Performance and risk

What's in this section

Financial review

Strong financial performance

Highlights – Investment basis

Gross investment return
£4,168m
(2023: £5,104m)

Operating profit before carried interest
£4,077m
(2023: £4,956m)

Total return
£3,839m
(2023: £4,585m)

Total return on opening shareholders' funds
23%
(2023: 36%)

Diluted NAV per share at 31 March 2024
2,085p
(31 March 2023: 1,745p)

Total dividend
61.0p
(31 March 2023: 53.0p)

Table 9: Total return for the year to 31 March

Investment basis	2024 £m	2023 £m
Realised (losses)/profits over value on the disposal of investments	**(4)**	169
Unrealised profits on the revaluation of investments	**3,926**	3,769
Portfolio income		
Dividends	**499**	416
Interest income from investment portfolio	**91**	91
Fees receivable	**1**	7
Foreign exchange on investments	**(461)**	530
Movement in the fair value of derivatives	**116**	122
Gross investment return	**4,168**	5,104
Fees receivable from external funds	**72**	70
Operating expenses	**(147)**	(138)
Interest receivable	**13**	4
Interest payable	**(61)**	(54)
Exchange movements	**29**	(29)
Other income/(expense)	**3**	(1)
Operating profit before carried interest	**4,077**	4,956
Carried interest		
Carried interest and performance fees receivable	**62**	41
Carried interest and performance fees payable	**(305)**	(418)
Operating profit before tax	**3,834**	4,579
Tax charge	**(2)**	(2)
Profit for the year	**3,832**	4,577
Re-measurements of defined benefit plans	**7**	8
Total comprehensive income for the year ("Total return")	**3,839**	4,585
Total return on opening shareholders' funds	**23%**	36%

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 are not operating subsidiaries. IFRS 10 sets out an exception to consolidation and requires us to fair value other companies in the Group (primarily intermediate holding companies and partnerships). As explained in the Investment basis, 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.

Financial review continued

Realised losses/profits

In the year, we recognised a small realised loss of £4 million (2023: profit of £169 million) relating to Infrastructure. We generated total realised proceeds of £888 million (2023: £857 million) primarily from Action's capital restructuring.

Unrealised value movements

We recognised an unrealised profit of £3,926 million (2023: £3,769 million). Action's continued strong performance contributed £3,609 million (2023: £3,708 million). We also saw good contributions from a number of our other Private Equity investments including Royal Sanders, EBG, AES, Cirtec Medical, Q Holding, MPM, ten23 health, MAIT and Audley Travel, offsetting negative contributions from arrivia, Tato, WilsonHCG, Luqom, SaniSure and Basic-Fit. Our infrastructure portfolio delivered a good return, driven by the increase in the share price of our quoted investment in 3iN.

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

Portfolio income

Portfolio income increased to £591 million for the year (2023: £514 million), primarily due to dividend income of £499 million (2023: £416 million), particularly from Action and Royal Sanders and interest income from portfolio companies, the majority of which is non-cash.

Fees receivable from external funds

Fees received from external funds increased to £72 million (2023: £70 million). 3i receives a fund management fee from 3iN, which amounted to £51 million in FY2024 (2023: £49 million).

The remaining fee income received in the year of £21 million (2023: £21 million) includes fees from 3i MIA, our management of the 3i 2020 Co-investment Programme related to Action and other funds.

Operating expenses

Operating expenses increased in the year to £147 million (2023: £138 million) driven by a higher share-based payment charge reflecting the strong performance of 3i's share price during the year which was offset by delayed staff recruitment.

Interest payable

The Group recognised interest payable of £61 million (2023: £54 million). Interest payable predominantly includes interest on the Group's loans and borrowings and amortisation of capitalised fees.

Operating cash profit

We generated an operating cash profit of £467 million in the year (2023: £364 million). Cash income increased to £594 million (2023: £497 million), principally due to an increase in dividend income, which included £375 million of cash dividends from Action (2023: £325 million). We also received cash dividends from Royal Sanders, 3iN, Scandlines, Tato and AES, as well as cash fees from our external funds. Excluding the dividends received from Action, the operating cash profit was £92 million.

Cash operating expenses of £127 million (2023: £133 million) decreased in the year due to the timing of payments. Cash operating expenses are lower than the £147 million (2023: £138 million) of operating expenses recognised in the Consolidated statement of comprehensive income as a result of share-based payments and other non-cash expenses.

Table 10: Unrealised value movements on the revaluation of investments for the year to 31 March

Investment basis	2024 £m	2023 £m
Private Equity	**3,874**	3,746
Infrastructure	**72**	23
Scandlines	**(20)**	–
Total	**3,926**	3,769

Table 11: Operating cash profit for the year to 31 March

Investment basis	2024 £m	2023 £m
Cash fees from external funds	**74**	67
Cash portfolio fees	**12**	5
Cash portfolio dividends and interest	**508**	425
Cash income	**594**	497
Cash operating expenses[1]	**(127)**	(133)
Operating cash profit	**467**	364

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 and 3iN. 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 (excluding Action), we typically accrue net carried interest payable of c.12% of GIR and for Action carried interest payable of c.3% of Action's GIR, based on the assumption that all investments are realised at their balance sheet value. Carried interest is paid to participants when cash proceeds have actually been received following a realisation, refinancing event or other cash distribution and performance hurdles are passed in cash terms. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants include both current and previous employees of 3i.

In the year to 31 March 2024, we reduced our carried interest and performance fees payable balance to £818 million (2023: £1,351 million), primarily driven by £735 million paid in relation to Action, as a result of crystallising a further portion of the carried interest liability in the Buyouts 2010-12 carry scheme. As a result of these payments and the further investment in Action in the year, our net holding in Action, after carried interest, is now 53.2% (31 March 2023: 48.9%).

The strong performance of Action in the Buyouts 2010-12 vintage and good performance of a number of portfolio companies in our other vintages in Private Equity led to a £262 million increase in carried interest payable in FY2024.

In Infrastructure, 3iN pays a performance fee based on its NAV on an annual basis, subject to a hurdle rate of return. The continued strong performance of the assets held by 3iN and the sale of Attero, resulted in the recognition of £62 million (2023: £35 million) of performance fees receivable. £43 million (2023: £25 million) was recognised as carried interest and performance fees payable. During the year, we received £58 million of performance fees and paid £33 million to the Infrastructure team.

Overall, the effect of the income statement charge of £305 million (2023: £418 million), cash payments of £778 million (2023: £51 million), as well as currency translation meant that the balance sheet carried interest and performance fees payable was £818 million (31 March 2023: £1,351 million).

Table 12: Carried interest and performance fees for the year to 31 March

Investment basis Statement of comprehensive income	**2024 £m**	2023 £m
Carried interest and performance fees receivable		
Private Equity	**–**	4
Infrastructure	**62**	37
Total	**62**	41
Carried interest and performance fees payable		
Private Equity	**(262)**	(392)
Infrastructure	**(43)**	(26)
Total	**(305)**	(418)
Net carried interest payable	**(243)**	(377)

Table 13: Carried interest and performance fees at 31 March

Investment basis Statement of financial position	**2024 £m**	2023 £m
Carried interest and performance fees receivable		
Private Equity	**5**	6
Infrastructure	**42**	37
Total	**47**	43
Carried interest and performance fees payable		
Private Equity	**(803)**	(1,325)
Infrastructure	**(15)**	(26)
Total	**(818)**	(1,351)

Table 14: Carried interest and performance fees paid in the year to 31 March

Investment basis cash flow statement	**2024 £m**	2023 £m
Carried interest and performance fees cash paid		
Private Equity	**745**	24
Infrastructure	**33**	27
Total	**778**	51

Financial review continued

Net foreign exchange movements

The Group recorded a total foreign exchange translation loss of £316 million including the impact of foreign exchange hedging in the year (March 2023: £623 million gain), as a result of sterling strengthening by 3% against the euro and by 2% against the US dollar.

At 31 March 2024, the notional value of the Group's forward foreign exchange contracts was €2.6 billion and $1.2 billion. The €2.6 billion includes the €600 million notional value of the forward foreign exchange contracts related to the Scandlines hedging programme.

Including the impact from foreign exchange hedging, 75% of the Group's net assets are denominated in euros or US dollars. Based on the Group's net assets at 31 March 2024, including the impact from foreign exchange hedging, a 1% movement in euro and US dollar foreign exchange rates would impact total return by £140 million and £12 million, as shown in Table 15 below.

Pension

The Group's UK defined benefit plan ("the Plan") is fully insured following previous buy-in policies with Legal & General in May 2020 and February 2019 and Pension Insurance Corporation in March 2017. These polices provide long-term security for the Plan members and 3i is no longer exposed to any material longevity, interest or inflation risk in the Plan or any ongoing requirement to fund the Plan. The Trustees of the Plan wrote to members on 18 March 2024 to confirm that they were proceeding with their plan to buy out members' benefits and to distribute the surplus to the Company. This transaction is expected to complete in FY2025.

During the year the Group recognised a £7 million re-measurement gain on the Plan, following a reduction in the tax rate used to restrict the surplus to 25% (31 March 2023: 35%), following a legislative change made by the government effective from 6 April 2024. There was no re-measurement gain (2023: £8 million) on the German defined benefit plan.

Tax

The Group's parent company continues 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 £2 million (2023: £2 million).

The Group's overall UK tax position for the financial year is dependent on the finalisation of tax returns of the various corporate and partnership entities in the UK group.

Table 15: Net assets[1] and sensitivity by currency at 31 March

	FX rate	£m	%	1% sensitivity £m
Sterling	**n/a**	**4,817**	**24**	**n/a**
Euro[2]	**1.1695**	**13,947**	**69**	**140**
US dollar[2]	**1.2633**	**1,180**	**6**	**12**
Danish krone	**8.7236**	**200**	**1**	**2**
Other	**n/a**	**26**	**–**	**n/a**

1 The Group's foreign exchange hedging is treated as a sterling asset within the above table.
2 The sensitivity impact calculated on the net assets position includes the impact of foreign exchange hedging.

Financial review continued

Balance sheet and liquidity

During the year, we successfully issued a six-year €500 million bond at a coupon of 4.875% and extended the tenor of the £400 million tranche of our £900 million RCF to November 2026, with both transactions further strengthening our liquidity profile.

At 31 March 2024, the Group had net debt of £806 million (31 March 2023: £363 million) and gearing of 4% after the receipt of strong cash income of £594 million and net cash proceeds of £280 million, offsetting the payment of carried interest and performance fees of £778 million and Group dividend payments of £541 million.

The Group had liquidity of £1,296 million as at 31 March 2024 (31 March 2023: £1,312 million), comprising cash and deposits of £396 million (31 March 2023: £412 million) and an undrawn RCF of £900 million.

The investment portfolio value increased to £21,636 million at 31 March 2024 (31 March 2023: £18,388 million), mainly driven by unrealised profits of £3,926 million in the year.

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

Going concern

The Annual report and accounts 2024 are prepared on a going concern basis. The Directors made an assessment of going concern, taking into account the Group's current performance and the outlook, and performed additional analysis to support the going concern assessment. Further details on going concern can be found on page 128 in the Resilience statement.

Dividend

The Board has recommended a second FY2024 dividend of 34.50 pence per share (2023: 29.75 pence), taking the total dividend for the year to 61.0 pence per share (2023: 53.0 pence). Subject to shareholder approval, the dividend will be paid to shareholders in July 2024.

Table 16: Simplified consolidated balance sheet at 31 March

Investment basis Statement of financial position	2024 £m	2023 £m
Investment portfolio	**21,636**	18,388
Gross debt	**(1,202)**	(775)
Cash and deposits	**396**	412
Net debt	**(806)**	(363)
Carried interest and performance fees receivable	**47**	43
Carried interest and performance fees payable	**(818)**	(1,351)
Other net assets	**111**	127
Net assets	**20,170**	16,844
Gearing[1]	**4%**	2%

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

Key accounting judgements and estimates

A key judgement is the assessment required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment of investment entities is accurate. The introduction of IFRS 10 resulted in a number of intermediate holding companies being presented at fair value, which has led to reduced transparency of the underlying investment performance. As a result, the Group continues to present a non-GAAP Investment basis set of financial statements to ensure that the commentary in the Strategic report remains fair, balanced and understandable. The reconciliation of the Investment basis to IFRS is shown on pages 76 to 78.

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 2024, 96% by value of the investment assets were unquoted (31 March 2023: 95%).

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 2024 and the underlying investment management agreements.

Reconciliation of Investment basis and IFRS

Background to Investment basis financial statements

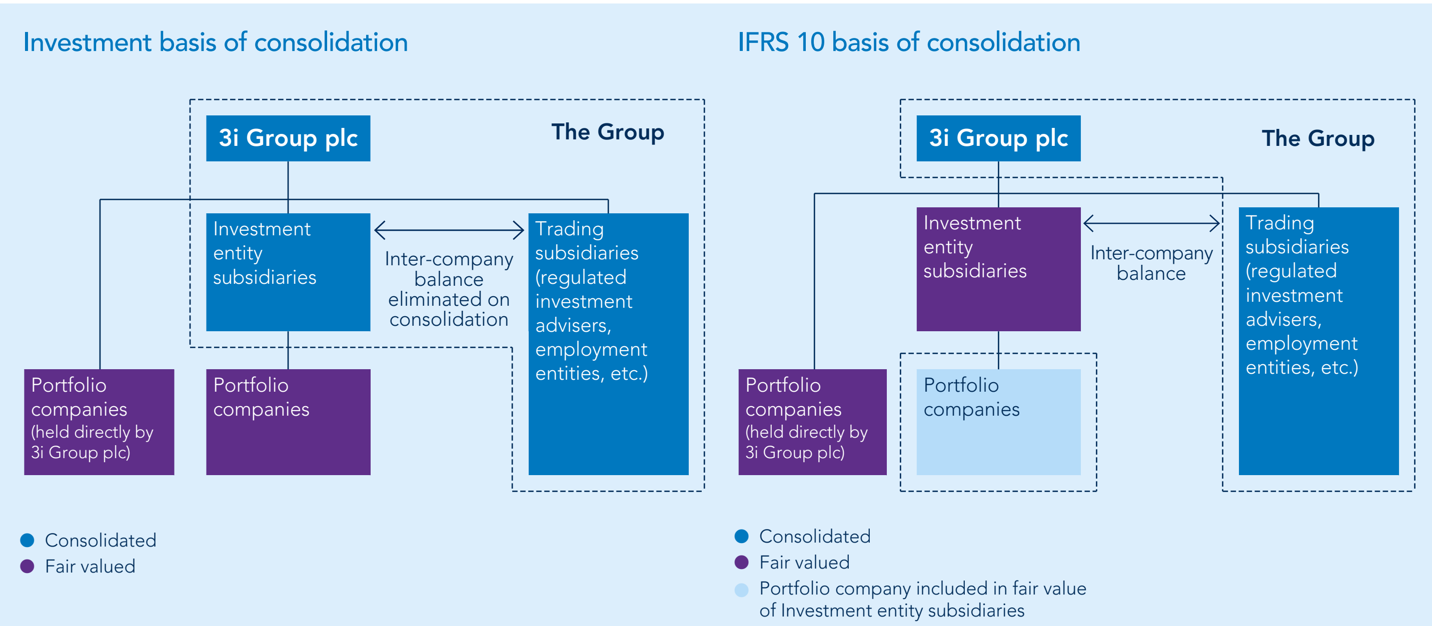
The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures ("Investment entity subsidiaries"). It also has other operational subsidiaries which provide services and other activities such as employment,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



Reconciliation of Investment basis and IFRS continued

Reconciliation of consolidated statement of comprehensive income

for the year to 31 March

	Notes	Investment basis 2024 £m	IFRS adjustments 2024 £m	IFRS basis 2024 £m	Investment basis 2023 £m	IFRS adjustments 2023 £m	IFRS basis 2023 £m
Realised (losses)/profits over value on the disposal of investments	1,2	**(4)**	**5**	**1**	169	(105)	64
Unrealised profits on the revaluation of investments	1,2	**3,926**	**(1,184)**	**2,742**	3,769	(1,872)	1,897
Fair value movements on investment entity subsidiaries	1	**–**	**861**	**861**	–	2,112	2,112
Portfolio income							
Dividends	1,2	**499**	**(136)**	**363**	416	(187)	229
Interest income from investment portfolio	1,2	**91**	**(62)**	**29**	91	(62)	29
Fees receivable	1,2	**1**	**2**	**3**	7	3	10
Foreign exchange on investments	1,3	**(461)**	**223**	**(238)**	530	(327)	203
Movement in the fair value of derivatives		**116**	**–**	**116**	122	–	122
Gross investment return		**4,168**	**(291)**	**3,877**	5,104	(438)	4,666
Fees receivable from external funds		**72**	**–**	**72**	70	–	70
Operating expenses	4	**(147)**	**1**	**(146)**	(138)	1	(137)
Interest receivable	1	**13**	**(4)**	**9**	4	–	4
Interest payable		**(61)**	**–**	**(61)**	(54)	–	(54)
Exchange movements	1,3	**29**	**23**	**52**	(29)	23	(6)
Income from investment entity subsidiaries	1	**–**	**21**	**21**	–	30	30
Other income/(expense)		**3**	**–**	**3**	(1)	–	(1)
Operating profit before carried interest		**4,077**	**(250)**	**3,827**	4,956	(384)	4,572
Carried interest							
Carried interest and performance fees receivable	1,4	**62**	**–**	**62**	41	–	41
Carried interest and performance fees payable	1,4	**(305)**	**254**	**(51)**	(418)	380	(38)
Operating profit before tax		**3,834**	**4**	**3,838**	4,579	(4)	4,575
Tax charge	1,4	**(2)**	**–**	**(2)**	(2)	–	(2)
Profit for the year		**3,832**	**4**	**3,836**	4,577	(4)	4,573
Other comprehensive income							
Exchange differences on translation of foreign operations	1,3	**–**	**(4)**	**(4)**	–	4	4
Re-measurements of defined benefit plans		**7**	**–**	**7**	8	–	8
Other comprehensive income for the year		**7**	**(4)**	**3**	8	4	12
Total comprehensive income for the year ("Total return")		**3,839**	**–**	**3,839**	4,585	–	4,585

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

Notes to the Reconciliation of consolidated statement of comprehensive income above:

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.

Notes to the Reconciliation of consolidated statement of financial position on page 77:

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, other assets 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 Investment basis and IFRS continued

Reconciliation of consolidated statement of financial position
as at 31 March

	Notes	Investment basis 2024 £m	IFRS adjustments 2024 £m	IFRS basis 2024 £m	Investment basis 2023 £m	IFRS adjustments 2023 £m	IFRS basis 2023 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	**946**	**(67)**	**879**	962	(121)	841
Unquoted investments	1	**20,690**	**(6,497)**	**14,193**	17,426	(8,749)	8,677
Investments in investment entity subsidiaries	1,2	**–**	**5,804**	**5,804**	–	7,844	7,844
Investment portfolio		**21,636**	**(760)**	**20,876**	18,388	(1,026)	17,362
Carried interest and performance fees receivable	1	**2**	**1**	**3**	3	–	3
Other non-current assets	1	**36**	**(8)**	**28**	33	(3)	30
Intangible assets		**4**	**–**	**4**	5	–	5
Retirement benefit surplus		**61**	**–**	**61**	53	–	53
Property, plant and equipment		**4**	**–**	**4**	3	–	3
Right of use asset		**49**	**–**	**49**	9	–	9
Derivative financial instruments		**83**	**–**	**83**	73	–	73
Total non-current assets		**21,875**	**(767)**	**21,108**	18,567	(1,029)	17,538
Current assets							
Carried interest and performance fees receivable	1	**45**	**–**	**45**	40	–	40
Other current assets	1	**53**	**(6)**	**47**	41	(11)	30
Current income taxes		**1**	**–**	**1**	1	–	1
Derivative financial instruments		**82**	**–**	**82**	48	–	48
Cash and cash equivalents	1	**396**	**(38)**	**358**	412	(250)	162
Total current assets		**577**	**(44)**	**533**	542	(261)	281
Total assets		**22,452**	**(811)**	**21,641**	19,109	(1,290)	17,819
Liabilities							
Non-current liabilities							
Trade and other payables	1	**(50)**	**45**	**(5)**	(11)	7	(4)
Carried interest and performance fees payable	1	**(280)**	**250**	**(30)**	(1,049)	1,006	(43)
Loans and borrowings		**(1,202)**	**–**	**(1,202)**	(775)	–	(775)
Derivative financial instruments		**–**	**–**	**–**	(3)	–	(3)
Retirement benefit deficit		**(21)**	**–**	**(21)**	(20)	–	(20)
Lease liability		**(45)**	**–**	**(45)**	(5)	–	(5)
Deferred income taxes		**(1)**	**–**	**(1)**	(1)	–	(1)
Provisions		**(2)**	**–**	**(2)**	(4)	–	(4)
Total non-current liabilities		**(1,601)**	**295**	**(1,306)**	(1,868)	1,013	(855)
Current liabilities							
Trade and other payables	1	**(136)**	**2**	**(134)**	(85)	9	(76)
Carried interest and performance fees payable	1	**(538)**	**514**	**(24)**	(302)	268	(34)
Derivative financial instruments		**–**	**–**	**–**	(1)	–	(1)
Lease liability		**(4)**	**–**	**(4)**	(5)	–	(5)
Current income taxes		**(3)**	**–**	**(3)**	(4)	–	(4)
Total current liabilities		**(681)**	**516**	**(165)**	(397)	277	(120)
Total liabilities		**(2,282)**	**811**	**(1,471)**	(2,265)	1,290	(975)
Net assets		**20,170**	**–**	**20,170**	16,844	–	16,844
Equity							
Issued capital		**719**	**–**	**719**	719	–	719
Share premium		**791**	**–**	**791**	790	–	790
Other reserves	3	**18,752**	**–**	**18,752**	15,443	–	15,443
Own shares		**(92)**	**–**	**(92)**	(108)	–	(108)
Total equity		**20,170**	**–**	**20,170**	16,844	–	16,844

The IFRS basis is audited and the Investment basis is unaudited.
Notes: see page 76.

Reconciliation of Investment basis and IFRS continued

Reconciliation of consolidated cash flow statement
for the year to 31 March

	Notes	Investment basis 2024 £m	IFRS adjustments 2024 £m	IFRS basis 2024 £m	Investment basis 2023 £m	IFRS adjustments 2023 £m	IFRS basis 2023 £m
Cash flow from operating activities							
Purchase of investments	1	(603)	97	(506)	(330)	284	(46)
Proceeds from investments	1	883	(340)	543	885	(658)	227
Amounts paid to investment entity subsidiaries	1	–	(674)	(674)	–	(535)	(535)
Amounts received from investment entity subsidiaries	1	–	580	580	–	841	841
Net cash flow from derivatives		69	–	69	23	–	23
Portfolio interest received	1	8	(3)	5	19	(7)	12
Portfolio dividends received	1	500	(134)	366	406	(183)	223
Portfolio fees received	1	12	–	12	5	–	5
Fees received from external funds		74	–	74	67	–	67
Carried interest and performance fees received	1	58	–	58	58	–	58
Carried interest and performance fees paid	1	(778)	725	(53)	(51)	22	(29)
Operating expenses paid	1	(121)	–	(121)	(128)	–	(128)
Co-investment loans received	1	42	(37)	5	3	2	5
Tax paid	1	(3)	–	(3)	–	–	–
Other cash income	1	3	(1)	2	–	–	–
Interest received	1	13	(4)	9	4	–	4
Net cash flow from operating activities		157	209	366	961	(234)	727
Cash flow from financing activities							
Issue of shares		1	–	1	1	–	1
Purchase of own shares		–	–	–	(30)	–	(30)
Dividends paid		(541)	–	(541)	(485)	–	(485)
Repayment of long-term borrowing		–	–	–	(200)	–	(200)
Proceeds from long-term borrowing		422	–	422	–	–	–
Lease payments		(6)	–	(6)	(5)	–	(5)
Interest paid		(40)	–	(40)	(54)	–	(54)
Net cash flow from financing activities		(164)	–	(164)	(773)	–	(773)
Cash flow from investing activities							
Purchase of property, plant and equipment		(3)	–	(3)	(1)	–	(1)
Net cash flow from investing activities		(3)	–	(3)	(1)	–	(1)
Change in cash and cash equivalents	2	(10)	209	199	187	(234)	(47)
Cash and cash equivalents at the start of year	2	412	(250)	162	229	(17)	212
Effect of exchange rate fluctuations	1	(6)	3	(3)	(4)	1	(3)
Cash and cash equivalents at the end of year	2	396	(38)	358	412	(250)	162

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

Notes to the Reconciliation of consolidated cash flow statement above:

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 on page 75. The table below defines our additional APMs.

Gross investment return as a percentage of opening portfolio value

Purpose
A measure of the performance of our proprietary investment portfolio.

Calculation
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.

Reconciliation to IFRS
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.

Page 18 KPIs

Cash realisations

Purpose
Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities.

Calculation
The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement.

Reconciliation to IFRS
The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.

Page 18 KPIs

Cash investment[1]

Purpose
Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns.

Calculation
The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement.

Reconciliation to IFRS
The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.

Page 18 KPIs

Operating cash profit

Purpose
By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns.

Calculation
The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses and leases payments as shown on the Investment basis Consolidated cash flow statement. The calculation is shown in Table 11 of the Financial review.

Reconciliation to IFRS
The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement.

Page 18 KPIs

Net (debt)/cash

Purpose
A measure of the available cash to invest in the business and an indicator of the financial risk in the Group's balance sheet.

Calculation
Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position.

Reconciliation to IFRS
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
A measure of the financial risk in the Group's balance sheet.

Calculation
Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero.

Reconciliation to IFRS
The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position.

1 Cash investment of £593 million is different to cash investment per the cash flow of £603 million due to a £10 million investment in Private Equity which was recognised in FY2023 and paid in FY2024.

Risk management

Effective risk management underpins the successful delivery of our strategy and longer-term sustainability of the business. Our values and culture are integral to our approach to risk management.

Understanding our risk appetite

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 shareholders and other investors.

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 associated 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, within the agreed risk appetite parameters.

3i's Risk appetite statement, which is consistent with previous years, is built on rigorous and comprehensive investment procedures and conservative capital management. Please refer to page 81 for further details.

Values and culture

Strong values and institutional culture are integral to our approach to risk management and are embedded in 3i's approach to risk governance, described in the next section, led by the Board and the Chief Executive. To underpin this, 3i has in place a comprehensive compliance manual, code of conduct and policy framework, supported by a systematic programme of refresher training and independent monitoring.

Members of the Executive Committee are responsible for ensuring individual behaviours meet the Group's high standards of conduct across their respective business or functional areas. 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, complete an annual verification questionnaire, and are assessed on how they demonstrate 3i's values as part of their annual appraisal. 3i's global policies and procedures are reinforced through an annual e-learning programme covering topics such as financial crime, anti-bribery and money laundering, market abuse and regulatory conduct rules.

Finally, the Remuneration Committee is responsible for ensuring the Group's remuneration policy is aligned with the Group's culture and values, weighted towards variable compensation dependent on performance, and does not encourage inappropriate or excessive risk taking. More specifically, our investment teams, who are responsible for investment origination and asset management, have reward structures specifically designed to ensure alignment with the Group's investment objectives and risk management appetite.

Approach to risk governance

The Board is responsible for risk assessment, the risk management process and the protection of the Group's reputation, brand integrity and longer-term sustainability. It considers the most significant current and emerging risks facing the Group using a range of quantitative data and analyses where possible. These include: vintage controls which consider the portfolio concentration by geography and sector; periodic reporting of financial and non-financial KPIs from the portfolio, including leverage levels and ESG indicators; and liquidity reporting. Longer-term and new and emerging risks are evaluated as part of the strategic review process and development of the Group's investment strategy.

Board oversight is exercised through the Audit and Compliance Committee which focuses on: upholding standards of integrity; financial and non-financial reporting; risk management; going concern and resilience; and internal control. This includes monitoring and reviewing the effectiveness of the risk management and internal control systems. The Audit and Compliance Committee's activities are discussed further in its report on pages 122 to 127.

The Investment Committee oversees the investment pipeline development and approves new investments, significant portfolio changes and divestments. It is integral to ensuring a consistent approach to managing the Group's most material risks. This includes alignment with 3i's financial and strategic objectives and risk appetite, and ensuring that the long-term sustainability of portfolio companies is taken into consideration.

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 is 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 and risk mitigation purposes. The risk review takes place four times a year, with the last review in April 2024, and the Chief Executive provides updates after each meeting to the Audit and Compliance Committee.

Please refer to pages 82 to 84 for further details on the Group's risk governance framework.

Risk appetite

Our risk appetite is defined by our strategic objectives. We invest capital in businesses to deliver capital returns, and portfolio and fund management cash income to cover our costs and increase returns to our investors. As proprietary capital investors we have a long-term, responsible approach.

Investment risk

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

- return objective: individually assessed and subject to a minimum target of a 2x money multiple over four to six years;
- geographic focus: headquartered in our core markets of Europe and North America;
- sector expertise: focus on Consumer, Healthcare, Industrial Technology, Services and Software;
- responsible investment: all investments are screened against 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.

Capital management

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

- the Group aims to operate within a range of £500 million net cash to £1 billion net debt, with tolerance to operate outside of this range on a short-term basis and up to a gearing level of 15% dependent on investment and realisation flows. The Group may raise debt, or use other financing from time to time, to manage investment and realisation flows. The Group has no appetite for structural gearing; the achievement of its returns objectives is not reliant on gearing;
- the Group manages liquidity conservatively; maintaining a RCF to provide additional committed liquidity and financial flexibility, and monitoring using a framework that assesses forecast cash flows and a broader range of factors;
- the Group accepts a degree of currency exposure risk with respect to its investment portfolio, but aims to partially reduce the impact of currency movements on its net asset value through a combination of matching currency realisations with investments and the use of its euro and US dollar foreign exchange hedging programmes, taking into account the associated costs and liquidity risks. These portfolio hedging programmes have a total size of €2.0 billion and $1.2 billion respectively;
- in addition, the Group may hedge specific assets or exposures where appropriate; for example, in relation to currency exposures on longer-term investments, such as Scandlines (€600 million hedging programme); and
- we have limited appetite for the dilution of capital returns as a result of operating and interest expenses. All our business lines generate cash income to mitigate this risk.

Role of the Investment Committee

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

3i's approach to portfolio construction is built on originating opportunities thematically and investing selectively in businesses that benefit from long-term structural sustainable growth. Integral to this thematic approach is the identification of new and emerging risks and opportunities, in areas such as: consumer preferences; the environment and sustainability; technological change; and demographic and social trends.

New investment opportunities are considered at the outset of the investment process. Investment proposals cover the expected benefit of operational improvements, growth initiatives, ESG initiatives, and M&A activity, that will be driven by a combination of our investment professionals and the portfolio company's management team. They will also include a view on the likely exit strategy and timing. All proposed investments are screened against 3i's Responsible Investment policy.

In evaluating new and existing investments, the Investment Committee considers potential reputational risks and broader ESG developments and trends. The latter includes the risks and opportunities in relation to the environmental and social aspects of each company's products and services, the markets in which they operate, and the supply chain. Investment cases may include consideration of the feasibility and cost of initiatives to reduce the company's environmental footprint, where material.

After investing, 3i works with portfolio companies' management to manage risks and invest in initiatives that support sustainable long-term growth, whilst closely monitoring each investment case:

- 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;
- we hold semi-annual in-depth reviews of our portfolio companies. These 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 risks and opportunities, and market outlook; and
- where necessary, additional reviews may take place for assets where there are more significant operational challenges. As part of this process, leverage, banking covenants and counterparty risks are closely monitored across the portfolio.

Our monitoring processes consider instances where individual portfolio company underperformance could have adverse reputational consequences for the Group, even though the value impact may not be material.

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

Finally, we recognise the need to plan and execute a successful exit at the optimum time, taking consideration of market conditions. This exit 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.

We regularly review our internal processes and investment decisions in light of actual outcomes. This includes periodic back-testing of the more recent Private Equity investments by comparing their performance and forecast returns on exit against the original investment case presented at the time of the investment.

Role of the Group Risk Committee

The quarterly Group risk review process includes an analysis of key developments since its last review; new and emerging risks; and the key strategic and financial metrics (such as KPIs) considered to be indicators of potential changes in the Group's risk profile. The GRC uses this information to determine and review its principal risks and the implications of any new and emerging risks.

It then evaluates the impact and likelihood of each principal risk in the context of the Group's strategic objectives, risk appetite and with reference to associated measures and KPIs. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and reviewed at the subsequent meeting. A report summarising the key conclusions of each GRC meeting together with a copy of the risk review report is provided to the Audit and Compliance Committee, which provides independent oversight of the work of the GRC, as described on pages 122 to 127.

A number of focus topics are also agreed in advance of each meeting. In FY2024, the GRC covered the following:

- a review of the Group's IT framework including cyber security, systems developments, the use of Artificial Intelligence tools, and IT resilience;
- an update on the Group's business continuity and resilience planning and testing, including oversight of third-party suppliers;
- a review of the Group's stress tests to support its Going concern, Viability and Resilience statements;
- semi-annual updates from the investment business lines on ESG issues and themes with respect to the Group's portfolio companies, including progress with carbon reporting;
- semi-annual updates from 3i's ESG Committee, including progress with TCFD-aligned reporting; and
- the proposed risk disclosures in the FY2024 Annual report and accounts.

There were no significant changes to the GRC's overall approach to risk governance or its operation in FY2024. This approach is benchmarked from time to time against a peer group of private equity investment trusts, European investment companies, traditional asset managers and a selection of US alternative asset managers to ensure it remains fit for purpose.

The GRC also receives an update on the Group's risk log which is used to record operational risk incidents and "near misses". The Board and Executive Committee have a very limited tolerance for operational risk events and errors. Accordingly, a relatively low reporting threshold is applied. This involves both a qualitative and quantitative impact assessment; any financial losses or exposures greater than £20,000 must be reported.

The risk log is also used to record incidents at portfolio companies which could impact 3i's reputation as an investor or where 3i may have regulatory reporting obligations. Examples include fraud, cyber security, data protection, health and safety, and litigation. The responsible 3i investment team is required to set out the risk mitigation steps being undertaken and provide updates on progress.

Role of the ESG Committee

The Group's ESG Committee provides input and advice on developing the Group's ESG strategy; the assessment and management of relevant ESG risk and opportunities; ESG related regulatory and reporting obligations; and coordination of ESG-related activities and initiatives.

The GRC receives semi-annual updates on the work of the Committee as part of its risk review process. Refer to the Sustainability section on pages 39 to 68 for further details.

Related risk management activities

3i's risk management framework is augmented by a separate Risk Management function ("function") which has specific responsibilities under the FCA's Investment Funds sourcebook and is functionally and hierarchically separate from the investment teams. It 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. The function meets ahead of the GRC meetings to consider the AIF risk reports, and also to discuss any key developments that might impact the principal risks affecting the Group.

In practice, the Group operates a "three lines of defence" framework to support the identification and management of risk. These are:

(1) First line – line management across our business lines and professional services teams.

(2) Second line – teams with specific oversight and control responsibilities – for example, Compliance, HR, Finance and IT – and oversight and challenge by the GRC.

(3) Third line – Internal Audit, which provides independent assurance over the operation of the Group's risk management framework and the internal controls designed to manage and mitigate risk.

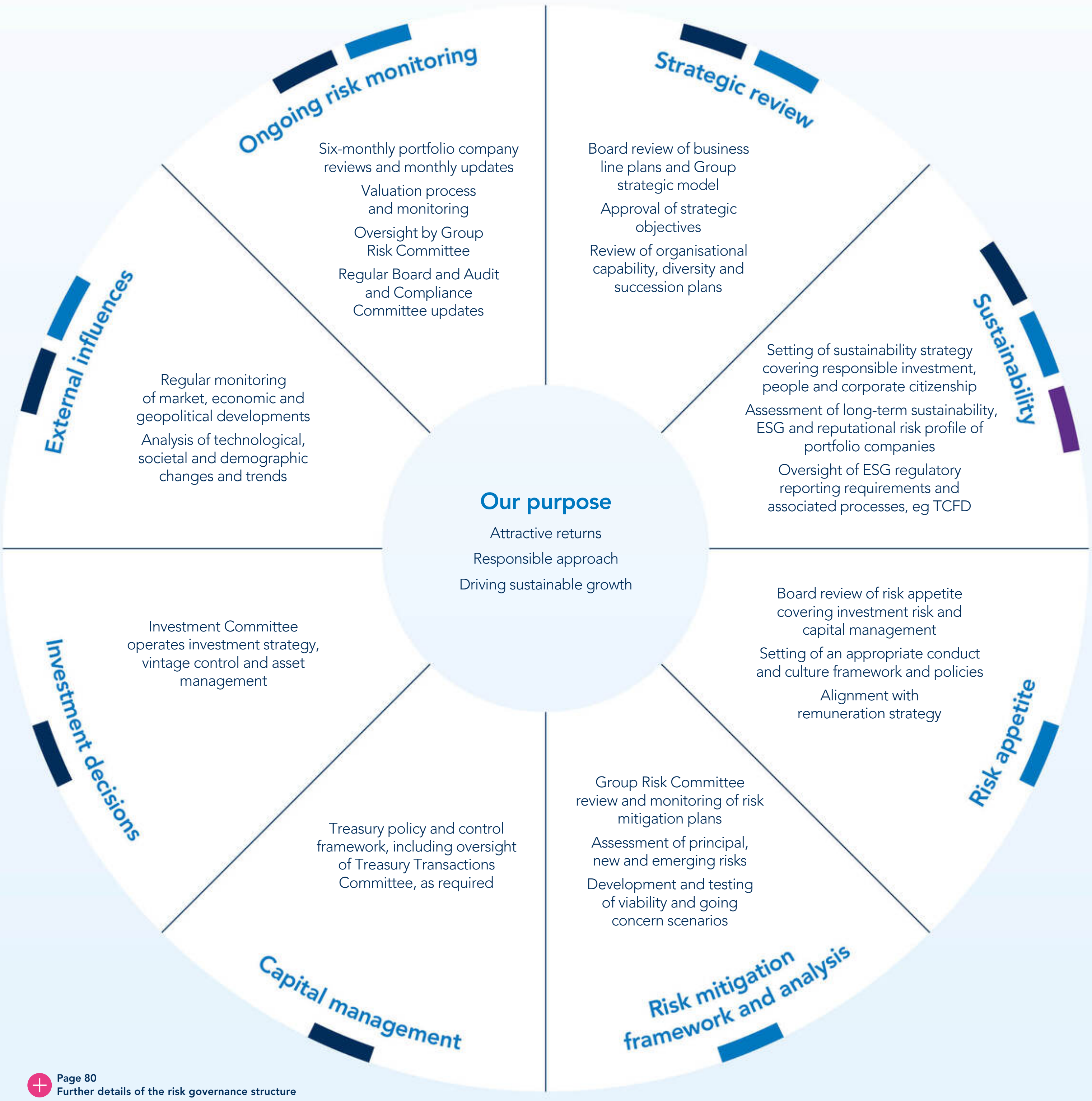
Our responsible investment policy
www.3i.com/sustainability/sustainability-policies

Pages 16-17
Our long-term, responsible approach

Integrated approach to risk management

3i's approach to risk management consists of a number of interrelated processes, illustrated below, the operation of which is overseen by a combination of the Investment Committee, Executive Committee, Group Risk Committee and ESG Committee.

- Responsibility of Investment Committee
- Responsibility of Group Risk Committee
- Responsibility of ESG Committee



Page 80
Further details of the risk governance structure

Principal risks and mitigations – aligning risk to our strategic objectives

Business and risk environment in FY2024

We define our principal risks as those that have the potential to impact materially the delivery of our strategic objectives. During the year, the Directors considered a robust assessment of the principal and new and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Further details can be found in the Audit and Compliance Committee report on pages 122 to 127.

This section provides an overview of the Group's principal risks, new and emerging risks, and the key matters considered during the year as part of the risk assessment process.

The Group's overall principal risk profile, summarised on on pages 89 to 93, has remained relatively stable although the precise nature of the individual risks may have evolved. The main changes agreed by the GRC during the year were:

- for the reasons noted opposite, "Geopolitical risks" have increased; in particular, the potential impact of a wider conflict in the Middle East;
- the likelihood and impact of the risk of "Volatility in capital markets, foreign exchange and commodities" has reduced; however, this could easily change given the current geopolitical backdrop;
- the risk of "Global economic uncertainty" is considered to be lower compared to last year based on recent economic data and forecasts, albeit this could be adversely affected by geopolitical developments and other factors;
- the risk of "Lower investment or realisation rates" increased, reflecting the low levels of deal activity and lack of liquidity in private markets; and
- the risk of "Underperformance of portfolio companies" has been split out to show Action separately from the remainder of the investment portfolio in view of the materiality of the former.

The Group's principal risk mitigation plans, which are subject to regular review by the GRC, have not required any notable changes during the year.

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.

Geopolitical uncertainty has been a focal point of discussion for the GRC over the past year. Of particular concern has been the potential impact of the conflict in the Middle East and the risk of further escalation or widening of the conflict with Russia. These conflicts have the potential, inter alia, to increase market volatility and disrupt supply chains, which could affect the operations of some of 3i's portfolio companies and impact 3i's investment and realisation plans.

The period has been characterised by continued inflation, high interest rates and slow economic growth. More recently, the global economic outlook has improved, with evidence of falling inflation and the expectation that interest rates may have peaked. There are still, however, areas of continued weakness and considerable uncertainties given the current geopolitical backdrop. The number of key elections taking place in 2024 may also result in policy changes, which could add further uncertainty in due course.

The main focus of the GRC has been on understanding how these changes potentially play out across the different geographies and sectors in which 3i's portfolio companies operate, supply chain risks, and the impact on deal activity. Measures and initiatives put in place some time ago have enabled portfolio companies to manage their performance through various economic headwinds. This is reflected in the continued positive momentum in the overall portfolio performance across both business lines; in particular, investments in the areas of value-for-money, private label, healthcare and infrastructure.

The Group's resilience assessment and viability testing covers a range of stress test scenarios including a number of severe yet plausible external events linked back to the Group's principal risks. Further details can be found in the Group's Resilience statement on pages 128 to 130. As part of its overall resilience planning, 3i continues to maintain a conservative approach to managing its capital resources and costs.

ESG considerations are an important component of our strategic and investment objectives and approach to risk management. Further information on work done in relation to ESG reporting and compliance obligations, including TCFD-aligned reporting, and our approach to climate-related risk and opportunities can be found in the Sustainability section on pages 39 to 68.

Principal risks and mitigations – aligning risk to our strategic objectives continued

Investment

The Investment Committee is responsible for managing the Group's investment risks. The focus of the quarterly GRC meetings is on 3i's investment outcomes in the context of the Group's risk appetite, overall risk profile and potential risks to the achievement of its strategic objectives.

The core areas of the Group's investment strategy and focus remain unchanged, although delivery of these continues to be refined in terms of approach, resourcing and processes. The underlying views on key long-term risks and trends remains consistent with last year.

During the year, the GRC discussed the lack of liquidity and low levels of deal activity in private markets and the factors contributing to this, including higher interest rates and unrealistic price expectations on the part of sellers. This has impacted new investment levels; however, a very selective and disciplined approach to investment remains appropriate in the current market.

The risk of "Underperformance of portfolio companies" was split out to show Action separately from the remainder of the investment portfolio in view of the materiality and strong, cash generative characteristics of the former. The GRC concluded that the performance risk assessment for the portfolio excluding Action, has been stable over the period, reflecting a resilient performance by the majority of the portfolio, partly offset by a mixed performance by a minority of companies in more challenged sectors.

Notwithstanding the challenging external environment described previously, portfolio performance continues to benefit from: a combination of the diversity and structure of the portfolio; a disciplined approach to investment and exit planning; and mitigating steps taken to address cost pressures and weaker consumer demand where there is a particular exposure.

Our investment and portfolio monitoring processes continue to evolve in response to new and evolving risks. 3i has recently updated its Responsible Investment policy. ESG due diligence on new investments is shifting from broader screening to a more targeted, in-depth assessment process, together with enhanced standards and a clearer ESG maturity roadmap to support portfolio companies.

The GRC receives updates on the work of the ESG Committee and progress with ESG initiatives across the portfolio. Good progress has been made in advancing the ESG maturity of the portfolio and improving carbon measurement and reporting capabilities. This includes the roll-out of a new ESG data collection tool for the portfolio, which will support improved ESG reporting and monitoring.

Operational

3i's operational risk profile has remained stable over the year.

Attracting and retaining key people remains a principal risk and significant operational priority. Whilst competition in the recruitment market has eased compared to last year, our overall risk assessment is unchanged.

During the year, the Group experienced modest levels of voluntary staff turnover; 6.0% in FY2024. This reflects 3i's strong performance and helps to underpin the longer-term resilience of the business.

Our Remuneration Committee ensures that our variable compensation schemes are in line with market practice and consistent with sound risk management. These schemes include carried interest for investment executives, an important long-term incentive, which rewards cash-to-cash returns.

The effective on-boarding and integration of new hires remains a priority and is an important part of maintaining a cohesive Group culture and good control mindset.

Detailed succession plans are in place for each business area. The Board completed its last formal annual review of the Group's organisational capability and succession plans in September 2023.

The GRC also receives updates on IT security and operational resilience. 3i has continued to operate robust and secure IT systems supported by key third-party service providers. There were no significant IT performance or security issues in the period. 3i continues to review and refresh its IT systems, device strategy, and cyber security framework. 3i engages the services of a leading cyber security services company, including a part-time Chief Information Security Officer, which provides ready access to intelligence and expert advice on new and emerging cyber security threats.

Incident management and business continuity plans are reviewed at least annually. This includes consideration of a broad range of "severe but plausible" business disruption scenarios and incorporates an assessment of third-party supplier risks.

Fraud risk is considered on a regular basis. 3i has a robust fraud risk assessment and anti-fraud programme in place. The latter includes fraud prevention work by Internal Audit, awareness training and provision of an independent reporting service or "hotline" accessible by all staff. The Group's cyber security programme also aims to identify and mitigate the risks of third-party frauds, for example, ransomware and phishing attacks, through the use of IT security tools and regular staff training.

Capital management

3i continues to maintain a conservative approach to managing its capital resources and has operated within the limits set out in its Risk appetite statement on page 81 and in accordance with the Treasury policy approved by the Board. The latter includes a detailed liquidity and currency exposure risk monitoring and reporting framework, incorporating a range of quantitative and qualitative measures and associated risk tolerance levels.

Accordingly, there are currently no principal risks in relation to capital management.

New and emerging risks

The key elements to 3i's approach to identifying and monitoring new and emerging risks include the following:

- a thematic approach to investment origination and portfolio construction, which involves consideration of emerging risks and trends that can support long-term sustainable growth in the portfolio;
- the quarterly review by the GRC of significant developments which could potentially impact the Group's risk profile and the achievement of its strategic objectives;
- maintenance of a watch list of risks which are deemed of sufficient importance to require active monitoring by the GRC, but are not currently regarded as risks to the achievement of the Group's strategic objectives; and
- monitoring of developments by 3i's professional service teams, covering their respective specialist areas such as tax, legal and regulatory compliance, and ESG.

3i's thematic approach to investment origination and portfolio construction is developed based on an analysis of new and emerging risks and trends over a longer time horizon. The current themes (pages 12 and 13) include: value-for-money and discount; energy transition, energy security and resource scarcity; digitalisation, digital transformation and big data; and demographic and social change. This approach enables 3i to adapt its investment strategy in a way which manages longer-term risks whilst taking advantage of the upside opportunities.

The Board carries out an in-depth annual strategic review which includes an update and discussion on current and emerging risks and the Group's risk appetite. The outputs are linked back to the work of the GRC and the Investment Committee, the latter being responsible for the execution of the investment strategy, including the assessment and management of risks over the investment lifecycle. The outputs also form part of our medium-term viability stress testing and long-term business resilience assessment (pages 128 to 130).

New and emerging ESG risks are factored into the development of 3i's investment themes. In addition, changes in legislation and reporting requirements are closely monitored. Investment opportunities are screened at an early stage against 3i's Responsible Investment policy to filter out any which are exposed to excessive risks. Once invested, we monitor ESG risks closely and use our influence to support our portfolio companies across a range of ESG-related areas, including improvements in risk management processes; addressing emerging regulations and legislation; and encouraging the development of more environmentally sustainable behaviours. 3i also has the flexibility to sell investments that become or have the potential to become overly exposed to ESG risks. Further information can be found in the Sustainability section on pages 39 to 68.

The quarterly GRC risk review considers any significant developments which could impact the Group's principal risks and the achievement of its strategic objectives. The areas of risk considered include external developments, investment outcomes, the Groups' capital management and operational risks. External developments typically cover geopolitical developments, the economic outlook and market performance. The focus is on near to medium-term emerging risks and trends. Based on this analysis, the GRC reviews the need to update principal risks and initiate or change the risk mitigation plan. The Group's current principal risks and risk mitigation plan are summarised on pages 85 to 93.

Principal risks and mitigations – aligning risk to our strategic objectives continued

In addition to the review of principal 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 risks to the achievement of the Group's strategic objectives. This includes new and emerging risks. The watch list sets out details of how these risks are being mitigated and any further actions agreed by the GRC. Risks on the watch list may be reclassified as principal risks and vice versa based on the GRC's assessment.

During the year, the risk of the "Impact of Artificial Intelligence (AI)" was added to the watch list. The risk mitigation steps taken included the introduction of a specific Group AI policy and the formation of an AI steering group to make recommendations on the selection, assessment and deployment of AI tools and to promote training and awareness.

The other risks on the watch list remain unchanged from last year. These include:

- external environment – increased ESG reporting and compliance obligations; reputational risks in relation to the private equity industry; uncertainty regarding the impact of global and local tax initiatives; UK/EU trading relationship; and the potential re-emergence of a global pandemic;
- investment outcomes – portfolio concentration; and the impact of AI; and
- operations – third-party supplier resilience; and cyber security.

The risk mitigation plans for risks on the watch list are reviewed quarterly by the GRC. The main changes during the year were in relation to AI, as outlined above, and the application of 3i's supplier relationship management toolkit, which was extended to include more suppliers for ongoing assessment and tracking purposes as part of improvements to 3i's business resilience planning.

Outlook

The longer-term economic outlook continues to be affected by a number of factors including price inflation; cost-of-living pressures; higher interest rates; and geopolitical tensions. Whilst there have been some positive economic indicators, our outlook remains cautious in view of the number of potential downside factors which could impact economic growth and market volatility.

3i's business model, its disciplined approach to investment, active portfolio management, and diverse investment portfolio have been resilient to the challenges of the past year. This resilience has also been confirmed in the results of the latest stress tests carried out as part of our viability assessment.

3i continues to work closely with portfolio management teams to support their respective business and contingency plans in response to challenging economic and market conditions. Where appropriate, enhanced portfolio monitoring and reporting processes may be put in place to support portfolio companies through more difficult periods and to identify possible further actions.

Although we did not make any new Private Equity investments in the year, we have continued to grow portfolio value; for example, through our buy-and-build strategy and increased equity stake in Action. For further information, please refer to the Business review section (pages 21 to 33). We have a clear and consistent strategy and a disciplined approach to investment whilst looking 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 remains on identifying attractive and sensibly priced new investments, and value accretive bolt-on acquisitions for our portfolio companies.

Principal risks and mitigations – aligning risk to our strategic objectives continued

The disclosures on the following pages are not an exhaustive list of risks and uncertainties faced by the Group, but rather a summary of the principal risks which are regularly reviewed by the GRC and the Board, and have the potential to affect materially the achievement of the Group's strategic objectives and impact its financial performance, reputation and brand integrity.

Movements in risk status and link to strategic objectives

- Risk exposure has increased
- No significant change in risk exposure
- Risk exposure has decreased
- Grow investment portfolio earnings
- Use our strong balance sheet
- Realise investments with good cash-to-cash returns
- Increase shareholder distributions
- Maintain an operating cash profit

External

Principal risk

Global economic uncertainty

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Impacts general market confidence and risk appetite
- Higher risk of market volatility, price shocks or a significant market correction
- Potential for extended period of higher inflation and interest rates
- Limits earnings growth or reduces NAV owing to contraction of earnings in our investments and/or changes in multiples and discount rates used for their valuation
- Increases liquidity or covenant risks across the portfolio or limits ability to refinance our investments
- Leads to reduced M&A volumes in 3i's core markets, economic instability and lower growth, which impacts investment portfolio exit plans and realisation levels

Risk management and mitigation

- Regular portfolio company reviews and Investment Committee focus on investment strategy, exit processes and refinancing strategies
- Monthly portfolio monitoring to identify and address portfolio issues promptly
- Monitoring of valuations and application of the valuations policy by the Valuations Committee
- Regular liquidity and currency monitoring and strategic reviews of the Group's balance sheet
- Regular review of resourcing and key man exposures as part of business line reviews and the portfolio company review process
- Overall shape and resilience of the portfolio

FY2024 outcome

- Strong performance of Action and overall resilient performance from the remainder of the portfolio
- Overall increase in portfolio valuation particularly in value-for-money and private label consumer, healthcare and infrastructure sectors
- Group GIR of 23%
- Low Group gearing of 4% and liquidity of £1,296 million. Undrawn RCF of £900 million

Principal risks and mitigations – aligning risk to our strategic objectives continued

External continued

Principal risk

Impact of higher interest rates on debt markets and pricing of specific assets

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Higher risk of market volatility, price shocks or a significant market correction
- Limits earnings growth or reduces NAV owing to contraction of earnings in our investments and/or changes in multiples and discount rates used for their valuation
- Increases liquidity or covenant risks across the portfolio or limits ability to refinance our investments
- Impacts market confidence and risk appetite more generally

Risk management and mitigation

- Regular portfolio company reviews as well as Investment Committee focus on investment strategy, exit processes and refinancing strategies
- Monthly portfolio monitoring, including financing arrangements, to identify and address issues promptly
- Monitoring of valuations and application of the valuations policy by the Valuations Committee
- Regular liquidity, currency and counterparty risk monitoring and strategic reviews of the Group's balance sheet

FY2024 outcome

- Strong performance of Action and resilient performance overall from the remainder of the portfolio
- Overall increase in portfolio valuation particularly in value-for-money and private label consumer, healthcare and infrastructure sectors
- Group GIR of 23%
- Low Group gearing of 4% and liquidity of £1,296 million. Undrawn RCF of £900 million
- Average leverage across the Private Equity portfolio was 2.7x (31 March 2023: 2.5x)
- Over 70% of our Private Equity term debt is hedged at a weighted average tenor of more than three years. The average all-in debt cost on the total hedged term debt is less than 6.5%

Principal risk

Volatility in capital markets, foreign exchange and commodities

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- May impact portfolio company valuations and realisation processes
- Increases risks with exit plans and bank financing
- Potential for large equity market fall to impact asset valuations
- Unhedged foreign exchange rate movements impact total return and NAV

Risk management and mitigation

- Portfolio company reviews focus on investment strategy, exit plans and refinancing strategies
- Long-term approach to setting valuation multiples
- Active management of exit strategies by Investment Committee to enable us to adapt to market conditions
- Regular liquidity and currency monitoring, and strategic reviews of the Group's balance sheet
- Foreign exchange hedging programmes and management of investment and realisation currency flows

FY2024 outcome

- Continuation of euro and US dollar medium-term foreign exchange hedging programme
- Foreign exchange exposures at the portfolio company level monitored and hedged where appropriate
- Strong portfolio performance, demonstrating resilience, leading to an increase in portfolio value in the year
- At 31 March 2024, 75% of the investment portfolio was denominated in euros or US dollars. Sterling strengthened by 3% against the euro and 2% against the US dollar and as a result, we generated a total foreign exchange translation loss of £316 million (2023: £623 million gain) net of derivatives in the year

Principal risks and mitigations – aligning risk to our strategic objectives continued

External continued

Principal risk

Transaction execution challenges in current market

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Reduced investment rates in Private Equity and Infrastructure as a result of higher pricing or market uncertainties
- Risk of wider outcomes on core investment case assumptions, impacting returns
- Market uncertainty may result in some attractive investment opportunities
- Reduced level of realisations and refinancing

Risk management and mitigation

- Strong central oversight and disciplined approach to investment pipeline and pricing
- Active management of investments and exit strategies by Investment Committee
- 3i's local teams and networks facilitate the origination of off-market transactions

FY2024 outcome

- Increased investment in Action and Royal Sanders and completed seven bolt-on acquisitions, with one requiring 3i proprietary capital investment
- Realised proceeds of £888 million including £762 million proceeds received from Action's capital restructuring
- In April 2024, we agreed the sale of nexeye, generating expected exit proceeds of c.€452 million

Principal risk

Geopolitical risks

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Indirect operational impact, eg third-party suppliers or supply chain disruption
- Impact of higher energy and commodity prices, price shocks and supply chain issues
- Increased transportation times and costs
- Increased number and complexity of sanctions
- Direct or indirect reputational risks, eg exposures to Russia
- Impact on NAV through contraction of Private Equity portfolio earnings or changes in valuation multiples
- Reduced realisation potential, impacting shareholder returns

Risk management and mitigation

- Detailed scenario and contingency planning at the portfolio company level
- Steps taken by portfolio companies to manage through an extended period of disruption
- Regular assessment of portfolio company operations and performance
- Sanctions policy and monitoring
- Long-term approach to valuation multiples

FY2024 outcome

- Contingency plans in place to address key risks and subject to review as part of the portfolio company review process
- Continued monitoring of headwinds faced from international conflict
- Supply side constraints and price inflation continue to be closely managed and monitored across the portfolio

Investment

Principal risk

Lower investment or realisation rates

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- May impact longer-term returns and capital management and therefore ability to deliver strategic plan
- May impact progress with specific strategic initiatives
- May reduce staff morale and confidence
- Cost base may not be sustainable
- May impact Group's reputation as an investor of proprietary capital and as a manager of 3iN and other funds
- Increases the importance of the role of bolt-on acquisition opportunities

Risk management and mitigation

- Regular monitoring of investment and divestment pipeline
- Early involvement of Investment Committee as new investment ideas are identified
- Disciplined approach to sourcing investment opportunities and pricing
- Regular review of asset allocation
- Focus on bolt-on acquisition opportunities, which can be more attractively priced and offer synergy benefits

FY2024 outcome

- Increased investment in Action and Royal Sanders and completed seven bolt-on acquisitions in Private Equity, with one requiring 3i proprietary capital investment
- Investment Committee maintained a cautious stance, declining a number of investment proposals where price and risk and reward failed to meet Group requirements
- In early May 2024, we agreed to invest c.€116 million in a new investment for our Private Equity portfolio, Constellation

Principal risks and mitigations – aligning risk to our strategic objectives continued

Investment continued

Principal risk

Underperformance of portfolio companies (ex-Action)

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Reduction in NAV and realisation potential impacting shareholder returns
- Impacts reputation as an investor of proprietary capital and as a manager of 3iN and other funds
- May set back specific strategic initiatives
- May impact long-term returns

Risk management and mitigation

- Rigorous initial assessment of new investment opportunities to maintain quality of our investment pipeline
- Monthly portfolio monitoring of all investments to review operating performance, identify weaknesses and opportunities early and act as appropriate
- Active management of portfolio company Chair, CEO and CFO appointments
- Sharing of any incidents of portfolio fraud and cyber breaches across investment teams to ensure monitoring is up to date

FY2024 outcome

- Liquidity support provided to three portfolio companies in the year
- Close monitoring and adaptation of portfolio company exit plans
- 93% of our portfolio companies valued on an earnings basis grew their earnings over the last 12 months to 31 December 2023

Principal risk

Underperformance of Action

This risk was previously considered as part of the risk of "Underperformance of portfolio companies" but has been separated out as a standalone principal risk on materiality grounds

Link to strategic objectives

Potential impact

- Reduction in NAV and realisation potential impacting shareholder returns
- Impact on 3i's reputation as an investor of proprietary capital
- Materiality of the investment increases the potential impact and profile of underperformance
- May set back specific strategic initiatives

Risk management and mitigation

- Regular monthly monitoring to review operating performance, identify weaknesses and opportunities early and take action as appropriate
- Additional asset monitoring and reporting, including 3i Chief Executive in the role of chair of the Action board
- Sharing of any operational incidents such as fraud and cyber breaches to ensure appropriate remedial actions and monitoring

FY2024 outcome

- Close monitoring of Action, including frequent performance updates to the 3i Board
- Action is currently valued on a run-rate EBITDA, with growth of 28% during the year
- Action added 303 new stores during 2023

Principal risks and mitigations – aligning risk to our strategic objectives continued

Investment continued

Principal risk

Portfolio ESG and sustainability risk profile/performance

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Poor or insufficient management of ESG risks or adverse developments impact 3i's reputation as an investor
- Potential impact on NAV, realisation potential and shareholder returns and on new Infrastructure fundraising initiatives
- May affect 3i's ability to meet external reporting obligations or published targets

Risk management and mitigation

- Investment Committee, GRC and ESG Committee involvement with Board oversight
- Responsible Investment policy
- Structured approach to identify and manage ESG and sustainability risks and "themes" and to collect relevant data as part of the semi-annual portfolio company review process
- Early engagement with 3i Communications team in the event of any incidents
- Limited exposure to remote/more challenging geographies and higher risk sectors
- Close monitoring of trends and developments in external reporting
- Dedicated 3i ESG resources and provision of training where required

FY2024 outcome

- Further refinements in the monitoring of ESG risks
- Implementation of a new ESG data collection tool for portfolio companies
- Approval of science-based targets for 3i in March 2024
- Collected Scope 1 and 2 data from over 97% of our Private Equity portfolio companies and over 95% of our economic infrastructure investments[1]

1 Excludes some legacy minority and other minority investments where we have limited influence.

Operational

Principal risk

Ability to recruit, develop and retain key people

Movement in risk status in FY2024

Link to strategic objectives

Potential impact

- Impairs ability to deliver key performance objectives
- Potential to delay execution of strategic plan with possible impact on shareholder returns

Risk management and mitigation

- Specific focus by Remuneration Committee which approves all material incentive arrangements to ensure they reflect market practice
- Annual Board review of succession planning
- Regular review of resourcing and key man exposures as part of business line reviews and the portfolio company review process
- HR policies and procedures for recruitment and vetting, and ongoing performance management

FY2024 outcome

- Organisational capability and succession plan reviewed by the Board in September 2023
- Successful talent recruitment and continuous training and development programmes throughout the year. 23 new hires in FY2024
- Limited staff voluntary turnover of 6.0%
- Good progress with recruitment and integration of new hires

Directors’ duties under Section 172

Section 172 statement

The Directors believe that during the year they have, individually and together, acted in way that they consider, in good faith, was most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard to the factors set out below (“section 172 factors”)

Our business model is set out on pages 14 and 15 and the Board’s strategic objectives and key performance indicators are set out on pages 18 and 19.

When making decisions, the Board takes into consideration the Company’s purpose and strategic objectives, as well as the potential long-term impact of those decisions on its various stakeholder groups, including those listed in section 172 of the Companies Act 2006 (“section 172”). A summary of the principal section 172 factors is set out below.

Section 172 factors

The likely consequences of any decision in the long term	Our purpose and strategy, including our long-term responsible investment approach, aims to drive sustainable growth in our investment portfolio. **Read more in the Strategic report**
The interests of the Company’s employees	Our employees are critical to the success of the Company. Our approach as a responsible employer is described more fully in the Sustainability section. **Read more in the Sustainability report**
The need to foster the Company’s business relationships with suppliers, customers and others	We engage with all our third-party service providers, suppliers and customers in an open and transparent way to foster strong business relationships to ensure both the success of the Company and its legal and regulatory compliance. **Read more in the Governance report**
The impact of the Company’s operations on the community and the environment	We embed responsible business practices throughout our organisation by promoting the right values and culture. In addition we partner with charities which relieve poverty, promote education and support elderly and disabled people. **Read more in the Sustainability report**
The desirability of maintaining a reputation for high standards of business conduct	Our success relies on maintaining a strong reputation and seeking to ensure our values and culture are aligned to our purpose, our strategy and our ways of working. **Read more in the Overview and strategy section and the Sustainability report**
The need to act fairly towards all members of the Company	The Board engages actively with its shareholders and takes into account their interests when implementing our strategy. **Read more in this section and in the Governance report**

How stakeholder interests have influenced decision making

The Board takes into account stakeholder interests and other section 172 factors in its key business decisions. Directors are reminded of their section 172 duties at Board meetings.

Throughout the year and when implementing the Company's strategic priorities, the Board has considered the varied interests of the Company's stakeholders and the impact of key decisions on them. The Board recognises that not all decisions will yield positive outcomes for every stakeholder group. Therefore, the Board and the Executive Committee evaluate these conflicts during decision making.

Key decisions made by the Board this year, along with how stakeholder interests and other section 172 factors were considered, are detailed below. Additional information on Board decision making can be found on pages 107 to 109.

Key decisions in the year

FY2023 second dividend and FY2024 first dividend

Background: In May 2023 the Board decided on an increased total dividend for FY2023 and in November 2023 a first dividend for FY2024 (in line with the Company's dividend policy announced in May 2018) of one half of the total dividend for the previous year.

Stakeholder considerations: Amidst a difficult macro-economic environment, the Board carefully considered several factors. These included shareholders' desire for income distributions, the necessity to maintain sufficient liquidity to cover investment activity and operational and other costs, whilst maintaining a robust, low-geared balance sheet. Despite adverse macro-economic conditions, the Company's investment portfolio had performed well overall with excellent performance from Action and resilient performance across the rest of the portfolio, notwithstanding pockets of weakness in companies with significant exposure to discretionary consumer spending, the construction sector and recruitment. Additionally, the Board factored in various external influences, such as inflation, higher interest rates, elevated energy prices, supply chain disruptions, and Russia's continued invasion of Ukraine. These considerations, along with the Company's strong financial performance and positive outlook, informed the decisions regarding the proposed FY2024 second dividend for the current year.

Impact on the success of 3i: Being thoughtful about setting the dividend is particularly important as it potentially impacts a number of the Company's stakeholders. In particular, shareholders can rely on the Company's consistent approach to its dividend policy which is an important aspect of the investment case for 3i's shareholders.

€500 million bond issuance

Background: For over 11 years, the Company has operated a conservative balance sheet strategy with no structural gearing. Over the period, this has significantly de-risked the Group. Alongside the significant growth in the value of the Company's investment portfolio, management has tightly controlled costs resulting in a consistent operating cash profit. These factors have enabled 3i to adjust to the pace of investment and divestment flows with limited external pressure.

The issuance was deemed appropriate because, following the repayment of the £200 million 2023 bond and the significant growth in the Group's NAV, the Company had significant capacity to raise additional debt whilst maintaining our conservative balance sheet strategy and prudent approach to managing liquidity.

Stakeholder considerations: In issuing the bond, the Board took into consideration shareholders' expectations for the Company to maintain a conservative balance sheet strategy. Issuing the bond was within its policy range of £500 million net cash to £1 billion net debt and was within its tolerance for up to 15% gearing. The Board considered a range of factors relating to the key terms of the bond and how these would benefit shareholders. Issuing in euros provided a natural hedge to the euro portfolio and diversified the funding base to a larger European investor base. The timing of execution, proposed tenor and size of the issuance were also considered, with shareholder interests being an important factor. The consistency of approach to our balance sheet strategy also sent a positive message to rating agencies, bond investors and our lenders.

Impact on the success of 3i: Despite volatile financial markets 3i was able to successfully issue the €500 million bond at a coupon of 4.875%. The bond forms part of the wider approach to maintaining a conservative balance sheet and prudent liquidity management, which is fundamental to the Company's proprietary capital model.

As at 31 March 2024, the Group had gross debt of £1,202m and gearing of 4%.

For the purposes of the UK Companies Act 2006, the Strategic report of 3i Group plc comprises pages 1 to 95.

By order of the Board

Simon Borrows
Chief Executive

8 May 2024