £7 million and £1 million movement in total return respectively.

Proprietary Capital costs

A proportion of the Group's total operating expenses is allocated to Proprietary Capital, being those costs assessed as having been incurred in running a regulated and listed investment trust. These include 100% of costs in relation to the CEO and Group Finance Director and elements of finance, IT, property and compliance. Operating expenses of £13 million were flat compared to last year (September 2013: £13 million) as the substantial cost reductions in the Proprietary Capital business, made as part of the cost reduction programme, were implemented early in FY2013. A more detailed analysis of the Group's total operating expenses is provided earlier in this Financial review.

Synthetic fees are deducted from the operating profit of the Proprietary Capital business to reflect the fees that this business would have to pay if the assets were managed externally at market rates. The fall in synthetic fees to £22 million (September 2013: £25 million) reflects the lower level of Proprietary Capital being managed as a result of net divestment during the period.

Net interest payable

Gross interest payable for the year was £26 million (September 2013: £28 million), and reflected the reduction in gross debt of the Group following a repayment of £164 million of drawings under a revolving credit facility in FY2014 and an acceleration of £1.5 million of amortised cost into the period following the early refinancing of the 2016 revolving credit facilities. The refinancing of the Group's revolving credit facilities in the period will reduce future interest costs by £1.5 million per annum. The current gross debt position is detailed further in this Financial review and in Note 6.

Interest receivable was flat at £1 million (September 2013: £1 million).

Derivative movements

The Group historically used foreign exchange and interest rate derivative contracts as part of its hedging programmes. The Group incurred a £1 million loss on the fair value movement of its remaining foreign exchange derivatives during the period (September 2013: £10 million gain). The prior period gain related to a long-term legacy interest rate swap, which was closed out in FY2014.

Consistent with the strategic focus on cash-to-cash returns, the residual foreign exchange derivatives will be allowed to expire and not be replaced. We will continue to consider foreign exchange risk at the point of investment and divestment and occasionally hedge these transactions with short-term derivatives.

Fund Management returns

Table 13: Fund Management operating profit for the six months to 30 September

	2014 £m	2013 £m
Portfolio fee income	-	2
Fees receivable from external funds	41	36
Synthetic fee on Proprietary Capital	22	25
Operating expenses	(50)	(55)
Operating profit before carry	13	8
Restructuring costs	-	4
Amortisation costs	3	3
Underlying Fund Management profit	16	15

Our Fund Management business comprises the investment teams of our Private Equity, Infrastructure and Debt Management businesses.

It is assessed on operating profit before carry, which comprises fee income from third parties as well as a synthetic fee on proprietary capital, less operating expenses. The Fund Management business generated an operating profit before carry of £13 million for the period (September 2013: £8 million). The increase in profitability was driven by a fall in costs, as total fee income remained stable. As a result operating profit margin increased to 21% from 13% for the same period last year.

On an underlying basis, excluding restructuring and amortisation costs, operating profit was £16 million (2013: £15 million) at a margin of 26% (September 2013: 24%).

The Group's Fund Management income is driven by total assets under management ("AUM"), which were £12.9 billion at 30 September 2014 (March 2014: £12.9 billion). The launch of two CLOs by Debt Management funds offset a fall in AUM from the net divestment activity in Private Equity. The proportion of third-party assets under management remained stable at 74% during the period and fees from third parties, including portfolio fee income, grew to £41 million from £38 million in the same period last year.

For the Fund Management business to be profitable, costs have to be managed closely to ensure they remain appropriate and consistent with third-party benchmarks, where available. Although growth in AUM is generally positive, we remain focused on profitable growth which incrementally adds to the profit of the Fund Management business.

Fees receivable from external funds

Fees earned from external funds of £41 million in the period were higher than the prior year (September 2013: £36 million).

Our Debt Management business continued to generate strong fund fee income of £18 million, increasing 13% over the prior year (September 2013: £16 million). Infrastructure fund fee income, which is generated from advisory and management services to 3i Infrastructure plc and the 3i India Infrastructure Fund, was supplemented by the acquisition of the PPP platform. Total infrastructure fund fee income was £14 million during the period (September 2013: £11 million).

Fee income from our managed Private Equity funds and third parties was flat at £9 million (September 2013: £9 million).

Fees receivable from Proprietary Capital

A synthetic fee is added to the operating revenue of the Fund Management business to reflect the fees that would be received on proprietary investments if managed on behalf of third parties at market rates. A fee of 1.5% is charged on Private Equity and Infrastructure Proprietary Capital and 0.5% on Debt Management. The fall in synthetic fees to £22 million (September 2013: £25 million) reflects the lower level of Proprietary Capital being managed as a result of net divestment in Private Equity during the period.

Fund Management costs

A proportion of the Group's total operating expenses is allocated to the Fund Management activity. This includes all costs in relation to investment management and advisory activity as well as an allocation in relation to direct and indirect support functions, such as finance, IT, human resources, compliance, and property costs. Fund Management operating expenses fell by 9% in the period to £50 million (September 2013: £55 million). A more detailed analysis of the Group's total operating expenses is provided earlier in this Financial review.

Total return

Table 14: Total return for the six months to 30 September

	2014 £m	2013 £m
Proprietary Capital operating profit before carry	262	179
Fund Management operating profit before carry	13	8
Operating profit before carry	275	187
Carried interest receivable from external funds	19	3
Carried interest and performance fees payable	(45)	(25)
Acquisition related earn-out charges	(5)	(4)
Operating profit	244	161
Tax	(3)	(2)
Re-measurement of defined benefit plans	(7)	16
Total comprehensive income ("Total return")	234	175
Total return on opening shareholders' funds	7.1%	6.0%

The Group's total return comprises the operating profit of both the Proprietary Capital and Fund Management businesses, net carried interest, tax and charges relating to defined benefit pension schemes.

Net carried interest and performance fees payable

Net carried interest and performance fees payable in the period increased in line with the improved portfolio performance and realisations, with a net payable of £26 million (September 2013: £22 million net payable).

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

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

Our largest Private Equity fund, Eurofund V, which includes investments made in 2007-2012, has not yet met the performance hurdle due to the performance of the 2007-2009 vintages. Although we have seen a strong recovery in that fund's multiple to 1.3x invested capital, with 2010-12 investments valued at 2.4x, the drag from the earlier investments means that we have not recognised carry receivable from this fund to date.

Assets in the Growth Capital Fund included Quintiles and Refresco and, as a result of their strong performance its multiple on invested capital is now 1.5x. As a result we have recognised carry on an accruals basis, for the first time: £6 million was recognised in the period (September 2013: nil).

Good performance and a step up in valuation of the European assets held by 3i Infrastructure plc in the six months have resulted in an accrual of £8 million of performance fees receivable in the period.

We pay carry to our investment teams on proprietary capital invested and share a proportion of carry receivable from third-party funds. This total carry payable is provided through schemes which were structured historically over two year vintages to maximise flexibility in resource planning.

The improved performance of the portfolio means that the majority of assets by value are now held in carry payable schemes that would have met their performance hurdles, assuming the portfolio was fully realised at its 30 September 2014 valuation. Carry payable typically increases or decreases broadly in line with the gross investment return performance of the portfolio at rates between 10% and 15%. The gross investment return of £297 million resulted in an accrual of £45 million carry payable in the period, or 15% of gross investment return (September 2013: £25 million, 10%). Carry is usually only paid once the hurdles are passed in cash terms and, in the six months, £11 million was actually paid (September 2013: £17 million).

Pensions

The IAS 19 valuation of the Group's UK defined benefit pension scheme was negatively impacted by a decrease in the discount rate, driven by a fall in AA corporate bond yields, resulting in an increase in the value of the scheme's liabilities. This was partially offset by a decrease in inflation rates and the return on the Plan's assets. Overall this resulted in a re-measurement loss of £7 million (September 2013: £16 million gain) in the period.

Balance sheet

Portfolio value

Table 15: Portfolio value movement by business line

Business lines	Opening portfolio value 1 April 2014 £m	Cash investment £m	Non-cash investment ¹ £m	Value disposed £m	Unrealised value movement £m	Other movement ² £m	Closing portfolio value 30 September 2014 £m
Private Equity	2,935	104	55	(282)	308	(136)	2,984
Infrastructure	487	-	-	(7)	9	2	491
Debt Management	143	95	-	-	(10)	(31) ³	197
Total	3,565	199	55	(289)	307	(165)	3,672

1 Includes capitalised interest and other non-cash investment.

2 Other relates to foreign exchange and the provisioning of capitalised interest.

3 £26m relates to capital withdrawn from the Palace Street I portfolio.

Realisations in the period and the negative impact of foreign exchange movements were offset by unrealised value growth of £307 million, resulting in an increase in the total Proprietary Capital portfolio value to £3,672 million at 30 September 2014 (March 2014: £3,565 million).

There were no material changes to the relative portfolio composition by business.

Cash flow

Investment and realisations

Table 16: Investment activity – Proprietary Capital and Third-party Capital for the six months to 30 September

	Proprietary Capital 2014 £m	2013 £m	Proprietary and Third-party Capital 2014 £m	2013 £m
Realisations	324	528	463	887
Cash investment	(199)	(92)	(180)	(163)
Net cash divestment	125	436	283	724
Non-cash investment	(55)	(39)	(69)	(66)
Net divestment	70	397	214	658

Realisations in the period generated cash proceeds of £324 million (September 2013: £528 million), offset by cash investment of £199 million (September 2013: £92 million), resulting in net cash inflow of £125 million (September 2013: £436 million). A further £55 million of investment was in non-cash form (September 2013: £39 million) and total investment was therefore £254 million (September 2013: £131 million).

A summary of Proprietary Capital investment and realisations by business line is provided below. Further detail on investment and realisations is included in the investment and realisation activity section.

Table 17: Proprietary Capital investment by business for the six months to 30 September

	2014 £m	2013 £m
Private Equity	159	49
of which non-cash	55	39
Infrastructure	-	-
Debt Management	95	82
Total gross investment	254	131

Table 18: Proprietary Capital realisations by business for the year to 30 September

	2014 £m	2013 £m
Private Equity	316	528
Infrastructure	8	-
Debt Management	-	-
Total gross realisations	324	528

Non-investment cash flows

Cash income from third-party fees and the portfolio of £79 million (September 2013: £70 million) was offset by cash operating outflows of £88 million (September 2013: £93 million) which, in addition to running costs and restructuring costs, includes carry paid and cash pension costs.

Net cash interest of £14 million was paid in the period (September 2013: £13 million).

Gearing and borrowings

Table 19: Gearing and borrowings

	30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
Gross debt	831	873	857
Net debt	161	(28)	160
Gearing	5%	n/a	5%

The Group continued to manage its balance sheet conservatively. Gross debt reduced to £831 million (March 2014: £857 million), following the repayment of the Group's £6 million outstanding B shares in June 2014. During the period we also completed the refinancing of the Group's 2016 revolving credit facilities. The facilities were reduced from £500 million to £350 million, with maturity extended from 2016 to 2019 and running costs reduced.

Net debt remained flat at £161 million at 30 September 2014 (March 2014: £160 million) with net divestment activity offsetting the payment of the final FY2014 dividend in the period. Gearing remained stable at 5% at 30 September 2014 (31 March 2014: 5%).

Liquidity

Liquidity reduced in the period to £1,020 million (March 2014: £1,197 million). This comprised cash and deposits of £670 million (March 2014: £697 million) and undrawn facilities of £350 million (March 2014: £500 million). The cash balance reduced in the period as dividend and operating cash flows exceeded net divestment activity, while the undrawn facilities reduced following the revolving credit facilities refinancing in September 2014.

Foreign exchange hedging

The Group's net assets are predominately denominated in the local currency of the headquarters of our investment portfolio, offset by gross debt and a small number of legacy currency derivatives. At 30 September 2014, 31% of the Group's net assets were denominated in sterling, 41% in euro, 24% in US dollar and 4% in other currencies. Although we do not implement structured hedging of the NAV we may implement specific short-term hedging on entry or exit cash flows of an investment if appropriate.

Diluted NAV

The diluted NAV per share at 30 September 2014 was 358 pence (March 2014: 348 pence). The increase was driven by the total return in the period of £234 million (September 2013: £175 million), and partially offset by the payment of the final dividend relating to the prior financial year of £126 million or 13.3 pence per share (September 2013: £51 million, 5.4 pence per share).

Risks and uncertainties

The main elements of 3i's approach to risk management, its risk management process and governance structure are set out in the Risk section of the 3i Group Annual report and accounts 2014.

The principal risks which the Group currently faces, and which the Board believes have the potential to impact materially the Group's financial performance and/or achievement of its strategic objectives, are set out in detail in the Annual report and are broadly unchanged in the period since publication.

The main areas of inherent risk affecting the Group are as follows:

Strategic – Risks arising from the analysis, design and implementation of the Group's business model and key decisions on the investment levels and capital allocations.

External – Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Group's operations.

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

Treasury and funding – Risks in relation to changes in market prices and rates, access to capital markets and third-party funds, and the Group's capital structure.

Operational – Risks arising from inadequate or failed processes, people and systems or from external factors affecting these.

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

The Committee also has a number of focus areas, which are agreed in advance of each meeting. Topics discussed in the period have included an update on ESG portfolio review; a new IT system implementation; a review of the Infrastructure strategic plan; a review of developments in Asia and Brazil; and a review of portfolio concentration.

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

Investment basis financial statements

Consolidated statement of comprehensive income

for the 6 months to 30 September 2014

	6 months to 30 September 2014 £m	6 months to 30 September 2013 £m	12 months to 31 March 2014 £m
Realised profits over value on the disposal of investments	35	129	202
Unrealised profits on the revaluation of investments	307	137	475
Portfolio income			
Dividends	21	18	44
Income from loans and receivables	30	25	50
Fees receivable	2	6	7
Foreign exchange on investments	(98)	(75)	(113)
Gross investment return	297	240	665
Fees receivable from external funds	41	36	73
Operating expenses	(63)	(68)	(136)
Interest receivable	1	1	3
Interest payable	(26)	(28)	(54)
Movement in the fair value of derivatives	(1)	10	10
Exchange movements	25	(4)	(3)
Other income	1	-	-
Operating profit before carry	275	187	558
Carried interest			
Carried interest and performance fees receivable from external funds	19	3	3
Carried interest and performance fees payable	(45)	(25)	(85)
Acquisition related earn-out charges	(5)	(4)	(6)
Operating profit	244	161	470
Income taxes	(3)	(2)	(3)
Profit for the period	241	159	467
Other comprehensive income			
Re-measurements of defined benefit plans	(7)	16	11
Total comprehensive income for the period ("Total return")	234	175	478

Note:
30 September 2013 and 2014 Investment basis financial statements have been prepared on a consistent basis to the 31 March 2014 statements as presented in our Annual Report and Accounts 2014. A reconciliation to the IFRS financial statements is shown on pages 38 to 42 and the IFRS financial statements are shown on pages 43 to 47.

Investment basis financial statements

Consolidated statement of financial position

as at 30 September 2014

	As at 30 September 2014 £m	As at 30 September 2013 £m	As at 31 March 2014 £m
Assets			
Non-current assets			
Investments			
Quoted investments	641	578	554
Unquoted investments	3,031	2,480	3,011
Investment portfolio	3,672	3,058	3,565
Carried interest and performance fees receivable	31	20	17
Intangible assets	23	29	26
Retirement benefit surplus	132	138	137
Property, plant and equipment	5	6	5
Derivative financial instruments	-	4	-
Deferred income taxes	4	4	3
Total non-current assets	3,867	3,259	3,753
Current assets			
Other current assets	94	87	92
Derivative financial instruments	1	-	2
Deposits	-	20	-
Cash and cash equivalents	670	881	697
Total current assets	765	988	791
Total assets	4,632	4,247	4,544
Liabilities			
Non-current liabilities			
Carried interest and performance fees payable	(135)	(56)	(106)
Acquisition related earn-out charges payable	(13)	(26)	(18)
Loans and borrowings	(832)	(852)	(849)
B shares	-	(6)	(6)
Retirement benefit deficit	(12)	(13)	(14)
Derivative financial instruments	-	(16)	-
Deferred income taxes	(3)	(2)	(2)
Provisions	(1)	(1)	(5)
Total non-current liabilities	(996)	(972)	(1,000)
Current liabilities			
Trade and other payables	(183)	(188)	(198)
Carried interest and performance fees payable	(5)	(11)	(11)
Acquisition related earn-out charges payable	(10)	-	(10)
Derivative financial instruments	-	(3)	(4)
Current income taxes	(4)	(1)	(4)
Deferred income taxes	-	(1)	(1)
Provisions	(8)	(9)	(8)
Total current liabilities	(210)	(213)	(236)
Total liabilities	(1,206)	(1,185)	(1,236)
Net assets	3,426	3,062	3,308
Equity			
Issued capital	718	718	718
Share premium	783	781	782
Other reserves	2,005	1,655	1,897
Own shares	(80)	(92)	(89)
Total equity	3,426	3,062	3,308

Note:
30 September 2013 and 2014 Investment basis financial statements have been prepared on a consistent basis to the 31 March 2014 statements as presented in our Annual Report and Accounts 2014. A reconciliation to the IFRS financial statements is shown on pages 38 to 42 and the IFRS financial statements are shown on pages 43 to 47.

Investment basis financial statements

Consolidated cash flow statement

for the 6 months to 30 September 2014

	6 months to 30 September 2014 £m	6 months to 30 September 2013 £m	12 months to 31 March 2014 £m
Cash flow from operating activities			
Purchase of investments	(199)	(92)	(337)
Proceeds from investments	324	528	677
Cash divestment from traded portfolio	7	11	14
Portfolio interest received	18	9	9
Portfolio dividends received	20	16	44
Portfolio fees received	4	6	4
Fees received from external funds	37	39	75
Carried interest and performance fees received	4	2	5
Carried interest and performance fees paid	(11)	(17)	(25)
Acquisition related earn-out charges paid	(10)	-	-
Operating expenses	(71)	(78)	(128)
Interest received	1	2	3
Interest paid	(15)	(15)	(57)
Income taxes paid	(3)	(5)	(7)
Net cash flow from operating activities	106	406	277
Cash flow from financing activities			
Purchase of B shares	(6)	-	-
Dividend paid	(126)	(51)	(114)
Repayment of short-term borrowings	-	(164)	(164)
Net cash flow from derivatives	2	(23)	(32)
Net cash flow from financing activities	(130)	(238)	(310)
Cash flow from investing activities			
Acquisition of management contracts	-	-	2
Net cash flow from deposits	-	70	90
Net cash flow from investing activities	-	70	92
Change in cash and cash equivalents	(24)	238	59
Cash and cash equivalents at the start of year	697	656	656
Effect of exchange rate fluctuations	(3)	(13)	(18)
Cash and cash equivalents at the end of the period	670	881	697

Note:

30 September 2013 and 2014 Investment basis financial statements have been prepared on a consistent basis to the 31 March 2014 statements as presented in our Annual Report and Accounts 2014. A reconciliation to the IFRS financial statements is shown on pages 38 to 42 and the IFRS financial statements are shown on pages 43 to 47.

Reconciliation of Investment basis to IFRS

IFRS 10 has resulted in a significant change to the presentation of the Group's financial statements. However, there continues to be no difference in the total return or net asset position of the Group, between our Investment basis and IFRS financial statements.

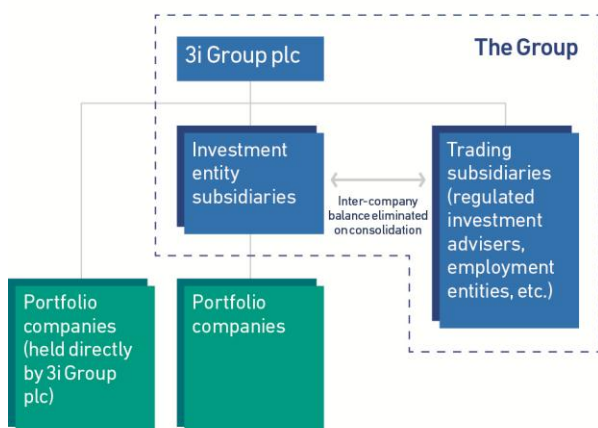
The Group makes investments directly in portfolio companies held by 3i Group plc and indirectly, held through intermediate holding company and partnership structures ("Investment entity subsidiaries"). It also has other operational subsidiaries which provide services and other activities such as employment, regulatory activities, management and advice ("Trading subsidiaries").

Since the adoption of IFRS in the year ended 31 March 2006, there has been discussion about whether investment companies, such as 3i, should be exempt from consolidation of its investments (the directly and indirectly held portfolio companies). IFRS 10 has resolved this point with the introduction of an investment entity exception confirming that portfolio companies should be accounted for at fair value, which is an excellent outcome. However, in the detailed application of the standard, which is currently under discussion and review as part of an Exposure Draft issued in June 2014 by the IASB, Investment entity subsidiaries are also accounted for on a fair value basis. This means that the financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest incurred in Investment entity subsidiaries are aggregated into a single value shown as Investments in investment entities. Other items which were previously eliminated on consolidation are now included separately. The two diagrams below illustrate these changes, together with an illustrative example to show how information can be aggregated.

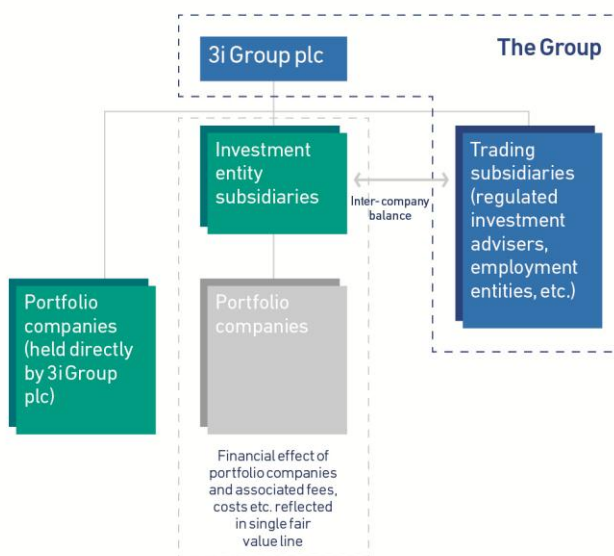
We therefore produce an "Investment basis" set of primary financial statements, prepared on a similar basis to the financial statements prior to the application of IFRS 10, fair valuing portfolio companies at the level which we believe provides the most understandable financial information and consolidating associated transactions on a line-by-line basis.

A detailed reconciliation from the Investment basis to IFRS basis of the Statement of comprehensive income, Statement of financial position, and Cash flow statement can be found on the following pages.

Previous basis of consolidation



IFRS 10/new basis of consolidation



Illustrative example

	Previous basis of consolidation	IFRS 10 consolidation
Realised/unrealised investment returns	170	50
Fair value movements on investment entity subsidiaries	—	90
Portfolio income	20	5
Operating expenses	(50)	(10)
Carry payable	(10)	(5)
	130	130

←

Investment entity subsidiary activity	
Realised/unrealised investment returns	120
Portfolio income	15
Operating expenses	(40)
Carry payable	(5)
	90

Reconciliation of Statement of comprehensive income

		Six months to 30 September 2014			Year to 31 March 2014		
	Note	Investment basis £m	IFRS adjustments £m	IFRS basis £m	Investment basis £m	IFRS adjustments £m	IFRS basis £m
Realised profits over value on the disposal of investments	2	35	(29)	6	202	(56)	146
Unrealised profits on the revaluation of investments	2	307	(199)	108	475	(398)	77
Fair value movements on investment entity subsidiaries	1	-	218	218	-	454	454
Portfolio income							
Dividends	2	21	(6)	15	44	(19)	25
Income from loans and receivables	2	30	(14)	16	50	(21)	29
Fees receivable		2	1	3	7	-	7
Foreign exchange on investments	4	(98)	70	(28)	(113)	68	(45)
Gross investment return		297	41	338	665	28	693
Fees receivable from external funds	3	41	(13)	28	73	(23)	50
Operating expenses	3	(63)	7	(56)	(136)	18	(118)
Interest receivable	3	1	-	1	3	(1)	2
Interest payable		(26)	-	(26)	(54)	-	(54)
Movement in the fair value of derivatives		(1)	-	(1)	10	-	10
Exchange movements	4	25	(58)	(33)	(3)	(39)	(42)
Income/(expense) from fair value subsidiaries	1	-	13	13	-	(5)	(5)
Other income		1	-	1	-	-	-
Operating profit before carry		275	(10)	265	558	(22)	536
Carried interest and performance fees							
Receivable from external funds	3	19	(5)	14	3	(4)	(1)
Payable	3	(45)	24	(21)	(85)	69	(16)
Acquisition related earn-out charges		(5)	4	(1)	(6)	6	-
Operating profit		244	13	257	470	49	519
Income taxes	3	(3)	2	(1)	(3)	1	(2)
Profit for the period		241	15	256	467	50	517
Other comprehensive income							
Exchange differences on translation of foreign operations	4	-	(15)	(15)	-	(50)	(50)
Re-measurements of defined benefit plans		(7)	-	(7)	11	-	11
Total comprehensive income for the period ("Total return")	1	234	-	234	478	-	478

Notes:

- Applying IFRS 10 to the Statement of comprehensive income consolidates the line items of a number of previously consolidated subsidiaries into a single line item "Fair value movements on investment entity subsidiaries". In the "Investment Basis" accounts we have disaggregated these line items to analyse our total return as if these investment entity subsidiaries were fully consolidated, consistent with prior periods. The adjustments simply reclassify the Statement of comprehensive income of the Group, and the total return is equal under the investment basis and the IFRS basis.
- 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.
- Other items also aggregated into the "Fair value movements on investment entity subsidiaries" line include fees receivable from external funds, audit fees, custodian fees, bank charges, other general and administration expenses, carried interest and tax.
- On the Investment Basis, the impact of the translation of foreign subsidiaries is included within the line items Foreign exchange on investments and Exchange movements rather than as a separate line item as required under IFRS. On an IFRS basis, the revaluation of assets and liabilities held by investment entity subsidiaries is reflected in the fair value movements on investment entity subsidiaries rather than being reflected as exchange movements.

Reconciliation of Statement of financial position

		As at 30 September 2014			As at 31 March 2014		
	Note	Investment basis £m	IFRS adjustments £m	IFRS basis £m	Investment basis £m	IFRS adjustments £m	IFRS basis £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	641	(372)	269	554	(296)	258
Unquoted investments	1	3,031	(1,700)	1,331	3,011	(1,732)	1,279
Investments in investment entities	1,3	-	2,004	2,004	-	1,973	1,973
Investment portfolio		3,672	(68)	3,604	3,565	(55)	3,510
Carried interest and performance fees receivable	1	31	(11)	20	17	(9)	8
Intangible assets	1	23	(13)	10	26	(16)	10
Retirement benefit surplus		132	-	132	137	-	137
Property, plant and equipment		5	-	5	5	-	5
Deferred income taxes	1	4	(4)	-	3	(2)	1
Total non-current assets		3,867	(96)	3,771	3,753	(82)	3,671
Current assets							
Other current assets	1	94	(21)	73	92	(20)	72
Derivative financial instruments		1	-	1	2	-	2
Cash and cash equivalents	1,2	670	(41)	629	697	(54)	643
Total current assets		765	(62)	703	791	(74)	717
Total assets		4,632	(158)	4,474	4,544	(156)	4,388
Liabilities							
Non-current liabilities							
Carried interest and performance fees payable	1	(135)	104	(31)	(106)	80	(26)
Acquisition related earn-out charges payable		(13)	10	(3)	(18)	16	(2)
Loans and borrowings		(832)	-	(832)	(849)	-	(849)
B shares		-	-	-	(6)	-	(6)
Retirement benefit deficit		(12)	-	(12)	(14)	-	(14)
Deferred income taxes		(3)	3	-	(2)	2	-
Provisions	1	(1)	-	(1)	(5)	1	(4)
Total non-current liabilities		(996)	117	(879)	(1,000)	99	(901)
Current liabilities							
Trade and other payables	1	(183)	28	(155)	(198)	40	(158)
Carried interest and performance fees payable	1	(5)	-	(5)	(11)	5	(6)
Acquisition related earn-out charges payable		(10)	10	-	(10)	10	-
Derivative financial instruments		-	-	-	(4)	-	(4)
Current income taxes	1	(4)	2	(2)	(4)	2	(2)
Deferred income taxes	1	-	-	-	(1)	-	(1)
Provisions	1	(8)	1	(7)	(8)	-	(8)
Total current liabilities		(210)	41	(169)	(236)	57	(179)
Total liabilities		(1,206)	158	(1,048)	(1,236)	156	(1,080)
Net assets		3,426	-	3,426	3,308	-	3,308
Equity							
Issued capital		718	-	718	718	-	718
Share premium		783	-	783	782	-	782
Other reserves	4	2,005	-	2,005	1,897	-	1,897
Own shares		(80)	-	(80)	(89)	-	(89)
Total equity		3,426	-	3,426	3,308	-	3,308

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

Notes:

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

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

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

- 2 Cash balances held in investment entity subsidiaries are also aggregated into the "Investment in investment entities" line. At 30 September 2014, £41 million of cash was held in subsidiaries that are now classified as investment entity subsidiaries and is therefore included in the "Investment in investment entities" line.
- 3 Intercompany balances between investment entity subsidiaries and trading subsidiaries also impact the transparency of our results under the IFRS basis. If an investment entity subsidiary has an intercompany balance with a consolidated trading subsidiary of the Group, then the asset or liability of the investment entity subsidiary will be aggregated into its fair value, while the asset or liability of the consolidated trading subsidiary will be disclosed as an asset or liability in the statement of financial position of the Group. Prior to the adoption of IFRS 10, these balances would have been eliminated on consolidation.
- 4 Investment basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately under this basis.

Reconciliation of Cash flow statement

		6 months to 30 September 2014			Year to 31 March 2014		
	Note	Investment basis £m	IFRS adjustments £m	IFRS basis £m	Investment basis £m	IFRS adjustments £m	IFRS basis £m
Cash flow from operating activities							
Purchase of investments	1	(199)	117	(82)	(337)	223	(114)
Proceeds from investments	1	324	(217)	107	677	(225)	452
Cash divestment from traded portfolio	1	7	(7)	-	14	(14)	-
Divestment from fair value subsidiaries	1	-	128	128	-	46	46
Portfolio interest received	1	18	(10)	8	9	(3)	6
Portfolio dividends received	1	20	(6)	14	44	(19)	25
Portfolio fees received		4	-	4	4	-	4
Fees received from external funds	1	37	(13)	24	75	(23)	52
Carried interest and performance fees received	1	4	(2)	2	5	(4)	1
Carried interest and performance fees paid	1	(11)	1	(10)	(25)	5	(20)
Acquisition related earn-out charges paid		(10)	10	-	-	-	-
Operating expenses		(71)	10	(61)	(128)	3	(125)
Interest received		1	-	1	3	-	3
Interest paid		(15)	-	(15)	(57)	-	(57)
Income taxes paid	1	(3)	1	(2)	(7)	4	(3)
Net cash flow from operating activities		106	12	118	277	(7)	270
Cash flow from financing activities							
Purchase of B shares		(6)	-	(6)	-	-	-
Dividend paid		(126)	-	(126)	(114)	-	(114)
Repayment of short-term borrowings		-	-	-	(164)	-	(164)
Net cash flow from derivatives		2	-	2	(32)	-	(32)
Net cash flow from financing activities		(130)	-	(130)	(310)	-	(310)
Cash flow from investing activities							
Acquisition of management contracts		-	-	-	2	(2)	-
Net cash flow from deposits		-	-	-	90	-	90
Net cash flow from investing activities		-	-	-	92	(2)	90
Change in cash and cash equivalents							
	2	(24)	12	(12)	59	(9)	50
Cash and cash equivalents at the start of the period	2	697	(54)	643	656	(46)	610
Effect of exchange rate fluctuations	1	(3)	1	(2)	(18)	1	(17)
Cash and cash equivalents at the end of the period	2	670	(41)	629	697	(54)	643

Notes:

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

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

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

IFRS basis financial statements

Consolidated statement of comprehensive income

For the six months to 30 September 2014

		Six months to 30 September 2014 (unaudited)	Six months to 30 September 2013 (unaudited) (restated)	12 months to 31 March 2014 (audited)
	Notes	£m	£m	£m
Realised profits over value on the disposal of investments	2	6	94	146
Unrealised profits on the revaluation of investments	3	108	11	77
Fair value movements on investment entity subsidiaries	5	218	147	454
		332	252	677
Portfolio income				
Dividends		15	10	25
Income from loans and receivables		16	15	29
Fees receivable		3	6	7
Foreign exchange on investments		(28)	(33)	(45)
Gross investment return		338	250	693
Fees receivable from external funds		28	24	50
Operating expenses		(56)	(59)	(118)
Interest receivable		1	1	2
Interest payable		(26)	(28)	(54)
Movement in the fair value of derivatives		(1)	10	10
Exchange movements		(33)	(61)	(42)
Income/(expense) from fair value subsidiaries		13	20	(5)
Other income		1	-	-
Carried interest and performance fees				
Receivable from external funds		14	-	(1)
Payable		(21)	7	(16)
Acquisition related earn-out charges		(1)	-	-
Operating profit		257	164	519
Income taxes		(1)	(1)	(2)
Profit for the period		256	163	517
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations		(15)	(4)	(50)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:				
Re-measurements of defined benefit plans		(7)	16	11
Other comprehensive income for the period		(22)	12	(39)
Total comprehensive income for the period ("Total return")		234	175	478
Earnings per share				
Basic (pence)	7	27.0	17.3	54.8
Diluted (pence)	7	26.8	17.2	54.5

IFRS basis financial statements

Consolidated statement of changes in equity

For the six months to 30 September 2014

For the six months to 30 September 2014 (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	718	782	43	19	242	1,051	542	(89)	3,308
Income for the period	-	-	-	-	-	197	59	-	256
Exchange differences on translation of foreign operations	-	-	-	-	(15)	-	-	-	(15)
Re-measurements of defined benefit plans	-	-	-	-	-	(7)	-	-	(7)
Total comprehensive income for the period	-	-	-	-	(15)	190	59	-	234
Share-based payments	-	-	-	9	-	-	-	-	9
Release on forfeiture of share options	-	-	-	(4)	-	-	4	-	-
Loss on sale of own shares	-	-	-	-	-	(9)	-	9	-
Ordinary dividends	-	-	-	-	-	-	(51)	-	(51)
Additional dividends	-	-	-	-	-	(75)	-	-	(75)
Issue of ordinary shares	-	1	-	-	-	-	-	-	1
Total equity at the end of the period	718	783	43	24	227	1,157	554	(80)	3,426

For the six months to 30 September 2013 (unaudited) (restated)	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	718	780	43	17	292	701	487	(104)	2,934
Income for the period	-	-	-	-	-	139	24	-	163
Exchange differences on translation of foreign operations	-	-	-	-	(4)	-	-	-	(4)
Re-measurements of defined benefit plans	-	-	-	-	-	16	-	-	16
Total comprehensive income for the period	-	-	-	-	(4)	155	24	-	175
Share-based payments	-	-	-	3	-	-	-	-	3
Release on forfeiture of share options	-	-	-	(4)	-	-	4	-	-
Loss on sale of own shares	-	-	-	-	-	(12)	-	12	-
Ordinary dividends	-	-	-	-	-	-	(51)	-	(51)
Issue of ordinary shares	-	1	-	-	-	-	-	-	1
Total equity at the end of the period	718	781	43	16	288	844	464	(92)	3,062

For the year to 31 March 2014 (audited)	Share capital £m	Share premium £m	Capital redemption reserve £m	Share- based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue Reserve £m	Own shares £m	Total Equity £m
Total equity at the start of the year	718	780	43	17	292	701	487	(104)	2,934
Income for the year	-	-	-	-	-	392	125	-	517
Exchange differences on translation of foreign operations	-	-	-	-	(50)	-	-	-	(50)
Re-measurements of defined benefit plans	-	-	-	-	-	11	-	-	11
Total comprehensive income for the year	-	-	-	-	(50)	403	125	-	478
Share-based payments	-	-	-	8	-	-	-	-	8
Release on forfeiture of share options	-	-	-	(6)	-	-	6	-	-
Loss on sale of own shares	-	-	-	-	-	(15)	-	15	-
Ordinary dividends	-	-	-	-	-	-	(76)	-	(76)
Additional dividends	-	-	-	-	-	(38)	-	-	(38)
Issue of ordinary shares	-	2	-	-	-	-	-	-	2
Total equity at the end of the year	718	782	43	19	242	1,051	542	(89)	3,308

IFRS basis financial statements

Consolidated statement of financial position

as at 30 September 2014

		30 September 2014 (unaudited)	30 September 2013 (unaudited) (restated)	31 March 2014 (audited)
	Notes	£m	£m	£m
Assets				
Non-current assets				
Investments				
Quoted investments	4	269	261	258
Unquoted investments	4	1,331	1,222	1,279
Investments in investment entities	5	2,004	1,560	1,973
Investment portfolio		3,604	3,043	3,510
Carried interest and performance fees receivable		20	8	8
Intangible assets		10	10	10
Retirement benefit surplus		132	138	137
Property, plant and equipment		5	6	5
Derivative financial instruments		-	4	-
Deferred income taxes		-	4	1
Total non-current assets		3,771	3,213	3,671
Current assets				
Other current assets		73	72	72
Derivative financial instruments		1	-	2
Deposits		-	20	-
Cash and cash equivalents		629	838	643
Total current assets		703	930	717
Total assets		4,474	4,143	4,388
Liabilities				
Non-current liabilities				
Carried interest and performance fees payable		(31)	(14)	(26)
Acquisition related earn out charges payable		(3)	(2)	(2)
Loans and borrowings	6	(832)	(852)	(849)
B shares		-	(6)	(6)
Retirement benefit deficit		(12)	(13)	(14)
Derivative financial instruments		-	(16)	-
Deferred income taxes		-	(2)	-
Provisions		(1)	(4)	(4)
Total non-current liabilities		(879)	(909)	(901)
Current liabilities				
Trade and other payables		(155)	(156)	(158)
Carried interest and performance fees payable		(5)	(5)	(6)
Derivative financial instruments		-	(3)	(4)
Current income taxes		(2)	(2)	(2)
Deferred income taxes		-	(1)	(1)
Provisions		(7)	(5)	(8)
Total current liabilities		(169)	(172)	(179)
Total liabilities		(1,048)	(1,081)	(1,080)
Net assets		3,426	3,062	3,308
Equity				
Issued capital		718	718	718
Share premium		783	781	782
Capital redemption reserve		43	43	43
Share-based payment reserve		24	16	19
Translation reserve		227	288	242
Capital reserve		1,157	844	1,051
Revenue reserve		554	464	542
Own shares		(80)	(92)	(89)
Total equity		3,426	3,062	3,308

IFRS basis financial statements

Consolidated cash flow statement

for the six months to 30 September 2014

	Six months to 30 September 2014 (unaudited) £m	Six months to 30 September 2013 (unaudited) (restated) £m	12 months to 31 March 2014 (audited) £m
Cash flow from operating activities			
Purchase of investments	(82)	(76)	(114)
Proceeds from investments	107	351	452
Cash inflow from fair value subsidiaries	128	178	46
Portfolio interest received	8	5	6
Portfolio dividends received	14	7	25
Portfolio fees received	4	6	4
Fees received from external funds	24	24	52
Carried interest and performance fees received	2	1	1
Carried interest and performance fees paid	(10)	(10)	(20)
Operating expenses	(61)	(62)	(125)
Interest received	1	2	3
Interest paid	(15)	(15)	(57)
Income taxes paid	(2)	(2)	(3)
Net cash flow from operating activities	118	409	270
Dividend paid	(126)	(51)	(114)
Repayment of short-term borrowings	-	(164)	(164)
Purchase of B shares	(6)	-	-
Net cash flow from derivatives	2	(23)	(32)
Net cash flow from financing activities	(130)	(238)	(310)
Net cash flow from deposits	-	70	90
Net cash flow from investing activities	-	70	90
Change in cash and cash equivalents	(12)	241	50
Cash and cash equivalents at the start of the period	643	610	610
Effect of exchange rate fluctuations	(2)	(13)	(17)
Cash and cash equivalents at the end of the period	629	838	643

Notes to the accounts and accounting policies

Basis of preparation

These financial statements are the unaudited condensed half-yearly consolidated financial statements (the “Half-yearly Financial Statements”) of 3i Group plc, a company incorporated in Great Britain and registered in England and Wales, and its subsidiaries (together referred to as the “Group”) for the six-month period ended 30 September 2014.

The Half-yearly Financial Statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) and should be read in conjunction with the Consolidated Financial Statements for the year to 31 March 2014 (“Report and Accounts 2014”), as they provide an update of previously reported information.

The Half-yearly Financial Statements were authorised for issue by the Directors on 12 November 2014.

The Half-yearly Financial Statements have been prepared in accordance with the accounting policies set out in the Report and Accounts 2014 except for the adoption of new standards and interpretations effective as of 1 January 2014. These include amendments to IAS 32 Amendment to offsetting financial assets and financial liabilities, IAS 36 Recoverable amount disclosures for non financial assets and IAS 39 Novation of derivatives and continuation of hedge accounting. None of these standards have impacted the Group’s financial statements.

The Half-yearly Financial Statements do not constitute statutory accounts. The statutory accounts for the year to 31 March 2014, prepared under IFRS, have been filed with the Registrar of Companies and the auditors have issued a report, which was unqualified and did not contain a statement under section 498(2) or section 498(3) of the Companies Act 2006.

The preparation of the Half-yearly Financial Statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The most significant techniques for estimation are described in the accounting policies and in “Portfolio valuation – an explanation” on pages 66 to 69.

The Half-yearly Financial Statements have been prepared using the going concern basis, and the Directors are not aware of any new events or circumstances which would make this inappropriate.

The Group operates in business lines where significant seasonal or cyclical variations in activity are not experienced during the financial year.

The Group adopted IFRS 10, 11, 12, 13 and IAS 19(R) in the Report and Accounts 2014 which require a restatement for the six month period to 30 September 2013. IFRS 11 has no material effect on the financial statements. IFRS 12 and 13 require additional disclosures which are included in the Report and Accounts 2014 as well as in these financial statements where required. A description of the impact of IAS 19(R) on the financial statements is included in the Report and Accounts 2014. The nature and the impact of IFRS 10 is described below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

Under IFRS 10 a large number of entities within the Group have been classified as investment entities. As a result they are no longer consolidated and are instead held at fair value. The detailed application of IFRS 10, including the judgements made, is disclosed in the Report and Accounts 2014.

Impact on statement of comprehensive income

As a result of this change in treatment the total return generated by investment entities is no longer presented on a line-by-line basis but combined and shown as a new line in the Statement of comprehensive income – “Fair value movements on investment entity subsidiaries”. This has resulted in a restatement of prior year figures where previously consolidated line items are now aggregated into this line.

The impact of this restatement by line item for the six months to 30 September 2013 is:

Realised profits over value on the disposal of investments (£36 million); Unrealised profits on the revaluation of investments (£126 million); Dividends (£6 million); Income from loans and receivables (£11 million); Fees receivable from external funds (£12 million); Operating expenses (£9 million); Carried interest receivable from external funds (£3 million); Carried interest and performance fees payable (£36 million); Income taxes (£1 million); Exchange movements (£19 million); Fair value movements on investment entity subsidiaries (£147 million); and Income/(expense) from fair value subsidiaries (£20 million). There is no overall change to total return.

Basic and diluted earnings per share of the Group have been restated as a result of adopting IFRS 10.

Impact on statement of financial position

The closing fair value of the net assets of the investment entities is now combined and stated in a new line “Investment in investment entities”. This has resulted in a restatement of prior year figures where previously consolidated line items are now aggregated into this line.

The impact of this restatement by line item for the six months to 30 September 2013 is:

Quoted investments (£317 million); Unquoted investments (£1,258 million); Carried interest receivable (£12 million); Intangible assets (£19 million); Other current assets (£15 million); Cash and cash equivalents (£43 million); Trade and other payables (£46 million); Carried interest and performance fees payable (£58 million); Current income taxes (£1 million); Provisions (£1 million); and Investment in investment entities (£1,560 million).

Cash balances held in investment entity subsidiaries are aggregated into the “Investment in investment entities” line and not consolidated. Intercompany balances between investment entity subsidiaries and consolidated Group entities which would have previously been eliminated on consolidation are no longer eliminated. There is no change to the net assets presented as a result of the adoption of IFRS 10, albeit that gross assets and gross liabilities have changed as a result of the changes to cash and intercompany balances.

Impact on cash flow statement

The cash flow statement is impacted by the adoption of IFRS 10 because the cash held by investment entity subsidiaries is no longer consolidated. It now forms part of the fair value of the investment entity subsidiary. Additionally, the cash flow statement now includes a new line to disclose the cash movements to and from investment entities, “Cash inflow from fair value subsidiaries”. This has resulted in a restatement of prior year figures where previously consolidated line items are now aggregated and disclosed in these lines.

The impact of this change on cash and cash equivalents at 30 September 2013 is: a decrease of £43 million and the change by line item is:

Purchase of investments (£16 million); Proceeds from investments (£177 million); Portfolio interest received (£4 million); Portfolio dividends received (£9 million); Fees received from external funds (£15 million); Carried interest received (£1 million); Carried interest and performance fees paid (£7 million); Operating expenses (£16 million); Income taxes paid (£3 million); Investment/Divestment into fair value subsidiaries (£167 million); and Cash and cash equivalents at the start of the year (£46 million).

1 Segmental analysis

Operating segments are the components of the entity whose results are regularly reviewed by the entity's chief-operating-decision-maker to make decisions about resources to be allocated to the segment and assess its performance. The chief-operating-decision-maker for the Group is considered to be the Chief Executive. The Group considers the businesses' activity on two bases. Firstly, as business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. Secondly, in line with the strategy of the Group, it considers separate Proprietary Capital and Fund Management businesses focused on investment returns and Fund Management profits respectively.

The performance of the business divisions is primarily assessed based on Gross Investment Return.

The Proprietary Capital segment is assessed based on Operating profit before carry which comprises Gross Investment Return, direct costs and a synthetic fee paid to the fund manager and funding expenses.

The Fund Management segment is assessed based on Operating profit before carry which comprises fees receivable from external funds and a synthetic fee paid from the Proprietary Capital segment offset by operating expenses of the investment teams.

In line with IFRS 8, the tables below are presented on the Investment basis which is the basis used by the chief-operating-decision-maker to monitor the performance of the Group. A description of the Investment basis is provided in the Financial review and a reconciliation of the Investment basis to the IFRS financial statements is provided on pages 38 to 42.

Investment basis Six months to 30 September 2014	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m
Realised profits over value on the disposal of investments	34	1	-	35
Unrealised profits/(losses) on the revaluation of investments	308	9	(10)	307
Portfolio income				
Dividends	5	10	6	21
Income from loans and receivables	27	-	3	30
Fees receivable/(payable)	3	-	(1)	2
Foreign exchange on investments	(95)	2	(5)	(98)
Gross Investment Return	282	22	(7)	297
Fees receivable from external funds	9	14	18	41
Synthetic fees	-	-	-	-
Operating expenses	(31)	(14)	(18)	(63)
Interest receivable				1
Interest payable				(26)
Movement in the fair value of derivatives				(1)
Exchange movements				25
Other income				1
Operating profit before carry				275
Carried interest and performance fees				
Receivable from external funds	7	8	4	19
Payable	(36)	(7)	(2)	(45)
Acquisition related earn-out charges	-	-	(5)	(5)
Operating profit				244
Income taxes				(3)
Other comprehensive income				
Re-measurements of defined benefit plans				(7)
Total return				234
Net divestment/ (investment)				
Realisations	316	8	-	324
Cash investment	(104)	-	(95)	(199)
	212	8	(95)	125
Balance sheet				
Value of investment portfolio at the end of the period	2,984	491	197	3,672

Proprietary Capital £m	Fund Management £m	Total £m
35	-	35
307	-	307
21	-	21
30	-	30
2	-	2
(98)	-	(98)
297	-	297
-	41	41
(22)	22	-
(13)	(50)	(63)
1	-	1
(26)	-	(26)
(1)	-	(1)
25	-	25
1	-	1
262	13	275
		19
		(45)
		(5)
		244
		(3)
		(7)
		234
324		324
(199)		(199)
125		125
3,672		3,672

Investment basis Six months to 30 September 2013 (restated)	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Realised profits over value on the disposal of investments	129	-	-	129	129	-	129
Unrealised profits/(losses) on the revaluation of investments	161	(24)	-	137	137	-	137
Portfolio income							
Dividends	2	11	5	18	18	-	18
Income from loans and receivables	24	-	1	25	25	-	25
Fees receivable/(payable)	6	-	-	6	4	2	6
Foreign exchange on investments	(65)	(5)	(5)	(75)	(75)	-	(75)
Gross Investment Return	257	(18)	1	240	238	2	240
Fees receivable from external funds	9	11	16	36	-	36	36
Synthetic fees	-	-	-	-	(25)	25	-
Operating expenses ¹	(42)	(9)	(17)	(68)	(13)	(55)	(68)
Interest receivable				1	1	-	1
Interest payable				(28)	(28)	-	(28)
Movement in the fair value of derivatives				10	10	-	10
Exchange movements				(4)	(4)	-	(4)
Other income				-	-	-	-
Operating profit before carry				187	179	8	187
Carried interest and performance fees							
Receivable from external funds	-	-	3	3			3
Payable	(24)	1	(2)	(25)			(25)
Acquisition related earn-out charges	-	-	(4)	(4)			(4)
Operating profit				161			161
Income taxes				(2)			(2)
Other comprehensive income							
Re-measurements of defined benefit plans				16			16
Total return				175			175
Net divestment/ (investment)							
Realisations	528	-	-	528	528		528
Cash investment	(10)	-	(82)	(92)	(92)		(92)
	518	-	(82)	436	436		436
Balance sheet							
Value of investment portfolio at the end of the period	2,424	479	155	3,058	3,058		3,058

1 Includes restructuring costs of £4 million, nil and nil for Private Equity, Infrastructure and Debt Management respectively and nil and £4 million for Proprietary Capital and Fund Management respectively.

Investment basis Year to 31 March 2014	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m
Realised profits over value on the disposal of investments	201	1	-	202
Unrealised profits/(losses) on the revaluation of investments	478	(13)	10	475
Portfolio income				
Dividends	13	21	10	44
Income from loans and receivables	46	-	4	50
Fees receivable/(payable)	9	-	(2)	7
Foreign exchange on investments	(100)	(7)	(6)	(113)
Gross Investment Return	647	2	16	665
Fees receivable from external funds	17	24	32	73
Synthetic fees	-	-	-	-
Operating expenses ¹	(79)	(23)	(34)	(136)
Interest receivable				3
Interest payable				(54)
Movement in the fair value of derivatives				10
Exchange movements				(3)
Other income				-
Operating profit before carry				558
Carried interest and performance fees				
Receivable from external funds	(1)	-	4	3
Payable	(82)	-	(3)	(85)
Acquisition related earn-out charges	-	-	(6)	(6)
Operating profit				470
Income taxes				(3)
Other comprehensive income				
Re-measurements of defined benefit plans				11
Total return				478
Net divestment/ (investment)				
Realisations	669	2	6	677
Cash investment	(276)	-	(61)	(337)
	393	2	(55)	340
Balance sheet				
Value of investment portfolio	2,935	487	143	3,565

Proprietary Capital £m	Fund Management £m	Total £m
202	-	202
475	-	475
44	-	44
50	-	50
4	3	7
(113)	-	(113)
662	3	665
-	73	73
(51)	51	-
(28)	(108)	(136)
3	-	3
(54)	-	(54)
10	-	10
(3)	-	(3)
-	-	-
539	19	558
		3
		(85)
		(6)
		470
		(3)
		11
		478
677		677
(337)		(337)
340		340
3,565		3,565

1 Includes restructuring costs of £7 million, £1 million and £1 million for Private Equity, Infrastructure and Debt Management respectively and £1 million and £8 million for Proprietary Capital and Fund Management respectively.

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

Six months to 30 September 2014	Unquoted investments £m	Quoted investments £m	Total £m
Realisations	107	-	107
Valuation of disposed investments	(101)	-	(101)
	6	-	6
Of which:			
- profit recognised on realisations	7	-	7
- losses recognised on realisations	(1)	-	(1)
	6	-	6
Six months to 30 September 2013	Unquoted investments (restated) £m	Quoted investments (restated) £m	Total (restated) £m
Realisations	347	4	351
Valuation of disposed investments	(253)	(4)	(257)
	94	-	94
Of which:			
- profit recognised on realisations	95	-	95
- losses recognised on realisations	(1)	-	(1)
	94	-	94
Year to 31 March 2014	Unquoted investments £m	Quoted investments £m	Total £m
Realisations	441	11	452
Valuation of disposed investments	(297)	(9)	(306)
	144	2	146
Of which:			
- profit recognised on realisations	148	2	150
- losses recognised on realisations	(4)	-	(4)
	144	2	146

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

Six months to 30 September 2014	Unquoted investments £m	Quoted investments £m	Total £m
Movement in the fair value of investments	97	11	108
Of which:			
- unrealised gains	139	11	150
- unrealised losses	(42)	-	(42)
	97	11	108
Six months to 30 September 2013	Unquoted investments (restated) £m	Quoted investments (restated) £m	Total (restated) £m
Movement in the fair value of investments	1	10	11
Of which:			
- unrealised gains	55	10	65
- unrealised losses	(54)	-	(54)
	1	10	11
Year to 31 March 2014	Unquoted investments £m	Quoted investments £m	Total £m
Movement in the fair value of investments	63	14	77
Of which:			
- unrealised gains	132	14	146
- unrealised losses	(69)	-	(69)
	63	14	77

4 Investment portfolio

Accounting policy:

Investments are recognised and de-recognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and capital appreciation from changes in the fair value of equity investments.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the balance sheet at fair value. Fair value is measured using the closing bid price at the reporting date, where the investment is quoted on an active stock market.

Unquoted investments, including both equity and loans are designated at fair value through profit and loss and are subsequently carried in the balance sheet at fair value. Fair value is measured using the International Private Equity and Venture Capital valuation guidelines (IPEV), details of which are available in "Portfolio and other information" on pages 66 to 69.

The proportion of the investment portfolio held by the Group's unconsolidated subsidiaries is now presented as part of the fair value of investment entity subsidiaries, along with the fair value of their other assets and liabilities. Details of the breakdown of the fair value of investment entities, including their investment portfolio, is provided in Note 5.

	Six months to 30 September 2014	Six months to 30 September 2013 (restated)	12 months to 31 March 2014
Non-current	£m	£m	£m
Opening book value	1,537	1,680	1,680
Additions	129	103	212
- of which loan notes with nil value	(40)	(8)	(60)
Disposals, repayments and write-offs	(101)	(257)	(306)
Fair value movement	108	11	77
Other movements	(33)	(46)	(66)
Closing book value	1,600	1,483	1,537
Quoted investments	269	261	258
Unquoted investments	1,331	1,222	1,279
Closing book value	1,600	1,483	1,537

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 £47 million (September 2013: £27 million, March 2014: £98 million) in interest received by way of loan notes, of which £40 million (September 2013: £8 million, March 2014: £60 million) has been written down in the year to nil. Included within the statement of comprehensive income is £16 million (September 2013: £15 million, March 2014: £29 million) of interest income, which reflects the net additions after write downs noted above, £6 million (September 2013: £5 million, March 2014: £6 million) of cash income and the capitalisation of prior year accrued income and non-capitalised accrued income £3 million (September 2013: £(9) million, March 2014: £(15) million).

Other movements include foreign exchange and conversions from one instrument into another.

Fair value hierarchy

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

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

The Group's investment portfolio for equity instruments and debt instruments are classified by the fair value hierarchy as follows:

	As at 30 September 2014				As at 30 September 2013			
	2014 Level 1	2014 Level 2	2014 Level 3	2014 Total	2013 Level 1 (restated)	2013 Level 2 (restated)	2013 Level 3 (restated)	2013 Total (restated)
	£m	£m	£m	£m	£m	£m	£m	£m
Quoted investments	269	-	-	269	261	-	-	261
Unquoted investments	-	-	1,331	1,331	-	-	1,222	1,222
Total	269	-	1,331	1,600	261	-	1,222	1,483

	As at 31 March 2014			
	2014 Level 1	2014 Level 2	2014 Level 3	2014 Total
	£m	£m	£m	£m
Quoted investments	258	-	-	258
Unquoted Investments	-	-	1,279	1,279
Total	258	-	1,279	1,537

This disclosure only relates to the investment portfolio. The fair value hierarchy also applies to investment in investment entities and derivative financial instruments.

Level 3 fair value reconciliation

	Six months to 30 September 2014	Six months to 30 September 2013 (restated)	Year to 31 March 2014
	£m	£m	£m
Opening book value	1,279	1,437	1,437
Additions	129	103	212
- of which loan notes with nil value	(40)	(8)	(60)
Disposals, repayments and write-offs	(101)	(253)	(297)
Fair value movement	97	1	63
Transfer of equity Level 3 to Level 1	-	(12)	(12)
Other movements	(33)	(46)	(64)
Closing book value	1,331	1,222	1,279

Unquoted investments valued using Level 3 inputs also had the following impact on the statement of comprehensive income; realised profits over value on disposal of investment of £6 million (September 2013: £94 million, March 2014: £144 million), dividend income of £9 million (September 2013: £4 million, March 2014: £12 million) and foreign exchange losses of £34 million (September 2013: £34 million, March 2014: £46 million). There were no transfers of equity from Level 3 to Level 1 in the six months to September 2014.

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section on pages 66 to 69. There are a number of non-observable inputs and a change in one or more of the underlying assumptions could result in a significant change in fair value. Due to the numerous different factors affecting the assets, the impact for each is not quantified in the Half-year report.

A reasonable alternative assumption to adjustments made would be to apply a standard marketability discount of 5% for all assets rather than the specific approach adopted. This would have a positive impact on the unquoted investment portfolio of £105 million (September 2013: £96 million, March 2014: £111 million) or 8% (September 2013: 8%, March 2014: 9%).

5 Investment in Investment entities

Accounting policy:

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit or loss.

These entities are typically Limited Partnerships and other intermediate investment holding structures which hold the Group's interests in investments in portfolio companies (Investment Entity Holding Companies) and were consolidated prior to the adoption of IFRS 10. All cash flows to / from Investment Entities are treated as a reduction / increase in the fair value of the investment entity.

	30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
Non-current			
Opening book value	1,973	1,630	1,630
Net cash flow from investment entity	(128)	(178)	(46)
Fair value movement on investment entity subsidiary	218	147	454
Transfer of assets between fair valued and consolidated subsidiaries and other movements	7	20	21
Foreign exchange	(66)	(59)	(86)
Closing book value	2,004	1,560	1,973

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no significant restrictions on the ability to transfer funds from these subsidiaries.

The Group receives income in the form of dividends and interest from its investments in unconsolidated subsidiaries, and there are no significant restrictions on the transfer of funds from these entities to the Group.

Support

3i Group plc provides ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the current year, the Group provided support to its unconsolidated subsidiaries in the form of new loans totalling £101 million. The Group has no contractual commitments or current intentions to provide any other financial or other support to its unconsolidated subsidiaries.

Fair value hierarchy

The underlying assets held by Investment entities include assets valued using Level 3 inputs, therefore we classify all Investment in investment entities as Level 3 financial instruments. The reconciliation above is therefore also the Level 3 fair value reconciliation. Within Investment entities, investments valued using Level 3 inputs had the following impact on the statement of comprehensive income of the unconsolidated Investment entities; realised profits over value on disposal of investment of £29 million (September 2013: £30 million, March 2014: £36 million), dividend income of £2 million (September 2013: nil, March 2014: £6 million) and foreign exchange losses of £68 million (September 2013: £30 million, March 2014: £50 million). On an IFRS basis, these movements are included within Fair value movements on investment entity subsidiaries.

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section on pages 66 to 69. There are a number of non-observable inputs and a change in one or more of the underlying assumptions could result in a significant change in fair value. Due to the numerous different factors affecting the assets, the impact for each is not quantified in the Half-year report.

A reasonable alternative assumption to adjustments made would be to apply a standard marketability discount of 5% for all assets rather than the specific approach adopted. This would have a positive impact on the unquoted investment portfolio of £15 million (September 2013: £36 million, March 2014: £19 million) or 1% (September 2013: 3%, March 2014: 1%).

6 Loans and borrowings

Accounting policy:

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

			30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
Loans and borrowings are repayable as follows:					
Within one year			-	-	-
In the second year			-	-	-
In the third year			257	-	274
In the fourth year			-	277	-
In the fifth year			-	-	-
After five years			575	575	575
			832	852	849
Principal borrowings include:					
			30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
	Rate	Maturity			
Issued under the £2,000 million note issuance programme					
Fixed rate					
£200 million notes (public issue)	6.875%	2023	200	200	200
£400 million notes (public issue)	5.750%	2032	375	375	375
£350 million notes (public issue)	5.625%	2017	257	277	274
			832	852	849
Committed multi-currency facilities					
£350 million	LIBOR+0.60%	2019	-	-	-
£50 million	LIBOR+1.50%	2016	-	-	-
£450 million	LIBOR+1.00%	2016	-	-	-
			-	-	-
Total loans and borrowings			832	852	849

During the period, the £450 million syndicated multi-currency facility was replaced with a £350 million syndicated multi-currency facility with a maturity date of September 2019 with the option for the Company to request one year extensions at the first and second year anniversary of the facility, which may be granted at the discretion of each lender individually. The new £350 million facility has no financial covenants.

The £50 million multi-currency facility has been cancelled during the period.

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loans and borrowings is £961 million (September 2013: £912 million, March 2014: £942 million), determined with reference to their published market prices which are included within Level one of the fair value hierarchy.

Gross debt also includes the net asset position relating to derivative financial instruments, which was £1 million at 30 September 2014 (March 2014: £2 million net liability position).

7 Per share information

The earnings and net assets per share attributable to the equity shareholders of the Company are based on the following data:

	6 months to 30 September 2014	6 months to 30 September 2013 ¹ (restated)	12 months to 31 March 2014
Earnings per share (pence)			
Basic	27.0	17.3	54.8
Diluted	26.8	17.2	54.5
Earnings (£m)			
Profit for the period attributable to equity holders of the Company ¹	256	163	517
	6 months to 30 September 2014 Number	6 months to 30 September 2013 Number	12 months to 31 March 2014 Number
Weighted average number of shares in issue			
Ordinary shares	972,013,634	971,490,861	971,574,471
Own shares	(25,467,918)	(29,301,068)	(28,285,335)
	946,545,716	942,189,793	943,289,136
Effect of dilutive potential ordinary shares			
Share options and awards	9,251,617	5,475,763	5,627,447
Diluted shares	955,797,333	947,665,556	948,916,583
	30 September 2014	30 September 2013	31 March 2014
Net assets per share (pence)			
Basic	361	324	350
Diluted	358	322	348
Net assets (£m)			
Net assets attributable to equity holders of the Company	3,426	3,062	3,308
	30 September 2014 Number	30 September 2013 Number	31 March 2014 Number
Number of shares in issue			
Ordinary shares	972,184,291	971,607,373	971,803,122
Own shares	(24,257,337)	(27,681,913)	(26,774,318)
	947,926,954	943,925,460	945,028,804
Effect of dilutive potential ordinary shares			
Share options and awards	9,904,155	7,224,410	6,502,546
Diluted shares	957,831,109	951,149,870	951,531,350

1 Prior period financial statements were restated to reflect the impact of the retrospective application of IFRS 10 which the Group adopted early at 31 March 2014. This resulted in an increase in the profit after tax for the six months to 30 September 2013 of £22 million. There was no impact on NAV at 30 September 2013 as a result of the retrospective application of IFRS 10.

8 Dividends

	6 months to 30 September 2014 pence per share	6 months to 30 September 2014 £m	6 months to 30 September 2013 pence per share	6 months to 30 September 2013 £m	12 months to 31 March 2014 pence per share	12 months to 31 March 2014 £m
Declared and paid during the period						
Ordinary shares						
Final dividend	13.3	126	5.4	51	5.4	51
Interim dividend	-	-	-	-	6.7	63
	13.3	126	5.4	51	12.1	114
Proposed dividend	6.0	57				

9 Contingent liabilities

	30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
Contingent liabilities relating to guarantees in respect of investee companies	4	5	5

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 at 30 September 2014 was £169 million (September 2013: £160 million, March 2014: £162 million).

3i has entered into warehouse arrangements in the US and Europe to support the creation of senior secured debt portfolios ahead of future CLO fund launches. Whilst in the warehouse phase, 3i is subject to optional margin calls in the event of market falls. The current capital at risk is restricted to the £97 million committed at 30 September 2014 (September 2013: £62 million, March 2014: £17 million).

At 30 September 2014, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

10 Related parties and interests in other entities

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio (including unconsolidated subsidiaries), its advisory arrangements and its key management personnel. In addition the Company has related parties in respect of its subsidiaries. Some of these subsidiaries are held at fair value (unconsolidated subsidiaries) due to the treatment prescribed in IFRS 10, and disclosure relating to these subsidiaries is shown in the Annual report and accounts 2014.

Related parties

Limited partnerships

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

	Six months to 30 September 2014 £m	Six months to 30 September 2013 (restated) £m	Year to 31 March 2014 £m
<i>Statement of comprehensive income</i>			
Carried interest receivable	7	-	(1)
Fees receivable from external funds	17	16	33
<i>Statement of financial position</i>			
	As at 30 September 2014 £m	As at 30 September 2013 (restated) £m	As at 31 March 2014 £m
Carried interest receivable	12	8	8

Investments

The Group makes minority investments in the equity of unquoted and quoted investments. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties. The total amounts included for these investments are as follows:

	Six months to 30 September 2014	Six months to 30 September 2013 (restated)	Year to 31 March 2014
Statement of comprehensive income	£m	£m	£m
Realised profit over value on the disposal of investments	2	9	12
Unrealised profits on the revaluation of investments	13	31	62
Portfolio income	13	7	12

	As at 30 September 2014	As a 30 September 2013 (restated)	As at 31 March 2014
Statement of financial position	£m	£m	£m
Unquoted investments	568	587	572

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

Advisory arrangements

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

	Six months to 30 September 2014	Six months to 30 September 2013 (restated)	Year to 31 March 2014
Statement of comprehensive income	£m	£m	£m
Unrealised profits on the revaluation of investments	10	2	3
Fees receivable from external funds	5	5	10
Dividends	6	11	12
Carried interest receivable	8	-	-

	As at 30 September 2014	As a 30 September 2013 (restated)	As at 31 March 2014
Statement of financial position	£m	£m	£m
Quoted equity investments	252	240	242
Carried interest receivable	8	-	-

Subsidiaries

Transactions between the Company and its fully consolidated subsidiaries, which are related parties of the Company, are eliminated on consolidation. Details of related party transactions between the Company and its subsidiaries are detailed below, and in the Annual report and accounts 2014.

Management, administrative and secretarial arrangements

The Company has appointed 3i Investments plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, as investment manager of the Group. 3i Investments plc received a fee of £6 million (September 2013: £12 million, March 2014: £23 million) for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £51 million (September 2013: £34 million, March 2014: £98 million) for this service.

Other subsidiaries

The Company borrows funds from, and lends funds to certain subsidiaries and pays and receives interest on the outstanding balances. The interest income that is included in the Company's Statement of comprehensive income is £2 million (September 2013: £1 million, March 2014: £2 million) and the interest expense included is £1 million (September 2013: nil, March 2014: £1 million).

Key management personnel

The Group's key management personnel comprise the members of the Executive Committee and the Board's non-executive Directors. The following amounts have been included in respect of these individuals:

	30 September 2014	30 September 2013 (restated)	31 March 2014
	£m	£m	£m
Statement of comprehensive income			
Salaries, fees, supplements and benefits in kind	3	2	5
Bonuses delivered as cash ¹	3	2	8
Increase in accrued pension	-	-	-
Carried interest and performance fees payable	8	3	10
Share-based payments	3	1	3
Termination benefits	-	-	-

1. For further detail, see Directors' remuneration report in the Annual report 2014.

	30 September 2014	30 September 2013 (restated)	31 March 2014
	£m	£m	£m
Statement of financial position			
Bonuses delivered as cash	2	2	7
Carried interest and performance fees payable within one year	-	1	1
Carried interest and performance fees payable after one year	13	7	6

Carried interest paid in the year to key management personnel was £2 million (September 2013: £2 million). Deferred consideration in relation to the acquisition of Mizuho Investment Management Limited is no longer included in the Statement of financial position as a result of the adoption of IFRS 10 but a total of £9 million was paid by 3i Group plc in the period to acquire 12.3% of the outstanding management held equity.

Unconsolidated structured entities

The Group has exposure to a number of unconsolidated structured entities as a result of its investment activities. These structured entities fall into four categories, namely CLO's, debt management warehouses, closed end limited partnerships (Private Equity and Infrastructure funds) and investments in certain portfolio investments. The nature, purpose and activities of these entities are detailed below along with the nature of risks associated with these entities and the maximum exposure to loss.

CLO structured entities

The Group manages CLO vehicles as part of its Debt Management business. These funds predominantly invest in senior secured loans and are financed by investors seeking credit rated, structured, investment returns.

The Group manages these funds, in return for a management fee. The Group also typically invests into the equity tranche of these funds. The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis, performance fees are accrued when relevant performance hurdles are met and any distribution to the equity tranches are recognised on a cash basis.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

30 September 2014	Carrying amount			Maximum loss exposure
	Assets	Liabilities	Net	
Balance sheet line item of asset or liability	£m	£m	£m	£m
Unquoted investments	35	-	35	35
Fee income receivable	2	-	2	2
Total	37	-	37	37

At 30 September 2013: Unquoted investments and maximum loss exposure was £33 million and fee income receivable and maximum loss exposure was £1 million. At 31 March 2014: Unquoted investments and maximum loss exposure was £34 million and fee income receivable and maximum loss exposure was £1 million.

The Group earned dividend income of £6 million (September 2013: £3 million, March 2014: £8 million) and fee income of £4 million (September 2013: £4 million, March 2014: £7 million) during the period from CLO structured entities.

Warehouse structured entities

Ahead of future CLO fund launches, warehouse facilities are usually established to support the creation of debt portfolios. These entities are financed by the Group along with the bank appointed to operate the warehouse facility. The Group makes a commitment to the warehouse, typically taking the first loss position, and is at risk for margin calls if the portfolio underperforms. The Group's attributable stakes in these warehouses are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

30 September 2014	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Balance sheet line item of asset or liability				
Unquoted investments	82	-	82	97
Total	82	-	82	97

At 30 September 2013: Unquoted investments and maximum loss exposure was £62 million. At 31 March 2014: Unquoted investments and maximum loss exposure was £17 million.

The maximum loss exposure may exceed the balance sheet position in some warehouse structured entities as the margin is called on a settled rather than committed basis and therefore trails activity.

The Group earned income of nil (September 2013: £1 million, March 2014: £2 million) during the period from warehouse structured entities.

Closed end limited partnerships

The Group manages a number of closed end limited partnerships, in return for a management fee. The purpose of these partnerships is to invest in Private Equity or Infrastructure investments for capital appreciation. Limited Partners, which in some cases may include the Group, finance these entities by committing capital to them and cash is drawn down or distributed for financing investment activity.

The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis and carried interest is accrued when relevant performance hurdles are met.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

30 September 2014	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Balance sheet line item of asset or liability				
Carried interest receivable	12	-	12	12
Total	12	-	12	12

At 30 September 2013: Carried interest receivable and maximum loss exposure was £8 million. At 31 March 2014: Carried interest receivable and maximum loss exposure was £8 million.

The Group earned fee income of £17 million (September 2013: £16 million, March 2014: £33 million) and carried interest of £7 million (September 2013: nil, March 2014: £(1) million) during the period from closed end limited partnerships.

Investments that are structured entities

The Group makes investments on behalf of itself and third party funds that it manages, for capital appreciation purposes. In a small number of cases, these investments fall under the classification of a structured entity as they are funds managed by a General Partner under a limited partnership agreement.

The Group's attributable stakes in these entities are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

30 September 2014	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Balance sheet line item of asset or liability				
Unquoted investments	4	-	4	4
Total	4	-	4	4

At 30 September 2013: Unquoted investments and maximum loss exposure was £4 million. At 31 March 2014: Unquoted investments and maximum loss exposure was £4 million.

The Group recognised a realised profit of nil (September 2013: nil, March 2014: £1 million) during the period from investments that are structured entities.

Independent review report to 3i Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2014 which comprises the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated cash flow statement, and the related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

As disclosed in the Basis of preparation, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has 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 set of financial statements in the half-yearly financial report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

12 November 2014

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that:

- a) the condensed set of financial statements have been prepared in accordance with IAS 34 as adopted by the European Union; and the half-yearly report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance.
- b) the interim management report includes a fair review of the information required by the FCA's Disclosure and Transparency Rules (4.2.7 R and 4.2.8 R).

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

By order of the Board

K J Dunn Secretary
12 November 2014

Board of Directors

Sir Adrian Montague, Chairman
Simon Borrows, Chief Executive and executive Director
Julia Wilson, Finance Director and executive Director
Jonathan Asquith, Non-executive Director
Caroline Banszky, Non-executive Director
Alistair Cox, Non-executive Director
David Hutchison, Non-executive Director
Martine Verluyten, Non-executive Director

Portfolio and other information

Portfolio valuation – an explanation

Policy

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

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2012). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement.

Private equity valuation

The **quoted** assets in our portfolio are valued at their closing bid price at the balance sheet date.

The majority of the portfolio, however, is represented by **unquoted** investments. To arrive at the fair value of the Group's unquoted Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. We then apportion that enterprise value between 3i, other shareholders and lenders.

Determining enterprise value

This enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment.

Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions, and trading updates from our portfolio.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a marketability or liquidity discount. The marketability or liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are material restrictions on our ability to sell at a time of our choosing.

The table on pages 68 and 69 outlines in more detail the range of valuation methodologies available to us, as well as the inputs and adjustments necessary for each.

Apportioning the enterprise value between 3i, other shareholders and lenders

Once we have estimated the enterprise value, the following steps are taken:

1. We subtract the value of any claims, net of free cash balances, that are more senior to the most senior of our investments.
2. The resulting attributable enterprise value is apportioned to the Group's investment, and equal ranking investments by other parties, according to contractual terms and conditions, to arrive at a fair value of the entirety of the investment. The value is then distributed amongst the different loan, equity and other financial instruments accordingly.
3. If the value attributed to a specific shareholder loan investment in a company is less than its par or nominal value, a shortfall is implied, which is recognised in our valuation. In exceptional cases, we may judge that the shortfall is temporary; to recognise the shortfall in such a scenario would lead to unrepresentative volatility and hence we may choose not to recognise the shortfall.

Other factors

In applying this framework, there are additional considerations that are factored into the valuation of some assets.

Impacts from structuring

Structural rights are instruments convertible into equity or cash at specific points in time or linked to specific events. For example, where a majority shareholder chooses to sell, and we have a minority interest, we may have the right to a minimum return on our investment.

Debt instruments, in particular, may have structural rights. In the valuation, it is assumed third parties, such as lenders or holders of convertible instruments, fully exercise any structural rights they might have if they are “in the money”, and that the value to the Group may therefore be reduced by such rights held by third parties. The Group’s own structural rights are valued on the basis they are exercisable on the reporting date.

Assets classified as “terminal”

If we believe an investment has more than a 50% probability of failing in the 12 months following the valuation date, we value the investment on the basis of its expected recoverable amount in the event of failure. It is important to distinguish between our investment failing and the business failing; the failure of our investment does not always mean that the business has failed, just that our recoverable value has dropped significantly. This would generally result in the equity and loan components of our investment being valued at nil. Value movements in the period relating to investments classified as terminal are classified as provisions in our value movement analysis.

Infrastructure valuation

The primary valuation methodology used for infrastructure investments is the discounted cash flow method (“DCF”). Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate is estimated with reference to the market risk-free rate, a risk adjusted premium and information specific to the investment or market sector.

Debt management valuation

The Group’s Debt Management business line typically invests in traded debt instruments and the subordinated notes that it is required to hold in the debt funds which it manages. The traded debt instruments and the subordinated notes are valued using a range of data including broker quotes if available, original arranging bank models, 3i internal forecasts and models, trading data where available, and data from third-party valuation providers. Broker quotes and trading data for more liquid holdings are preferred.

Methodology	Description	Inputs	Adjustments	% of portfolio valued on this basis
Earnings (Private Equity)	<p>Most commonly used Private Equity valuation methodology</p> <p>Used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions, where relevant, with similar characteristics</p>	<p>Earnings multiples are applied to the earnings of the company to determine the enterprise value</p> <p>Earnings Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings</p> <p>Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA")</p> <p>Earnings used are usually the management accounts for the 12 months to the quarter end preceding the reporting period, unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings</p> <p>Earnings multiples The earnings multiple is derived from comparable listed companies or relevant market transaction multiples</p> <p>We select companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus</p> <p>We adjust for relative performance in the set of comparables, exit expectations and other company specific factors</p>	A marketability or liquidity discount is applied to the enterprise value, typically between 5% and 15%, using factors such as our alignment with management and other investors and our investment rights in the deal structure	56%
Quoted (Infrastructure/ Private Equity)	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	17%
Imminent sale (Infrastructure/ Private Equity)	Used where an asset is in a sales process, a price has been agreed but the transaction has not yet settled	Contracted proceeds for the transaction, or best estimate of the expected proceeds	A discount of typically 2.5% is applied to reflect any uncertain adjustments to expected proceeds	5%
Fund (Infrastructure/ Private Equity/ Debt Management)	Used for investments in unlisted funds	Net asset value reported by the fund manager	Typically no further discount applied in addition to that applied by the fund manager	0%

Methodology	Description	Inputs	Adjustments	% of portfolio valued on this basis
Specific industry metrics (Private Equity)	Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters, or regulated asset bases for utilities	<p>We create a set of comparable listed companies and derive the implied values of the relevant metric</p> <p>We track and adjust this metric for relative performance, as in the case of earnings multiples</p> <p>Comparable companies are selected using the same criteria as described for the earnings methodology</p>	An appropriate discount is applied, depending on the valuation metric used	4%
Discounted cash flow (Private Equity/Infrastructure)	Appropriate for businesses with long-term stable cash flows, typically in infrastructure	Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	8%
Broker quotes (Debt Management)	Used to value traded debt instruments	Broker quotes obtained from banks which trade the specific instruments concerned, benchmarked to a range of other data such as DCF, trade data and other quotes	No discount is applied	5%
Other (Private Equity)	Used where elements of a business are valued on different bases	Values of separate elements prepared on one of the methodologies listed above	Discounts applied to separate elements as above	5%

For a small proportion of our smaller investments (less than 1% of the portfolio value), the valuation is determined by a more mechanical approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are measured using amortised cost and any implied impairment, in line with IFRS.

Consistent with IPEV guidelines, all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

Twenty five large investments

The list below provides information on 25 large investments in respect of the Group's holding, excluding any managed or advised external funds.

Investment	Business line	Residual cost	Residual cost	Valuation	Valuation
Description of business	Geography	March 2014	Sept 2014	March 2014	Sept 2014
	Calendar year first invested in	2014	2014	2014	2014
	Valuation basis	£m	£m	£m	£m
Action	Private Equity				
Non-food discount retailer	Benelux				
	2011				
	Earnings	57	58	501	573
3i Infrastructure plc	Infrastructure				
Quoted investment company, investing in infrastructure	UK				
	2007				
	Quoted	302	302	404	421
Scandlines	Private Equity				
Ferry operator in the Baltic Sea	Germany				
	2007				
	DCF	108	110	193	218
HILITE	Private Equity				
Fluid control component supplier	Germany				
	2011				
	Imminent sale	57	58	133	152
Quintiles	Private Equity				
Clinical research outsourcing solutions	US				
	2008				
	Quoted	52	52	122	137
Mayborn	Private Equity				
Manufacturer and distributor of baby products	UK				
	2006				
	Earnings	113	120	116	122
Element Materials Technology	Private Equity				
Testing and inspection	Benelux				
	2010				
	Earnings	78	59	124	112
ACR	Private Equity				
Pan-Asian non life reinsurance	Singapore				
	2006				
	Industry metric	105	105	101	111
Basic-Fit	Private Equity				
Discount fitness operator in Europe	Benelux				
	2013				
	Earnings	84	87	82	100
AES Engineering	Private Equity				
Manufacturer of mechanical seals and support systems	UK				
	1996				
	Earnings	30	30	96	99
Ten large investments	56% of total portfolio	986	981	1,872	2,045

Twenty five large investments continued

Investment	Business line Geography Calendar year first invested in Valuation basis	Residual cost March 2014 £m	Residual cost Sept 2014 £m	Valuation March 2014 £m	Valuation Sept 2014 £m
Eltel Networks Infrastructure services for electricity and telecoms networks	Private Equity Finland 2007 Earnings	89	90	70	94
Tato Manufacture and sale of speciality chemicals	Private Equity UK 1989 Earnings	2	2	85	81
GIF German headquartered international transmission testing specialist	Private Equity Germany 2013 Earnings	64	67	65	66
Dynatect Manufacturer of engineered, mission critical protective equipment	Private Equity US 2014 Other	-	65	-	65
Mémora Funeral service provider	Private Equity Spain 2008 Earnings	141	143	67	60
Refresco Manufacturer of private label juices and soft drinks	Private Equity Benelux 2010 Earnings	46	46	42	58
Geka Manufacturer of brushes, applicators and packaging systems for the cosmetics industry	Private Equity Germany 2012 Earnings	56	57	55	53
Amor Distributor and retailer of affordable jewellery	Private Equity Germany 2010 Earnings	50	30	70	51
Agent Provocateur Women's lingerie and assorted products	Private Equity UK 2007 Earnings	49	53	35	50
Etanco Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity France 2011 Earnings	80	81	44	47
JMJ Global management consultancy	Private Equity US 2013 Earnings	44	44	43	45
OneMed Group Distributor of consumable medical products, devices and technology	Private Equity Sweden 2011 Earnings	108	112	44	42
LHI Technology Medical cable assemblies	Private Equity China 2008 Imminent sale	16	17	33	42
Foster + Partners ¹ Architectural services	Private Equity UK 2007 Other			108	40
Phibro Animal Health Corporation Animal healthcare	Private Equity US 2009 Quoted	89	22	93	38
Twenty five large investments	78% of total portfolio	1,820	1,810	2,726	2,877

¹ The residual cost of this investment cannot be disclosed per a confidentiality agreement in place at the time of investment.

Portfolio composition

3i direct portfolio value by business and geography (£m)

	Six months to 30 September 2014	Six months to 30 September 2013	Year to 31 March 2014
Private Equity			
UK	518	528	556
Continental Europe	1,854	1,337	1,788
Asia	247	256	250
The Americas	362	299	337
Rest of World	3	4	4
	2,984	2,424	2,935
Infrastructure			
UK	429	409	412
Asia	62	70	75
	491	479	487
Debt Management¹			
Continental Europe	146	107	119
The Americas	51	48	24
	197	155	143
Total	3,672	3,058	3,565

1. The Debt Management portfolio is split based on the geographic location of the fund management team, with all funds managed by the team in London disclosed as "Continental Europe". The underlying investments of the vehicles may be across several geographies.

3i direct portfolio value by valuation method (£m)

	Six months to 30 September 2014	Six months to 30 September 2013	Year to 31 March 2014
Imminent sale or IPO	193	43	33
Quoted	641	578	554
Earnings	2,069	1,831	2,308
Fund	10	12	11
Industry metric	130	133	124
DCF	291	181	271
Debt Management	197	155	143
Other	141	125	121
Total	3,672	3,058	3,565

3i direct Private Equity portfolio value by valuation method (£m)

	Six months to 30 September 2014	Six months to 30 September 2013	Year to 31 March 2014
Imminent sale or IPO	193	43	33
Quoted	212	167	133
Earnings	2,069	1,831	2,308
Fund	10	12	11
Industry metric	130	133	124
DCF	229	114	205
Other	141	124	121
Total	2,984	2,424	2,935

3i direct Private Equity continental European portfolio by value (£m)

	Six months to 30 September 2014	Six months to 30 September 2013	Year to 31 March 2014
Benelux	862	476	767
France	122	171	179
Germany	582	345	542
Nordic	204	201	197
Spain	84	140	103
Other European	-	4	-
Total	1,854	1,337	1,788

3i direct Private Equity portfolio value by sector (£m)

	Six months to 30 September 2014	Six months to 30 September 2013	Year to 31 March 2014
Business Services ¹	704	720	852
Consumer	1,052	665	887
Healthcare	293	384	386
Industrials	813	536	691
Technology, Media and Telecoms	122	119	119
Total	2,984	2,424	2,935

1 Includes Financial Services.

3i direct Infrastructure portfolio value by valuation method (£m)

	Six months to 30 September 2014	Six months to 30 September 2013	Year to 31 March 2014
Quoted	430	411	421
DCF	61	67	66
Other	-	1	-
Total	491	479	487

Information for shareholders

Note A

The Half-yearly report 2014 will be available as a pdf on our website at www.3i.com

Note B

The interim dividend is expected to be paid on 7 January 2015 to holders of ordinary shares on the register on 12 December 2014. The ex-dividend date will be 11 December 2014.

Annual reports online

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

More general information on electronic communications is available on our website at www.3i.com/investor-relations/shareholder-information

Registrars

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

Equiniti

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone 0871 384 2031

Calls to this number are charged at 8p per minute from a BT landline, other telephony provider costs may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday.
(International callers +44 121 415 7183)

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.

3i Group plc

16 Palace Street, London SW1E 5JD, UK

Telephone +44 (0)20 7975 3131

Fax +44 (0)20 7928 0058

Register online

To receive shareholder communications electronically, including annual reports and notices of meetings, please register at:

www.3i.com/investor-relations/shareholder-information

Sign up for 3i news

To be kept up-to-date with 3i's latest financial news and press releases, sign up for alerts at:

www.3i.com/investor-relations/financial-news/email-alerts

www.3i.com