Performance and risk

What's in this section

Financial review

Very strong financial performance

Highlights – Investment basis

Gross investment return
£5,104m
(2022: £4,525m)

Operating profit before carried interest
£4,956m
(2022: £4,417m)

Total return
£4,585m
(2022: £4,014m)

Total return on opening shareholders' funds
36%
(2022: 44%)

Diluted NAV per share at 31 March 2023
1,745p
(31 March 2022: 1,321p)

Total dividend
53.0p
(31 March 2022: 46.5p)

Table 12: Total return for the year to 31 March

Investment basis	2023 £m	2022 £m
Realised profits over value on the disposal of investments	**169**	238
Unrealised profits on the revaluation of investments	**3,769**	3,824
Portfolio income		
Dividends	**416**	375
Interest income from investment portfolio	**91**	85
Fees receivable	**7**	3
Foreign exchange on investments	**530**	(2)
Movement in the fair value of derivatives	**122**	2
Gross investment return	**5,104**	4,525
Fees receivable from external funds	**70**	62
Operating expenses	**(138)**	(128)
Interest receivable	**4**	–
Interest payable	**(54)**	(53)
Exchange movements	**(29)**	9
Other (expense)/income	**(1)**	2
Operating profit before carried interest	**4,956**	4,417
Carried interest		
Carried interest and performance fees receivable	**41**	54
Carried interest and performance fees payable	**(418)**	(454)
Operating profit before tax	**4,579**	4,017
Tax charge	**(2)**	(5)
Profit for the year	**4,577**	4,012
Re-measurements of defined benefit plans	**8**	2
Total comprehensive income for the year ("Total return")	**4,585**	4,014
Total return on opening shareholders' funds	**36 %**	44 %

Investment basis and alternative performance measures ("APMs")

In our Strategic report we report our financial performance using our Investment basis. We do not consolidate our portfolio companies; as private equity and infrastructure investments they are not operating subsidiaries. IFRS 10 sets out an exception to consolidation and requires us to fair value other companies in the Group (primarily intermediate holding companies and partnerships), which results in a loss of transparency. As explained in the Investment basis, 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 profits

We generated total realised proceeds of £857 million (2022: £788 million) and realised profits of £169 million in the year (2022: £238 million), all of which were generated from Private Equity.

Unrealised value movements

We recognised an unrealised profit of £3,769 million (2022: £3,824 million). Action's continued strong performance contributed £3,708 million (2022: £2,655 million). We also saw good contributions from a number of our other Private Equity investments including SaniSure, AES, WilsonHCG, Royal Sanders, Audley Travel, nexeye and Dutch Bakery offsetting negative contributions from Luqom, YDEON, BoConcept, Formel D and Mepal. Our US infrastructure portfolio also delivered good value growth in the year offsetting a 10% year-on-year share price reduction in our quoted holding in 3iN.

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

Portfolio income

Portfolio income increased to £514 million during the year (2022: £463 million), primarily due to strong dividend income of £416 million (2022: £375 million), particularly from Action. Interest income from portfolio companies, the majority of which is non-cash, increased to £91 million (2022: £85 million), whilst fee income increased in the year to £7 million (2022: £3 million), reflecting the monitoring and negotiation fees receivable relating to new investments within our Private Equity portfolio.

Fees receivable from external funds

Fees received from external funds increased to £70 million (2022: £62 million). 3i receives a fund management fee from 3iN, which amounted to £49 million in FY2023 (2022: £44 million).

3i also received fee income of £4 million (2022: £6 million) from 3i MIA through management fees and continued to generate fee income from 3i managed accounts and other funds. In Private Equity, we recognised a £4 million (2022: £4 million) administration fee for our management of the 3i 2020 Co-investment Programme related to Action.

Operating expenses

Operating expenses increased to £138 million (2022: £128 million) reflecting the full-year impact of new hires in both Private Equity and Infrastructure, increased business activity and inflationary impacts on travel, marketing and professional fee costs.

Interest payable

The Group recognised interest payable of £54 million (2022: £53 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 £364 million in the year (2022: £340 million). Cash income increased to £497 million (2022: £450 million), principally due to an increase in dividend income. We received £325 million of cash dividends from Action (2022: £284 million). We also received cash dividends from Scandlines, 3iN, Tato and AES, as well as a good level of cash fees from our external funds in Infrastructure. Excluding the dividends received from Action, the operating cash profit was £39 million.

Cash operating expenses increased to £133 million (2022: £110 million), driven principally by higher fixed and variable compensation costs, as well as by inflationary impacts on travel and marketing costs, as well as professional fees.

Table 13: Unrealised value movements on the revaluation of investments for the year to 31 March

Investment basis	2023 £m	2022 £m
Private Equity	**3,746**	3,545
Infrastructure	**23**	178
Scandlines	**–**	101
Total	**3,769**	3,824

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

Investment basis	2023 £m	2022 £m
Cash fees from external funds	**67**	68
Cash portfolio fees	**5**	9
Cash portfolio dividends and interest	**425**	373
Cash income	**497**	450
Cash operating expenses[1]	**(133)**	(110)
Operating cash profit	**364**	340

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, 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.

The continued excellent performance of Action in the Buyouts 2010-12 vintage and good performance in our other vintages led to a £392 million increase in carried interest payable in FY2023. During the year, £24 million (2022: £13 million) was paid to participants in Private Equity, of which £23 million was paid to participants in the Private Equity Buyouts 2010-12 carry plan.

In March 2023, we completed a transaction to provide liquidity for existing external investors in Action who are invested via our 3i 2020 Co-investment Programme and at the same time a portion of the outstanding carried interest liability in the Buyouts 2010-12 scheme relating to Action was crystallised, which is expected to result in a c. £200 million carried interest payment to participants in the Buyouts 2010-12 scheme in May 2023. This payment continues a series of carried interest payments to participants in the Buyouts 2010-12 scheme, the first of which occurred in May 2020, following the sale of EFV's interest in Action in FY2020. The economic result of this transaction is to increase 3i's investment in Action, net of carry, from 47.7% to 48.9%. 3i's gross investment in Action also increased to 52.9% (31 March 2022: 52.7%) following the purchase of a further small (£30 million) equity stake in Action.

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 resulted in the recognition of £35 million (2022: £26 million) of performance fees receivable. £25 million (2022: £22 million) was recognised as an expense with the remaining fees payable deferred for an expense in future years. During the year, £27 million was paid to the Infrastructure team including payments for the 3i MIA performance plan. The cumulative total potential payable for performance fees including fees generated and deferred from prior periods amounts to £55 million.

Overall, the effect of the income statement charge, cash payments of £51 million (2022: £23 million), as well as currency translation meant that the balance sheet carried interest and performance fees payable was £1,351 million (31 March 2022: £963 million).

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

Investment basis Statement of comprehensive income	2023 £m	2022 £m
Carried interest and performance fees receivable		
Private Equity	**4**	3
Infrastructure	**37**	51
Total	**41**	54
Carried interest and performance fees payable		
Private Equity	**(392)**	(416)
Infrastructure	**(26)**	(38)
Total	**(418)**	(454)
Net carried interest payable	**(377)**	(400)

Table 16: Carried interest and performance fees at 31 March

Investment basis Statement of financial position	2023 £m	2022 £m
Carried interest and performance fees receivable		
Private Equity	**6**	8
Infrastructure	**37**	51
Total	**43**	59
Carried interest and performance fees payable		
Private Equity	**(1,325)**	(926)
Infrastructure	**(26)**	(37)
Total	**(1,351)**	(963)

Table 17: Carried interest and performance fees paid in the year to 31 March

Investment basis cash flow statement	2023 £m	2022 £m
Carried interest and performance fees cash paid		
Private Equity	**24**	13
Infrastructure	**27**	10
Total	**51**	23

Net foreign exchange movements

The Group recorded a total foreign exchange translation gain of £623 million including the impact of foreign exchange hedging in the year (March 2022: £9 million), as a result of sterling weakening by 4% against the euro and by 6% against the US dollar.

In October and November 2022, we took advantage of the weakness of sterling against the euro and US dollar by implementing a medium-term foreign exchange hedging programme to partially reduce the sensitivity of the Group's net asset value and impact of mismatched currency cash flows to changes in euro and US dollar exchange movements. The exposure of the Group's underlying investment portfolio to euro and US dollar has increased significantly in recent years through the organic growth of our existing European and US portfolio companies and due to the majority of our new investments being denominated in euro and US dollar.

We locked in favourable euro and US dollar rates compared to historical market averages, with forward foreign exchange contracts of a notional amount of €2 billion and $1.2 billion. In addition, during the year we also increased the size of our hedging programme for Scandlines, increasing the notional amount from €500 million to €600 million. Including the impact from foreign exchange hedging, 71% of the Group's net assets are denominated in euros or US dollars. Based on the Group's net assets, including the impact from foreign exchange hedging, a 1% movement in euro and US dollar foreign exchange rates would impact total return by £106 million and £12 million, as shown in Table 18 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. During the year the Group gave notice to terminate the Plan. The Trustees have taken steps to commence a buy-out and wind up of the Plan, the completion of which could take up to 18 months.

During the year the Group recognised an £8 million re-measurement gain (2022: £3 million) on the German defined benefit plan. The liability of this plan decreased in the year following an increase in the discount rate.

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 (2022: £5 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 18: Net assets[1] and sensitivity by currency at 31 March

	FX rate	£m	%	1% sensitivity £m
Sterling	n/a	**4,797**	28	**n/a**
Euro[2]	1.1377	**10,641**	64	**106**
US dollar[2]	1.2361	**1,154**	7	**12**
Danish krone	8.4752	**222**	1	**2**
Other	n/a	**30**	–	**n/a**

1 The net assets position includes the impact from foreign exchange hedging.
2 The sensitivity impact calculated on the net assets position includes the impact from foreign exchange hedging.

Balance sheet and liquidity

At 31 March 2023, the Group had net debt of £363 million (31 March 2022: £746 million) and gearing of 2% after the receipt of strong cash income of £497 million and net cash proceeds of £555 million, offsetting dividend payments of £485 million and repayment of our £200 million fixed-rate 2023 bond in the year.

The Group had liquidity of £1,312 million as at 31 March 2023 (31 March 2022: £729 million) comprising cash and deposits of £412 million (31 March 2022: £229 million) and an undrawn RCF of £900 million. During the year, we increased our available liquidity by introducing a two-year £400 million tranche to the existing base £500 million RCF. Since 31 March 2023, we extended the maturity of the £400 million additional tranche to July 2025.

The investment portfolio value increased to £18,388 million at 31 March 2023 (31 March 2022: £14,305 million) mainly driven by unrealised profits of £3,769 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 2023 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 123 in the Resilience statement.

Dividend

The Board has recommended a second FY2023 dividend of 29.75 pence per share (2022: 27.25 pence), taking the total dividend for the year to 53.0 pence per share (2022: 46.5 pence). Subject to shareholder approval, the dividend will be paid to shareholders in July 2023.

Table 19: Simplified consolidated balance sheet at 31 March

Investment basis Statement of financial position	2023 £m	2022 £m
Investment portfolio	**18,388**	14,305
Gross debt	**(775)**	(975)
Cash and deposits	**412**	229
Net debt	**(363)**	(746)
Carried interest and performance fees receivable	**43**	59
Carried interest and performance fees payable	**(1,351)**	(963)
Other net assets	**127**	99
Net assets	**16,844**	12,754
Gearing[1]	**2 %**	6 %

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

Key accounting judgments 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 74 to 76.

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 2023, 95% by value of the investment assets were unquoted (31 March 2022: 93%).

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 2023 and the underlying investment management agreements.

Financial review continued

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.

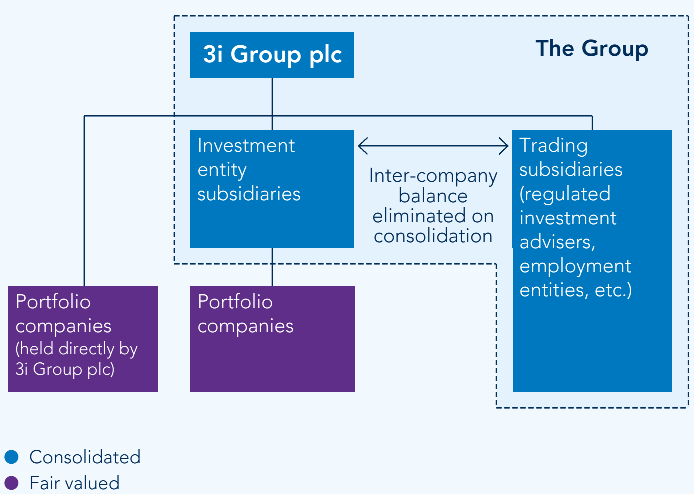
The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in Investment entity subsidiaries are aggregated into a single value. Other items which were previously eliminated on consolidation are now included separately.

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.

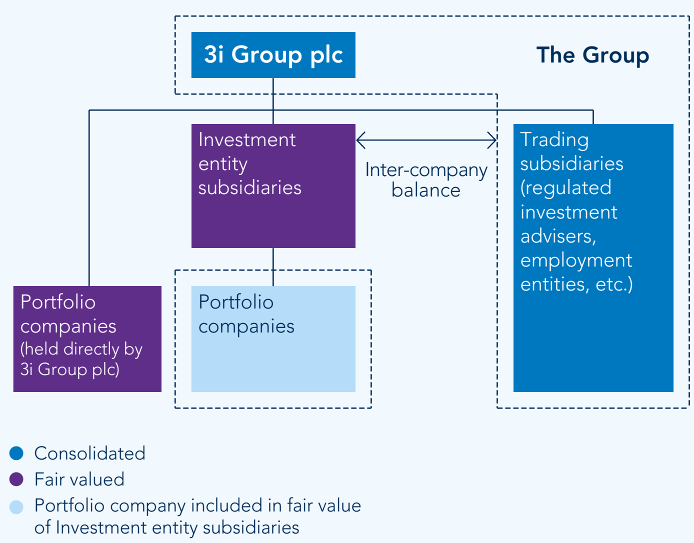
Reconciliation of Investment basis and IFRS

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.

Investment basis of consolidation



IFRS 10 basis of consolidation



Reconciliation of Investment basis and IFRS

Reconciliation of consolidated statement of comprehensive income

for the year to 31 March

	Notes	Investment basis 2023 £m	IFRS adjustments 2023 £m	IFRS basis 2023 £m	Investment basis 2022 £m	IFRS adjustments 2022 £m	IFRS basis 2022 £m
Realised profits over value on the disposal of investments	1,2	**169**	**(105)**	**64**	238	(149)	89
Unrealised profits on the revaluation of investments	1,2	**3,769**	**(1,872)**	**1,897**	3,824	(2,043)	1,781
Fair value movements on investment entity subsidiaries	1	**–**	**2,112**	**2,112**	–	1,974	1,974
Portfolio income							
Dividends	1,2	**416**	**(187)**	**229**	375	(169)	206
Interest income from investment portfolio	1,2	**91**	**(62)**	**29**	85	(55)	30
Fees receivable	1,2	**7**	**3**	**10**	3	3	6
Foreign exchange on investments	1,3	**530**	**(327)**	**203**	(2)	(7)	(9)
Movement in the fair value of derivatives		**122**	**–**	**122**	2	–	2
Gross investment return		**5,104**	**(438)**	**4,666**	4,525	(446)	4,079
Fees receivable from external funds		**70**	**–**	**70**	62	–	62
Operating expenses	4	**(138)**	**1**	**(137)**	(128)	1	(127)
Interest receivable	1	**4**	**–**	**4**	–	–	–
Interest payable		**(54)**	**–**	**(54)**	(53)	–	(53)
Exchange movements	1,3	**(29)**	**23**	**(6)**	9	7	16
Income from investment entity subsidiaries	1	**–**	**30**	**30**	–	32	32
Other (expense)/income		**(1)**	**–**	**(1)**	2	–	2
Operating profit before carried interest		**4,956**	**(384)**	**4,572**	4,417	(406)	4,011
Carried interest							
Carried interest and performance fees receivable	1,4	**41**	**–**	**41**	54	(1)	53
Carried interest and performance fees payable	1,4	**(418)**	**380**	**(38)**	(454)	408	(46)
Operating profit before tax		**4,579**	**(4)**	**4,575**	4,017	1	4,018
Tax charge	1,4	**(2)**	**–**	**(2)**	(5)	–	(5)
Profit for the year		**4,577**	**(4)**	**4,573**	4,012	1	4,013
Other comprehensive income/(expense)							
Exchange differences on translation of foreign operations	1,3	**–**	**4**	**4**	–	(1)	(1)
Re-measurements of defined benefit plans		**8**	**–**	**8**	2	–	2
Other comprehensive income for the year		**8**	**4**	**12**	2	(1)	1
Total comprehensive income for the year ("Total return")		**4,585**	**–**	**4,585**	4,014	–	4,014

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 Reconciliation of consolidated statement of financial position on page 75:

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 2023 £m	IFRS adjustments 2023 £m	IFRS basis 2023 £m	Investment basis 2022 £m	IFRS adjustments 2022 £m	IFRS basis 2022 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	**962**	**(121)**	**841**	1,063	(129)	934
Unquoted investments	1	**17,426**	**(8,749)**	**8,677**	13,242	(7,534)	5,708
Investments in investment entity subsidiaries	1,2	**–**	**7,844**	**7,844**	–	6,791	6,791
Investment portfolio		**18,388**	**(1,026)**	**17,362**	14,305	(872)	13,433
Carried interest and performance fees receivable	1	**3**	**–**	**3**	8	1	9
Other non-current assets	1	**33**	**(3)**	**30**	50	(5)	45
Intangible assets		**5**	**–**	**5**	6	–	6
Retirement benefit surplus		**53**	**–**	**53**	53	–	53
Property, plant and equipment		**3**	**–**	**3**	3	–	3
Right of use asset		**9**	**–**	**9**	13	–	13
Derivative financial instruments		**73**	**–**	**73**	7	–	7
Deferred income taxes		**–**	**–**	**–**	1	–	1
Total non-current assets		**18,567**	**(1,029)**	**17,538**	14,446	(876)	13,570
Current assets							
Carried interest and performance fees receivable	1	**40**	**–**	**40**	51	–	51
Other current assets	1	**41**	**(11)**	**30**	105	(1)	104
Current income taxes		**1**	**–**	**1**	1	–	1
Derivative financial instruments		**48**	**–**	**48**	10	–	10
Cash and cash equivalents	1	**412**	**(250)**	**162**	229	(17)	212
Total current assets		**542**	**(261)**	**281**	396	(18)	378
Total assets		**19,109**	**(1,290)**	**17,819**	14,842	(894)	13,948
Liabilities							
Non-current liabilities							
Trade and other payables	1	**(11)**	**7**	**(4)**	(21)	7	(14)
Carried interest and performance fees payable	1	**(1,049)**	**1,006**	**(43)**	(915)	873	(42)
Loans and borrowings		**(775)**	**–**	**(775)**	(775)	–	(775)
Derivative financial instruments		**(3)**	**–**	**(3)**	–	–	–
Retirement benefit deficit		**(20)**	**–**	**(20)**	(26)	–	(26)
Lease liability		**(5)**	**–**	**(5)**	(9)	–	(9)
Deferred income taxes		**(1)**	**–**	**(1)**	(1)	–	(1)
Provisions		**(4)**	**–**	**(4)**	(3)	–	(3)
Total non-current liabilities		**(1,868)**	**1,013**	**(855)**	(1,750)	880	(870)
Current liabilities							
Trade and other payables	1	**(85)**	**9**	**(76)**	(81)	1	(80)
Carried interest and performance fees payable	1	**(302)**	**268**	**(34)**	(48)	13	(35)
Loans and borrowings		**–**	**–**	**–**	(200)	–	(200)
Derivative financial instruments		**(1)**	**–**	**(1)**	–	–	–
Lease liability		**(5)**	**–**	**(5)**	(5)	–	(5)
Current income taxes		**(4)**	**–**	**(4)**	(4)	–	(4)
Total current liabilities		**(397)**	**277**	**(120)**	(338)	14	(324)
Total liabilities		**(2,265)**	**1,290**	**(975)**	(2,088)	894	(1,194)
Net assets		**16,844**	**–**	**16,844**	12,754	–	12,754
Equity							
Issued capital		**719**	**–**	**719**	719	–	719
Share premium		**790**	**–**	**790**	789	–	789
Other reserves	3	**15,443**	**–**	**15,443**	11,346	–	11,346
Own shares		**(108)**	**–**	**(108)**	(100)	–	(100)
Total equity		**16,844**	**–**	**16,844**	12,754	–	12,754

The IFRS basis is audited and the Investment basis is unaudited.
Notes: see page 74.

Reconciliation of Investment basis and IFRS continued

Reconciliation of consolidated cash flow statement

for the year to 31 March

	Notes	Investment basis 2023 £m	IFRS adjustments 2023 £m	IFRS basis 2023 £m	Investment basis 2022 £m	IFRS adjustments 2022 £m	IFRS basis 2022 £m
Cash flow from operating activities							
Purchase of investments	1	**(330)**	**284**	**(46)**	(596)	272	(324)
Proceeds from investments	1	**885**	**(658)**	**227**	758	(464)	294
Amounts paid to investment entity subsidiaries	1	**–**	**(535)**	**(535)**	–	(349)	(349)
Amounts received from investment entity subsidiaries	1	**–**	**841**	**841**	–	685	685
Net cash flow from derivatives		**23**	**–**	**23**	11	–	11
Portfolio interest received	1	**19**	**(7)**	**12**	4	(1)	3
Portfolio dividends received	1	**406**	**(183)**	**223**	369	(165)	204
Portfolio fees received	1	**5**	**–**	**5**	9	–	9
Fees received from external funds		**67**	**–**	**67**	68	–	68
Carried interest and performance fees received	1	**58**	**–**	**58**	10	–	10
Carried interest and performance fees paid	1	**(51)**	**22**	**(29)**	(23)	9	(14)
Operating expenses paid	1	**(128)**	**–**	**(128)**	(106)	1	(105)
Co-investment loans received/(paid)	1	**3**	**2**	**5**	(5)	2	(3)
Tax received	1	**–**	**–**	**–**	1	–	1
Interest received	1	**4**	**–**	**4**	–	–	–
Net cash flow from operating activities		**961**	**(234)**	**727**	500	(10)	490
Cash flow from financing activities							
Issue of shares		**1**	**–**	**1**	1	–	1
Purchase of own shares		**(30)**	**–**	**(30)**	(54)	–	(54)
Dividends paid		**(485)**	**–**	**(485)**	(389)	–	(389)
Repayment of long-term borrowing		**(200)**	**–**	**(200)**	–	–	–
Lease payments		**(5)**	**–**	**(5)**	(4)	–	(4)
Interest paid		**(54)**	**–**	**(54)**	(52)	–	(52)
Net cash flow from financing activities		**(773)**	**–**	**(773)**	(498)	–	(498)
Cash flow from investing activities							
Purchase of property, plant and equipment		**(1)**	**–**	**(1)**	–	–	–
Net cash flow from investing activities		**(1)**	**–**	**(1)**	–	–	–
Change in cash and cash equivalents	2	**187**	**(234)**	**(47)**	2	(10)	(8)
Cash and cash equivalents at the start of year	2	**229**	**(17)**	**212**	225	(9)	216
Effect of exchange rate fluctuations	1	**(4)**	**1**	**(3)**	2	2	4
Cash and cash equivalents at the end of year	2	**412**	**(250)**	**162**	229	(17)	212

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

Notes to 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 73. 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 14 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 £397 million is different to cash investment per the cash flow of £330 million due to a £57 million syndication in Infrastructure which was received in FY2023 and a £10 million investment in Private Equity to be 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 at 3i are embedded in our approach to risk management.

Understanding our risk appetite, culture and values

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 risk appetite at least annually. The Group's risk management framework is designed to support the delivery of the Group's strategic objectives and the longer-term sustainability of the business and its investment portfolio.

3i's Risk appetite statement, which is consistent with previous years, is built on rigorous and comprehensive investment procedures and conservative capital management. Please refer to page 79 for further details.

Culture

Integrity, rigour and accountability are central to our values and culture and are embedded in our approach to risk management. Our Investment Committee, which has oversight of the investment pipeline development and approves new investments, significant portfolio changes and divestments, is integral to ensuring a consistent approach across the business. This includes alignment with 3i's financial and strategic objectives; cultural values and business conduct rules; and ensuring that the long-term sustainability of portfolio companies is taken into consideration. Members of the Executive Committee have responsibility for their own business or functional areas and the Group expects individual behaviours to meet its high standards of conduct. All employees share the responsibility for upholding 3i's strong control culture and supporting effective risk management. Senior managers, typically those who report to Executive Committee members, are required to confirm their individual and business area compliance annually. In addition, all staff are required to comply with regulatory conduct rules and are assessed on how they demonstrate 3i's values as part of their annual appraisal. Finally, our Remuneration Committee is responsible for ensuring the Group's remuneration policy is aligned with the Group's culture and values, weighted towards variable compensation dependent on performance, and does not encourage inappropriate risk taking.

The following sections outline the principal risks to our strategic objectives, our assessment of their potential impact on our business in the context of the current environment and how we seek to mitigate them.

Approach to risk governance

The Board is responsible for risk assessment, the risk management process and for the protection of the Group's reputation, brand integrity and longer-term sustainability. It considers the most significant 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 and sustainability indicators; and liquidity reporting.

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. The Audit and Compliance Committee's activities are discussed further in its report on pages 114 to 118.

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 purposes. The risk review takes place four times a year, with the last review in April 2023, and the Chief Executive provides updates to each Audit and Compliance Committee meeting.

The Investment Committee has principal responsibility for managing the Group's investment portfolio and monitoring its most material risks. It ensures a consistent approach to investment and portfolio management processes across the business.

The Group's work on ESG and sustainability is overseen by the ESG Committee. The Committee assists and advises the Chief Executive, directly and by way of input into the work of the Investment and Group Risk Committees. The Committee also supports the coordination of the Group's various ESG and sustainability activities, including the management of ESG-related risks and opportunities across the portfolio.

In addition to the above, a number of other Board and Executive Committee members contribute to the Group's overall risk governance structure. Please refer to page 80 for further details on the Risk governance structure.

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 northern Europe and North America;
- sector expertise: focus on Business & Technology Services, Consumer, Industrial Technology and Healthcare;
- 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 ie 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 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.

Risk management continued

Risk governance structure

Board

- Approves the Group's risk appetite and strategy
- Responsible for ensuring an effective risk management and oversight process across the Group and for the investment strategy
- Ownership and oversight of the Group's ESG and sustainability approach and policies
- Assisted by four Board Committees with specific responsibility for key risk management areas
- Delegates management of the Group to the Chief Executive

Nominations Committee

- Responsible for ensuring that the Board has the necessary skills, experience and knowledge to enable the Group to deliver its strategic objectives
- Responsible for appointing a diverse Board

Audit and Compliance Committee

- Responsible for reviewing financial and non-financial reporting risks and internal controls, and the relationship with the External auditor
- Reviews and challenges reports from Group Finance, Tax, Internal Audit and Compliance
- Receives updates from the Chief Executive at each meeting on the output of the latest GRC meeting and on ESG matters

Valuations Committee

- Specific and primary responsibility for the valuation policy and valuation of the Group's investment portfolio including the impact of sustainability related matters
- Provides oversight and challenge of underlying assumptions on the valuation of the investment portfolio
- Direct engagement with the External auditor, including its specialist valuations team

Remuneration Committee

- Responsible for ensuring a remuneration culture which is weighted towards variable reward and strictly dependent on performance whilst not encouraging inappropriate risk taking
- Approves carried interest and asset performance linked schemes for our investment professionals that are in line with market practice and enable the Group to attract and retain the best talent
- By excluding Executive Directors from carried interest or performance fee profit schemes, the Committee ensures that their remuneration is closely aligned with shareholder returns

Chief Executive

- Delegated responsibility for management of the Group
- Delegated responsibility for investment decisions
- Delegated responsibility for risk management
- Delegated responsibility for assessment and management of ESG risks and opportunities across the Group and portfolio

Executive Committee

- Monitors divisional performance
- Facilitates information sharing between divisions
- Meets monthly

Conflicts Committee

- Deals with potential conflicts as required

Treasury Transactions Committee

- Considers specific treasury transactions as required

Market Abuse Regulation Committee

- Considers potential disclosure matters as required

Investment Committee

- Principal committee for managing the Group's investment portfolio and monitoring its most material risks
- Meets as often as required
- Chaired by the Chief Executive
- Strict oversight of each step of the investment lifecycle
- Approves all investment, divestment and material portfolio decisions
- Monitors investments against original investment case
- Ensures investments are in line with the Group's investment policy and risk appetite
- Implements the Responsible Investment policy and assesses the sustainability of the Group's portfolio companies and ESG risks and opportunities

Group Risk Committee

- Assists the Chief Executive with the oversight of risk management across the Group
- Implements the Group's risk appetite policy and monitors performance
- Maintains the Group risk review which details its principal risk exposures; a watch list of new and emerging risks; and appropriate mitigations and controls
- Two members of the GRC form the Risk Management function as required under the FCA's Investment Funds sourcebook
- Maintains oversight of the risks relating to ESG matters and of the Responsible Investment policy
- Chaired by the Chief Executive

ESG Committee

- Advises on ESG-related risks and opportunities relevant to the Group and its investment portfolio
- Develops the Group's ESG approach, and related policies and procedures
- Ensures the Group's compliance with relevant ESG-related legal and regulatory requirements, standards and guidelines
- Coordinates ESG-related activities and initiatives across the Group and investment portfolio
- Reviews and monitors the Group's ESG performance

Risk framework

The risk framework is augmented by a separate Risk Management 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 key risks impacting the Group, and any changes in the relevant period where appropriate.

The Group operates a "three lines of defence" framework for managing and identifying risk:

(1) The first line of defence against outcomes outside our risk appetite is constituted by our business functions themselves.

(2) Line management is supported by oversight and control functions, specifically Compliance, Group Finance, Human Resources and Legal.

(3) Internal Audit provides independent assurance over the operation of controls and is the third line of defence.

The internal audit programme includes the review of the effectiveness of risk management processes and recommendations to improve the internal control environment.

Role of Group Risk Committee in risk management

The quarterly Group risk review process includes an analysis of external developments, emerging risks, and the monitoring of key strategic and financial metrics (such as KPIs) considered to be indicators of potential changes in the Group's risk profile. The GRC uses this information to identify its principal risks. It then evaluates the impact and likelihood of each risk, in the context of the Group's strategic objectives 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.

A number of focus topics are also agreed in advance of each meeting. In FY2023, the GRC covered the following:

- a review of the Group's IT framework including cyber security, systems developments and IT resilience;
- an update on the Group's business continuity and resilience planning and testing;
- 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 and sustainability 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; and
- the proposed risk disclosures in the FY2023 Annual report and accounts.

There were no significant changes to the GRC's overall approach to risk governance or its operation in FY2023. During the year, we undertook a benchmarking exercise to compare 3i's principal risks, along with the current watch list, against the risk disclosures of a peer group of PE investment trusts, European investment companies, traditional asset managers and a selection of US alternative asset managers. The overall conclusion was that 3i's approach remains fit for purpose.

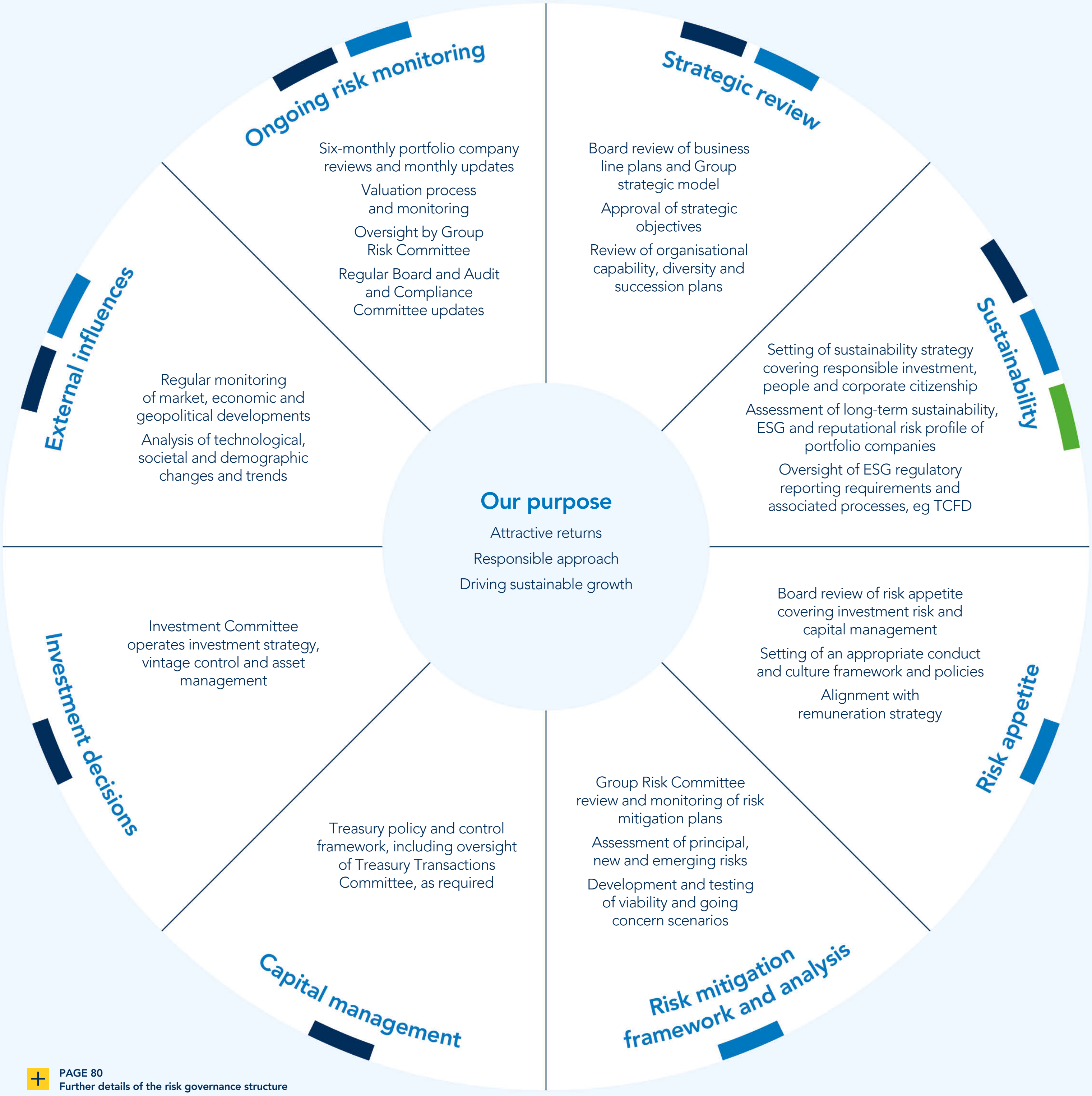
Role of the ESG Committee

The Group's ESG Committee provides input and advice on the assessment and management of relevant ESG risk and opportunities; the development of the Group's ESG strategy; 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 TCFD disclosures on pages 60-66 for further details.

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

Role of Investment Committee in risk management

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. The assessment and management of ESG risks and opportunities is embedded in our investment, portfolio management and value creation processes. All investments are screened against 3i's Responsible Investment policy.

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

In evaluating new and existing investments, the Investment Committee considers potential reputational risks and broader ESG and sustainability developments and trends. The latter includes the risks and opportunities in relation to the environmental 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 an investment is made, each investment case is closely monitored:

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

SUMMARY OF OUR RESPONSIBLE INVESTMENT POLICY
www.3i.com/sustainability/sustainability-policies

PAGES 14-15
Our long-term, responsible approach

Principal risks and mitigations – aligning risk to our strategic objectives

Business and risk environment in FY2023

We define our principal risks as those that have the potential to impact the delivery of our strategic objectives materially. 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 114 to 118.

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.

For the most part, FY2023 remained a year of considerable uncertainty compounded by the impact of a number of downside factors. These include the impact of Russia's invasion of Ukraine; Russian sanctions; measures taken to combat the spread of Covid-19 in China; and impact of higher inflation and interest rates and other economic headwinds.

Notwithstanding the levels of uncertainty experienced, most of the underlying risk factors are a continuation of the key themes which were under active consideration at the start of FY2023. Accordingly, the Group's overall principal risk profile has remained stable although the precise nature of the individual risks may have evolved.

In order to reflect more accurately the nature of the risks involved, we relabelled the principal risk of "Risk of escalation or widening of Russia/Ukraine conflict" as "Geopolitical risks", and the risk of "High pricing in 3i's core sectors" as "Transaction execution challenges in the current market". The overall assessment of the likelihood and impact of these risks to operations of the Group, however, remains unchanged.

In light of recent developments, we have split out the risk of higher interest rates from the more general risk of "Global economic uncertainty". The former is now shown as a distinct principal risk: "Impact of higher interest rates on debt markets and pricing of specific asset classes".

The risk of "Exposure of portfolio companies to disruption from Covid-19" has reduced through a combination of the easing of restrictions and the implementation of appropriate contingency plans. This has been removed as a principal risk and moved to the risk watch list under the heading of "Re-emergence of a global pandemic". Our focus is on the longer-term economic impact of the pandemic, whilst remaining mindful of the risk of new variants and the potential for further disruption.

The Group's risk mitigation plans, which are subject to regular review, have not required any major changes during the year other than the implementation of a medium-term foreign exchange hedging programme in light of periods of significant volatility in foreign exchange markets.

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.

The period has been characterised by global economic uncertainty, weaker growth, market volatility, higher inflation and increased interest rates. Some of the factors contributing to this are continuations of events and themes noted last year. These include the impact of Russia's invasion of Ukraine and readjustment of the global economy to the dislocations related to Covid-19. More recently, the impact of higher interest rates has resulted in the increased pricing of specific assets and exposed some significant weaknesses in the banking sector. This development has been added as a distinct principal risk for review and monitoring purposes.

As noted under the comments on capital management below, 3i continues to maintain a conservative approach to managing its capital resources within the limits set out in its Risk appetite statement and a clearly defined treasury policy.

The impact of higher energy costs, general price inflation and higher interest rates has been the subject of close monitoring across the portfolio. Measures and initiatives put in place some time ago have enabled portfolio companies to manage their performance through a more volatile and uncertain period. This is reflected in the continued positive momentum in the portfolio performance across both business lines during the year; in particular, investments in the areas of value-for-money, private label, healthcare and infrastructure.

ESG and sustainability is increasingly important in the context of our strategic and investment objectives. Further information on work done in relation to ESG reporting, including TCFD compliance, and our approach to climate-related risk and opportunities can be found in our TCFD report on pages 60 to 66.

The Group's resilience assessment and viability testing consider a range of stress test scenarios which include a number of severe yet plausible external events. The development of these scenarios is done in conjunction with the Group's risk review process. Further details can be found on pages 123 to 125.

Investment

Our overarching objective is to source attractive investment opportunities at the right price and execute our investment plans successfully. Our investment teams, who are responsible for origination and asset management, are rewarded with performance-based remuneration which is designed to ensure alignment with the Group's investment objectives and risk management appetite.

Notwithstanding the very challenging external environment described previously, portfolio performance remains robust reflecting a combination of the diversity and structure of the portfolio, our disciplined approach to investment, and mitigating steps taken to address cost pressures and weaker consumer demand where there is a particular exposure. As a result, there have been no major changes to the principal risks associated with investment outcomes over the past year.

As part of our portfolio monitoring, all of our new investments in the year are subject to rigorous review, including performance against a 180-day plan. We continued to monitor the portfolio actively and, where necessary, hold additional reviews 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 investment and portfolio monitoring reviews include an enhanced ESG and sustainability assessment, which is completed annually and enables current and emerging risks and opportunities to be tracked on a systematic basis, with updates provided on a semi-annual basis. Good progress has been made in further advancing the ESG and sustainability maturity of the portfolio and improving carbon measurement and reporting capabilities.

Operational

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

The Group has maintained a hybrid working model which supports a strong collaborative working culture whilst giving staff a degree of flexibility. The operational effectiveness of the model was reviewed during the year and some refinements implemented based on feedback and benchmarking.

3i has continued to operate robust and secure IT systems supported by key third-party service providers. We also continue to review and refresh our IT systems, device strategy, and cyber security framework. We engage 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.

Attracting and retaining key people remains a significant operational priority. 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, an important long-term incentive, which rewards cash-to-cash returns.

Although we saw significant competition in the recruitment market during the year, the Group continued to experience modest levels of voluntary staff turnover; 9.5% in FY2023. This reflects 3i's strong performance and helps to underpin the longer-term resilience of the business. 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 2022.

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 has maintained a conservative approach to managing its capital resources and has operated within the limits set out in its Risk appetite statement on page 79 and in accordance with the treasury policy approved by the Board. Accordingly, there are currently no principal risks in relation to capital management.

The Group implemented a euro and US dollar medium-term foreign exchange hedging programme given the significant volatility in foreign exchange markets experienced during the year. The purpose of the programme is to partially reduce the sensitivity of the Group's net asset value and impact of mismatched currency cash flows to changes in the euro and US dollar. The liquidity impact of this programme was carefully assessed prior to implementation and incorporated into the Group's liquidity monitoring framework. The Risk appetite statement has been updated to reflect this change.

New and emerging risks

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 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 we replaced the risk of "Operational and cultural disruption to the Group from Covid-19" on the watch list with "Re-emergence of a global pandemic" and added a new risk "Impact of cost and other pressures on key third-party suppliers".

Other risks on the current watch list include some portfolio-related risks, such as concentration and specific sector exposures; tax risks in relation to changing rules; the UK/EU trading relationship; cyber security; and the increasing reporting requirements relating to ESG topics.

We recognise the increasing importance of environmental and climate-related risks, which are monitored and managed through our risk governance framework and compliance processes and procedures. These are also designed to ensure that 3i is compliant with all applicable environmental legislation and reporting requirements. We screen all investment opportunities against the Responsible Investment policy, assess the relevant ESG factors and screen out businesses at an early stage which have unsustainable environmental practices, or which are exposed to excessive risks. Once invested, we monitor environmental and climate-related risks closely and use our influence to ensure that our portfolio companies have robust governance processes in place to manage ESG risks; are compliant with emerging regulations and legislation in this field; and encourage the development of more environmentally sustainable behaviours. We also have the flexibility to sell investments that become or have the potential to become overly exposed to ESG risks. Further information and details of our TCFD disclosures can be found on pages 60 to 66.

Our thematic approach to investment origination and portfolio construction involves consideration of new and emerging risks and trends which can support long-term sustainable growth in our portfolio (pages 16 to 17). The outputs of this approach also form part of our medium-term viability stress testing and long-term business resilience assessment (pages 123 to 125). The current key themes include demographic and social change; digitalisation, automation and big data; energy transition, energy security and resource scarcity; and value-for-money and discount.

Outlook

As previously noted, the longer-term economic outlook continues to be adversely affected by a number of factors including high inflation; the cost-of-living crisis; higher interest rates; Russia's invasion of Ukraine; and wider geopolitical tensions. Whilst an improved global economic growth and a faster fall in inflation are plausible scenarios, our outlook remains cautious in view of the levels of uncertainty and number of potential downside factors which could hamper economic recovery and potentially lead to wider 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 and in 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. Enhanced portfolio monitoring and reporting processes remain in place to identify actions needed to support portfolio companies through periods of uncertainty and to take advantage of new opportunities as these arise.

We made four new Private Equity investments in the year and have continued to grow portfolio value through our buy-and-build strategy. For further information on the investments made during the year, please refer to our Investment Activity section (pages 25 to 29). 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 bilateral or complex processes and our buy-and-build platforms where we continue to build an attractive pipeline of new and further investment opportunities.

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.

Investment

Principal risk

Lower investment and realisation rates

Movement in risk status in FY2023

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

FY2023 outcome

- Invested in four new Private Equity companies and completed 11 bolt-on acquisitions, with three 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

Principal risk

Underperformance of portfolio companies

Movement in risk status in FY2023

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
- Greater portfolio concentration increases the potential impact and profile of specific cases of underperformance
- 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 take action as appropriate
- Additional monitoring of Action, including 3i Chief Executive chairmanship of the Action board
- Active management of portfolio company Chairman, CEO and CFO appointments
- Sharing of any incidents of portfolio fraud and cyber breaches across investment teams to ensure monitoring is up to date

FY2023 outcome

- Liquidity support provided to two portfolio companies in the year
- Close monitoring and adaptation of portfolio company exit plans
- 90% of our portfolio companies valued on an earnings basis grew their earnings over the last 12 months to 31 December 2022

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

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 FY2023

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
- Inability to meet external reporting obligations or published targets

Risk management and mitigation

- Investment Committee, Group Risk Committee 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

FY2023 outcome

- Further improvements in the monitoring of ESG risks through a defined sustainability development framework
- Dedicated resource embedded and training of 3i's investment teams and Board delivered
- Collected Scope 1 and 2 data from over 79% 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.

External

Principal risk

Global economic uncertainty

Movement in risk status in FY2023

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
- Overall shape of the portfolio and resilience

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 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

FY2023 outcome

- Strong performance of Action and resilient performance from the remainder of the portfolio
- Overall increase in portfolio valuation particularly in value-for-money and private label, healthcare, industrial technology, business technology and services and infrastructure sectors
- Group GIR of 36%
- Low Group gearing of 2% and liquidity of £1,312 million. Undrawn RCF of £900 million

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 continued

Principal risk

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

This risk was previously considered as part of the risk of "Global economic uncertainty" but has been separated out as a standalone principal risk

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 policy by the Valuations Committee
- Regular liquidity, currency and counterparty risk monitoring and strategic reviews of the Group's balance sheet

FY2023 outcome

- Strong performance of Action and resilient performance from the remainder of the portfolio
- Overall increase in portfolio valuation particularly in value-for-money and private label, healthcare, industrial technology, business technology and services and infrastructure sectors
- Group GIR of 36%
- Low Group gearing of 2% and liquidity of £1,312 million. Undrawn RCF of £900 million
- Average leverage across the PE portfolio was 2.5x (31 March 2022: 3.3x)
- Over 70% of total term debt hedged at a weighted average tenor of more than three years with the interest rate element capped at a weighted average hedge rate below 2%

Principal risk

Volatility in capital markets, foreign exchange and commodities

Movement in risk status in FY2023

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

FY2023 outcome

- Implementation 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 2023, 87% of the investment portfolio was denominated in euros or US dollars. Sterling weakened 4% against the euro and 6% against the US dollar and as a result, we generated a total foreign exchange translation gain of £623 million (2022: £9 million gain) net of derivatives in the year

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

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 FY2023

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

FY2023 outcome

- Invested in four new Private Equity companies and completed 11 bolt-on acquisitions to support buy-and-build strategies
- Realisation of Havea and Christ, and partial disposal of Q Holdings in the year

Principal risk

Geopolitical risks

Movement in risk status in FY2023

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

FY2023 outcome

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

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

Operational

Principal risk

Ability to recruit, develop and retain key people

Movement in risk status in FY2023

No significant change in risk exposure

Link to strategic objectives

Realise investments with good cash-to-cash returns; Use our strong balance sheet; Increase shareholder distributions

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

FY2023 outcome

- Organisational capability and succession plan reviewed by the Board in September 2022
- Successful talent recruitment and continuous training and development programmes throughout the year. 41 new hires in FY2023
- Limited staff voluntary turnover of 9.5%
- Good progress with recruitment and integration of new hires
- A well-established hybrid working model

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

Directors' duties under Section 172

Section 172 statement

Directors have a duty to promote the success of the Company for the benefit of its members.

The Company's purpose (as set out on page 1, namely to generate attractive returns for our shareholders and co-investors by investing in private equity and infrastructure assets) is reflected in the decisions that the Board makes. This is done by taking a long-term, responsible approach to creating value through thoughtful origination, disciplined investment and active management of our assets, driving sustainable growth in our investee companies.

Our business model is set out on pages 12 to 13 and the Board's strategic objectives and key performance indicators are set out on pages 18 and 19.

By considering the Company's purpose together with its strategic objectives and having clear governance processes in place for decision making, we seek to ensure Board discussion has regard to the potential long-term consequences of any decision and the impact of such decisions on stakeholder groups including those listed in section 172 of the Companies Act 2006 ("section 172"). Board decisions often involve complex interactions of factors and require Directors to understand and have regard to a wide range of stakeholder interests and concerns.

Under section 172 a director of a company must act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to the following factors ("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 and our approach as a responsible employer is described more fully in the Sustainability section on pages 52 to 56.
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 on page 105.
The impact of the Company's operations on the community and the environment	We use our influence to promote a focus in our investee companies to mitigate adverse environmental and social impacts and to act responsibly in the communities in which they operate. Read more in the Sustainability report on page 43 to 66.
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 on pages 15 and 57 to 59.
The need to act fairly towards all members of the Company	The Board actively engages with its shareholders and takes into account their interests when implementing our strategy. Read more on pages 93 and 106 to 107.

How stakeholder interests have influenced decision making

The Board believes that considering the Company's stakeholders in key business decisions is fundamental to the way in which it operates. The Board takes account of the interests of stakeholders as well as the section 172 factors in deciding on actions that would likely promote the long-term success of the Company for the benefit of its members as a whole. At each Board meeting Directors are reminded of their duties under section 172.

During the year, when the Board made decisions implementing the Company's strategic priorities, the different interests of our stakeholder groups, and the impact of key decisions upon them, were considered. The Board acknowledges that not every decision made will necessarily result in a positive outcome for every stakeholder group, and the Board and the Executive Committee assess those conflicts and take them into account in their decision making.

Examples of key decisions taken by the Board in the year together with details of how the interests of stakeholders and the other factors mentioned in section 172 were taken into account are given below. Further detail on Board decision making is given on pages 102 to 103.

Key decisions in the year

FY2022 second dividend and FY2023 first dividend

Background: In May 2022 the Board decided on an increased total dividend for FY2022 and in November 2022 a first dividend for FY2023 (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: Against a tough macroeconomic backdrop, the Board took into account shareholders' desire for income distributions as well as the need to maintain liquidity for new investment and operating expenses. In addition, the Board considered the Company's forward-looking liquidity in light of past and projected investment and realisations, the outlook for the Company and the desire to maintain a strong, low-geared balance sheet. The Board took account of the fact that the Company's investment portfolio had maintained good overall momentum notwithstanding the difficult macroeconomic conditions. The economic and geopolitical developments (including inflation, higher interest rates, higher energy prices, supply chain issues and Russia's invasion of Ukraine) were among the other factors taken into account, alongside the Company's strong financial performance and outlook, in decisions taken in the current year in respect of the proposed FY2023 second dividend.

Impact on the success of 3i: Being thoughtful about setting the dividend is particularly important as it has a direct and indirect effect on all the Company's stakeholders. In particular, shareholders are able to rely on the consistent approach taken by 3i in respect of its dividend policy which forms an important aspect of the investment case for 3i's shareholders.

Foreign exchange hedging programme

Background: In October and November 2022 we took advantage of the significant volatility in foreign exchange markets by approving the implementation of a medium-term foreign exchange hedging programme to partially reduce the sensitivity of the Group's net asset value and impact of mismatched currency cash flows to changes in the euro and US dollar. The exposure of the Group's underlying investment portfolio to the euro and the US dollar had increased significantly in recent years through the organic growth of our existing European and US portfolio companies and due to the majority of our new investments being denominated in euros and US dollars. As at 31 March 2023, the notional amount of the forward foreign exchange contracts held by the Group associated with this hedging programme was €2.0 billion and $1.2 billion. In addition, we increased the size of our hedging programme for Scandlines, increasing the notional amount of €500 million to €600 million in September 2022.

Stakeholder considerations: In light of significant volatility in foreign exchange markets and increasing foreign exchange risk for 3i, the Board took into account shareholders' expectations for the Company to appropriately mitigate an enhanced risk. The Board considered the benefits of reducing NAV foreign exchange sensitivity, mitigating the foreign exchange risk from foreign currency cash inflows that are used to fund Sterling cash outflows, such as the dividend, and the opportunity for 3i to lock in a portion of the year-to-date foreign exchange gains, against any costs and risk associated with an NAV foreign exchange hedging programme including liquidity risk. The Board assessed the liquidity risk created by the hedging programme in various downside scenarios and were comfortable it could be managed given the moderate size of the hedging programme compared to the total size of the portfolio and mitigation from forecast foreign currency inflows. Overall the Board was supportive of a well-timed enhancement to the Company's risk management framework.

Impact on the success of 3i: Entering into the hedging arrangements reduced the NAV foreign exchange sensitivity, partially mitigated the foreign exchange risk from foreign currency cash inflows that are used to fund Sterling cash outflows, and provided the opportunity for 3i to lock in a portion of the year-to-date foreign exchange gains. The hedging programme forms part of the wider liquidity and treasury risk management framework and aligns with 3i's purpose of generating attractive returns though a long-term responsible approach and driving sustainable growth.

For the purposes of the UK Companies Act 2006, the Strategic report of 3i Group plc comprises pages 1 to 93.

By order of the Board

Simon Borrows
Chief Executive
10 May 2023