14 May 2020

3i Group plc announces results for the year to 31 March 2020

Resilient performance despite severe disruption from COVID-19

- **Total return of £253 million or 3% on opening shareholders' funds** (March 2019: £1,252 million, 18%) and **NAV per share of 804 pence** (31 March 2019: 815 pence) after paying 37.5 pence of dividends in the year.

- Our Private Equity business delivered a gross investment return of £352 million or 6% (March 2019: £1,148 million, 20%). The portfolio had performed well overall in the 11 months to 29 February 2020 and was on track to generate returns consistent with our strategic objectives before the significant impact of COVID-19 on the portfolio valuation at 31 March 2020. The pandemic has impacted our travel, retail and automotive portfolio companies, while companies in medical technology, personal care products, e-commerce and other specialty manufacturers are experiencing strong demand.

- Action traded strongly in 2019 and in the first two months of 2020, but COVID-19 caused major short-term disruption to the business, as it was forced to implement total or partial temporary store closures in a number of countries. As of today, virtually all of Action's stores have reopened and it is rebounding strongly now that lockdowns are being lifted.

- Earlier this year we closed the transaction to provide liquidity to investors in Eurofund V from the realisation of the Fund's investment in Action through a sale to the 3i 2020 Co-investment vehicles. This transaction achieved an enterprise value of €10.25 billion and was funded by a combination of rolling LPs, new LPs and 3i, which reinvested in Action to increase its gross holding from 45.3% at 31 December 2019 to 52.6% at 31 March 2020. At 31 March 2020, we valued Action at a level consistent with the valuation achieved in this transaction. This is a step back from the valuation of the investment at the end of December 2019, and is broadly equivalent to using Action's run-rate earnings to March 2020 and reducing the multiple used to c.17x post discount.

- In competitive markets the Private Equity team maintained its cautious approach to capital deployment, making three new investments in the year in Evernex, Magnitude and a new bioprocessing products platform, for a total of £413m. We continued to focus on M&A activity by our portfolio companies and completed 13 bolt-on acquisitions in total during the year, most of which were self-funded.

- Private Equity realisations (excluding Action) totalled £446 million. Of note, we generated a 4.1x money multiple on our realisation of Aspen Pumps, sold another tranche of Basic-Fit and sold ACR, a challenged legacy investment.

- Our Infrastructure business delivered a gross investment return of £(39) million, or (4)% (March 2019: £210 million, 25%). The negative return was driven primarily by the decline in the share price of 3i Infrastructure plc ("3iN") as a result of the broader market volatility in March 2020. Our Infrastructure portfolios have proven resilient to the impact of COVID-19 and most portfolio companies have traded robustly through the pandemic.

- During the year, 3iN deployed £376 million in two new investments, Joulz and Ionisos, and generated proceeds of £581 million from the realisations of WIG and the UK projects portfolio. Our North American Infrastructure team completed its second US Infrastructure investment, with the acquisition of Regional Rail and two bolt-on investments for a total of £175 million, funded from our own balance sheet. We also continued to deploy capital in the 3i European Operational Projects Fund, which is now c60% invested.

- Scandlines generated a gross investment return of £5 million, or 1% (March 2019: £49 million, 9%). The business continued to perform well and produced solid results in 2019 and a good contribution to portfolio income. The decision by the Danish and German governments to close their borders to stem the spread of COVID-19 had a significant short-term impact on car volumes in particular, however freight continues to flow with good volumes. This is reflected in the valuation at the end of March 2020.

- **Total dividend of 35 pence per share** for FY2020, with a dividend of 17.5 pence per share to be paid in July 2020 subject to shareholder approval.

Simon Borrows, 3i's Chief Executive, commented:
"We delivered a solid return for FY2020 despite the severe challenge posed by the COVID-19 pandemic and its impact on portfolio performance in the last month of the year.

Throughout this pandemic, our focus has been first and foremost on protecting the well-being of our own employees and those of our portfolio companies and of the communities in which we all collectively operate.

We enter our new financial year with a carefully assembled portfolio of private equity and infrastructure companies and an experienced team that has proved adept at managing these investments against a deteriorating macro-economic backdrop. We have been cautious investors for some years and have maintained a strong balance sheet since our restructuring in 2012. This conservative approach will help us to navigate the challenging months ahead minimising significant interruptions so that we can continue to generate attractive returns for our investors through the cycle. "

Financial highlights

	Year to/as at 31 March 2020	Year to/as at 31 March 2019
Group		
Total return	**£253m**	£1,252m
Operating expenses	**£116m**	£126m
Operating cash profit	**£40m**	£46m
Cash realisations	**£801m**	£1,261m
Gross investment return	**£318m**	£1,407m
- As a percentage of opening 3i portfolio value	**4%**	21%
Cash investment	**£1,248m**	£859m
3i portfolio value	**£8,098m**	£7,553m
Gross debt	**£575m**	£575m
Net cash	**£270m**	£495m
Gearing[1]	**nil**	nil
Liquidity	**£1,245m**	£1,420m
Net asset value	**£7,757m**	£7,909m
Diluted net asset value per ordinary share	**804p**	815p
Total dividend per share	**35p**	35p

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

ENDS

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For further information regarding the announcement of 3i's annual results to 31 March 2020, including a live webcast of the results presentation at 10.00am, please visit www.3i.com.

Notes to editors

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

Notes to the announcement of the results

Note 1

All of the financial data in this announcement is taken from the Investment basis financial statements. The statutory accounts are prepared under IFRS for the year to 31 March 2020 and have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2019 have been delivered to the Registrar of Companies. The auditor's reports on the statutory accounts for these years are unqualified and do not contain any matters to which the auditor drew attention by way of emphasis or any statements under section 498(2) or (3) of the Companies Act 2006. This announcement does not constitute statutory accounts.

Note 2

Copies of the Annual report and accounts 2020 will be distributed to shareholders on or soon after 26 May 2020.

Note 3

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

Note 4

Subject to shareholder approval, the proposed second dividend is expected to be paid on 17 July 2020 to holders of ordinary shares on the register on 12 June 2020. The ex-dividend date will be 11 June 2020.

Chairman's statement

"Our priority is to support our employees and our portfolio companies, while continuing to deliver superior returns for our shareholders."

After a solid performance in FY2020, our Private Equity and Infrastructure teams are actively engaging with our portfolio companies to support and strengthen their resilience in FY2021.

Market environment and performance

Capital markets rallied in calendar year 2019, with the majority of global indices reporting double digit growth, notwithstanding significant political and economic uncertainty driven by the US-China trade war, the terms of the UK's exit from the European Union, and signs of slowing growth in major economies such as China and Germany. As we reached the end of FY2020 having experienced 11 months of strong performance, the outbreak of the coronavirus ("COVID-19") pandemic and the economic impact of lockdown and social distancing triggered sharp falls in pricing across global markets and volatile exchange rates. We have seen significant price reductions across the majority of asset classes, with tensions between Russia and Saudi Arabia over crude oil supply exacerbating the impact on commodities.

Despite record levels of fiscal and monetary stimulus being deployed by governments and central banks, the impact on many businesses of the public health response to COVID-19 has been rapid and damaging. With the effective shutdown of business activity across multiple sectors and geographies, many companies are implementing severe cost saving measures and seeking to maintain sufficient liquidity to manage through the crisis. Within our diverse portfolio of private equity and infrastructure assets, we have seen the full range of impact of the pandemic. Some of our businesses are seeing an increase in sales of essential goods and services. Certain companies are only lightly impacted. Others are suffering significant reductions in revenue and, in selected cases, need, or are likely to need, some form of liquidity support.

The fair value of our portfolio as at 31 March 2020 reflects the impact of COVID-19. We have assessed the effect of the pandemic on full-year projections for each of our portfolio companies, and the current dislocation of capital markets on multiples and discount rates. As a result, as at 31 March 2020, the Group's total return[1] for the year was £253 million (2019: £1,252 million), net asset value ("NAV") decreased to 804 pence per share (31 March 2019: 815 pence) and our return on opening shareholders' funds was 3% (2019: 18%). The impact of the crisis reflects our diverse portfolio, the defensive nature of many of the individual companies, and our consistent adoption over many years of long-term, through the cycle, multiples and discount rates.

Dividend

We were net investors in FY2020, but still ended the year with net cash of £270 million and liquidity of £1,245 million (31 March 2019: net cash of £495 million and liquidity of £1,420 million).

Our dividend policy is to maintain or grow the dividend year-on-year, subject to balance sheet strength and the outlook for investment and realisation levels. We are aware that some boards have decided to prioritise cash over shareholder distributions, and in some instances regulators have intervened to prevent dividend payments. 3i has the benefit of a long-standing conservative balance sheet strategy. We continue to pay all our employees, support our contractor workforce and have the balance sheet capacity to provide liquidity support to our portfolio companies, if required. Recognising the importance of our dividend to institutional and private shareholders in accordance with our policy, the Board is therefore recommending that we maintain the total dividend for FY2020 at the same level as the prior year. Accordingly, the second FY2020 dividend will be 17.5 pence (2019: 20.0 pence), which together with the first FY2020 dividend of 17.5 pence per share paid in January 2020, takes the total dividend to 35.0 pence (2019: 35.0 pence).

Board and management

I am pleased to welcome Alexandra Schaapveld, who is a Dutch national, who joined the Board as a non-executive Director on 1 January 2020. Alexandra was previously Head of Global Banking and Markets in Western Europe for Royal Bank of Scotland and ABN Amro, and is currently non-executive director of Société Générale. She brings extensive financial services expertise in a number of important markets for 3i and significant board experience in a variety of sectors. She has joined the Valuations, Audit and Compliance, and Nominations Committees.

I would like to thank Simon, Julia and the entire 3i team for their outstanding response to COVID-19. Everyone should feel proud of their contribution and the organisation as a whole has demonstrated adaptability, resilience and great teamwork.

Outlook

As we enter FY2021, we face the most uncertain outlook for generations. Our top priority in the coming months remains the safety and well-being of our employees at 3i and the staff and customers of our portfolio companies. We are confident that 3i's resilient and diverse portfolio, balance sheet strength, and geographic and sector expertise will enable us to navigate our way through these extraordinary social and economic conditions, and emerge from the crisis with renewed strength.

Simon Thompson
Chairman
13 May 2020

1 Total return is defined as Total comprehensive income for the year, under both the Investment basis and the IFRS basis.

Chief Executive's statement

"In these unprecedented times of major social and economic disruption, we delivered a solid result for the year."

We enter our new financial year with a carefully assembled portfolio of private equity and infrastructure companies and an experienced team that has proved adept at managing these investments against a deteriorating macro-economic backdrop. We have been cautious investors for some years and have maintained a strong balance sheet since our restructuring in 2012. This conservative approach will help us to navigate the challenging months ahead minimising significant interruptions so that we can continue to generate attractive returns for our investors through the cycle.

Delivering attractive returns, however, is not in itself sufficient, and we strive to achieve that by managing our business and portfolio activities sustainably, with due regard to the interests of all stakeholders involved. Our performance through the initial phases of the COVID-19 pandemic is attributable to the prudent management of our own balance sheet, operations and of the portfolio. Throughout this pandemic, our focus has been first and foremost on protecting the well-being of our own employees and those of our portfolio companies and of the communities in which we all collectively operate. We are confident that this will also, over time, benefit us and our shareholders through more attractive returns.

We generated a total return on shareholders' funds of £253 million, or 3% (2019: £1,252 million, or 18%), ending the year with NAV per share of 804 pence (31 March 2019: 815 pence). The COVID-19 pandemic and its many consequences had a material impact on our 31 March 2020 valuations, which was partially offset by a significant gain on foreign exchange of £215 million in the year. We completed the Action Transaction (see the Action Transaction overview section in the Business review) returning proceeds of £402 million to the Group, which were subsequently reinvested back into Action as part of a £591 million further investment, increasing our gross equity stake to 52.6%. The competitive environment for new investment throughout FY2020 meant we remained cautious about the pricing of new investment opportunities. However, we were able to deploy £413 million in three new Private Equity investments and £175 million in a new proprietary capital and bolt-on Infrastructure investment in North America.

Coronavirus pandemic

As we publish our Annual report and accounts FY2020, many countries around the world are still very focused on managing the COVID-19 pandemic and the significant and often tragic consequences it is having on people's lives. Society and the global economy now face a set of unprecedented challenges, the full extent of which is for the moment uncertain. The unparalleled disruption caused by this pandemic has been reflected in all major global indices, which declined at a rate greater than during the financial crisis in 2008. There are many indicators suggesting that most major economies will experience contraction in the first half of 2020, and that this will extend through the second half of 2020 and potentially into 2021. In response to this humanitarian crisis, governments and central banks across the world have ramped up their social and economic interventions to try and slow the spread of the outbreak and lay the foundations for economies and businesses to recover once the pandemic has passed.

In early March, we used our two Portfolio Company Review weeks to establish a programme to assess each of our portfolio companies against the likely impacts of the COVID-19 pandemic. We moved quickly and by mid-March we had a clear assessment of the likely disruption each company and its employees would face as well as new forecasts for earnings, cash flow and liquidity. These revised plans comprised a base forecast which anticipated a relaxation of many lockdown measures in July with a more severe scenario for a number of our travel and transportation assets. From this analysis we agreed the necessary actions for our investment teams to take with each company in order to properly comply with new social-distancing and safety regulations and prepare for the disruption of extensive and ongoing lockdown measures.

Since those plans were finalised in mid-March the overwhelming majority of our portfolio companies are trading ahead of their new base case forecasts. Given the defensive nature of much of our portfolio and the relatively flexible nature of our portfolio banking arrangements, we currently estimate that only a modest number of companies will require future support from 3i Group, which we are well placed to provide.

Since 2012, our focus at 3i has been to develop a diverse and resilient portfolio that generates attractive returns for shareholders, through the cycle, supported by a strong Group balance sheet. Our new proprietary capital investments this year, in data management software, IT infrastructure maintenance, biopharma components and systems, and rail, further improve our portfolio diversification and our closing net cash position of £270 million and our new £400 million Revolving Credit Facility ("RCF") demonstrate our balance sheet strength. However, we are not immune to severe market and economic shocks such as those generated by the COVID-19 pandemic. For the first 11 months of FY2020, our portfolio performance was generally strong across our business lines. Since March the severity of responses to COVID-19 in Europe and North America has had a varied impact across our investments. Not surprisingly, the companies exposed to travel, transportation, retail and automotive have been most affected. Conversely, those in medical technology, personal care products, e-commerce and other speciality manufacturers are experiencing strong demand.

Action transaction and performance

Action is the leading general merchandise discount retailer in Europe, selling many essential and other products at very low prices to its customers, and is our largest investment. 2019 was another very strong calendar year for Action, which grew revenue by 21% to €5.1 billion, like-for-like ("LFL") sales by 5.6% and EBITDA by 20% to €541 million (calendar year 2018: €4.2 billion, 3.2% and €450 million). The pace of store roll out remained impressive, with 230 new stores in calendar year 2019, which are performing well. At 31 March 2020, Action had 1,576 stores across seven countries. To deliver such strong performance the business has invested significantly in organisational capability and its supply chain. Action opened three new distribution centres ("DCs") in 2019; Belleville in France, Peine in Germany and Osla in Poland, as well as its first hub for cross-docking of directly sourced products from Asia in Marseille. The growth of its DC network and multi layered supply chain capabilities means Action is well placed to capitalise on the significant white space in existing and new countries

In the first 11 weeks of 2020, Action recorded very strong performance with LFL sales growth of over 7% and a strong cash position. Late in March 2020, as the outbreak of COVID-19 intensified across Europe, Action faced government-enforced temporary closures of all of its stores in France, Belgium and Austria and partial closure of stores in Germany and Poland. However, all stores in the Netherlands remained open throughout the crisis. As of early May 2020, virtually all the Action stores have re-opened.

In the year, we successfully closed the realisation of the entire investment in Action of Eurofund V ("EFV") at a €10.25 billion enterprise value ("EV"), based on performance to 30 September 2019. The sale was funded by a combination of rolling EFV Limited Partners ("LPs"), 3i and a number of additional blue-chip investors.

Action is a remarkable company and has become one of the most successful private equity investments in the world. As a measure of this success the sale of the 34% EFV equity stake in Action produced a money multiple on original cost of over 31x and an internal rate of return of 73%. Action remains very well positioned as a deep value, scale retailer with significant scope for further international expansion. We purchased Action in 2011 when it had just 245 stores. Today, it has over 1,576 stores in seven countries and has the white space potential to increase to over 6,000 in Europe over the coming years. 3i is committed to supporting Action to grow further and that is why we decided to reinvest £591 million of the £1,238 million cash distributions we have received from Action in the nine years of ownership, increasing our gross equity stake to 52.6% from 45.3% as part of the EFV transaction. 3i and funds managed by 3i now control over 80% of the equity share capital of Action.

The Action transaction provided a fair value which was based on the five-year business plan of Action and its performance to 30 September 2019. Actual performance for 2019 and the first 11 weeks of 2020 was ahead of this plan. COVID-19 has caused major short-term disruption to the business, however there is no evidence to suggest that Action will not revert to its strong fundamental performance and growth. At 31 December 2019, and before the Action transaction completed, we valued Action at £3,461 million. Given Action's very strong trading in the first 11 weeks of 2020, we had expected to see a further material value increase to 31 March 2020 owing to earnings growth. If we re-evaluate Action in the light of the current trading and temporary delay to roll-out plans, we believe stepping back to the transaction value, which was based on financials to September 2019 is sensible, reflecting the uncertainty, implying an enterprise value of €10.25 billion.

Many of our portfolio companies are contributing their expertise or making donations of goods or money to mitigate the impact of the COVID-19 pandemic. For example:

Action	Action, Europe's leading general merchandise discount retailer, donated more than three million pairs of gloves to each of the Dutch and French Red Cross for the benefit of hospitals and other care institutions;
Havea	The employees of Havea Group, a manufacturer of natural healthcare and cosmetics products, have given paid annual leave back to the company, allowing it to make a donation of €150,000 to the Hôpitaux de France Foundation to support them at this time and to buy medical equipment for COVID-19 patients;
Royal Sanders	Royal Sanders, a private label and contract manufacturing producer of personal care products, donated over 10,000 bottles of hand gels to hospitals across Belgium;
AES Engineering	AESSEAL plc, a subsidiary of AES Engineering Ltd, a manufacturer of mechanical seals and support systems, has provided 2,000 face visors free of charge to its local hospital. It has used its global subsidiary network to assist a group of hospitals in the Hallam area, pro bono, to source PPE. It is also offering free support to the National Health Service and its customers in the set-up of thermal imaging cameras which will reduce the risk of those with a high temperature being at work; and
Ionisos	Ionisos, a leading owner and operator of cold sterilisation facilities servicing the medical, pharmaceutical and cosmetics industries, is participating in a charitable effort in Spain to manufacture 70,000 surgical masks, co-ordinated by the Association of Fashion Creators of Spain.

Private Equity performance

Our Private Equity portfolio consists of 32 companies across northern Europe, the UK and North America in four sectors: Business and Technology Services; Consumer; Healthcare; and Industrial. In the 12 months to 31 March 2020 this Private Equity portfolio delivered a Gross Investment Return ("GIR") of 6% (2019: 20%). The portfolio had performed well overall in the 11 months to 29 February 2020, and was on track to generate returns consistent with our strategic objectives before the significant impact of COVID-19 on the portfolio valuation at 31 March 2020.

Our 2013-16 vintage generated significant cash returns in the year. In January 2020, we completed the disposal of Aspen Pumps for proceeds of £205 million which generated an overall money multiple of 4.1x and IRR of 34% over the life of our investment. In December 2019, we sold 5.3% of our shareholding in Basic-Fit at €31.25 per share, generating proceeds of £76 million, taking our total money multiple to date, including residual value, to over 4.0x. As a result of COVID-19, all of Basic-Fit's gyms have been temporarily closed resulting in a 49% reduction in share price in the year to 31 March 2020. We retain a 12.7% stake in the business, valued at £93 million. In December 2019, we completed a refinancing of Audley Travel, a tailor-made travel tour operator, returning cash of £65 million to 3i. Audley Travel delivered good organic revenue growth in both the UK and US in 2019 and this momentum continued into January 2020, its largest booking month. Since the outbreak of COVID-19, the market for travel services has been severely impacted. The company has successfully repatriated all its clients and is implementing a number of measures to mitigate the reduction in new and existing bookings. Recognising the impact of these events, we reduced the value of our investment to £124 million. However, we believe that the fundamentals of this business remain strong, and that it is well placed to recover when travel restrictions are eased given its position of scale in tailor made travel, its excellence in client service and the diversity of its destination offering. We completed bolt-on acquisitions for Q Holding, WP and Dynatect in the year. Despite this challenging macro-economic environment, we expect to complete the sale of Kinolt in August 2020, for proceeds of c.€96 million, subject to competition clearance.

The 2016-19 vintage of investments had a more mixed performance in the year. Cirtec Medical performed strongly, driven by a combination of organic growth and previous value accretive bolt-on acquisitions. Similarly, Royal Sanders, the private label and contract manufacturing producer of personal care products, delivered growth rates that exceeded the general market. The two McBride sites, acquired in 2018 which were loss making, are now contributing a good profit. COVID-19 has not impacted either of these businesses to date. Following Hans Anders' acquisition of eyes + more in January 2019, the combined business had a strong start to the year driven by good LFL performance, particularly in eyes + more, on budget store roll out and a good level of operational synergies. However, in the case of Hans Anders, the COVID-19 pandemic has had a material impact on the 2020 earnings and liquidity. Government-initiated measures resulted in almost all stores being closed or open on an appointment only basis and, despite cost saving measures, the business required an equity injection from 3i of €22.5 million in April 2020 to support it through this very difficult period. We continue to support Hans Anders as we believe there is significant value upside once the business resumes full operations. Most of the company's stores have gradually resumed trading in the course of May 2020, with safety measures in place to protect employees and customers.

ICE, our global provider of technology-based B2B2C travel-based loyalty and reward solutions, is another business that has been significantly impacted by COVID-19. The business had good momentum running into the start of 2020, with its previous acquisition of SOR Technologies performing strongly and good progress made integrating its most recent bolt-on acquisition of WMPH. Since March 2020, revenue generated from cruises, which contributes c.25% of the total, has materially declined. We recognised a combined value loss on both Hans Anders and ICE of £146 million to reflect these short-term declines in earnings.

The automotive sector was challenged throughout 2019 before the impact of the pandemic was felt on demand and supply. Formel D, the leading international provider of quality services for the automotive industry, performed well despite the challenging market backdrop and also completed the acquisitions of CPS and Vdynamics. European and US OEM plant shutdowns in mid March as a result of COVID-19 have impacted Formel D's output and this is reflected in the valuation at 31 March 2020. In December 2019, Schlemmer, a German manufacturer of cable management solutions for the global automotive industry, filed for administration in Germany. Schlemmer had continued to suffer operational challenges in its North American plants, as well as a significant decline in volumes in its European plants in the second half of 2019. Despite further financial support from 3i, we wrote down our investment to nil, recognising a £103 million value loss in the year.

In October 2019, we completed the first investment in our 2019-22 vintage with the £214 million investment in Evernex, and at the end of 2019 we completed a £60 million investment in a new platform for the production of bioprocessing products. Both companies continue to trade well through the disruption of COVID-19. As we enter FY2021, our investment activity for the new vintage will be lower than planned as we focus our resources and energy on supporting our existing portfolio through the pandemic. Our realisation activity is also expected to be limited. However at the end of March 2020, we completed the sale of ACR, recognising total realised proceeds of £105 million. The most significant tranche of these realised proceeds is expected to be received in Q3 2020.

Infrastructure performance

The Group's 30% stake in 3i Infrastructure plc ("3iN") was valued at £665 million at 31 March 2020, based on a share price of 247 pence (31 March 2019: 275 pence). The impact of COVID-19 on capital markets has been far reaching, even on resilient asset classes such as infrastructure; 3iN had traded at a record high share price of 317 pence in February 2020. By its nature, 3iN's portfolio is defensive and less vulnerable to economic downturns. To date, the social and economic disruption has had limited operational impact on the 3iN investment portfolio with just TCR, the airport ground handling equipment leasing business, impacted by travel restrictions. Demand for infrastructure assets remained strong in 2019 and 3iN capitalised on this with the realisations of Wireless Infrastructure Group ("WIG") for proceeds of £387 million and IRR of 27%, and the UK projects portfolio for proceeds of £194 million and an IRR of 15%. 3iN also completed new acquisitions of Joulz, which owns and provides essential energy infrastructure equipment and services in the Netherlands, and Ionisos, a leading owner and operator of cold sterilisation facilities headquartered in France. In addition to these investments, 3iN completed the bolt-on acquisition by Valorem of Force Hydraulique Antillaise SAS.

Our North American Infrastructure team completed its second US infrastructure investment in July 2019, with the acquisition of Regional Rail, which owns and operates short-line freight railroads and rail-related businesses throughout the Mid-Atlantic US. Subsequently, in December 2019, we supported Regional Rail's strategically transformative acquisition of Pinsly Railroad Company's Florida subsidiaries. In addition, in February 2020, Regional Rail acquired Carolina Coastal Railway, taking our total investment in Regional Rail and bolt-on acquisitions to £175 million. Short-line freight rail has been designated as an essential service in the US, and the business is performing well. US and global travel restrictions have had a significant impact on Smarte Carte, our US luggage carts, lockers and strollers business, impacting all revenue streams. The team is working on cost mitigation and financing options to navigate this tough trading period.

Scandlines performance

Scandlines continues to make good progress and has yielded a strong cash return for 3i since our reinvestment in the last financial year. In August 2019, it completed a successful refinancing which returned £70 million to 3i. In addition, we received a further £37 million in dividends in the year, meaning Scandlines has returned 26% of our reinvestment in June 2018.

The Danish and German Governments' decision to impose border controls in March 2020 due to COVID-19 has, however, had a major short-term impact on car volumes in particular. However, Scandlines' strategic importance to supply chains across the region is evident and freight continues to flow with good volumes despite the reduced economic activity across Europe. To reflect the short-term impact to volumes from the temporary restrictions and the current elevated level of potential uncertainty on the longer-term impact of the pandemic, we reduced the value of Scandlines to £429 million from £464 million at 31 December 2019 (31 March 2019: £529 million pre-refinancing proceeds of £70 million).

Strong, resilient balance sheet, well positioned to deliver good returns to shareholders

We have had a conservative balance sheet strategy since our restructuring in 2012. At 31 March 2020, we had gross cash of £845 million, after returning £363 million of cash dividends to shareholders in the year, and long-dated gross debt of £575 million. In March 2020, we completed the refinancing of our RCF, increasing its amount from £350 million to £400 million in a five-year facility with an option to extend annually for a further two years. We also generated an operating cash profit of £40 million in the year meaning our income, before realisations, more than covered our operating costs. This strong balance sheet is important because we are under no pressure to sell assets to cover our costs and can support our portfolio as required.

Our people and values

The 3i team is the heart of our business and we expect everyone at 3i to act with integrity, to be accountable for their behaviour, and to approach their roles with ambition, rigour and energy.

Our long-standing Responsible Investment Policy informs our investment decisions and our behaviour as a manager of our assets. We are committed to the continuous improvement of our approach.

The COVID-19 pandemic continues to have a significant impact on people's lives. 3i supports a number of charities on an ongoing basis. Given the increased demand that these charities are experiencing at this time, we have chosen to make additional donations to a number of them. We have also made donations to charities or organisations addressing issues raised by COVID-19 in the seven other countries in which we operate, on the recommendation of our local teams. In addition, we matched our employees' charitable donations during April, which will take our annual total donations to c.£1 million. We are also supportive of any of our employees who choose to volunteer with their local healthcare service and are assisting them in this endeavour by enabling them to work flexibly around what they choose to do.

Finally, we have set up a £5 million charitable fund to help alleviate the impact of COVID-19 by supporting charities and communities affected by the pandemic. Through this fund, we will focus our support on organisations helping the most vulnerable in those countries in which we and our portfolio companies operate. The £5 million has been funded from Private Equity and Infrastructure carry and performance fee arrangements which have been provided for through the income statement in prior periods.

Outlook

At the time of writing, the world continues to manage the COVID-19 pandemic. For 3i and many other businesses, the next 12 to 24 months will be among the most challenging periods historically in which to operate a business and generate a return. Our strong balance sheet and lean cost base mean we are under no pressure to realise assets in our portfolio before they reach their full potential. We expect our investment rate to be lower than previous years as our main focus for the next 12 months will be on managing and growing our existing portfolio through some tough trading conditions. We will, however, continue to build an interesting pipeline of new and further investment opportunities.

We are confident that our diverse portfolio is well positioned to continue the good momentum demonstrated throughout the majority of FY2020 before the pandemic began and we see no reason to change our financial objective of achieving mid to high teen returns through the cycle for shareholders.

It is frustrating for all of us to produce such strong performance over 11 months and then to see events outside our control wreak such enormous social and economic damage. We are fortunate to have such strong portfolio companies and finances at 3i, as well as such an experienced and reliable team of professionals. We are adapting to the challenges posed by COVID-19 and continue with our usual purpose and caution to attain our stated objectives, as well as helping some of those most at risk at this time.

I have been very impressed with the way the 3i team has responded to the challenge imposed by the COVID-19 outbreak and I would like to thank them for all their good work this year.

Simon Borrows
Chief Executive
13 May 2020

Business review

COVID-19

COVID-19 presents a huge risk to the global economy, and to individual companies and has had a severe impact on economic growth forecasts worldwide. The impacts of COVID-19 are not all apparent yet and the position will remain fluid until the length and extent of the crisis become clearer. Evidently, not all industries or companies will be impacted to the same degree. However, the effects will be felt in a number of areas across 3i and the majority of its portfolio companies. 3i continues to monitor and follow closely the information released from governments, regulatory bodies and health organisations in the countries in which 3i and its portfolio companies operate.

3i's response to COVID-19 is set out in further detail below.

People and operations

Lockdown, social distancing and economic hardship have highlighted the importance of 3i and its portfolio companies' focus on keeping employees safe, motivated and able to fulfil their roles effectively. New methods of working have reshaped the work environment and the ways in which people interact and communicate. All 3i offices have been closed, or have had access significantly restricted, in accordance with local regulations and guidance. Business meetings and events are being held virtually, and all international travel has been cancelled at least until we are advised that it may resume safely. Particular effort has been made to keep all of our people informed and engaged through regular updates from management and team leaders. 3i has a detailed business continuity plan for the whole organisation, which includes contractors, and has taken the following steps in particular to address the impact on people and any risks that the changing work environment may present:

- the implementation of a flexible work-from-home policy for all our offices, facilitated through the use of remote login and video and audio conferencing;
- the provision of mental health and well-being advice and guidance to employees, provided virtually by an experienced external provider, and the provision of streamed fitness classes;
- frequent communication, sharing tools to help everyone work effectively from home; and
- restrictions on international business travel to limit potential risk to staff.

Members of 3i's investment teams continue to interact regularly with portfolio company management, and hold Board and review meetings virtually. At a Group level, remote working has allowed 3i to continue to hold effective Investment Committee, Board and other regular meetings. There has been limited impact on 3i's ability to facilitate discussion and enable informed decision making.

Technology

Managing the stability and digital risk of an organisation's technology environment has become a key priority as firms seek to implement social distancing whilst maintaining everyday operations. The performance of 3i's systems is closely monitored to help ensure the effective continuity of business operations. 3i's IT systems have performed strongly against these new demands with the continuation of high quality IT support and the provision of effective and reliable video and audio teleconferencing software. 3i employees have been provided with additional hardware, where required, to work effectively from home. The IT team has provided training for all employees to become comfortable with this new operating model and to ensure they can perform their jobs remotely. The management of cyber security remains of paramount importance and monitoring of the associated risk to the Group and its portfolio companies continues.

Liquidity

3i has maintained a conservative balance sheet structure since its strategic review in 2012, which should aid the Group in navigating the current uncertain business environment. 3i has cash of £845 million at 31 March 2020, low levels of debt, and has recently completed a successful refinancing of its RCF, increasing the size to £400 million and extending the maturity to 2025 without any financial covenants, providing the Group with a strong source of additional liquidity should it be called upon in the future. Levels of new investments and realisations throughout FY2021 are likely to be considerably lower than in prior years, with the principal focus of investment during this period being on supporting existing portfolio companies. Our investment teams are working closely with the management of our portfolio companies in order to review their short to medium-term cash forecast, working capital position and bank covenants relating to their borrowings. Our expert teams are dedicated to supporting our portfolio companies through this period of uncertainty.

In accordance with its ongoing obligations, the Board will ensure that there are sufficient reserves available at the time of declaring and paying of the dividend. The Board has also assessed and reviewed 3i's long-term viability. The Viability statement in the Risk management section discloses and explains key assumptions and future scenarios covered in preparing the Viability statement.

Valuation approach at 31 March 2020

At 31 March 2020, our approach to valuation was substantially consistent with our normal process and valuation policy. A key focus of the portfolio fair value at 31 March 2020 was an assessment of the impact of the COVID-19 pandemic on each portfolio company. Our approach considered the performance of the portfolio companies before the outbreak of COVID-19, the projected short-term impact on their ability to generate earnings and cash flow and also our longer-term view of their ability to recover and perform against their investment cases. Our policy of taking a long-term view on multiples against frequently volatile and dislocated capital markets was also applied where appropriate. Given the diversity of our portfolio, the impact has been varied, with portfolio companies exposed to travel and transportation such as ICE, Audley Travel and Smarte Carte, retail such as Action and Hans Anders, and automotive such as Formel D, experiencing significant disruption compared to those in medical technology, personal care products, e-commerce and other speciality manufacturers, such as Cirtec, Royal Sanders, Tato and Lampenwelt.

Portfolio management

Our investment teams are working with our portfolio companies in order to manage the range of operational and financial issues that have arisen, including ensuring employee health and safety in accordance with government regulations, liquidity and supply chain issues, and the effective preparation of short to mid-term forecasts. We continue to monitor the portfolio performance closely, through our positions on boards and working closely with management teams.

These close working relationships and our well-established monthly portfolio dashboard monitoring mean that the Investment Committee has good access to information on the portfolio in this rapidly changing environment. This has enabled it to respond quickly to requests for support where needed, and to keep the Group Board and its Committees regularly updated.

Private Equity

We back entrepreneurs and management teams of mid-market businesses headquartered in northern Europe, the UK and North America that can grow internationally. Once invested, we work closely with our portfolio companies to achieve their full potential, realising our investments at the appropriate time to deliver strong cash-to-cash returns for 3i shareholders and other investors.

At a glance

Gross investment return
£352m or 6%
(2019: £1,148m or 20%)

Investment
£1,062m
(2019: £332m)

Realised proceeds
£848m
(2019: £1,235m)

Portfolio growing earnings
93%[1]
(2019: 93%)

Portfolio value
£6,552m
(2019: £6,023m)

Number of companies
32
(2019: 32)

1 LTM earnings to 31 December 2019.

Our Private Equity portfolio delivered a Gross Investment Return of £352 million or 6% on the opening portfolio (2019: £1,148 million or 20%). The portfolio had performed well overall in the 11 months to 29 February 2020 before the significant negative impact of COVID-19 on the portfolio valuation at the end of March 2020. Our team remained selective and disciplined on price despite a competitive market throughout the year, completing three new investments totalling £413 million. These new investments, with end markets in biopharmaceuticals; data centre hardware and critical IT assets; and application data solutions, have to date proven resilient to the COVID-19 crisis.

In addition, 13 bolt-on acquisitions were completed by existing portfolio companies in the year to 31 March 2020. There are a number of potential further bolt-on acquisitions being reviewed at the date of this report.

We generated realised proceeds of £848 million. The Action transaction generated £402 million, which was subsequently reinvested into Action as part of a £591 million further investment, increasing our gross equity stake from 45.3% to 52.6%. We also sold Aspen Pumps in the year, generating £205 million of proceeds and an overall 4.1x return over the life of 3i's investment.

TABLE 1: **GROSS INVESTMENT RETURN** FOR THE YEAR TO 31 MARCH

Investment basis	2020 £m	2019 £m
Realised profits over value on the disposal of investments	**90**	131
Unrealised (losses)/profits on the revaluation of investments	**(34)**	916
Dividends	**5**	12
Interest income from investment portfolio	**106**	103
Fees receivable	**9**	10
Foreign exchange on investments	**176**	(24)
Gross investment return	**352**	1,148
Gross investment return as a % of opening portfolio value	**6%**	20%

The contribution of Action to the Private Equity performance is detailed in Note 1 of the financial statements.

COVID-19 and our Private Equity portfolio

The COVID-19 pandemic presents unprecedented economic and liquidity challenges for the majority of businesses. Infection mitigation measures, including restrictions on travel and lockdowns are creating significant disruption to core operations and global supply chain processes.

Action transaction overview

In 2011, 3i invested £106 million in Action alongside EFV and other co-investors. Since then, 3i has made several small further investments to buy out exiting Action management and has also bought several additional stakes in EFV in secondary Limited Partner ("LP") transactions. At 31 December 2019, 3i's effective equity holding in Action was 45.3%.

On 17 January 2020, we completed a transaction to provide liquidity to investors in EFV by a realisation of the EFV investment in Action through a sale to the 3i 2020 Co-investment vehicles, for an enterprise value of €10.25 billion funded by a combination of rolling LPs, new LPs and 3i (the "Transaction"). We are delighted that GIC, AlpInvest Partners, Coller Capital, HarbourVest Partners, J.P. Morgan Asset Management, Pantheon, as well as investment funds managed by each of Aberdeen Standard Investments, Goldman Sachs Asset Management and Neuberger Berman, amongst others, have decided to either roll their existing investment or make a significant new investment in the next chapter of Action's growth story.

Action's remarkable growth and cash generation since the original investment has allowed 3i to successfully refinance the business five times prior to the Transaction. Prior to this Transaction, 3i has received cash proceeds of £836 million for a 6.3x cash multiple. 3i received £402 million proceeds from this Transaction bringing total proceeds to date to £1,238 million in the nine years of our ownership. With its reinvestment of £591 million, the total cash invested by 3i is £724 million at a 6.6x money multiple including unrealised value.

January 2020	**Sale of EFV interest in Action**	• The Transaction provided liquidity to EFV LPs through the realisation of their investment in Action, representing 34% of the equity of Action, at an enterprise value of €10.25bn • Ahead of the Transaction, Action completed a refinancing with a new term loan of €625m and 3i and EFV received their pro-rata share of the subsequent distribution
	Payment of EFV carry to 3i	• As a result of the Transaction, the relevant carry hurdles were met resulting in EFV releasing carry it owed to 3i
	Disposal of 3i's LP stake in Action held in EFV	• When EFV disposed of its entire stake in Action, 3i also received its share of those proceeds from 3i's own LP stake in EFV (acquired through secondary transfers), equivalent to a 1.8% equity investment in Action
March 2020	**3i reinvestment into Action**	• Following the receipt of: (i) the dividend proceeds; (ii) carried interest from EFV; and (iii) the proceeds from the disposal of its share of the EFV proceeds, 3i reinvested £591m into Action both through the 3i 2020 Co-investment vehicles and directly, to purchase an additional equity stake of 9.1%, resulting in 3i holding a total gross equity stake in Action of 52.6% as at 31 March 2020
Ongoing	**Action remains part of the Private Equity business**	• There were no changes to the governance structure in the way Action is managed as a result of the Transaction. We will continue to report Action as part of the Private Equity business, but have provided separate disclosure about Action's performance on pages 16 and 17 of our Annual report and accounts 2020, and in Note 1 to the financial statements

Action valuation

The Transaction was concluded after detailed due diligence was conducted by sophisticated investors on the Action business model and its five-year business plan and thus provided an independent fair value. Prior to the impact of COVID-19 the business was trading strongly and outperforming this plan. Although the pandemic has since caused major short-term disruption to the business, there is no evidence to suggest that Action will not bounce back strongly now that the store portfolio has substantially re-opened. We believe that the strength of the business model and the growth potential offered by the white space opportunity ahead of Action remains undiminished. Notwithstanding this, if we re-evaluate Action in light of the current trading and temporary delay to roll-out plans, stepping back to the Transaction value is sensible, reflecting current uncertainties. This valuation level was also triangulated against the relevant comparable peer group and the results of DCF modelling. It is broadly equivalent to using Action run-rate earnings to March 2020 and reducing the multiple used to c.17x post discount.

Across our Private Equity portfolio, we have to date seen the greatest impact on companies operating in travel, retail and automotive. However, we have seen some of our businesses in essential product manufacturing, e-commerce and healthcare generating stable or increased revenues through the crisis. The majority of our portfolio went into the crisis with good cash generation.

In response to the COVID-19 pandemic, we have worked with management teams to support an appropriate business response. The first priority has been the health and safety of employees and customers. All of our portfolio companies which have been impacted have run scenarios based on a range of assumptions around the duration and potential impact of the crisis. These have informed mitigation strategies to help companies trade through the current crisis. Where required we will also support our companies financially, as we have done for Hans Anders providing €22.5 million in April 2020.

Because 2020 will likely continue to be a very challenging year, we have increased our portfolio governance and monitoring activities. Our focus is ensuring our portfolio companies are positioned to recover well as they emerge from the crisis, supporting the return to higher valuation levels and ultimately strong cash returns upon final realisations in the future.

The impact of COVID-19 on portfolio performance and valuation is further detailed on later in this section.

Investment activity

2019 saw a continued increase in “dry powder” in the Private Equity asset class, as a result of increased fundraising and relatively flat deal volumes. Purchase multiples continued to increase, partly fuelled by high levels of leverage, with US buyout transaction multiples reaching their highest level in 15 years.

In the year, we remained highly selective on new investment. We completed three new investments, all in defensive sectors that have been resilient following the impact of COVID-19 on wider markets. Magnitude Software provides subscription software services which support enterprise ERP solutions; Evernex provides essential IT infrastructure maintenance services; and our new Bioprocessing platform (which was all equity funded), is focused on defensive areas of healthcare. Where appropriate, we will look to add value accretive acquisitions for these companies, as well as supporting the companies to deliver organic growth.

In addition to these three new investments, 13 bolt-on acquisitions were completed across the existing portfolio, the majority of which were funded from the portfolio company balance sheets. These were a combination of complementary businesses in existing geographies and acquisitions which further improve geographic diversification and international growth potential.

Over the last 12 months, our Private Equity team invested a total of £471 million across new, further, bolt-on and other investments, in addition to the £591 million additional investment in Action (as detailed in the Action Transaction overview section).

As a result of the COVID-19 pandemic, investment activity for the next 12 months is expected to be lower than in previous years. In April 2020, we provided an equity injection of €22.5 million to Hans Anders to support its operational cash flow while its stores in most countries were closed or open on an appointment-only basis as a result of the COVID-19 pandemic. Most of the company’s stores have gradually resumed trading in the course of May 2020, with safety measures in place to protect employees and customers. We will prioritise supporting such portfolio assets in the short term, whilst continuing to build an interesting pipeline of new and further investment opportunities.

New investments

Assets	Business description	Date	Proprietary Capital investment
Magnitude Software	Leading provider of unified application data management solutions	May 2019	£139m
Evernex	International provider of third-party maintenance services for data centre infrastructure	October 2019	£214m
Bioprocessing platform	Single-use bioprocessing product platform serving the biopharmaceutical sector	November 2019	£60m
Total new Private Equity investments			**£413m**

Further investments

Assets	Further description	Date	Proprietary Capital investment
Action	Reinvestment in Action as part of the EFV liquidity transaction, increasing our gross equity stake to 52.6% (December 2019: 45.3%)	January 2020 and March 2020	£591m
EFV LP stakes	Acquisition of three additional stakes in EFV at March 2019 valuation, before the Action Transaction	June 2019	£61m
Schlemmer	Liquidity support	April 2019 and September 2019	£10m
Total Private Equity further investments			**£662m**

Bolt-on investments

Assets		Name of acquisition	Business description of bolt-on investments	Date	Proprietary Capital investment
Lampenwelt	+	Lampenlicht/QLF	One of the leading online lighting players in the Benelux	July 2019	£8m
ICE	+	WMPH	We Make People Happy Vacations ("WMPH"), a travel agency	December 2019	£7m
Aspen	+	TNC Clips	Manufacturer and distributor of clips and related products for the air conditioning industry	April 2019	–
Christ	+	Valmano	Online retailer of jewellery and watches in Germany	May 2019	–
Havea	+	Pasquali	A leading skincare brand in Italy	May 2019	–
Basic-Fit	+	Fitland	The third largest fitness operator in the Dutch market by number of clubs with a network of 37 clubs	July 2019	–
Dynatect	+	Thodacon	A leading provider of waywipers and other critical components for the industrial machining and automation markets based in China	August 2019	–
Formel D	+	Vdynamics	A German automotive engineering service provider focused on physical and virtual testing of automotive software and ECUs (electronic control units)	September2019	–
Formel D	+	CPS	International quality service provider	October 2019	–
Q Holding	+	TBL Performance Plastics	A leading manufacturer of single-use bioprocess components and systems	October 2019	–
WP	+	Orange Poland	A manufacturer of deodorant packaging systems	November 2019	–
AES	+	Van Geffen	A Netherlands-based provider of reliability and vibration monitoring service	January 2020	–
Evernex	+	Storex	A South African provider of maintenance services for critical data centre equipment	March 2020	–
Total Private Equity bolt-on investments from 3i balance sheet					**£15m**

Other

Assets	Description	Date	Proprietary Capital investment
Hans Anders	Return of overfunding	December 2019	£(35)m
Other	n/a	n/a	£7m
Total Private Equity other investments			**£(28)m**

Realisations activity

As proprietary capital investors, we are not under pressure to exit investments when market conditions are unfavourable or when we believe a longer-term hold would yield greater returns for shareholders. Aside from the £402 million proceeds generated from the Action Transaction described earlier, we also generated £328 million of capital proceeds from our 2013-16 vintage in the year. In January 2020, we completed the disposal of Aspen Pumps for proceeds of £205 million. This realisation achieved an overall money multiple of 4.1x and IRR of 34%, which validates the effectiveness of our international buy-and-build strategy, complementing strong organic growth in developing a multi-national business.

We took advantage of supportive equity market conditions at the end of 2019 to reduce our quoted holding in Basic-Fit, disposing of 2.9 million shares at a price of €31.25 per share, returning proceeds of £76 million. We retain a 12.7% holding in that business. We continue to refinance our most cash generative assets where appropriate for the business and where the market allows. In December 2019, Audley Travel completed a refinancing which resulted in a £65 million distribution to 3i, of which £47 million was recognised as capital proceeds and the remainder as income. In October 2019, we received £12 million of proceeds from BoConcept following the repayment of a shareholder loan.

Finally, at the end of March 2020, we completed the sale of ACR. We recognised total realised proceeds of £105 million from this sale, with the most significant tranche of these realised proceeds expected to be received in Q3 2020. At 31 March 2020, the proceeds of £105 million were a receivable on the Group's balance sheet.

In aggregate, we generated total Private Equity proceeds of £848 million (2019: £1,235 million) and realised profits of £90 million in the year (2019: £131 million).

Realisation proceeds for the next 12 months are expected to be lower than previous years. However, we go into the year ending 31 March 2021 having sold Kinolt for proceeds of c.€96 million, with completion anticipated in August 2020 and being subject only to competition clearance.

Approach to Private Equity portfolio valuation at 31 March 2020

At 31 March 2020, our approach to valuation was substantially consistent with our policy and the process adopted in previous years. We value the Private Equity portfolio on a "fair value" basis, in line with the International Private Equity and Venture Capital ("IPEV") guidelines, including the recent IPEV guidance which addressed how to reflect the impact of COVID-19 in valuations at 31 March 2020. In addition to our normal process, we placed additional focus on the following areas when considering the impact of COVID-19 on our Private Equity portfolio companies:

- the performance of the portfolio company prior to the COVID-19 outbreak;
- the potential impact on full-year projections for relevant KPIs;
- our long-term, through the cycle view on multiples against the dislocation of capital markets and the average of quoted comparable peer sets;
- the portfolio companies' liquidity; and
- the potential impact on the long-term plan of the portfolio company.

Given the unprecedented social and economic disruption caused by COVID-19, a higher level of judgement has been required to derive the "fair value" of assets in our Private Equity portfolio. To support our valuations, we have gathered a broad range of inputs that cover historical, current and forward-looking data to determine a fair value and where applicable we have used other valuation methodologies to triangulate a proposed valuation.

The majority of our Private Equity valuations at 31 March 2020 have been derived using either last 12 months' earnings to 31 December 2019 or last 12 months' earnings to 31 March 2020. If available and considered reasonably reliable a full-year 2020 forecast was considered and, in a small number of cases, used as the basis of valuation. In all cases net debt was adjusted in accordance with the earnings period used and adjustments were made to capture any additional financing or significant cash outflows up to 31 March 2020.

TABLE 2: **PRIVATE EQUITY REALISATIONS** IN THE YEAR TO 31 MARCH 2020

Investment	Country	Calendar year invested	31 March 2019 value[1] £m	3i realised proceeds £m	Profit/(loss) in the year[2] £m	Uplift on opening value[2] %	Residual value £m	Money multiple[3]	IRR
Full realisations									
Aspen Pumps	UK	2015	103	205	102	99%	–	4.1x	34%
ACR	Singapore	2006	129	105	(30)	(23)%	–	1.0x	–
Total realisations			**232**	**310**	**72**	**31%**	**–**	**2.2x**	**n/a**
Refinancings[3]									
Audley Travel	UK	2015	47	47	–	–	124	1.4x	8%
Total refinancings			**47**	**47**	**–**	**–**	**124**	**1.4x**	**8%**
Partial realisations[1,3]									
Basic-Fit	Netherlands	2013	74	76	2	3%	93	4.2x	37%
BoConcept	Denmark	2016	12	12	–	–	119	1.1x	2%
Other	n/a	n/a	–	1	1	–	n/a	n/a	n/a
Action transaction									
Action transaction	Netherlands	2011	387	402[4]	15	4%	3,536	6.6x	70%
Total Private Equity realisations			**752**	**848**	**90**	**12%**	**3,872**	**n/a**	**n/a**

1 For partial realisations, 31 March 2019 value represents value of stake sold.
2 Cash proceeds realised in the period over opening value.
3 Cash proceeds over cash invested. For partial realisations and refinancings, valuations of any remaining investment are included in the multiple. Money multiples are quoted on a GBP basis.
4 Action's realised proceeds include refinancing proceeds of £289 million and proceeds from the disposal of 3i's LP stake in Action held in EFV of £113 million.

Our strategy of taking a long-term view on valuation multiples has been consistently applied during various peaks and troughs in equity markets over the last seven to eight years. In setting and before changing a multiple we consider a number of factors such as relative performance, investment size, comparable recent transactions and exit plans, and the trading of equity markets. Our approach at 31 March 2020 was consistent with this approach and we were also conscious of not "double dipping" by taking both a market driven multiple and earnings that were impacted by COVID-19. In some cases, we reverted to a comparable peer group multiple whilst in others we maintained a longer-term view. Further detail of Action's valuation can be found in the Action Transaction overview section above.

The table below summarises the approaches we have taken to estimating fair value for the Private Equity portfolio, taking into consideration the impact of COVID-19.

Performance

The portfolio had performed well overall in the 11 months to 29 February 2020. Whilst this period included the £103 million write-down of the remaining value of Schlemmer, there was good momentum across a number of other companies, with Action in particular performing very strongly, and also the excellent realisation of Aspen Pumps at a 99% uplift over its opening value (and 4.1x / 34% IRR over its life). In the 12 months to 31 December 2019, 93% (2019: 93%) of the portfolio by value, including Basic-Fit, grew earnings.

However, after February 2020, the global outbreak of COVID-19 and subsequent major social and economic disruption have had a varied impact on our Private Equity portfolio, with companies exposed to travel, retail and automotive experiencing significant disruption, and those in the manufacturing, software or health and personal care sectors experiencing more robust trading. Further detail on Action's performance can be found on pages 16 and 17 of our Annual report and accounts 2020.

ICE, a global provider of technology-based B2B2C travel-based loyalty and reward solutions, had good momentum running into the start of 2020, despite the loss of the RCI contract earlier in the year, with its previous acquisition of SOR technologies performing strongly and good progress made in integrating its most recent bolt-on acquisition of WMPH. Similarly, Audley Travel, our provider of tailor made travel, had a strong finish to 2019 and start to 2020. Global travel restrictions and lockdowns across most of the world at the end of Q1 2020 have severely impacted travel services, resulting in significant revenue reductions. As a result, we reduced the value of both assets materially. Because it is difficult to predict when travel restrictions will be lifted, and therefore when consumer demand will increase, the value reduction was reflected in the valuation multiple. At 31 March 2020, ICE was valued at £69 million (2019: £155 million) and Audley Travel was valued at £124 million post-refinancing proceeds of £65 million (2019: £270 million).

In 2019 Hans Anders, a value-for-money optical retailer, made good progress with its store roll-out plan and was already recognising operational synergies from its acquisition of eyes + more in January 2019. Due to various government-initiated measures to combat the COVID-19 pandemic, at 31 March 2020 almost all its stores were either closed or open on an appointment-only basis. As a result of the material fall in revenue, we invested a further €22.5 million in Hans Anders in April 2020 to support near-term liquidity and help navigate the business through these tough trading conditions. Most of the company's stores have gradually resumed trading in the course of May 2020, with safety measures in place to protect employees and customers. We reflected the value reduction in Hans Anders through the latest earnings available. At 31 March 2020, Hans Anders was valued at £196 million (2019: £246 million). We have also seen COVID-19 impact BoConcept and Action (see the Action Transaction overview section above). Conversely Lampenwelt, an e-commerce retailer of lighting, has seen record sales in 2020 to date, and we recognised value growth of £10 million.

Approach	General application	Examples
No material change to the valuation approach	• LTM earnings to December 2019 • No material change to the valuation multiple • Used for portfolio companies that have continued to trade well through the COVID-19 pandemic	• Cirtec has continued to trade well through the pandemic • Companies like Royal Sanders and Tato have benefited from increased demand in certain of their products
Impact of COVID-19 mainly reflected through earnings	• LTM earnings to March 2020 or forecast earnings • No material change to the valuation multiple • Used for companies for which the impact of COVID-19 will be limited in time for the duration of lockdowns or other restrictions on trading	• Hans Anders retails non-discretionary products and is expected to resume trading when restrictions are lifted in its markets. As a value-for-money retailer, it is also expected to trade well in less favourable economic conditions
Impact of COVID-19 mainly reflected through valuations multiple	• LTM earnings to March 2020 • Material reduction in the valuation multiple • Approach used for companies for which the negative impact of COVID-19 could endure beyond the duration of any lockdown • In these instances, the extent of the earnings reduction in the current year and beyond is more difficult to forecast with any degree of confidence	• Audley Travel and ICE may suffer from continued restrictions to travel after the lifting of formal lockdowns, or from changes in consumer behaviour and perception of risk

The approach used to value Action is described separately in the Action Transaction overview section above.

Throughout 2019, the automotive sector faced challenging conditions and contracting volumes, which have since been compounded by the COVID-19 pandemic. Formel D, the leading international provider of quality services for the automotive industry, performed well, despite the challenging market backdrop, and also completed the acquisitions of CPS and Vdynamics. However, since the start of Q1 2020, OEM plant shut-downs in China, Europe and the US have impacted Formel D's production related services. Similarly, Q Holding, a manufacturer of precision engineered elastomeric components, experienced softer trading in its QSR business that has exposure to the automotive industry, offsetting good performance in its medical division. In December 2019, Schlemmer filed for administration in Germany. Schlemmer, whose primary end markets are in the automotive industry, faced several operational challenges in its North American plants, as well as a decline in volumes in its European plants. Despite further financial support from 3i, we wrote down our investment in Schlemmer to nil in December 2019, recognising a £103 million value loss in the year.

Cirtec Medical performed strongly throughout 2019 and this momentum has continued into 2020. A combination of organic growth and previous value accretive bolt-on acquisitions which have internationalised its footprint, have increased its exposure to high-growth end markets that are important long-term value drivers. Similarly, Royal Sanders, the private label and contract manufacturing producer of personal care products, delivered growth rates that exceeded the general market in 2019 and has performed well into 2020. As a result, we increased our value in Cirtec to £302 million (2019: £248 million) and Royal Sanders to £198 million (2019: £147 million). Tato, the manufacturer of speciality chemicals, performed very strongly in the year, driven by organic growth in most existing markets with particularly strong growth in the Americas and China.

Table 3 shows the portfolio earnings growth of the top 20 Private Equity investments in 2019.

TABLE 3: **PORTFOLIO EARNINGS GROWTH OF THE TOP 20 PRIVATE EQUITY[1] INVESTMENT IN 2019**

	Number of companies	**3i carrying value at 31 March 2020 £m**
<0%	3	**413**
0 - 9%	8	**1,380**
10 - 19%	3	**466**
>20%	6	**4,186**

1 Includes top 20 Private Equity companies by value. This represents 98% of the Private Equity portfolio by value (31 March 2019: 97%). Last 12 months' earnings to 31 December 2019.

Leverage

The leverage in our Private Equity portfolio comprises all senior debt, which is competitively priced and will benefit from a lower interest rate environment. It has a long-dated maturity profile, with 93% not due for repayment until 2023 or later. We completed a number of significant re-financings ahead of the current COVID-19 crisis (including on Action), securing good terms on each. Across the whole portfolio leverage was 4.1x (31 March 2019: 3.9x), with good covenant flexibility in place.

Table 4 shows the ratio of net debt to earnings by portfolio value.

TABLE 4: **RATIO OF NET DEBT TO EARNINGS[1]**

	Number of companies	3i carrying value at 31 March 2020 £m
<1x	2	**205**
1 - 2x	2	**263**
2 - 3x	1	**24**
3 - 4x	2	**322**
4 - 5x	8	**4,644**
5 - 6x	3	**520**

1 This represents 91% of the Private Equity portfolio by value (31 March 2019: 88%). Quoted holdings, deferred consideration and companies with net cash are excluded from the calculation. Net debt and earnings at 31 December 2019.

Multiple movements

The decrease in value due to multiple movements was £231 million (2019: £219 million increase).

The majority of global indices reported double digit growth in 2019, notwithstanding political and economic uncertainty. This resulted in near historic highs in EV/EBITDA valuation multiples of quoted comparable companies across most of our core sectors. Towards the end of Q1 2020, equity markets fell significantly as a result of the COVID-19 pandemic. A number of sectors have been materially de-rated, including the travel, retail and automotive sectors. A major consideration when determining our long-term view on valuation multiples is the impact of macro-economic factors that may alter or delay our investment case. As a result of the COVID-19 pandemic and subsequent disruption, we reduced a number of our portfolio company multiples. The most significant decrease (>1.0x) in multiple was for Audley Travel, ICE, BoConcept and AES.

For each of our assets valued on an earnings basis, we considered the impact of the new lease accounting standards, IFRS 16 and Accounting Standards Codification 842 and, where appropriate, made adjustments to aid the comparability of multiples. It is clear that it will take some time for the effect of these new standards to be fully absorbed into comparable multiples and so we are keeping our policy under review.

Quoted portfolio

In its 2019 financial year Basic-Fit, the only quoted asset in the Private Equity portfolio, increased its revenue and adjusted EBITDA by 28% and 25% respectively. The business ended the year with 784 clubs and 2.2 million members. In December 2019, we sold 5.3% of our shareholding in Basic-Fit at €31.25 per share, generating proceeds of £76 million. As a result of COVID-19, all Basic-Fit’s gyms have been temporarily closed, resulting in a 49% reduction in share price to €15.20 in the 12 months to 31 March 2020 (31 March 2019: €30.00). We retain a 12.7% stake in the business, valued at £93 million as at 31 March 2020.

Assets under management

The value of 3i's proprietary capital invested in Private Equity increased to £6.6 billion in the year (31 March 2019: £6.0 billion), as we were a net investor in the year.

The value of the Private Equity portfolio, including third-party capital, increased to €9.9 billion (31 March 2019: €9.6 billion).

TABLE 5: **UNREALISED (LOSSES)/PROFITS ON THE REVALUATION OF PRIVATE EQUITY INVESTMENTS**[1] IN THE YEAR TO 31 MARCH

	2020 £m	2019 £m
Earnings based valuations		
Performance (excluding Action)	(61)	214
Multiple movements	(231)	219
Action performance to 31 December 2019/(2019: performance to 31 March 2019)	733	440
Action fair value adjustment at 31 March 2020	(272)	–
Other bases		
Uplift to imminent sale	1	–
Write off of Schlemmer	(103)	–
Discounted cash flow	(9)	–
Other movements on unquoted investments	–	(12)
Quoted portfolio	(92)	55
Total	**(34)**	916

1 Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation in our Annual report and accounts 2020.

TABLE 6: **PRIVATE EQUITY ASSETS BY GEOGRAPHY** AS AT 31 MARCH 2020

3i office location	Number of companies	3i carrying value 2020 £m
Benelux	6	4,222
France	2	399
Germany	5	565
UK	8	486
US	7	850
Other	4	30
Total	**32**	**6,552**

TABLE 7: **PRIVATE EQUITY PROPRIETARY CAPITAL** AS AT 31 MARCH

Vintages	Proprietary capital value 2020 £m	Vintage multiple 2020	Proprietary capital value 2019 £m	Vintage multiple 2019
Buyouts 2010–2012[1]	1,623	9.5x	2,679	8.5x
Growth 2010–2012	20	2.1x	25	2.1x
2013–2016[1]	869	2.2x	1,325	2.3x
2016–2019[1]	1,472	1.0x	1,503	1.2x
2019–2022[1]	281	1.0x	–	–
Others[2]	2,287	n/a	491	n/a
Total	**6,552**		6,023	

1 Assets included in these vintages are disclosed in the Glossary.
2 Includes value of £1,913 million held in Action through 3i Co-investment 2020 LP and 3i.

Infrastructure

We manage a range of funds investing principally in mid-market economic infrastructure in Europe. 3i's Infrastructure team looks at a range of investment opportunities across adjacent sectors to utilities, transportation, communications and energy. Infrastructure is a defensive asset class that is resilient and provides a good source of income and fees for the Group, enhancing returns on our proprietary capital. The team is also active in the deployment of proprietary capital as part of our strategy to build our North American Infrastructure platform.

At a glance

Gross investment return
£(39)m or (4)%
(2019: £210m or 25%)

AUM
£4,441m
(2019: £4,198m)

Cash income
£78m
(2019: £82m)

Infrastructure contributed a gross investment return of £(39) million, or (4)% on the opening portfolio (2019: £210 million, 25%). The negative return was driven primarily by the impact of COVID-19 on 3iN's share price which declined by 10% in the year. 3iN generated £581 million of proceeds from the sale of WIG and the UK projects portfolio and made two new investments in Joulz and Ionisos. We continued to build our US Infrastructure platform with the completion of our second proprietary capital investment in Regional Rail and two subsequent bolt-on acquisitions of short-line freight railroads.

TABLE 8: **GROSS INVESTMENT RETURN** FOR THE YEAR TO 31 MARCH

Investment basis	2020 £m	2019 £m
Realised profits over value on the disposal of investments	**–**	1
Unrealised (losses)/profits on the revaluation of investments	**(92)**	162
Dividends	**26**	23
Interest income from investment portfolio	**12**	10
Fees receivable	**–**	(1)
Foreign exchange on investments	**21**	15
Movement in the fair value of derivatives	**(6)**	–
Gross investment return	**(39)**	**210**
Gross investment return as a % of opening portfolio value	**(4)%**	**25%**

3iN performance

3iN's portfolio consists of economic infrastructure and greenfield projects across the utilities, communications, healthcare, transportation, energy and natural resources and social infrastructure sectors. By nature, the portfolio is defensive and less vulnerable to economic downturns. To date, the severe social and economic disruption caused by COVID-19 has had limited operational impact on the 3iN investment portfolio with TCR, the airport ground handling equipment business, the portfolio company most affected due to travel restrictions.

The portfolio generated a return on opening NAV of 11% (2019: 15%), ahead of 3iN's target total return of between 8-10% per annum to be achieved over the medium term.

As investment manager to 3iN we received a management fee of £28 million (2019: £31 million) and a NAV based performance fee of £6 million (2019: £31 million).

3iN investment and realisations

3iN made two new acquisitions in the year; the £190 million investment in Joulz, which owns and provides essential energy infrastructure equipment and services in the Netherlands, and the £186 million investment in Ionisos, a leading owner and operator of cold sterilisation facilities headquartered in France. In addition to these investments, 3iN completed the bolt-on acquisition by Valorem of Force Hydraulique Antillaise SAS in the year.

In March 2020, 3iN announced Joulz's acquisition of GreenFlux's electric vehicle charging station business, with over 3,000 charging points across the Netherlands. This acquisition is the first since 3iN invested in Joulz in April 2019 and is part of Joulz's strategy to expand into other energy transition related products and services for the B2B market.

Demand for infrastructure assets remained strong in FY2020. In December 2019, 3iN completed the realisations of WIG for proceeds of £387 million and IRR of 27% and of the UK projects portfolio for proceeds of £194 million and IRR of 15%.

3iN placing

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

Performance of 3i's proprietary capital Infrastructure portfolio

Quoted stake in 3iN

The Group's proprietary capital infrastructure portfolio consists primarily of its 30% stake in 3iN.

The impact of COVID-19 on capital markets has been wide reaching, affecting even defensive asset classes such as Infrastructure. As a result, 3iN's share price decreased by 10%, closing at 247 pence on 31 March 2020 (31 March 2019: 275 pence). We recognised a £76 million unrealised value reduction on our 3iN investment and received £24 million of dividend income (2019: £22 million).

TABLE 9: **UNREALISED (LOSSES)/PROFITS ON THE REVALUATION OF INFRASTRUCTURE INVESTMENTS**[1]
IN THE YEAR TO 31 MARCH

	2020 £m	2019 £m
Quoted	**(76)**	167
Discounted cash flow	**(16)**	(7)
Fund	**–**	2
Total	**(92)**	**162**

1 Further information on our valuation methodology, including definitions and rationale, is included in the portfolio valuation – an explanation section in our Annual report and accounts 2020.

TABLE 10: **INFRASTRUCTURE PORTFOLIO MOVEMENT** FOR THE YEAR TO 31 MARCH 2020

Investment	Valuation	Opening value at 1 April 2019 £m	Investment £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements[1] £m	**Closing value at 31 March 2020 £m**
3iN	Quoted	744	–	–	(76)	(3)	**665**
Smarte Carte	DCF	181	–	–	(22)	13	**172**
Regional Rail	DCF	–	175	–	10	10	**195**
3i Managed Infrastructure Acquisitions Fund	NAV	38	–	–	–	–	**38**
3i European Operational Projects Fund	NAV	8	11	–	–	1	**20**
India Infrastructure Fund	DCF	30	–	–	(4)	1	**27**
		1,001	186	–	(92)	22	**1,117**

1 Other movements include foreign exchange.

North American Infrastructure

Our North American Infrastructure team completed its second infrastructure investment in July 2019, with the acquisition of Regional Rail, which owns and operates short-line freight railroads and rail-related businesses throughout the Mid-Atlantic US. Part of our investment thesis for acquiring Regional Rail is to build on the existing platform by bolting on other short-line railroads across its highly fragmented market. We have made a good start towards this strategy with two bolt-on acquisitions. In December 2019, we supported Regional Rail's strategically transformative acquisition of Pinsly Railroad Company's Florida operations and, in February 2020, Regional Rail acquired Carolina Coastal Railway. The total investment in Regional Rail including bolt-on acquisitions was £175 million.

Regional Rail's operating profile has not been materially impacted by the COVID-19 pandemic. All of Regional Rail's operations are deemed "essential services" and have continued to operate. At 31 March 2020, Regional Rail was valued on a DCF basis and the resulting valuation was £195 million.

US and global travel restrictions are impacting all revenue streams for Smarte Carte, our US luggage carts, lockers and strollers business. The team is working on cost mitigation and financing options to navigate this tough trading period. At 31 March 2020, Smarte Carte was valued on a DCF basis and the resulting valuation was £172 million.

We executed a short-term hedging programme to mitigate the foreign exchange translation risk of our investment in Regional Rail. We recognised a £10 million gain on foreign exchange translation for Regional Rail offset by a £6 million loss in the year from the movement on the fair value of these derivatives.

Fund management

We have continued to deploy committed capital in our 3i European Operational Projects Fund. In April 2019, we announced investments in four projects across Europe. In October 2019 the Fund agreed to invest €70 million for the acquisition of an 80% stake in Sociedad Concesionaria Autovia Geredíaga Elorrio, SA ("AGESA"), the project company for the Geredíaga–Elorrio motorway in Spain. The fund continued its investment momentum into January 2020 with the agreement to acquire a portfolio of eight operational projects in France from DIF Infrastructure III. Following the completion of this transaction in April, the Fund has deployed c.60% of its total commitments.

Infrastructure AUM increased to £4.4 billion (2019: £4.2 billion), principally due to further investment in US Infrastructure and 3i European Operational Projects Fund offsetting the reduction in 3iN's share price.

TABLE 11: **ASSETS UNDER MANAGEMENT** AS AT 31 MARCH 2020

Fund/strategy	Close date	Fund size	3i commitment/ share	Remaining 3i commitment	% invested at 31 March 2020	**AUM £m**	**Fee income earned in 2020 £m**
3iN[1]	Mar 07	n/a	£665m	n/a	n/a	**2,202**	**28**
3i Managed Infrastructure Acquisitions LP	Jun 17	£698m	£35m	£5m	86%	**756**	**6**
3i European Operational Projects Fund	Apr 18	€456m	€40m	€18m	52%	**217**	**2**
BIIF	May 08	£680m	n/a	n/a	90%	**486**	**4**
3i India Infrastructure Fund	Mar 08	US$1,195m	US$250m	US$35m	73%	**102**	**–**
3i managed accounts	various	n/a	n/a	n/a	n/a	**308**	**2**
US Infrastructure	various	n/a	n/a	n/a	n/a	**370**	**–**
Total						**4,441**	**42**

1 AUM based on the share price at 31 March 2020.

Scandlines

Scandlines is held for its strategic value with the ability to deliver long-term capital returns whilst generating a strong cash income.

At a glance

Gross investment return

£5m or 1%

(2019: £49m or 9%)

Proceeds

£107m[1]

(2019: £28m)[2]

1 Capital proceeds of £70 million and dividend distributions of £37 million in FY2020.
2 Dividend distributions in FY2019.

Scandlines generated a gross investment return of £5 million (March 2019: £49 million) or 1% of opening portfolio value (March 2019: 9%). The business completed an investment grade debt refinancing in August 2019, returning capital proceeds of £70 million and dividend income of £21 million. We also received an additional £16 million of dividend income in the year.

TABLE 12: **GROSS INVESTMENT RETURN** FOR THE YEAR TO 31 MARCH

Investment basis	2020 £m	2019 £m
Unrealised (loss)/profit on the revaluation of investments	**(46)**	9
Dividends	**37**	28
Foreign exchange on investments	**17**	(9)
Movement in the fair value of derivatives	**(3)**	21
Gross investment return	**5**	49
Gross investment return as a % of opening portfolio value	**1%**	9%

Portfolio performance

Scandlines continues to perform well and produced solid results in 2019. Leisure volumes were in line with 2018 whilst freight volumes marginally declined due to weakened trade flows between Scandinavia and continental Europe. This resulted in stable revenues from Scandlines' two traffic routes despite weakening market conditions. In August 2019, Scandlines raised an investment grade debt facility, maintaining its BBB rating from Fitch, and returning £70 million of capital proceeds to 3i, in addition to £21 million of dividend income. A further £16 million of dividend income was also received in the year. Since our reinvestment in June 2018, Scandlines has already returned 26% of our reinvestment amount.

The Danish and German Governments' decision to impose border controls in March 2020 due to COVID-19 has had a major short-term impact on car volumes in particular. However, Scandlines' strategic importance to supply chains across the region is evident and freight continues to flow with good volumes despite the reduced economic activity across Europe. To reflect the short-term impact to volumes from the temporary restrictions and the current elevated level of potential uncertainty of the longer-term impact of the pandemic, we reduced the value of Scandlines to £429 million from £464 million at 31 December 2019 (31 March 2019: £529 million pre refinancing proceeds of £70 million).

Management is working hard to ensure the resilience of the business despite the tougher trading conditions caused by COVID-19 and we remain confident that Scandlines, as a vital piece of infrastructure connecting continental Europe and Scandinavia, will continue to provide strategic value to 3i over the medium term.

Foreign exchange

We hedge our investment in Scandlines for foreign exchange translation risks. We recognised a £14 million net gain on foreign exchange translation (March 2019: £12 million gain) including a £3 million fair value loss (March 2019: £21 million gain) from our hedging programme.

Financial review

Solid financial performance

We generated a gross investment return of £318 million in FY2020 (2019: £1,407 million) and operating profit before carried interest of £215 million (2019: £1,295 million).

The total return was £253 million, representing a profit on opening shareholders' funds of 3% (2019: £1,252 million or 18%). The diluted NAV per share at 31 March 2020 decreased by 1% to 804 pence (31 March 2019: 815 pence) after paying dividends totalling 37.5 pence per share during the year.

TABLE 13: **TOTAL RETURN** FOR THE YEAR TO 31 MARCH

Investment basis	**2020 £m**	2019 £m
Realised profits over value on the disposal of investments	**90**	132
Unrealised (losses)/profits on the revaluation of investments	**(172)**	1,087
Portfolio income		
Dividends	**68**	63
Interest income from investment portfolio	**118**	113
Fees receivable	**9**	9
Foreign exchange on investments	**214**	(18)
Movement in the fair value of derivatives	**(9)**	21
Gross investment return	**318**	1,407
Fees receivable from external funds	**44**	53
Operating expenses	**(116)**	(126)
Interest received	**1**	2
Interest paid	**(38)**	(36)
Exchange movements	**1**	(3)
Other income/(expense)	**5**	(2)
Operating profit before carried interest	**215**	1,295
Carried interest		
Carried interest and performance fees receivable	**85**	159
Carried interest and performance fees payable	**(84)**	(220)
Operating profit	**216**	1,234
Income taxes	**(1)**	13
Re-measurements of defined benefit plans	**38**	5
Total comprehensive income ("Total return")	**253**	1,252
Total return on opening shareholders' funds	**3%**	18%

Investment basis and alternative performance measures ("APMs")

In our Strategic report we report our financial performance using our Investment basis. We do not consolidate our portfolio companies; as private equity and infrastructure investments they are not operating subsidiaries. IFRS 10 provides an exception from consolidation but also requires us to fair value other companies in the Group (primarily intermediate holding companies and partnerships), which results in a loss of transparency. As explained in the Investment basis and Reconciliation of investment basis and IFRS sections below, the total comprehensive income and net assets are the same under our audited IFRS financial statements and our Investment basis. The Investment basis is simply a "look through" of IFRS 10 to present the underlying performance and we believe it is more transparent to readers of our Annual report and accounts.

In October 2015, the European Securities and Markets Authority ("ESMA") published guidelines about the use of APMs. These are financial measures such as KPIs that are not defined under IFRS. Our Investment basis is itself an APM, and we use a number of other measures which, on account of being derived from the Investment basis, are also APMs.

Further information about our use of APMs, including the applicable reconciliations to the IFRS equivalent where appropriate, is provided at the end of the Financial review and should be read alongside the Investment basis to IFRS reconciliation. Our APMs are gross investment return as a percentage of the opening investment portfolio value, cash realisations, cash investment, operating cash profit, net cash/(debt) and gearing.

Realised profits

We generated total realised proceeds of £918 million (2019: £1,242 million) and realised profits of £90 million (2019: £132 million) in the year, of which the Private Equity portfolio contributed £848 million of proceeds and £90 million of realised profits (2019: £1,235 million, £131 million). The profits were generated from the sale of Aspen (£102 million realised profit) and disposal of additional LP stakes in EFV as part of the Action Transaction (£15 million realised profit). At the end of March 2020, we completed the sale of ACR. We recognised total realised proceeds of £105 million and a realised loss of £30 million from this sale. The most significant tranche of these realised proceeds is expected to be received in Q3 2020. Further information on the Action Transaction can be found in the Business review above.

Realisation proceeds for the next 12 months are expected to be lower than in previous years. However, we go into the year ending 31 March 2021 having sold Kinolt for proceeds of c.€96 million, with completion anticipated in August 2020 and being subject only to competition clearance.

Unrealised value movements

We recognised an unrealised value loss of £172 million (2019: £1,087 million gain). The COVID-19 pandemic and its many consequences had a material impact on the valuation of some of our portfolio companies as at 31 March 2020. Portfolio companies exposed to travel, transportation, retail and automotive have been most affected (Action, Audley Travel, ICE, Smarte Carte, Hans Anders and Formel D). Conversely, those in medical, personal care or cleaning products are experiencing increased demand (Royal Sanders, Cirtec and Tato). Sharp falls in global capital markets have resulted in an unrealised value loss of £168 million in our quoted portfolio following share price declines of 10% for 3iN and 49% for Basic-Fit in the 12 months to 31 March 2020.

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

Portfolio income

Portfolio income increased to £195 million during the year (2019: £185 million) principally due to the receipt of £37 million of dividend income from Scandlines (2019: £28 million). Loan interest income receivable from portfolio companies increased marginally to £118 million (2019: £113 million). The majority of this interest income is non-cash. Fee income remained stable in the year at £9 million (2019: £9 million). We expect a lower level of portfolio income in FY2021 as we focus on preserving the liquidity of some of our portfolio companies and because realisations and refinancings (which can also produce income) are also expected to be lower.

Fees receivable from external funds

Fees received from external funds decreased to £44 million (2019: £53 million). Following the Action Transaction 3i will receive an administration fee from the co-investment vehicles.

3i receives a fund management fee from 3iN, which amounted to £28 million in FY2020 (2019: £31 million). 3i also received fee income of £6 million (2019: £6 million) from 3i Managed Infrastructure Acquisitions (“MIA”) through advisory and management fees and continued to generate fee income from other 3i managed accounts and other funds.

Operating expenses

Operating expenses decreased to £116 million (2019: £126 million), principally due to lower employee costs and general, careful cost management. 3i continues to focus on operating expenses to reinforce the need to maintain good cost control and achieve an operating cash profit.

TABLE 14: **UNREALISED VALUE MOVEMENTS ON THE REVALUATION OF INVESTMENTS** FOR THE YEAR TO 31 MARCH

	2020 £m	2019 £m
Private Equity	**(34)**	916
Infrastructure	**(92)**	162
Scandlines	**(46)**	9
Total	**(172)**	1,087

Operating cash profit

We generated an operating cash profit of £40 million in the year (2019: £46 million). Cash income increased to £160 million (2019: £155 million), principally due to increased cash interest. We received £37 million of dividend income from Scandlines (2019: £28 million) and non-recurring cash interest of £25 million from Audley Travel and Aspen Pumps.

TABLE 15: **OPERATING CASH PROFIT** FOR THE YEAR TO 31 MARCH

	2020 £m	2019 £m
Cash fees from external funds	**44**	57
Cash portfolio fees	**12**	11
Cash portfolio dividends and interest	**104**	87
Cash income	**160**	155
Cash operating expenses[1]	**(120)**	(109)
Operating cash profit	**40**	46

1 Cash operating expenses include operating expenses paid and lease payments.

Carried interest and performance fees

We receive carried interest and performance fees from third-party funds. We also pay carried interest and performance fees to participants in plans relating to returns from investments. These are received and/or paid subject to meeting certain performance conditions. In Private Equity, we typically accrue net carried interest payable between 10% to 13% of gross investment return.

Carried interest is paid to participants when the performance hurdles are passed in cash terms, when the cash proceeds have been received following a realisation, refinancing event or other cash distribution. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants are both current and previous employees of 3i.

Following the sale of the EFV interest in Action, the relevant EFV carry hurdles were met, with EFV releasing carry it owed to 3i Group. The sum of £679 million was received by 3i Group from the investors in EFV in January 2020. This payment also triggered the equivalent hurdles in the so-called Buyouts 2010-12 carry scheme, crystallising payments to the 81 individual participants in that scheme, which will be made during FY2021. These carry payments are calculated in accordance with the related partnership agreements, and are not discretionary. They are a consequence of the successful sale of EFV investments and reflect the outstanding success of Action, the 10-year duration of the Buyouts 2010-12 carry scheme, and also include the repayment of significant co-investment made by the individual participants starting in 2010.

Given the age of the scheme, the majority of the recipients no longer work at 3i. Total payments made will be £547 million; the reduction in 3i's opening cash of £845 million will be £438 million, with the remainder being funded by the release of an escrow account held separately on the balance sheet. 3i will continue to accrue carried interest in accordance with the Buyouts 2010-12 carry scheme agreements in relation to the residual Action stake held through the Buyouts 2010-12 carry scheme.

During the period, £35 million was paid to participants in the Private Equity plans (2019: £77 million).

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high watermark. The continued strong performance of the assets held by 3iN, including the significant uplift achieved on the sale of WIG, resulted in the recognition of £6 million (2019: £31 million) of performance fees receivable. The Infrastructure team receives a share of the performance fee received from 3iN, with the majority of payments deferred and expensed over a number of years. £21 million (2019: £14 million) was recognised as an expense during the year, relating to performance fees from both the current and previous years. The total potential payable relating to the FY2020 performance fee is £6 million, which together with the prior periods' performance fees, results in a remaining cumulative total potential payable for performance fees of £58 million.

TABLE 16: **CARRIED INTEREST AND PERFORMANCE FEES** FOR THE YEAR TO 31 MARCH

Statement of comprehensive income	2020 £m	2019 £m
Carried interest and performance fees receivable		
Private Equity	**79**	128
Infrastructure	**6**	31
Total	**85**	159
Carried interest and performance fees payable		
Private Equity	**(63)**	(206)
Infrastructure	**(21)**	(14)
Total	**(84)**	(220)
Net carried interest payable	**1**	(61)

TABLE 17: **CARRIED INTEREST AND PERFORMANCE FEES** AT 31 MARCH

Statement of financial position	2020 £m	2019 £m
Carried interest and performance fees receivable		
Private Equity	**11**	609
Infrastructure	**6**	31
Total	**17**	640
Carried interest and performance fees payable		
Private Equity	**(998)**	(942)
Infrastructure	**(40)**	(28)
Total	**(1,038)**	(970)

Net foreign exchange movements

At 31 March 2020, 78% of the Group's net assets were denominated in euros or US dollars (31 March 2019: 77%). Following the weakening of sterling against the euro and US dollar, the Group recorded a total net foreign exchange gain of £215 million, before the £9 million loss from the movement in the fair value of hedging derivatives (2019: £21 million gain) in the year.

The Group's general policy remains not to hedge its foreign currency denominated portfolio. Where possible, flows from currency realisations are matched with currency investments. Short-term derivative contracts are used occasionally to manage transaction cash flows. Hedging of our reinvestment in Scandlines remains in place to mitigate the foreign exchange translation risk associated with our investment in Scandlines which is considered a longer-term hold with relatively predictable cash flows. During the year, we also completed a hedging programme to help mitigate the foreign exchange translation risk on our investment in Regional Rail. As at 31 March 2020 the notional amount of the forward foreign exchange contracts held by the Group was €500 million for Scandlines and $112 million for Regional Rail and the movement in fair value of the derivatives was a £9 million loss.

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

Pension

During the year, the Group and the Trustees of the 3i Group Pension Plan ("the Plan") commenced an exercise to consider a possible "buyout" of the Plan. This would involve the Trustees first completing a further "buyin" transaction with an insurance company to secure all remaining uninsured liabilities in the Plan, following which the expectation would be that the Plan's Trustees would, ultimately and at the appropriate time, exercise their right to convert the buyin policies held in the Plan into individual annuity policies in the names of Plan members.

Such a buyin would eliminate risks to the Group from factors such as inflation, interest rate movements, investment returns and longevity, whilst continuing to deliver benefits promised to Plan members. Following the exercise by the Trustees of their right to convert the buyin policies into individual annuity policies, all responsibility for paying members' benefits would transfer from the Plan to the relevant insurance companies.

The last triennial funding valuation was based on the Plan's position at 30 June 2016. On an IAS 19 basis, the Plan remains in surplus and there was a £36 million re-measurement gain during the year (2019: £8 million). The liability of the Plan increased in the year following a decrease in the discount rate. This was offset by an increase in the underlying asset valuations.

TABLE 18: **NET ASSETS AND SENSITIVITY BY CURRENCY** AT 31 MARCH

	FX rate	£m	%	1% sensitivity £m
Sterling	n/a	**1,511**	20%	**n/a**
Euro[1]	1.1305	**4,904**	63%	**48**
US dollar[1]	1.2404	**1,191**	15%	**12**
Danish krone	8.4381	**119**	2%	**1**
Other	n/a	**32**	–	**n/a**

1 Sensitivity impact is net of derivatives.

TABLE 19: **SIMPLIFIED CONSOLIDATED BALANCE SHEET** AT 31 MARCH

Statement of financial position	2020 £m	2019 £m
Investment portfolio	**8,098**	7,553
Gross debt	**(575)**	(575)
Cash and deposits	**845**	1,070
Net cash	**270**	495
Carried interest and performance fees receivable	**17**	640
Carried interest and performance fees payable	**(1,038)**	(970)
Other net assets	**410**	191
Net assets	**7,757**	7,909
Gearing[1]	**nil**	nil

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

Tax

The affairs of the Group's parent company continue to be directed to allow it to operate in the UK as an approved investment trust company. An approved investment trust is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK. The Group's tax charge for the year was £1 million (2019: £13 million credit). The Group's overall UK tax position for the financial year is dependent on the finalisation of the tax returns of the various corporate and partnership entities in the UK group.

Balance sheet

Net cash decreased to £270 million (31 March 2019: £495 million) as the Group became a net investor in FY2020. The investment portfolio value increased to £8,098 million at 31 March 2020 (31 March 2019: £7,553 million) with a foreign exchange gain and cash investment offsetting the value of realisations in the year.

Further information on investments and realisations is included in the Private Equity, Infrastructure and Scandlines Business reviews.

Liquidity

Liquidity remained strong at £1,245 million (31 March 2019: £1,420 million). Liquidity comprised cash and deposits of £845 million (31 March 2019: £1,070 million) and undrawn facilities of £400 million (31 March 2019: £350 million). In March we completed a successful refinancing of our RCF, increasing the size to £400 million and extending the maturity to 2025 without any financial covenants, which ensures the Group continues to have access to additional liquidity if necessary.

Dividend

The Board has recommended a second FY2020 dividend of 17.5 pence (2019: 20.0 pence). Subject to shareholder approval, the dividend will be paid to shareholders in July 2020 and takes the total dividend for the year to 35.0 pence (2019: 35.0 pence).

In addition to the expected agreed proceeds from the realisations of ACR and Kinolt in FY2021, the Group had cash and liquidity of £1,245 million as at 31 March 2020, and is therefore well positioned to fund the second FY2020 dividend of 17.5 pence.

Corporate Assets

Our Corporate Assets segment was formed following our sale and reinvestment into Scandlines in June 2018. At that time, it was considered possible that the Action Transaction would result in the transfer of our holding in Action to Corporate Assets from Private Equity. However, there were no changes to the governance of Action as a result of the Transaction and Action continues to be reported as part of the Private Equity segment. For simplicity, we have therefore eliminated reference to Corporate Assets and referred to Scandlines where necessary.

Key accounting judgements and estimates

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

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

Given the importance of the valuation of investments, the Board has a separate Valuations Committee to review the valuation policy, process and application to individual investments. However, asset valuations for unquoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2020, 91% by value of the investment assets were unquoted (31 March 2019: 87%).

The valuation of the proprietary capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2020 and the underlying investment management agreements.

Investment basis

Consolidated statement of comprehensive income

for the year to 31 March

	2020 £m	2019 £m
Realised profits over value on the disposal of investments	**90**	132
Unrealised (losses)/profits on the revaluation of investments	**(172)**	1,087
Portfolio income		
Dividends	**68**	63
Interest income from investment portfolio	**118**	113
Fees receivable	**9**	9
Foreign exchange on investments	**214**	(18)
Movement in the fair value of derivatives	**(9)**	21
Gross investment return	**318**	1,407
Fees receivable from external funds	**44**	53
Operating expenses	**(116)**	(126)
Interest received	**1**	2
Interest paid	**(38)**	(36)
Exchange movements	**1**	(3)
Other income/(expense)	**5**	(2)
Operating profit before carried interest	**215**	1,295
Carried interest		
Carried interest and performance fees receivable	**85**	159
Carried interest and performance fees payable	**(84)**	(220)
Operating profit	**216**	1,234
Income taxes	**(1)**	13
Profit for the year	**215**	1,247
Other comprehensive income		
Re-measurements of defined benefit plans	**38**	5
Total comprehensive income for the year (“Total return”)	**253**	1,252

Consolidated statement of financial position

as at 31 March

	2020 £m	2019 £m
Assets		
Non-current assets		
Investments		
Quoted investments	**758**	998
Unquoted investments	**7,340**	6,555
Investment portfolio	**8,098**	7,553
Carried interest and performance fees receivable	**11**	605
Other non-current assets	**26**	117
Intangible assets	**9**	11
Retirement benefit surplus	**173**	134
Property, plant and equipment	**5**	4
Right of use asset	**19**	–
Derivative financial instruments	**7**	11
Total non-current assets	**8,348**	8,435
Current assets		
Carried interest and performance fees receivable	**6**	35
Other current assets	**296**	29
Current income taxes	**2**	12
Derivative financial instruments	**6**	7
Deposits	**–**	50
Cash and cash equivalents	**845**	1,020
Total current assets	**1,155**	1,153
Total assets	**9,503**	9,588
Liabilities		
Non-current liabilities		
Trade and other payables	**(5)**	(8)
Carried interest and performance fees payable	**(505)**	(926)
Loans and borrowings	**(575)**	(575)
Retirement benefit deficit	**(25)**	(27)
Lease liability	**(16)**	–
Derivative financial instruments	**(2)**	–
Deferred income taxes	**(1)**	(1)
Provisions	**(3)**	(1)
Total non-current liabilities	**(1,132)**	(1,538)
Current liabilities		
Trade and other payables	**(73)**	(95)
Carried interest and performance fees payable	**(533)**	(44)
Lease liability	**(4)**	–
Derivative financial instruments	**(2)**	–
Current income taxes	**(2)**	(1)
Provisions	**–**	(1)
Total current liabilities	**(614)**	(141)
Total liabilities	**(1,746)**	(1,679)
Net assets	**7,757**	7,909
Equity		
Issued capital	**719**	719
Share premium	**788**	787
Other reserves	**6,328**	6,445
Own shares	**(78)**	(42)
Total equity	**7,757**	7,909

Consolidated cash flow statement

for the year to 31 March

	2020 £m	2019 £m
Cash flow from operating activities		
Purchase of investments	**(1,279)**	(859)
Proceeds from investments	**801**	1,261
Net cash flow from derivatives	**–**	3
Portfolio interest received	**34**	26
Portfolio dividends received	**70**	61
Portfolio fees received	**12**	11
Fees received from external funds	**44**	57
Carried interest and performance fees received	**696**	104
Carried interest and performance fees paid	**(44)**	(86)
Carried interest held in non-current assets	**(14)**	(9)
Operating expenses paid	**(116)**	(109)
Co-investment loans paid	**(8)**	(3)
Income taxes received/(paid)	**10**	(10)
Other cash income	**2**	–
Net cash flow from operating activities	**208**	447
Cash flow from financing activities		
Issue of shares	**1**	1
Purchase of own shares	**(59)**	(29)
Dividends paid	**(363)**	(358)
Lease payments	**(4)**	–
Interest received	**1**	2
Interest paid	**(42)**	(39)
Net cash flow from financing activities	**(466)**	(423)
Cash flow from investing activities		
Purchase of property, plant and equipment	**(3)**	(3)
Net cash flow from deposits	**50**	(50)
Net cash flow from investing activities	**47**	(53)
Change in cash and cash equivalents	**(211)**	(29)
Cash and cash equivalents at the start of year	**1,020**	1,054
Effect of exchange rate fluctuations	**36**	(5)
Cash and cash equivalents at the end of year	**845**	1,020

Background to Investment basis financial statements

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

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

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

Reconciliation of Investment basis and IFRS

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

Reconciliation of Investment basis and IFRS

Reconciliation of consolidated statement of comprehensive income

for the year to 31 March

	Notes	Investment basis 2020 £m	IFRS adjustments 2020 £m	IFRS basis 2020 £m	Investment basis 2019 £m	IFRS adjustments 2019 £m	IFRS basis 2019 £m
Realised profits/(losses) over value on the disposal of investments	1,2	90	(119)	(29)	132	(99)	33
Unrealised (losses)/profits on the revaluation of investments	1,2	(172)	144	(28)	1,087	(919)	168
Fair value movements on investment entity subsidiaries	1	–	191	191	–	827	827
Portfolio income							
Dividends	1,2	68	(46)	22	63	(37)	26
Interest income from investment portfolio	1,2	118	(81)	37	113	(80)	33
Fees receivable	1,2	9	2	11	9	2	11
Foreign exchange on investments	1,3	214	(178)	36	(18)	35	17
Movement in the fair value of derivatives		(9)	–	(9)	21	–	21
Gross investment return		**318**	**(87)**	**231**	1,407	(271)	1,136
Fees receivable from external funds		44	–	44	53	–	53
Operating expenses	4	(116)	–	(116)	(126)	–	(126)
Interest received	1	1	1	2	2	1	3
Interest paid		(38)	–	(38)	(36)	–	(36)
Exchange movements	1,3	1	25	26	(3)	(24)	(27)
Income from investment entity subsidiaries	1	–	19	19	–	66	66
Other income/(expense)		5	(2)	3	(2)	–	(2)
Operating profit before carried interest		**215**	**(44)**	**171**	1,295	(228)	1,067
Carried interest							
Carried interest and performance fees receivable	1,4	85	(18)	67	159	4	163
Carried interest and performance fees payable	1,4	(84)	61	(23)	(220)	220	–
Operating profit		**216**	**(1)**	**215**	1,234	(4)	1,230
Income taxes	1,4	(1)	–	(1)	13	(1)	12
Profit for the year		**215**	**(1)**	**214**	1,247	(5)	1,242
Other comprehensive income/(expense)							
Exchange differences on translation of foreign operations	1,3	–	1	1	–	5	5
Re-measurements of defined benefit plans		38	–	38	5	–	5
Other comprehensive income for the year		**38**	**1**	**39**	5	5	10
Total comprehensive income for the year ("Total return")		**253**	**–**	**253**	1,252	–	1,252

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

Notes:

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

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

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

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

Reconciliation of consolidated statement of financial position

as at 31 March

	Notes	Investment basis 2020 £m	IFRS adjustments 2020 £m	IFRS basis 2020 £m	Investment basis 2019 £m	IFRS adjustments 2019 £m	IFRS basis 2019 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	**758**	**(340)**	**418**	998	(529)	469
Unquoted investments	1	**7,340**	**(4,304)**	**3,036**	6,555	(5,362)	1,193
Investments in investment entity subsidiaries	1,2	**–**	**3,936**	**3,936**	–	5,159	5,159
Investment portfolio		**8,098**	**(708)**	**7,390**	7,553	(732)	6,821
Carried interest and performance fees receivable	1	**11**	**–**	**11**	605	–	605
Other non-current assets		**26**	**(3)**	**23**	117	(93)	24
Intangible assets		**9**	**–**	**9**	11	–	11
Retirement benefit surplus		**173**	**–**	**173**	134	–	134
Property, plant and equipment		**5**	**–**	**5**	4	–	4
Right of use asset		**19**	**–**	**19**	–	–	–
Derivative financial instruments		**7**	**–**	**7**	11	–	11
Total non-current assets		**8,348**	**(711)**	**7,637**	8,435	(825)	7,610
Current assets							
Carried interest and performance fees receivable	1	**6**	**1**	**7**	35	–	35
Other current assets	1	**296**	**(152)**	**144**	29	(5)	24
Current income taxes		**2**	**–**	**2**	12	–	12
Derivative financial instruments		**6**	**–**	**6**	7	–	7
Deposits		**–**	**–**	**–**	50	–	50
Cash and cash equivalents	1	**845**	**(74)**	**771**	1,020	(37)	983
Total current assets		**1,155**	**(225)**	**930**	1,153	(42)	1,111
Total assets		**9,503**	**(936)**	**8,567**	9,588	(867)	8,721
Liabilities							
Non-current liabilities							
Trade and other payables	1	**(5)**	**5**	**–**	(8)	7	(1)
Carried interest and performance fees payable	1	**(505)**	**439**	**(66)**	(926)	840	(86)
Loans and borrowings		**(575)**	**–**	**(575)**	(575)	–	(575)
Retirement benefit deficit		**(25)**	**–**	**(25)**	(27)	–	(27)
Lease liability		**(16)**	**–**	**(16)**	–	–	–
Derivative financial instruments		**(2)**	**–**	**(2)**	–	–	–
Deferred income taxes		**(1)**	**–**	**(1)**	(1)	–	(1)
Provisions		**(3)**	**–**	**(3)**	(1)	–	(1)
Total non-current liabilities		**(1,132)**	**444**	**(688)**	(1,538)	847	(691)
Current liabilities							
Trade and other payables	1	**(73)**	**–**	**(73)**	(95)	1	(94)
Carried interest and performance fees payable	1	**(533)**	**492**	**(41)**	(44)	19	(25)
Lease liability		**(4)**	**–**	**(4)**	–	–	–
Derivative financial instruments		**(2)**	**–**	**(2)**	–	–	–
Current income taxes		**(2)**	**–**	**(2)**	(1)	–	(1)
Provisions		**–**	**–**	**–**	(1)	–	(1)
Total current liabilities		**(614)**	**492**	**(122)**	(141)	20	(121)
Total liabilities		**(1,746)**	**936**	**(810)**	(1,679)	867	(812)
Net assets		**7,757**	**–**	**7,757**	7,909	–	7,909
Equity							
Issued capital		**719**	**–**	**719**	719	–	719
Share premium		**788**	**–**	**788**	787	–	787
Other reserves	3	**6,328**	**–**	**6,328**	6,445	–	6,445
Own shares		**(78)**	**–**	**(78)**	(42)	–	(42)
Total equity		**7,757**	**–**	**7,757**	7,909	–	7,909

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

Notes:

1 Applying IFRS 10 to the Consolidated statement of financial position aggregates the line items into the single line item “Investments in investment entity subsidiaries”. In the Investment basis we have disaggregated these items to analyse our net assets as if the Investment entity subsidiaries were consolidated. The adjustment reclassifies items in the Consolidated statement of financial position. There is no change to the net assets, although for reasons explained below, gross assets and gross liabilities are different. The disclosure relating to portfolio companies is significantly reduced by the aggregation, as the fair value of all investments held by Investment entity subsidiaries is aggregated into the “Investments in investment entity subsidiaries” line. We have disaggregated this fair value and disclosed the underlying portfolio holding in the relevant line item, ie, quoted investments or unquoted investments. Other items which may be aggregated include carried interest and other payables, and the Investment basis presentation again disaggregates these items.

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

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

Reconciliation of consolidated cash flow statement

for the year to 31 March

	Notes	Investment basis 2020 £m	IFRS adjustments 2020 £m	IFRS basis 2020 £m	Investment basis 2019 £m	IFRS adjustments 2019 £m	IFRS basis 2019 £m
Cash flow from operating activities							
Purchase of investments	1	**(1,279)**	**629**	**(650)**	(859)	734	(125)
Proceeds from investments	1	**801**	**(792)**	**9**	1,261	(435)	826
Cash inflow/(outflow) from investment entity subsidiaries	1	**–**	**186**	**186**	–	(264)	(264)
Net cash flow from derivatives		**–**	**–**	**–**	3	–	3
Portfolio interest received	1	**34**	**(24)**	**10**	26	(20)	6
Portfolio dividends received	1	**70**	**(46)**	**24**	61	(37)	24
Portfolio fees received	1	**12**	**(1)**	**11**	11	1	12
Fees received from external funds		**44**	**–**	**44**	57	–	57
Carried interest and performance fees received	1	**696**	**(18)**	**678**	104	(2)	102
Carried interest and performance fees paid	1	**(44)**	**13**	**(31)**	(86)	48	(38)
Carried interest held in non-current assets	1	**(14)**	**14**	**–**	(9)	9	–
Operating expenses paid	1	**(116)**	**–**	**(116)**	(109)	–	(109)
Co-investment loans (paid)/received	1	**(8)**	**–**	**(8)**	(3)	7	4
Income taxes received/(paid)	1	**10**	**–**	**10**	(10)	–	(10)
Other cash income		**2**	**–**	**2**	–	–	–
Net cash flow from operating activities		**208**	**(39)**	**169**	447	41	488
Cash flow from financing activities							
Issue of shares		**1**	**–**	**1**	1	–	1
Purchase of own shares		**(59)**	**–**	**(59)**	(29)	–	(29)
Dividends paid		**(363)**	**–**	**(363)**	(358)	–	(358)
Lease payments		**(4)**	**–**	**(4)**	–	–	–
Interest received		**1**	**1**	**2**	2	–	2
Interest paid		**(42)**	**–**	**(42)**	(39)	–	(39)
Net cash flow from financing activities		**(466)**	**1**	**(465)**	(423)	–	(423)
Cash flow from investing activities							
Purchase of property, plant and equipment		**(3)**	**–**	**(3)**	(3)	–	(3)
Net cash flow from deposits		**50**	**–**	**50**	(50)	–	(50)
Net cash flow from investing activities		**47**	**–**	**47**	(53)	–	(53)
Change in cash and cash equivalents	2	**(211)**	**(38)**	**(249)**	(29)	41	12
Cash and cash equivalents at the start of year	2	**1,020**	**(37)**	**983**	1,054	(82)	972
Effect of exchange rate fluctuations	1	**36**	**1**	**37**	(5)	4	(1)
Cash and cash equivalents at the end of year	2	**845**	**(74)**	**771**	1,020	(37)	983

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

Notes:

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

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

Alternative Performance Measures ("APMs")

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

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

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

The table below defines our additional APMs.

Gross investment return as a percentage of opening portfolio value

Purpose	Calculation	Reconciliation to IFRS
A measure of the performance of our proprietary investment portfolio.	It is calculated as the gross investment return, as shown in the Investment basis Consolidated statement of comprehensive income, as a % of the opening portfolio value.	The equivalent balances under IFRS and the reconciliation to the Investment basis are shown in the Reconciliation of the consolidated statement of comprehensive income and the Reconciliation of the consolidated statement of financial position respectively.

Cash realisations

Purpose	Calculation	Reconciliation to IFRS
Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities.	The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.

Cash investment

Purpose	Calculation	Reconciliation to IFRS
Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns.	The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.

Operating cash profit

Purpose	Calculation	Reconciliation to IFRS
By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 15 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.

Net cash/net (debt)

Purpose	Calculation	Reconciliation to IFRS
A measure of the available cash to invest in the business and an indicator of the financial risk in the Group's balance sheet.	Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.

Gearing

Purpose	Calculation	Reconciliation to IFRS
A measure of the financial risk in the Group's balance sheet.	Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.

Risk management

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

Understanding our risk appetite and culture

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

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

Culture

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

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

Approach to risk governance

The Board is responsible for risk assessment, the risk management process and for the protection of the Group's reputation, brand integrity and longer-term sustainability. It considers the most significant risks facing the Group and uses quantitative analyses, such as vintage controls which consider the portfolio concentration by geography and sector, periodic reporting of financial and non-financial KPIs from the portfolio, including ESG indicators, and liquidity reporting, where appropriate.

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

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, and guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The review also incorporates a watch list of new and emerging risks for monitoring purposes. The risk review takes place four times a year, with the last review in April 2020, and the Chief Executive provides updates to each Audit and Compliance Committee meeting. Investment Committee ensures a consistent approach to investment and portfolio management processes across the business.

In addition to the above, a number of other Board and Executive Committee members contribute to the Group's overall risk governance structure.

Risk appetite

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

Investment risk

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

- return objective: individually assessed and subject to a minimum target of a 2x money multiple over four to five years;
- geographic focus: operate within our core markets of northern Europe, the UK and North America;
- sector expertise: focus on Business and Technology Services, Consumer, Industrial and Healthcare;
- responsible investment: ESG risk profile in line with the criteria and exclusions set out in our Responsible Investment policy; and
- vintage: invest up to £750 million per annum in four to seven new investments in companies with an enterprise value range of €100 million to €500 million at investment.

Investments made by 3iN need to be consistent with 3iN's overall return target of 8% to 10% over the medium term and generate a mix of capital and income returns. Other Infrastructure investments made by the Group should be capable of delivering capital growth and fund management fees which together generate mid-teen returns. All Infrastructure investments are also made subject to the criteria set out in the Group's Responsible Investment Policy.

On occasion, the Group may conclude that it is in the interest of shareholders, and consistent with our strategic objectives, to hold a Private Equity investment for a longer period. Such an investment may be managed outside the Private Equity or Infrastructure businesses. The only investment currently in this category is Scandlines.

Capital management

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

- the Group may raise long-term debt or use other financing from time to time, to manage investment and realisation flows. It has no appetite for structural gearing at the Group level but a tolerance to operate within a range of £500 million net cash to £500 million net debt;
- the Group generally does not hedge its currency exposure for its Private Equity and Infrastructure assets, but it does match currency realisations with investments, where possible, and may take out short-term hedges occasionally to hedge investments and realisations between signing and completion;
- if appropriate, with due consideration of any associated liquidity risk, the Group will hedge a portion of its currency exposure on its longer-term investments, such as Scandlines; and
- we have limited appetite for the dilution of capital returns as a result of operating and interest expenses. All of our business lines generate cash income to mitigate this risk.

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

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

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

- The first line of defence against outcomes outside our risk appetite is constituted by our business functions themselves.
- Line management is supported by oversight and control functions such as Finance, Human Resources and Legal which constitute the second line of defence. The Compliance function is also in the second line of defence; its duties include reviewing the effective operation of our processes in meeting regulatory requirements.
- Internal Audit provides independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes the review of risk management processes and recommendations to improve the internal control environment.

Role of Group Risk Committee in risk management

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

A number of focus topics are also agreed in advance of each meeting. In FY2020, the GRC covered the following:

- a review of the Group's IT framework including cyber security, systems' developments and IT resilience;
- a review of updates to the Group's Responsible Investment Policy and approach to sanctions;
- a report on the benchmarking of 3i's principal risk disclosures against a suitable peer group of investment companies and asset managers;
- an update on the Group's business continuity and resilience planning and testing;
- a review of the risk implications of the COVID-19 outbreak and an update on contingency planning;
- an update on risks in relation to Action (including concentration risk) from a 3i Group perspective, following the Action Transaction (please refer to the Action Transaction overview section above);
- a review of the Group's stress tests to support its Internal Capital Adequacy Assessment Process ("ICAAP") and Viability statement;
- semi-annual updates on Environmental, Social, Governance ("ESG") and sustainability issues and themes with respect to the Group's portfolio companies; and
- the proposed risk disclosures in the 2020 Annual report and accounts.

There were no significant changes to the GRC's overall approach to risk governance or its operation in FY2020 but we continued to refine our framework for risk management where appropriate.

Role of Investment Committee in risk management

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

We carry out our investment activities under our rigorous Responsible Investment Policy, which is embedded in our processes and informs the Investment Committee's assessment of each investment opportunity.

The investment case presented at the outset of our investment consideration process includes the expected benefit of operational improvements, growth initiatives, opportunities arising from initiatives to mitigate the impact of sustainability-related challenges, and M&A activity that will be driven by our investment professionals together with the portfolio company's management team. It will also include a view on the likely exit strategy and timing. In evaluating new and existing investments, the Investment Committee also takes account of sustainability-related risks, including the impact of environmental factors on the markets each company serves and demand for its products, the resilience of each company's assets and supply chain and the feasibility and cost of initiatives to reduce the company's environmental footprint.

The execution of this investment case is closely monitored:

- our monthly portfolio monitoring reviews assess current performance against budget, prior year and a set of traffic light indicators and bespoke, forward looking financial and non-financial KPIs; and
- we hold semi-annual reviews of all our assets. We focus on the longer-term performance and plan for the investment compared to the original investment case, together with any strategic developments, a detailed assessment of ESG and sustainability risks and opportunities, and market outlook.

The monthly portfolio monitoring reviews and the semi-annual reviews are attended by the Investment Committee and the senior members of the investment teams. Non-executive Directors are invited to attend the semi-annual reviews.

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

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

Further details on 3i's approach as a responsible investor and a summary of our Responsible Investment Policy are available at www.3i.com

Principal risks and mitigations – aligning risk to our strategic objectives

Business and risk environment in FY2020

The impact of the COVID-19 pandemic has been at the forefront of our risk assessment and mitigation planning processes since early March 2020. Our first priority has been to protect and support our employees during this period. We have also taken steps to try to minimise any operational disruption to the Group by activating our contingency plans and putting in place a comprehensive range of measures. We have worked with our portfolio companies to do likewise. The speed of events and uncertainty regarding both the duration and impact of COVID-19 has required our assessment and planning to be updated on a frequent basis.

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. We define our principal risks as those that have the potential to impact the delivery of our strategic objectives materially. We also maintain a log of risks which includes new and emerging risks which may have the potential to become principal risks but are not yet considered to be so. This is called our “watch list”. These risks are regularly reviewed to determine if they have the potential to impact the delivery of our strategy. In the year, we reclassified the risk around the outcome of the UK/EU trade negotiations from the watch list to a principal risk. We also added operational disruption to the Group from COVID-19, along with similar exposures within the portfolio, as new principal risks.

External

External risks are the risks to our business which are usually outside of our direct control such as political, economic, environmental, social, regulatory and competitor risks.

As already noted, the impact of COVID-19 on global economic growth and market volatility, towards the end of FY2020 and beyond, has increased both of these principal risks compared to last year. Extensive travel restrictions, quarantines and other social distancing measures are having a significant and increasingly adverse economic impact, with some sectors being particularly hard hit in the short term by the resultant sharp falls in consumer and business demand. Some of our portfolio companies operate in the retail, travel and transportation sectors which have been directly affected by lockdown and travel bans. We continue to monitor the situation closely.

The EU and UK signed a withdrawal agreement in January 2020; however, there remains uncertainty regarding the UK’s future trading relationship with the EU, and the economic impact on both parties in the event that a new trade agreement is not reached. We have considered the possible outcomes and the risks that this will pose to the Group’s business model and financial performance.

Our regulatory structure includes a regulated subsidiary in Luxembourg, currently with branches in Germany and the Netherlands. Our French operations are now conducted on an unregulated basis. Currently 70% of our portfolio is invested in northern Europe and these structures will enable 3i to operate its investment activities in Europe beyond the UK/ EU current transition period which ends in December 2020.

The direct impact of changes to the UK/EU trading relationship on 3i’s investment portfolio is not expected to be material, due to the limited number of our portfolio companies that operate between the UK and the EU.

Investment

Our overarching objective is to source attractive investment opportunities at the right price and execute our investment plans successfully.

As part of our portfolio monitoring, all of our new investments in the year were subject to rigorous review, including performance against a 180-day plan. We continued to monitor the portfolio actively, and held additional reviews for the small number of Private Equity assets where operational improvements and reorganisation were particularly intense. Our investment and portfolio monitoring processes include an enhanced ESG and sustainability assessment, which enables current and emerging risks and opportunities to be tracked on a systematic basis.
Investment teams are responsible for origination and asset management and are rewarded with performance-based remuneration.

Operational

The potential operational disruption of the COVID-19 pandemic to the Group was classified as a principal risk towards the end of FY2020. We were able to activate our existing incident management and business continuity plans supplemented by a comprehensive contingency plan. Please refer to the Business review for more detail on our response to COVID-19.

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

In addition, detailed succession plans are in place for each division. The Board last completed its annual review of the Group's organisational capability and succession plans in September 2019. The success of the Group since the 2012 restructuring has led to very modest levels of voluntary staff turnover (9% in FY2020).

New and emerging risks

The GRC maintains a watch list of risks which are deemed of sufficient importance to require active monitoring by the GRC, but are not currently regarded as principal risks to the achievement of the Group's strategic objectives. Risks on the watch list may be reclassified as principal risks and vice versa based on the GRC's assessment. During the year, for example, the risk relating to the renegotiation of the UK/EU trading treaty and COVID-19 risk were each classified as principal risks.

The current watch list includes some portfolio related risks, such as concentration and specific sector exposures; tax risks in relation to changing rules; cyber security; and ESG risks and reporting requirements.

We recognise the increasing impact that environmental and climate-related risks are having on businesses and communities across the world. The Group is not directly exposed to material environmental or climate-related risks. We monitor and manage any direct environmental and climate-related risks through our comprehensive risk governance framework and compliance processes and procedures, which also ensure that 3i is compliant with all applicable environmental legislation and reporting requirements.

We are, however, potentially exposed to environmental and climate-related risks through the portfolio. Our investment strategy is to make a limited number of new investments each year, selected within our target sectors and geographies on the basis of their compatibility with our return targets. We carry out our investment activities under a rigorous Responsible Investment policy and have the flexibility to screen out businesses which have unsustainable environmental practices, or which are exposed to excessive risks. Once invested, we monitor environmental and climate-related risks closely, and use our influence to ensure that our portfolio companies are compliant with emerging regulations and legislation in this field, to encourage the development of more environmentally sustainable behaviours in our portfolio companies as well as investments to mitigate the impact of our companies' environmental impact.

Our annual stress test scenario planning, which underpins our Viability statement, also models a range of environmental impacts on our portfolio, including an increase in physical risks relating to climate change, changes in regulation and in consumer preferences.

Outlook

The near-term outlook will be dependent on the extent and duration of the disruption related to the COVID-19 pandemic, the economic impact and the effectiveness of government counter-measures. The position remains fluid and the full effects, which are not all apparent, are likely to be long-lasting.

3i continues to operate with limited disruption to its day-to-day operations and has worked closely with portfolio management teams to support their respective contingency plans. Enhanced portfolio monitoring and reporting processes have been put in place to identify any short-term liquidity or covenant test issues and other actions needed to support portfolio companies through this unprecedented period of uncertainty. The impact of COVID-19 on the longer-term plans of the portfolio companies will be subject to regular updates and assessments as part of this enhanced monitoring.

Levels of new investments and realisations over the next 12 months are likely to be considerably lower than in prior years, with our principal focus being on supporting the existing portfolio during this period, as noted above. Beyond this, we remain focused on a clear and consistent strategy and a disciplined approach to investment while continuing to look to put more capital behind those portfolio companies we already know well. We expect competition for the best assets in our sectors to remain intense and prices high. Accordingly, our focus will continue to be on bilateral or complex processes and our buy-and-build platforms.

Going concern and Viability statement

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report in our Annual report and accounts 2020. The financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in Financial review, earlier in this document. In addition, the Directors have taken account of the Group's risk management process described in the Risk management section of our Annual report and accounts 2020. The Directors have made an assessment of going concern, taking into account both the Group's current performance and the Group's outlook, which considered the impact of the COVID-19 pandemic, using the information available up to the date of issue of these financial statements.

The Group has maintained a conservative balance sheet structure for the past eight years, which should aid it in navigating the current uncertain business environment. The Group manages and monitors liquidity regularly ensuring it is adequate and sufficient. This is supported by its monitoring of investments, realisations, operating expenses and receipt of portfolio cash income. At 31 March 2020, liquidity remained strong at £1,245 million (31 March 2019: £1,420 million). Liquidity comprised cash and deposits of £845 million (31 March 2019: £1,070 million) and undrawn facilities of £400 million (31 March 2019: £350 million). In March, the Group completed a successful refinancing of its RCF, increasing the size to £400 million and extending the maturity to 2025 without any financial covenants, ensuring that the Group continues to have access to additional liquidity where necessary. This financial position and liquidity profile provide confidence that the Group has sufficient financial resources for the foreseeable future. As a consequence, the Directors believe that the Company and the Group are well positioned to manage its and their businesses and liabilities as they fall due.

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2020. After making the assessment on going concern, the Directors considered it appropriate to prepare the financial statements of the Company and the Group on a going concern basis, having considered the impact of COVID-19 on their operations and portfolio. The Group has sufficient financial resources and liquidity and is well positioned to manage business risks in the current economic environment and can continue operations for a period of at least 12 months from the date of this report. The Directors have also considered key dependencies set out within the Risk Management section including investment and operational requirements.

Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2023. 3i conducts its strategic planning over a five-year period; this statement is based on the first three years, which provides more certainty over the forecasting assumptions used. 3i's strategic plan, ICAAP and associated principal risks, as set out in the Risk management section of our Annual report and accounts 2020 are the foundation of the Directors' assessment.

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

The Group's strategic plan projects the performance, net asset value and liquidity of 3i over a five-year period and is presented at the Directors' annual strategy conference in December and updated throughout the year as appropriate. At the strategy conference, the Directors consider the strategy and opportunities for, and threats to, each business line and the Group as a whole. The outcome of those discussions is included in the next iteration of the strategic plan which is then used to support the viability assessment. The next iteration of the Plan will reflect the effect of the COVID-19 pandemic. For the purpose of this statement, the effect of the pandemic has been treated as a stress to the base position considered in December and updated for the 31 March 2020 valuations.

The Group's ICAAP and viability testing considers multiple severe, yet plausible, individual and combined stress scenarios which are as follows:

- **Widespread economic turmoil** – considers the impact of a widespread economic crisis similar to the global financial crisis experienced in 2008
- **Concentration risk** – considers a material event in a single large asset in the investment portfolio
- **Combined scenario with a widespread economic turmoil and concentration risk** – considers both occurring at the same time
- **Loss of key personnel** – considers the impact of the loss of key Private Equity and Infrastructure personnel
- **Impact of a significant event** – considers the impact of several portfolio companies not being able to withstand the impact of the event, leading to a loss in permanent value following operational underperformance, covenant breaches, fraud, a cyber security breach or other ESG issues
- **Climate change** – considers the impact of climate change on 3i's portfolio, driven by changes in consumer behaviour, regulations, and other physical and business risks
- **COVID-19** – considers the impact of the COVID-19 outbreak on the Group and portfolio companies

The assessment projects the amount of capital the Group needs in the business to cover its risks, including financial and operational risks, under such stress scenarios. The analysis shows that, while there may be a significant impact on the Group’s reported performance in the short term under a number of these scenarios, the resilience and quality of the balance sheet is such that solvency is maintained and the business remains viable.

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

Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to at least March 2023.

Audited financial statements

Consolidated statement of comprehensive income

for the year to 31 March

	Notes	2020 £m	2019 £m
Realised (losses)/profits over value on the disposal of investments		**(29)**	33
Unrealised (losses)/profits on the revaluation of investments		**(28)**	168
Fair value movements on investment entity subsidiaries		**191**	827
Portfolio income			
Dividends		**22**	26
Interest income from investment portfolio		**37**	33
Fees receivable		**11**	11
Foreign exchange on investments		**36**	17
Movement in the fair value of derivatives		**(9)**	21
Gross investment return		**231**	1,136
Fees receivable from external funds		**44**	53
Operating expenses		**(116)**	(126)
Interest received		**2**	3
Interest paid		**(38)**	(36)
Exchange movements		**26**	(27)
Income from investment entity subsidiaries		**19**	66
Other income/(expense)		**3**	(2)
Carried interest			
Carried interest and performance fees receivable		**67**	163
Carried interest and performance fees payable		**(23)**	–
Operating profit before tax		**215**	1,230
Income taxes		**(1)**	12
Profit for the year		**214**	1,242
Other comprehensive (expense)/income that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		**1**	5
Other comprehensive income that will not be reclassified to the income statement			
Re-measurements of defined benefit plans		**38**	5
Other comprehensive income for the year		**39**	10
Total comprehensive income for the year (“Total return”)		**253**	1,252
Earnings per share			
Basic (pence)	2	**22.1**	128.3
Diluted (pence)	2	**22.1**	127.8

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Consolidated statement of financial position

as at 31 March

	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Investments			
Quoted investments		**418**	469
Unquoted investments		**3,036**	1,193
Investments in investment entity subsidiaries		**3,936**	5,159
Investment portfolio		**7,390**	6,821
Carried interest and performance fees receivable		**11**	605
Other non-current assets		**23**	24
Intangible assets		**9**	11
Retirement benefit surplus		**173**	134
Property, plant and equipment		**5**	4
Right of use asset		**19**	–
Derivative financial instruments		**7**	11
Total non-current assets		**7,637**	7,610
Current assets			
Carried interest and performance fees receivable		**7**	35
Other current assets		**144**	24
Current income taxes		**2**	12
Derivative financial instruments		**6**	7
Deposits		**–**	50
Cash and cash equivalents		**771**	983
Total current assets		**930**	1,111
Total assets		**8,567**	8,721
Liabilities			
Non-current liabilities			
Trade and other payables		**–**	(1)
Carried interest and performance fees payable		**(66)**	(86)
Loans and borrowings	5	**(575)**	(575)
Retirement benefit deficit		**(25)**	(27)
Lease liability		**(16)**	–
Derivative financial instruments		**(2)**	–
Deferred income taxes		**(1)**	(1)
Provisions		**(3)**	(1)
Total non-current liabilities		**(688)**	(691)
Current liabilities			
Trade and other payables		**(73)**	(94)
Carried interest and performance fees payable		**(41)**	(25)
Lease liability		**(4)**	–
Derivative financial instruments		**(2)**	–
Current income taxes		**(2)**	(1)
Provisions		**–**	(1)
Total current liabilities		**(122)**	(121)
Total liabilities		**(810)**	(812)
Net assets		**7,757**	7,909
Equity			
Issued capital		**719**	719
Share premium		**788**	787
Capital redemption reserve		**43**	43
Share-based payment reserve		**33**	36
Translation reserve		**(2)**	(3)
Capital reserve		**5,432**	5,590
Revenue reserve		**822**	779
Own shares		**(78)**	(42)
Total equity		**7,757**	7,909

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Simon Thompson
Chairman 13 May 2020

Consolidated statement of changes in equity

for the year to 31 March

2020	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[1]	719	787	43	36	(3)	5,590	779	(42)	7,909
Profit for the year	–	–	–	–	–	21	193	–	214
Exchange differences on translation of foreign operations	–	–	–	–	1	–	–	–	1
Re-measurements of defined benefit plans	–	–	–	–	–	38	–	–	38
Total comprehensive income for the year	–	–	–	–	1	59	193	–	253
Share-based payments	–	–	–	16	–	–	–	–	16
Release on exercise/ forfeiture of share awards	–	–	–	(19)	–	–	19	–	–
Exercise of share awards	–	–	–	–	–	(23)	–	23	–
Ordinary dividends	–	–	–	–	–	(194)	(169)	–	(363)
Purchase of own shares	–	–	–	–	–	–	–	(59)	(59)
Issue of ordinary shares	–	1	–	–	–	–	–	–	1
Total equity at the end of the year	719	788	43	33	(2)	5,432	822	(78)	7,757

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

2019	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	786	43	32	(8)	4,700	778	(26)	7,024
Profit for the year	–	–	–	–	–	1,096	146	–	1,242
Exchange differences on translation of foreign operations	–	–	–	–	5	–	–	–	5
Re-measurements of defined benefit plans	–	–	–	–	–	5	–	–	5
Total comprehensive income for the year	–	–	–	–	5	1,101	146	–	1,252
Share-based payments	–	–	–	19	–	–	–	–	19
Release on exercise/ forfeiture of share awards	–	–	–	(15)	–	–	15	–	–
Exercise of share awards	–	–	–	–	–	(13)	–	13	–
Ordinary dividends	–	–	–	–	–	(198)	(160)	–	(358)
Purchase of own shares	–	–	–	–	–	–	–	(29)	(29)
Issue of ordinary shares	–	1	–	–	–	–	–	–	1
Total equity at the end of the year	719	787	43	36	(3)	5,590	779	(42)	7,909

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Consolidated cash flow statement

for the year to 31 March

	Notes	2020 £m	2019 £m
Cash flow from operating activities			
Purchase of investments		**(650)**	(125)
Proceeds from investments		**9**	826
Cash inflow/(outflow) from investment entity subsidiaries		**186**	(264)
Net cash flow from derivatives		**–**	3
Portfolio interest received		**10**	6
Portfolio dividends received		**24**	24
Portfolio fees received		**11**	12
Fees received from external funds		**44**	57
Carried interest and performance fees received		**678**	102
Carried interest and performance fees paid		**(31)**	(38)
Operating expenses paid		**(116)**	(109)
Co-investment loans (paid)/received		**(8)**	4
Income taxes received/(paid)		**10**	(10)
Other cash income		**2**	–
Net cash flow from operating activities		**169**	488
Cash flow from financing activities			
Issue of shares		**1**	1
Purchase of own shares		**(59)**	(29)
Dividend paid	3	**(363)**	(358)
Lease payments		**(4)**	–
Interest received		**2**	2
Interest paid		**(42)**	(39)
Net cash flow from financing activities		**(465)**	(423)
Cash flow from investing activities			
Purchases of property, plant and equipment		**(3)**	(3)
Net cash flow from deposits		**50**	(50)
Net cash flow from investing activities		**47**	(53)
Change in cash and cash equivalents		**(249)**	12
Cash and cash equivalents at the start of the year		**983**	972
Effect of exchange rate fluctuations		**37**	(1)
Cash and cash equivalents at the end of the year		**771**	983

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Company statement of financial position

as at 31 March

	Notes	2020 £m	2019 £m
Assets			
Non-current assets			
Investments			
Quoted investments		418	469
Unquoted investments		3,036	1,193
Investment portfolio		3,454	1,662
Carried interest and performance fees receivable		22	655
Interests in Group entities		4,023	5,221
Other non-current assets		14	17
Derivative financial instruments		7	11
Total non-current assets		7,520	7,566
Current assets			
Carried interest and performance fees receivable		46	7
Other current assets		122	3
Derivative financial instruments		6	7
Deposits		–	50
Cash and cash equivalents		742	958
Total current assets		916	1,025
Total assets		8,436	8,591
Liabilities			
Non-current liabilities			
Loans and borrowings	5	(575)	(575)
Derivative financial instruments		(2)	–
Total non-current liabilities		(577)	(575)
Current liabilities			
Trade and other payables		(483)	(483)
Derivative financial instruments		(2)	–
Total current liabilities		(485)	(483)
Total liabilities		(1,062)	(1,058)
Net assets		7,374	7,533
Equity			
Issued capital		719	719
Share premium		788	787
Capital redemption reserve		43	43
Share-based payment reserve		33	36
Capital reserve		5,812	5,979
Revenue reserve		57	11
Own shares		(78)	(42)
Total equity		7,374	7,533

The Company profit for the year to 31 March 2020 is £246 million (2019: £1,291 million).

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Simon Thompson
Chairman
13 May 2020

Company statement of changes in equity

for the year to 31 March

2020	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	787	43	36	5,979	11	(42)	7,533
Profit for the year	–	–	–	–	50	196	–	246
Total comprehensive income for the year	–	–	–	–	50	196	–	246
Share-based payments	–	–	–	16	–	–	–	16
Release on exercise/forfeiture of share awards	–	–	–	(19)	–	19	–	–
Exercise of share awards	–	–	–	–	(23)	–	23	–
Ordinary dividends	–	–	–	–	(194)	(169)	–	(363)
Purchase of own shares	–	–	–	–	–	–	(59)	(59)
Issue of ordinary shares	–	1	–	–	–	–	–	1
Total equity at the end of the year	719	788	43	33	5,812	57	(78)	7,374

2019	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	786	43	32	5,015	40	(26)	6,609
Profit for the year	–	–	–	–	1,175	116	–	1,291
Total comprehensive income for the year	–	–	–	–	1,175	116	–	1,291
Share-based payments	–	–	–	19	–	–	–	19
Release on exercise/forfeiture of share awards	–	–	–	(15)	–	15	–	–
Exercise of share awards	–	–	–	–	(13)	–	13	–
Ordinary dividends	–	–	–	–	(198)	(160)	–	(358)
Purchase of own shares	–	–	–	–	–	–	(29)	(29)
Issue of ordinary shares	–	1	–	–	–	–	–	1
Total equity at the end of the year	719	787	43	36	5,979	11	(42)	7,533

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Company cash flow statement
for the year to 31 March

	Notes	2020 £m	2019 £m
Cash flow from operating activities			
Purchase of investments		**(650)**	(125)
Proceeds from investments		**9**	826
Distributions from subsidiaries		**1,009**	753
Drawdowns by subsidiaries		**(925)**	(1,023)
Net cash flow from derivatives		**–**	3
Portfolio interest received		**10**	6
Portfolio dividends received		**24**	24
Portfolio fees paid		**(1)**	(1)
Carried interest and performance fees received		**685**	26
Co-investment loans (paid)/received		**(8)**	4
Other cash income		**2**	–
Net cash flow from operating activities		**155**	493
Cash flow from financing activities			
Issue of shares		**1**	1
Purchase of own shares		**(59)**	(29)
Dividend paid	3	**(363)**	(358)
Interest received		**2**	2
Interest paid		**(38)**	(36)
Net cash flow from financing activities		**(457)**	(420)
Cash flow from investing activities			
Net cash flow from deposits		**50**	(50)
Net cash flow from investing activities		**50**	(50)
Change in cash and cash equivalents		**(252)**	23
Cash and cash equivalents at the start of the year		**958**	939
Effect of exchange rate fluctuations		**36**	(4)
Cash and cash equivalents at the end of the year		**742**	958

The Notes to the accounts section in our Annual report and accounts 2020 forms an integral part of these financial statements.

Significant accounting policies

Reporting entity

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The consolidated financial statements ("the Group accounts") for the year to 31 March 2020 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

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

A Basis of preparation

The Group and Company accounts have been prepared and approved by the Directors in accordance with all relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee for the year ended 31 March 2020, endorsed by the European Union ("EU").

The Group did not implement the requirements of any other standards or interpretations that were in issue; these were not required to be adopted by the Group for the year ended 31 March 2020. No other standards or interpretations have been issued that are expected to have a material impact on the Group's financial statements.

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

Going concern

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

On 30 January 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. COVID-19 presents the biggest risk to the global economy and to individual companies since the 2008 financial crisis and has had a severe impact on economic growth forecasts worldwide. The impacts of COVID-19 are not all apparent already, and the position will remain fluid until the length and extent of the crisis becomes clearer. Clearly, however not all industries or companies will be impacted to the same degree. However, the effects will be felt in a number of areas across 3i and its portfolio companies. 3i continues to monitor and follow closely the information released from governments, regulatory bodies and health organisations in the countries in which 3i and its portfolio companies operate.

The full extent to which the COVID-19 pandemic may impact the Group's results, operations and liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Group and its portfolio companies.

The Directors have made an assessment of going concern, taking into account both the Group's current performance and the Group's outlook, which considered the impact of the COVID-19 pandemic, using information available to the date of issue of these financial statements. As part of this assessment the Directors considered:

- an analysis of the adequacy of the Group's liquidity, solvency and regulatory capital position. The analysis used has modelled a number of adverse scenarios to assess the potential impact that COVID-19 may have on the Group's operations and portfolio companies, as well as other scenarios detailed in the Viability statement in the Risk management section. The Group manages and monitors liquidity regularly ensuring it is adequate and sufficient and is underpinned by its monitoring of investments, realisations, operating expenses and receipt of portfolio cash income. At 31 March 2020, liquidity remained strong at £1,245 million (31 March 2019: £1,420 million). Liquidity comprised cash and deposits of £845 million (31 March 2019: £1,070 million) and undrawn facilities of £400 million (31 March 2019: £350 million);
- any potential valuation concerns with respect to the Group's assets as set out in the financial statements. The approach to valuations was consistent with the normal process and valuation policy. A key focus of the portfolio valuations at 31 March 2020 was an assessment of the impact of the COVID-19 pandemic on each portfolio company, considering the performance before the outbreak of COVID-19, as well as the projected short-term impact on the ability to generate earnings and cash flows, and also the longer-term view of their ability to recover;

- the operational resilience of the Group's critical functions includes the well-being of 3i's staff and the resilience of IT systems. COVID-19 has emphasised the importance of 3i and its portfolio companies' focus on keeping employees safe, motivated and able to continue to fulfil their roles effectively where possible; and

- a detailed assessment of the Group's supplier base, considering any single points of failure and focus on suppliers experiencing financial stress. The assessment also includes the consideration of contingency plans should suppliers be deemed at risk.

Having performed the assessment on going concern, the Directors considered it appropriate to prepare the financial statements of the Company and Group on a going concern basis. The Group has sufficient financial resources and liquidity and is well placed to manage business risks in the current economic environment and can continue operations for a period of at least 12 months from the date of issue of these financial statements.

Accounting developments

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

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

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

	£m
Operating lease commitments at 31 March 2019[1]	24
Impact of discounting using incremental borrowing rate at 1 April 2019	(1)
Opening lease liability at 1 April 2019	**23**

1 Included in Note 24 of our Annual report and accounts 2019.

During the year, £4 million was recognised in operating expenses relating to depreciation of the ROU asset and nil was recognised in interest paid relating to effective interest on the lease liability, these amounts are not materially different to the amounts which would have been recognised under IAS 17.

B Basis of consolidation

In accordance with IFRS 10 the Company meets the criteria as an investment entity and therefore is required to recognise subsidiaries that also qualify as investment entities at fair value through profit or loss. It does not consolidate the investment entities it controls. Subsidiaries that provide investment related services, such as advisory, management or employment services, are not accounted for at fair value through profit and loss and continue to be consolidated unless they are deemed investment entities, in which case they are recognised at fair value. Subsidiaries are entities controlled by the Group. Control, as defined by IFRS 10, is achieved when the Group has all of the following:

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

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

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

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

General Partners (“GPs”) – Consolidated

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

Investment managers/advisers – Consolidated

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

Holding companies of investment managers/advisers – Consolidated

These entities provide investment related services through their subsidiaries. Typically they do not hold any direct investment in portfolio assets and these entities are not investment entities.

Limited Partnerships and other intermediate investment holding structures – Fair valued

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

Portfolio investments – Fair valued

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

Associates – Fair valued

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

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

C Critical accounting judgements and estimates

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

(a) Critical judgements

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

I. Assessment as an investment entity

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

(b) Critical estimates

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

I. Fair valuation of the investment portfolio

The investment portfolio, a material asset of the Group, is held at fair value. Details of valuation methodologies used and the associated sensitivities are disclosed in Note 13 Fair values of assets and liabilities (Note 4 in this document). Further information can be found in Portfolio valuation – an explanation in our Annual report and accounts 2020. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee (including a review of the assumptions made) is included in the Valuations Committee Report in our Annual report and accounts 2020.

II. Carried interest payable

Carried interest payable is calculated based on the underlying agreements, and assuming all portfolio investments are sold at their fair values at the balance sheet date. The actual amounts of carried interest paid will depend on the cash realisations of these portfolio investments and valuations may change significantly in the next financial year. The fair valuation of the investment portfolio is itself a critical estimate, as detailed above. The sensitivity of carried interest payable to movements in the investment portfolio is disclosed in Note 15 in our Annual report and accounts 2020.

In the comparative period, in addition to the above critical judgements and estimates, there was a critical judgement around carried interest receivable and a critical estimate around carried interest receivable. Following the receipt of the £678 million carried interest receivable this year, the majority due from EFV, which has met its performance conditions and is in liquidation, these items are no longer considered critical judgements or estimates for the year to 31 March 2020. With only one portfolio company remaining, which could give rise to carried interest received, the carried interest receivable balance is £18 million and is no longer material and is not expected to be so in the foreseeable future.

D Other accounting policies

(a) Gross investment return

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

i. Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration received in accordance with IFRS 13 less any directly attributable costs, on the sale of equity and the repayment of interest income from the investment portfolio, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

ii. Unrealised profits or losses on the revaluation of investments are the movement in the fair value of investments in accordance with IFRS 13 between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of fair value assessment.

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

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

    - Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders’ rights to receive payment have been established.
    - Interest income from investment portfolio is recognised as it accrues. When the fair value of an investment is assessed to be below the principal value of a loan, the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.
    - The accounting policy for fee income is included in Note 4 of the Annual report and accounts 2020.

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

vi. Movement in the fair value of derivatives relates to the change in fair value of forward foreign exchange contracts which have been used to minimise foreign currency risk in the investment portfolio. See Note 18 in our Annual report and accounts 2020 for more details.

(b) Foreign currency translation

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

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

(c) Treasury assets and liabilities

Short-term treasury assets, and short and long-term treasury liabilities are used in order to manage cash flows.

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

Notes to the accounts

1 Segmental analysis

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

The Chief Executive, who is considered to be the chief operating decision maker, managed the Group on the basis of business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. A description of the activities, including products and services offered by these divisions and the allocation of resources, is given in the Strategic report. For the geographical segmental split, revenue information is based on the locations of the assets held. To aid the readers' understanding we have split out Action, Private Equity's largest asset, into a separate column. This is not regarded as a new reported segment.

The segmental information that follows is presented on the basis used by the Chief Executive to monitor the performance of the Group. The reported segments are Private Equity, Infrastructure and Scandlines, which was previously reported as Corporate Assets.

The segmental analysis is prepared on the Investment basis to provide the most meaningful information to the reader of the accounts. For more information on the Investment basis and a reconciliation between the Investment basis and IFRS section earlier in this document.

1 Segmental analysis continued

Investment basis Year to 31 March 2020	Private Equity £m	*Of which Action £m*	Infrastructure £m	Scandlines £m	Total[5] £m
Realised profits over value on the disposal of investments	90	*15*	–	–	90
Unrealised (losses)/profits on the revaluation of investments	(34)	*461*	(92)	(46)	(172)
Portfolio income					
Dividends	5	–	26	37	68
Interest income from investment portfolio	106	–	12	–	118
Fees receivable	9	*2*	–	–	9
Foreign exchange on investments	176	*79*	21	17	214
Movement in the fair value of derivatives	–	–	(6)	(3)	(9)
Gross investment return	352	*557*	(39)	5	318
Fees receivable from external funds	2		42	–	44
Operating expenses	(72)		(41)	(3)	(116)
Interest receivable					1
Interest payable					(38)
Exchange movements					1
Other income					5
Operating profit before carry					215
Carried interest					
Carried interest and performance fees receivable	79		6	–	85
Carried interest and performance fees payable	(63)		(21)	–	(84)
Operating profit					216
Income taxes					(1)
Other comprehensive income					
Re-measurements of defined benefit plans					38
Total return					253
Net divestment/(investment)					
Realisations[1]	848	*402*	–	70	918
Cash Investment[2]	(1,062)	*(651)[6]*	(186)	–	(1,248)
	(214)	*(249)*	(186)	70	(330)
Balance sheet					
Opening portfolio value at 1 April 2019	6,023	*2,731*	1,001	529	7,553
Investment[3]	1,155	*651*	186	–	1,341
Value disposed	(759)	*(387)*	–	(70)	(829)
Unrealised value movement	(34)	*461*	(92)	(46)	(172)
Other movement[4]	167	*80*	22	16	205
Closing portfolio value at 31 March 2020	6,552	*3,536*	1,117	429	8,098

1 Realised proceeds may differ from cash proceeds due to timing of cash receipts. In FY2020 we have recognised £117 million of realised proceeds in Private Equity which are to be received in FY2021.
2 Cash investment includes a £31 million syndication of cash investment in Private Equity, which is to be received in FY2021. This differs to the cash flow due to the timing of the syndication to be received.
3 Includes capitalised interest and other non-cash investment.
4 Other movement relates to foreign exchange and the provisioning of capitalised interest.
5 The total is the sum of Private Equity, Infrastructure and Scandlines, "Of which Action" is part of Private Equity.
6 Cash investment includes £60 million of purchased LP stakes in EFV prior to the Action Transaction and £591 million of reinvestment as part of the Action Transaction in the Private Equity section of the Business review.

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

1 Segmental analysis continued

Investment basis Year to 31 March 2019	Private Equity £m	*Of which Action £m*	Infrastructure £m	Scandlines[4] £m	Total[5] £m
Realised profits over value on the disposal of investments	131	*–*	1	–	132
Unrealised profits on the revaluation of investments	916	*701*	162	9	1,087
Portfolio income					
Dividends	12	*–*	23	28	63
Interest income from investment portfolio	103	*–*	10	–	113
Fees receivable	10	*1*	(1)	–	9
Foreign exchange on investments	(24)	*(50)*	15	(9)	(18)
Movement in the fair value of derivatives	–	*–*	–	21	21
Gross investment return	1,148	*652*	210	49	1,407
Fees receivable from external funds	4		49	–	53
Operating expenses	(77)		(48)	(1)	(126)
Interest receivable					2
Interest payable					(36)
Exchange movements					(3)
Other expense					(2)
Operating profit before carry					1,295
Carried interest					
Carried interest and performance fees receivable	128		31	–	159
Carried interest and performance fees payable	(206)		(14)	–	(220)
Operating profit					1,234
Income taxes					13
Other comprehensive income					
Re-measurements of defined benefit plans					5
Total return					1,252
Net divestment/(investment)					
Realisations[1]	1,235	*–*	7	–	1,242
Cash Investment	(332)	*(16)*	2	(529)	(859)
	903	*(16)*	9	(529)	383
Balance sheet					
Opening portfolio value at 1 April 2018	5,825	*2,064*	832	–	6,657
Investment[2]	426	*16*	(2)	529	953
Value disposed	(1,103)	*–*	(6)	–	(1,109)
Unrealised value movement	916	*701*	162	9	1,087
Other movement[3]	(41)	*(50)*	15	(9)	(35)
Closing portfolio value at 31 March 2019	6,023	*2,731*	1,001	529	7,553

1 Private Equity does not include £19 million received during the year which was recognised as realised proceeds in FY2018.
2 Includes capitalised interest and other non-cash investment.
3 Other movement relates to foreign exchange and the provisioning of capitalised interest.
4 During the year Corporate Assets was renamed to Scandlines.
5 The total is the sum of Private Equity, Infrastructure and Scandlines, "Of which Action" is part of Private Equity.

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

1 Segmental analysis continued

Investment basis **Year to 31 March 2020**	**UK** **£m**	**Northern Europe** **£m**	**North America** **£m**	**Other** **£m**	**Total** **£m**
Gross investment return					
Realised profits/(losses) over value on the disposal of investments	**102**	**17**	**–**	**(29)**	**90**
Unrealised (losses)/profits on the revaluation of investments	**(109)**	**112**	**(167)**	**(8)**	**(172)**
Portfolio income	**49**	**133**	**17**	**(4)**	**195**
Foreign exchange on investments	**–**	**142**	**65**	**7**	**214**
Movement in fair value of derivatives	**–**	**(3)**	**(6)**	**–**	**(9)**
	42	**401**	**(91)**	**(34)**	**318**
Net divestment/(investment)					
Realisations	**252**	**560**	**–**	**106**	**918**
Cash investment	**–**	**(928)**	**(320)**	**–**	**(1,248)**
	252	**(368)**	**(320)**	**106**	**(330)**
Balance sheet					
Closing portfolio value at 31 March 2020	**1,190**	**5,698**	**1,153**	**57**	**8,098**

Investment basis Year to 31 March 2019	UK £m	Northern Europe £m	North America £m	Other £m	Total £m
Gross investment return					
Realised profits over value on the disposal of investments	2	126	–	4	132
Unrealised profits/(losses) on the revaluation of investments	289	745	85	(32)	1,087
Portfolio income	60	111	15	(1)	185
Foreign exchange on investments	–	(85)	54	13	(18)
Movement in fair value of derivatives	–	21	–	–	21
	351	918	154	(16)	1,407
Net divestment/(investment)					
Realisations	88	1,116	6	32	1,242
Cash investment	–	(730)	(129)	–	(859)
	88	386	(123)	32	383
Balance sheet					
Closing portfolio value at 31 March 2019	1,453	4,976	931	193	7,553

2 Per share information

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

	2020	2019
Net assets per share (£)		
Basic	**8.06**	8.19
Diluted	**8.04**	8.15
Net assets (£m)		
Net assets attributable to equity holders of the Company	**7,757**	7,909

	2020	2019
Number of shares in issue		
Ordinary shares	**973,074,585**	973,000,665
Own shares	**(10,398,032)**	(7,014,008)
	962,676,553	965,986,657
Effect of dilutive potential ordinary shares		
Share awards	**1,649,348**	3,994,492
Diluted shares	**964,325,901**	969,981,149

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

	2020	2019
Earnings per share (pence)		
Basic earnings per share	**22.1**	128.3
Diluted earnings per share	**22.1**	127.8
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	**214**	1,242

Basic earnings per share is calculated on weighted average shares in issue of 968,001,540 for the year to 31 March 2020 (2019: 967,932,072). Diluted earnings per share is calculated on diluted weighted average shares of 969,674,941 for the year to 31 March 2020 (2019: 971,792,591).

3 Dividends

	2020 pence per share	2020 £m	2019 pence per share	2019 £m
Declared and paid during the year				
Ordinary shares				
Second dividend	**20.0**	**194**	22.0	213
First dividend	**17.5**	**169**	15.0	145
	37.5	**363**	37.0	358
Proposed dividend	**17.5**	**168**	20.0	193

The Group introduced a simplified dividend policy in May 2018. In accordance with this policy, subject to maintaining a conservative balance sheet approach, the Group aims to maintain or grow the dividend each year. The first dividend has been set at 50% of the prior year’s total dividend.

The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules. The distributable reserves of the parent company are £3,863 million (31 March 2019: £2,226 million) and the Board reviews the distributable reserves bi-annually, including consideration of any material changes since the most recent audited accounts, ahead of proposing any dividend. The Board also reviews the proposed dividends in the context of the requirements of being an approved investment trust. Shareholders are given the opportunity to approve the total dividend for the year at the Company’s Annual General Meeting. Details of the Group’s continuing viability and going concern can be found in the Risk management section.

4 Fair values of assets and liabilities

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

(A) Classification
The following tables analyse the Group's assets and liabilities in accordance with the categories of financial instruments in IFRS 9:

	Group 2020 Classified at fair value through profit and loss £m	Group 2020 Other financial instruments at amortised cost £m	Group 2020 Total £m	Group 2019 Classified at fair value through profit and loss £m	Group 2019 Other financial instruments at amortised cost £m	Group 2019 Total £m
Assets						
Quoted investments	418	–	418	469	–	469
Unquoted investments	3,036	–	3,036	1,193	–	1,193
Investments in investment entities	3,936	–	3,936	5,159	–	5,159
Other financial assets	57	141	198	52	654	706
Total	7,447	141	7,588	6,873	654	7,527
Liabilities						
Loans and borrowings	–	575	575	–	575	575
Other financial liabilities	4	200	204	–	206	206
Total	4	775	779	–	781	781

	Company 2020 Classified at fair value through profit and loss £m	Company 2020 Other financial instruments at amortised cost £m	Company 2020 Total £m	Company 2019 Classified at fair value through profit and loss £m	Company 2019 Other financial instruments at amortised cost £m	Company 2019 Total £m
Assets						
Quoted investments	418	–	418	469	–	469
Unquoted investments	3,036	–	3,036	1,193	–	1,193
Other financial assets	38	179	217	34	666	700
Total	3,492	179	3,671	1,696	666	2,362
Liabilities						
Loans and borrowings	–	575	575	–	575	575
Other financial liabilities	4	483	487	–	483	483
Total	4	1,058	1,062	–	1,058	1,058

Within the Company, £3,938 million (31 March 2019: £5,163 million) of the Interest in Group entities is held at fair value.

(B) Valuation
The fair values of the Group's financial assets and liabilities not held at fair value, are not materially different from their carrying values, with the exception of loans and borrowings. The fair value of the loans and borrowings is £671 million (31 March 2019: £709 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2019: £575 million) and accrued interest payable (included within trade and other payables) is £8 million (31 March 2019: £8 million).

4 Fair values of assets and liabilities continued

Valuation hierarchy

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

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

Unquoted equity instruments and debt instruments are measured in accordance with the IPEV Guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments can be found in the section Portfolio valuation – an explanation of our Annual report and accounts 2020.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2020:

	Group 2020 Level 1 £m	Group 2020 Level 2 £m	Group 2020 Level 3 £m	Group 2020 Total £m	Group 2019 Level 1 £m	Group 2019 Level 2 £m	Group 2019 Level 3 £m	Group 2019 Total £m
Assets								
Quoted investments	418	–	–	418	469	–	–	469
Unquoted investments	–	–	3,036	3,036	–	–	1,193	1,193
Investments in investment entity subsidiaries	–	–	3,936	3,936	–	–	5,159	5,159
Other financial assets	–	13	44	57	–	18	34	52
Liabilities								
Other financial liabilities	–	(4)	–	(4)	–	–	–	–
Total	418	9	7,016	7,443	469	18	6,386	6,873

We determine that, in the ordinary course of business, the net asset value of an investment entity subsidiary is considered to be the most appropriate to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries fair valued in accordance with the Group's accounting policies. Note 12 in our Annual report and accounts 2020 details the Directors' considerations about the fair value of the underlying investment entity subsidiaries.

Movements in the directly held investment portfolio categorised as Level 3 during the year are set out in the table below:

	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Opening book value	1,193	1,751	1,193	1,751
Additions	1,929	150	1,929	150
– of which loan notes with nil value	(6)	(5)	(6)	(5)
Disposals, repayments and write-offs	(142)	(793)	(142)	(793)
Fair value movement[1]	20	66	20	66
Other movements and net cash movements[2]	42	24	42	24
Closing book value	3,036	1,193	3,036	1,193

1 All fair value movements relate to assets held at the end of the period.
2 Other movements include the impact of foreign exchange and accrued interest.

Unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised losses over value on disposal of investments of £29 million (2019: £33 million profit), dividend income of £7 million (2019: £12 million) and foreign exchange gains of £36 million (2019: £17 million).

4 Fair values of assets and liabilities continued

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2020 classified as Level 3, 33% (31 March 2019: 77%) were valued using a multiple of earnings and the remaining 67% (31 March 2019: 23%) were valued using alternative valuation methodologies. Of the underlying portfolio held by investment entity subsidiaries, 41% (31 March 2019: 88%) were valued using a multiple of earnings and the remaining 59% (31 March 2019: 12%) were valued using alternative valuation methodologies.

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

Valuation multiple – The valuation multiple is the main assumption applied to a multiple of earnings-based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and multiples are then adjusted for factors including liquidity risk, growth potential and relative performance. They are also adjusted to represent our longer-term view of performance through the cycle or our exit assumptions. Consideration has also been given to the impact of COVID-19 for the valuation at 31 March 2020. The pre-discount multiple used to value the portfolio ranged between 8.0x and 14.5x (31 March 2019: 7.5x and 18.9x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2020 decreased by 5%, the investment portfolio value would decrease by £68 million (31 March 2019: £57 million) or 2% (31 March 2019: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a negative value impact of £148 million (31 March 2019: £318 million) or 3% (31 March 2019: 5%).

If the multiple increased by 5% then the investment portfolio value would increase by £68 million (31 March 2019: £57 million) or 2% (31 March 2019: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a positive value impact of £148 million (31 March 2019: £318 million) or 3% (31 March 2019: 5%).

Alternative valuation methodologies – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and inputs that are used, are given in the Portfolio valuation – an explanation section in our Annual report and accounts 2020.

Each methodology is used for a proportion of assets by value, and at year end the following techniques were used under an IFRS basis: 55% transaction value (31 March 2019: nil), 10% DCF (31 March 2019: 7%), nil industry metric (31 March 2019: 11%) and 2% other (31 March 2019: 5%).

Transaction value has been used to value Action at 31 March 2020 following on from the Action Transaction. To arrive at the fair value, detailed due diligence was completed by sophisticated investors on the Action business model and its 5-year plan. Further information can be found in the Private Equity section of the Business review.

If the value of all of the investments valued under alternative methodologies moved by 5%, this would have an impact on the investment portfolio value of £101 million (31 March 2019: £14 million) or 3% (31 March 2019: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entity subsidiaries, this would have a value impact of £126 million (31 March 2019: £33 million) or 3% (31 March 2019: 0.6%).

5 Loans and borrowings

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

	Group 2020 £m	Group 2019 £m
Loans and borrowings are repayable as follows:		
Within one year	–	–
Between the second and fifth year	200	200
After five years	375	375
	575	575

Principal borrowings include:

	Rate	Maturity	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2023	200	200	200	200
£375 million notes (public issue)	5.750%	2032	375	375	375	375
			575	575	575	575
Committed multi-currency facilities						
£400 million	LIBOR+0.50%	2025	–	–	–	–
			–	–	–	–
Total loans and borrowings			575	575	575	575

During the year the Company refinanced its syndicated multi-currency facility to 2025 (2019: 2021); increasing the size to £400 million (2019: £350 million) and improving pricing. The £400 million facility has no financial covenants. The RCF has two, one year extension options which if successfully exercised would extend the maturity date to April 2027. In addition, the Company has the right to seek additional lending commitments to increase the size of the RCF to £500 million, provided that existing lenders have a right of first refusal.

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 £671 million (31 March 2019: £709 million), determined with reference to their published market prices. The loans and borrowings are included in Level 2 of the fair value hierarchy.

In accordance with the FCA Handbook (FUNDS 3.2.2. R and Fund 3.2.6. R), 3i Investments plc, as AIFM of the Company, is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with this formula, leverage at 31 March 2020 for the Group is 115% (31 March 2019: 96%) and the Company is 104% (31 March 2019: 84%) under both the gross method and the commitment method. The leverage for 3i Investments plc at 31 March 2020 is 100% (31 March 2019: 100%) under both the gross method and the commitment method.

Under the Securities Financing Transactions Regulation ("SFTR") and AIFMD, 3i is required to disclose certain information relating to the use of securities financing transactions ("SFTs") and total return swaps. At 31 March 2020, 3i was not party to any transactions involving SFTs or total return swaps.

Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities are classified as follows:

	Loans and borrowings 2020 £m	Lease liability 2020 £m	Loans and borrowings 2019 £m	Lease liability 2019 £m
Opening liability	575	–	575	–
Adoption of IFRS 16 – Leases	–	23	–	–
Additions	–	1	–	–
Repayments	–	(4)	–	–
Closing liability	575	20	575	–

20 large investments

The 20 investments listed below account for 95% of the portfolio at 31 March 2020 (31 March 2019: 94%). All investments have been assessed to establish whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

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

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

Investment Description of business	Business line Geography First invested in Valuation basis	**Residual cost[1] March 2020 £m**	Residual cost[1] March 2019 £m	**Valuation March 2020 £m**	Valuation March 2019 £m	Relevant transactions in the year
Action* General merchandise discount retailer	Private Equity Netherlands 2011/2020 Fair value	**614**	24	**3,536**	2,731	Refer to Action Transaction in the Private Equity section
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	**305**	307	**665**	744	
Scandlines Ferry operator between Denmark and Germany	Scandlines Denmark/ Germany 2018 DCF	**529**	529	**429**	529	Refinancing in August 2019 and returned £91 million to 3i
Cirtec Medical* Outsourced medical device manufacturing	Private Equity US 2017 Earnings	**172**	172	**302**	248	
WP* Supplier of plastic packaging solutions	Private Equity Netherlands 2015 Earnings	**206**	187	**244**	241	Acquisition of Orange Poland in November 2019
Q Holding* Manufacturer of precision engineered elastomeric components	Private Equity US 2014 Earnings	**162**	162	**222**	241	Sale of Silicone Altimex and TBL Performance Plastics to combine with 3i's new investment in our Bioprocessing platform
Evernex* Provider of third-party maintenance services for data centre infrastructure	Private Equity France 2019 Earnings	**219**	–	**217**	–	New investment acquisition of Storex in March 2020
Royal Sanders* Private label and contract manufacturing producer of personal care products	Private Equity Netherlands 2018 Earnings	**135**	135	**198**	147	
Tato Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	**2**	2	**196**	117	£5 million dividend received
Hans Anders* Value-for-money optical retailer	Private Equity Netherlands 2017 Earnings	**221**	250	**196**	246	Return of overfunding of £35 million in December 2019

Investment Description of business	Business line Geography First invested in Valuation basis	**Residual cost[1] March 2020 £m**	Residual cost[1] March 2019 £m	**Valuation March 2020 £m**	Valuation March 2019 £m	Relevant transactions in the year
Regional Rail* Owns and operates short-line freight railroads and rail-related businesses	Infrastructure US 2019 DCF	**175**	–	**195**	–	New investment acquisition of Pinsley Railroad Company's Florida operations and Carolina Coastal Railway
Havea* (formerly Ponroy Santé) Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	**155**	147	**182**	174	Acquisition of Pasquali in May 2019
Smarte Carte* Provider of self-serve vended luggage carts, electronic lockers and concession carts	Infrastructure US 2017 DCF	**167**	164	**172**	181	Acquisition of Feel Good Chairs in October 2019
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	**30**	30	**158**	172	Acquisition of Van Geffen in January 2020
Lampenwelt* Online lighting specialist retailer	Private Equity Germany 2017 Earnings	**113**	101	**144**	119	Acquisition of Lampenlicht/QLF in July 2019
Formel D* Quality assurance provider for the automotive industry	Private Equity Germany 2017 Earnings	**154**	147	**141**	169	Acquisition of Vdynamics in September 2019 and CPS in October 2019
Audley Travel* Provider of experiential tailor-made travel	Private Equity UK 2015 Earnings	**137**	189	**124**	270	Completed refinancing in December 2019 and returned £65 million to 3i
Magnitude Software* Leading provider of unified application data management solutions	Private Equity US 2019 Earnings	**139**	–	**121**	–	New investment
BoConcept* Urban living designer	Private Equity Denmark 2016 Earnings	**149**	156	**119**	152	
Basic-Fit Discount gyms operator	Private Equity Netherlands 2013 Quoted	**6**	8	**93**	254	Acquisition of Fitland in July 2019 Sold 2.9 million shares at €31.25 per share, generating proceeds of £76 million
		3,790	2,710	**7,654**	6,735	

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

Glossary

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

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

Alternative Investment Funds ("AIFs") At 31 March 2020, 3i Investments plc as AIFM, managed five AIFs. These were 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V, 3i Managed Infrastructure Acquisitions LP and 3i Infrastructure plc. 3i Investments (Luxembourg) SA as AIFM, managed one AIF, 3i European Operational Projects Fund.

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

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

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

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

B2B Business-to-business.

Board The Board of Directors of the Company.

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

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

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

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

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

Company 3i Group plc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Syndication The sale of part of our investment in a portfolio company to a third party, usually within 12 months of our initial investment and for the purposes of facilitating investment by a co-investor or portfolio company management in line with our original investment plan. A syndication is treated as a negative investment rather than a realisation.

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

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

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

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

List of Directors and their functions

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

Simon Thompson, Chairman
Simon Borrows, Chief Executive and Executive Director
Julia Wilson, Group Finance Director and Executive Director
Jonathan Asquith, Deputy Chairman and Senior Independent Director
Caroline Banszky, non-executive Director
Stephen Daintith, non-executive Director
Peter Grosch, non-executive Director
David Hutchison, non-executive Director
Coline McConville, non-executive Director
Alexandra Schaapveld, non-executive Director

By order of the Board
K J Dunn
Company Secretary
13 May 2020

Registered Office: 16 Palace Street, London SW1E 5JD