# Green Investment Bank

Strategic Report 2014

# Contents



**About this report**

We have moved to the new style of Annual Reporting as required by new regulations, which came into force for financial years ending on or after 30 September 2013. This means that a stand-alone Strategic Report now precedes the fuller reporting of governance, financial accounts and results and our green impact. Our commitment to sustainability means that we print very few copies of this report and where we do, we only print the Strategic Report, not the full document. The full document is available online at www.greeninvestmentbank.com. A glossary can be found at the end of this document.

# The UK Green Investment Bank at a glance

Our purpose is to accelerate the UK's transition to a greener, stronger economy. As we do this, we are working to build an enduring institution.

We were created by the UK Government, our sole Shareholder, which has committed an initial £3.8bn of public funds. We use this finance to back green projects on commercial terms and mobilise other private sector capital into the UK's green economy.

Our investments help fund the creation of new energy and waste infrastructure across the UK and, with that, new jobs in construction and operations.

## In 2013-14:

we backed **18 new green projects** (**10** more than last year)

we committed **£668m in new capital,** up on last year.

we mobilised approx. **£3** of additional private capital **for every £1 GIB invested**

## In total (for 2012-13 and 2013-14):

we have capitalised **5 funds** and backed **green projects 26**

we have invested in **every part of the UK**

we have directly committed **£1.3bn** mobilising up to **£4.8bn**

Once built, our investments to date are projected to:

generate a rate of return **of over 8%**

provide renewable power to **3m homes**

support over **3,500 construction and operational jobs**

reduce greenhouse gas emissions equivalent to taking **1.6m cars off the road**

# Transparency statement

Openness is one of the UK Green Investment Bank's (GIB's) founding values. That means we are transparent in what we do and actively engage with our stakeholders, seeking their feedback and involvement in our business.

We are stewards of £3.8bn of public money, tasked with investing it on market terms. So we are building a culture with a strong commercial ethos and the highest standards of accountability.

We are also a young organisation, with a complex mandate, operating in a fast moving sector. It is important to our success that all our stakeholders have a good understanding of our thinking, strategy and actions.

**"Internally, with our Board and employees, we have adopted the value of openness as something that guides how we run our business."**

Our commitment to openness begins with our investments. We share details of our investment strategy and each individual transaction with market-leading transparency. This is part of our role as a catalyst to the wider market. We actively engage with the media and other stakeholders to make sure that our activity and thinking is shared as widely as possible.

We are transparent about how we have set up and run our business. This includes the publication of Board minutes, corporate policies, remuneration and the disclosure of Board and employee hospitality.

Internally, with our Board and employees, we have adopted the value of openness as something that guides how we run our business. This is reflected in the governance, systems and processes we have put in place and underpins our approach to employee communication. It is a value that is included in all of our employees' objectives and forms part of their performance appraisal.

Our commitment to transparency is an active one. We regularly update our website with new information. We also encourage you to give us your feedback on this report and our wider progress; details of how you can do this are provided on the back page. To create a forum for this feedback we host two Annual Review events every year, in Edinburgh and London, at which our Board and Leadership Team present on our progress, take questions and listen to the views of our stakeholders.

**Lord Smith of Kelvin KT**
Chair

**Shaun Kingsbury**
Chief Executive

# Chair's report

The last year has been one of intense effort and focus at GIB. We have come through our start-up phase and begun to demonstrate the value of our business model. We have done that quickly, but without compromising the quality of the foundations that we have laid down. We leave the year as the most active investor in the UK's green economy.

With our responsibility for the investment of public funds and a mission to build an enduring institution, we have invested in the highest standards of corporate governance, systems and processes. You will have a chance to read more about all of this in the report that follows. I believe that we have now successfully removed the start-up risks faced by any new organisation.

Despite a tough market and a prolonged investment hiatus in some of our sectors, we have performed well in deploying our capital this year. In 2013-14, we invested capital in 18 projects, directly committing £668m of our own capital which will mobilise up to £2.5bn of total capital into UK green projects. Across all of these measures, we achieved more this year than last year. We have also now co-invested with over 70 domestic and international investors.

In the sectors which are less well established, and slower to develop, we have been bold in trying to build momentum.

**"We have come through the start-up phase and begun to demonstrate the value of our business model."**

In areas like street lighting, district heating, the NHS, anaerobic digestion and industrial and commercial energy efficiency, we have built bespoke financial solutions and engaged heavily with the relevant industries to increase interest, commitment and investment. This type of activity will be one of our defining characteristics – we exist to build and strengthen markets, not just to service them.

The Board has also spent significant time looking at the organisation's future strategy. We have debated and agreed ambitious plans to extend the reach of GIB as we work to maximise our green impact. We have also begun the process of becoming a regulated firm, allowing us greater scope to mobilise and invest the capital needed to build a stronger and greener UK economy.

As the first dedicated green bank in the world we are at the forefront of what is now a growing movement. While our first priority is always the UK 'day-job', we have also played a leading role in helping to establish an international network of new and emerging green banks and investors. We arranged and hosted a gathering of ten of these banks at our Edinburgh headquarters in October 2013. This event kick-started a growing network which is focused on the very practical sharing of experience and good practice between like-minded organisations.

I am pleased with the progress that GIB has made in the year and a half since we began operating. The nature of our organisation means that progress is reliant on the goodwill and active support of a wide range of stakeholders across the political spectrum and civic society, not least the many Government Ministers who have been so encouraging of our work. I would like to place on record my thanks and those of the Board for their ongoing support.

I hope you enjoy reading our second Annual Report.

We are deeply committed to being an open and engaged organisation and would very much welcome your comments on our progress.

**Lord Smith of Kelvin KT**
**Chair**

# Chief Executive's review

GIB is now fully up and running. Our mission and strategy are clear and well understood in our market. We are successfully committing capital and backing the infrastructure projects that are helping to build a stronger and greener economy in the UK. We are playing an important role. Investment levels in the UK's green economy remain well below what's required. We are taking on the difficult projects, mobilising private sector capital and supporting innovation.

### Our mission and role

GIB was designed to occupy a unique place in the UK's green economy. Our role is to help close the gap between what the UK needs to invest to achieve its environmental targets and what it is investing. This gap remains large but we are working to increase investment levels and encourage new investors into the UK market.

This gap is, of course, beyond what we at GIB can do directly with our initial £3.8bn of committed capital. It requires a market-based solution. That is why our role is to invest in green, profitable projects in a way that crowds-in others, mobilising additional private sector capital.

It is a role that goes well beyond that of a traditional investor.

We take on the difficult projects, getting involved in their development to help them become commercially viable and investable. Our financial and technical expertise helps to de-risk projects for other investors, particularly where the project involves technology or financial innovation. We help to strengthen and build new, emerging sectors of the UK green economy by raising awareness and developing products to provide new commercial, financial solutions. And, we are working to reduce the cost of capital for green infrastructure projects by helping to attract and connect long-term investors to long term, stable, profitable, operating assets, like offshore wind farms.

### A challenging year for our industry

I believe that those of us involved in green infrastructure investment in the UK will look back on the last year as a difficult but important one.

We leave the year with much greater certainty of the impact of Electricity Market Reform (EMR). This is a once in a generation change to improve the attractiveness of the UK for investment in our infrastructure. Consequently, the change in regime created temporary uncertainty for investors which inhibited our ability to commit capital to new projects. However, I believe the longer term benefits will be worth it. The UK remains an attractive location to invest in renewable energy and we must protect that position.

The year also brought a new degree of political and media scrutiny of our industry. Although difficult at times, it is right that our industry is held to account and asked challenging questions. It will make us stronger in the long term.

We are a relatively young industry working with new technology. The public policy goals of diversifying energy supply, strengthening energy security, lowering costs and decarbonising are challenging but possible. With a continuation of the Government support that we have seen so far, I believe the industry will repay that faith with lower costs and improved performance. Indeed, every part of the green economy from offshore wind to energy efficiency is showing steady, positive progress against both these measures.

### A successful year for GIB

Our main task in any year is to commit capital to green and profitable projects. By the end of the 2013-14 financial year we had committed a total of £1.3bn to 26 projects and five funds since we began operations. We committed to invest more in the last year, £668m in 2013-14, than we did in our first year of operation, £635m in 2012-13. Although our first year was a short one, it included £355m of one-off investments such as capitalising our five funds, so we more than doubled our direct investments year on year. We expect to see a further increase in our rate of investment in 2014-15.

Including our own investments, we will mobilise up to a total of £4.8bn capital into the UK's green economy. Every £1 invested by GIB has been matched by approximately £3 from private investors.

Every investment has been made on market terms and all are on track to perform profitably. The expected rate of return across our portfolio is around 8 per cent in aggregate and includes a mix of equity, debt and fund investments.

Our green performance has been equally positive. Once built-out, we expect our investments to be generating, in a year, enough renewable energy to power 3m homes. Our investments will save greenhouse gas (GHG) emissions equivalent to taking 1.6m cars off the road.

In November 2013, we published our green investment principles which set out how we have fully integrated green assessment, monitoring and reporting into our investment process.

The numbers alone tell only a small part of the story. Throughout the year, we have sought out opportunities to bring innovation to our industry and to grow the market. You will find details throughout this report but some trends are standing out.

We are seeing positive developments in technology that will bring lower costs and improved performance to industries such as energy efficiency, offshore wind and energy from waste. This year we have taken an equity stake in the first offshore wind farm in the world, off the coast of Yorkshire, to deploy a new 6 MW turbine. Larger wind turbines mean better efficiency which reduces the cost of the electricity they produce. We have also backed a project, near Birmingham, to bring a new waste gasification technology – proven in North America – to the UK.

In contrast to these positive developments, the opportunity offered by non-domestic energy efficiency measures is not being taken up quickly enough. This is an area that can offer savings often with minimal capital outlay, requires no government support and often no planning consents and now has mature, proven technology which is ready to be deployed at scale. We should be doing better across the UK and we are lagging behind many other countries in what is an important component of the productivity of our economy.

**"Every investment has been made on market terms and all are on track to perform profitably. The expected rate of return across our portfolio is around 8 per cent."**

This is why we are targeting energy intensive activities and organisations in the private and public sectors. One example of this is the product we have built for local authorities to convert their streetlighting estate to LEDs. I am pleased that Glasgow City Council will be the first to take up this product.

In terms of our financial performance we have, as expected, posted an operating loss before tax for 2013-14 of £5.7m. This number is consistent with our budget for the year. We are still in the early stages of building our portfolio and much of the income secured in 2012-13 and 2013-14 is deferred into future years. A significant part of our investment is into construction projects and we need the projects to be built-out and start operating to produce returns in order for GIB as a whole to turn profitable.

Our committed capital is projected to produce an average return of around 8 per cent and it is our expectation that we will move in to steady profit as projects become operational.

### Our team

We have completed the recruitment of our team, which, I believe, captures the right balance of experience and energy. The team is performing well. Now that we have almost a full complement of staff, we have moved on to put in place the necessary steps to make sure we can retain and develop the team. We have established training and professional development programmes to ensure our staff can develop their skills and continue to learn as our organisation matures.

### Outlook

We look ahead to what we hope to be a stronger market in UK renewables in 2014-15, with more projects moving ahead. Our current mandate means we will remain very sensitive to the commitment of developers and co-investors.

We hope to see two major strategic developments for GIB in the coming year.

First, we hope to be able to broaden the sectors in which we are permitted to invest. At the moment the state aid decision issued by the European Commission restricts us to investing in less than a third of the UK's green economy, with many sub-sectors ruled out. Our first targeted area for expansion is community renewables – supporting small-scale, community based, renewable energy generation projects across the UK. Secondly, we hope to make some progress on bringing in external capital to GIB. As our track record develops and the markets in which we invest mature, we believe it will be possible to find alternative and additional sources of capital for GIB.

We look to the coming year with optimism and ambition but, as ever, with a high sensitivity to market conditions. We have built, in a short period of time, a robust business that is making a difference. Our business model and investment strategy have proven to be attractive to over 70 co-investors. Our task now is to use this platform to achieve a sustainable scale of business that will allow us to maximise the impact we can have in helping to build a greener, stronger economy in the UK.

**Shaun Kingsbury**
**Chief Executive**

# 2013-14 highlights

We began the year having backed **8** projects and capitalised **5** funds.

**Apr '13**

**May**

Investment in Roundwood biomass platform *(p.33)*

**June**

Published Annual Report and held Annual Review events

Published market report on anaerobic digestion *(p.19)*

**July**

Investment in Kingspan energy efficiency retrofit

Investment in small-scale biomass project for schools

Investment in Tomatin distillery *(p.33)*

Investment in Evermore renewable energy plant *(p.31)*

**Sept**

Investment in Port Talbot biomass plant *(p.31)*

**Oct**

Investment in London Array offshore wind project *(p.29)*

Convened inaugural global Green Bank Congress *(p.37)*

Over the course of this year we invested in a further **18** projects.

**Nov**

Launch of green policies *(p.35)*

Investment in West London energy from waste plant *(p.31)*

**Dec**

Adoption of Equator Principles *(p.50)*

Investment in NCP energy efficiency retrofit *(p.33)*

Investment in Birmingham gasification plant *(p.30)*

Investment in Merseyside energy from waste project *(p.31)*

**Feb '14**

Launch of Green Loan and publication of streetlighting report *(p.33)*

Investment alliance with Societe Generale Equipment Finance *(p.33)*

**March**

Signatory to Principles for Responsible Investment *(p.50)*

Investment in Gwynt y Môr offshore wind project *(p.29)*

Investment in Norfolk waste project *(p.31)*

Investment in Westermost Rough offshore wind project *(p.28)*

Investment in Cheltenham General Hospital *(p.33)*

Launch of NHS Energy Efficiency Financing Programme *(p.33)*

Investment in energy efficiency retrofit at Bernard Matthews' farms *(p.33)*

Investment in energy efficiency retrofit at St Bartholomew's Hospital *(p.33)*

# Summary of transactions

## Summary of transactions to date

| | | Direct investments | | | Fund investments | | | |
|---|---|---|---|---|---|---|---|---|
| Project | Sector | GIB commitment (£m) | Other capital mobilised (£m) | Total capital mobilised (£m) | GIB fund commitment (£m) | Other capital mobilised (£m) | Total capital mobilised (£m) | Fund manager |
| **2012-13 summary total** | | **635.4** | **1,629.8** | **2,265.2** | **28.2** | **45.6** | **73.8** | |
| **2013-14 transactions** | | | | | | | | |
| Roundwood biomass boiler platform | Energy efficiency | – | – | – | 4.9 | 5.1 | 10.0 | Equitix |
| Kingspan building retrofit | Energy efficiency | – | – | – | 0.4 | 0.4 | 0.8 | SDCL |
| Schools biomass platform | Energy efficiency | – | – | – | 0.4 | 0.5 | 0.9 | Equitix |
| Distillery biomass platform (inc. Tomatin) | Energy efficiency | – | – | – | 0.6 | 0.6 | 1.2 | Equitix |
| Evermore energy from waste plant[1] | Waste and bioenergy | 20.2 | 61.1 | 81.3 | – | – | – | Foresight |
| Port Talbot biomass plant | Waste and bioenergy | – | – | – | 11.3 | 13.6 | 24.9 | Greensphere |
| London Array offshore wind farm | Offshore wind | 58.6 | 207.4 | 266.0 | – | – | – | – |
| West London waste PFI | Waste and bioenergy | 20.0 | 203.7 | 223.7 | – | – | – | – |
| NCP low energy lighting project | Energy efficiency | – | – | – | 4.2 | 4.6 | 8.8 | SDCL |
| Merseyside waste PFI | Waste and bioenergy | 20.0 | 315.5 | 335.5 | – | – | – | – |
| Birmingham BioPower gasification plant[2] | Waste and bioenergy | 12.0 | 23.7 | 35.7 | 5.6 | 5.6 | 11.2 | Foresight |
| Societe Generale Equipment Finance energy efficiency partnership | Energy efficiency | 25.0 | 25.0 | 50.0 | – | – | – | – |
| Norfolk waste PFI[3] | Waste and bioenergy | 51.2 | 174.8 | 226.0 | – | – | – | – |
| Bernard Matthews boiler replacement programme | Energy efficiency | – | – | – | 12.0 | 12.7 | 24.7 | Equitix |
| St Bartholomew's Hospital energy efficiency retrofit | Energy efficiency | – | – | – | 1.3 | 1.4 | 2.7 | SDCL |
| Cheltenham General Hospital CHP project | Energy efficiency | – | – | – | 1.2 | 2.1 | 3.3 | Aviva Investors |
| Gwynt y Môr offshore wind farm | Offshore wind | 220.0 | 220.0[4] | 440.0 | – | – | – | – |
| Westermost Rough offshore wind farm | Offshore wind | 240.8 | 647.6 | 888.4 | – | – | – | – |
| **2013-14 total** | | **667.8** | **1,878.8** | **2,546.6** | **41.9** | **46.6** | **88.5** | – |
| **Total to date** | | **1,303.2** | **3,508.6** | **4,811.8** | **70.1** | **92.2** | **162.3** | – |

1. *GIB increased its investment in the Foresight fund to finance this transaction.*
2. *GIB invested twice in this project, directly and via the Foresight fund.*
3. *The project was subsequently cancelled in April 2014. (See p.31).*
4. *This figure represents a commitment to redeployment of capital in renewable energy.*

The **most active investor** in the UK's green economy

Backed **3** new energy efficiency projects in the NHS

Supported the introduction of a new energy from waste gasification technology to the UK

Invested during the construction phase of an offshore wind project for the **1st time**

Invested in all our main sectors, in all parts of the UK in a series of transactions which are **innovative in their financing and their technology**

Financed Northern Ireland's **largest** renewable energy plant

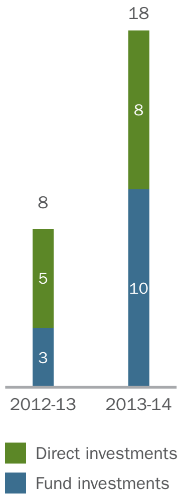
Been involved in **56%** of transactions in our sectors

Financed **improved energy efficiency** in farms and car parks

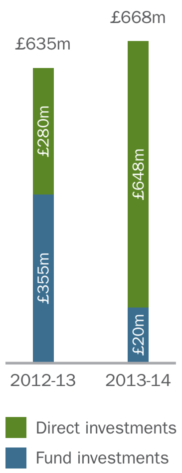
Helped finance the commercial deployment of a new Siemens **6MW wind turbine**

Launched a Green Loan to help local authorities achieve up to **80% reductions** in lighting costs

**Number of project investments**

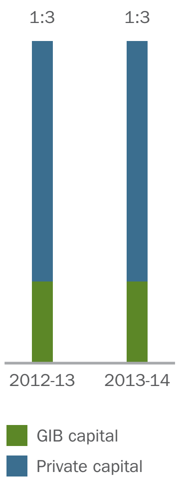



**GIB capital committed**




**Total capital mobilised**


**Mobilisation ratio (Approx.)**



# Our mission and business model

Our purpose is to accelerate the UK's transition to a greener, stronger economy. As we do this, we are working to build an enduring institution.

We were created by the UK Government, our sole Shareholder, and capitalised with £3.8bn of public funds. We use this finance to mobilise other private sector capital into the UK's green economy.

We are a key part of the UK's efforts to achieve its legally binding environmental targets. These targets require an investment of £330bn in the UK's green economy by 2020. To date we are seeing investment in the UK's green economy at less than half the required rate.

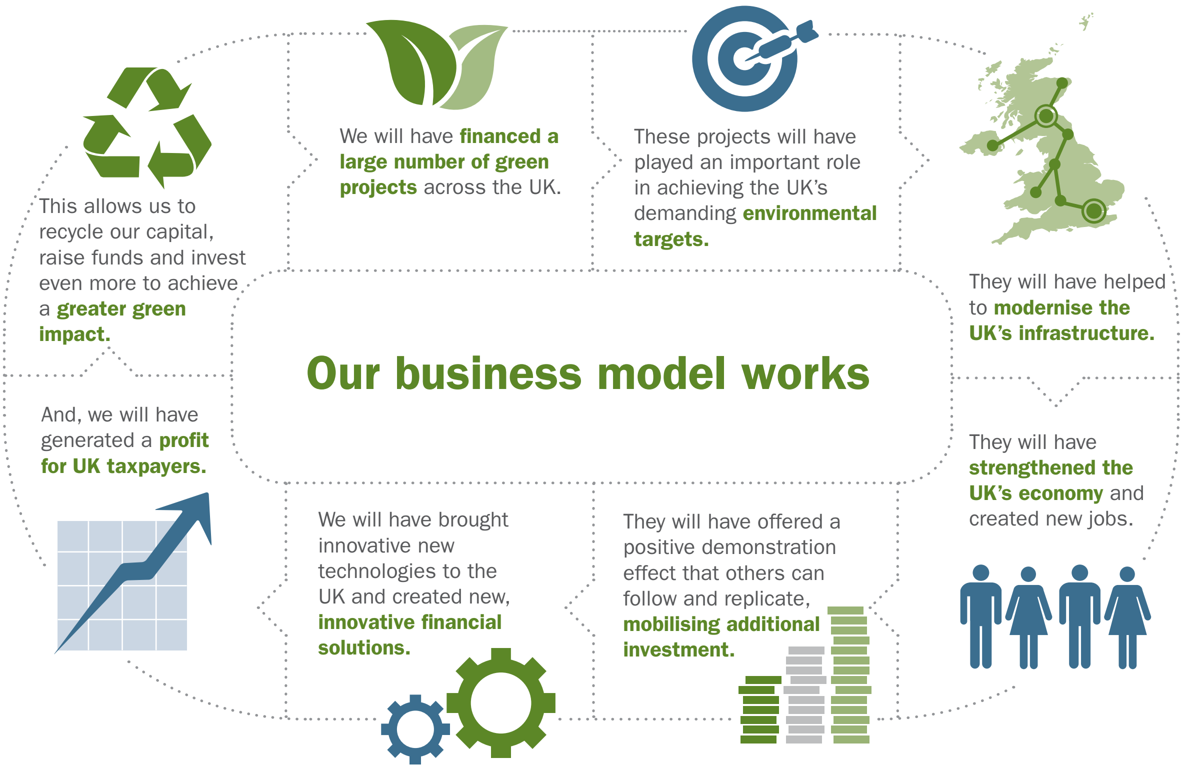
Our business model is not designed to plug the gap through our direct investments alone. We must invest in a way which demonstrates the attractiveness of the opportunity to others. To do that we must show that it is possible to invest in projects which are green and profitable – this is our double bottom line.

As an institution investing public money, we must balance this sense of purpose with state aid restrictions agreed with the European Commission. These determine both the sectors we are permitted to invest in and the manner in which we invest.

Our business model is as follows:

- we are an investor in UK-based green infrastructure projects;
- we primarily invest in three sectors – energy efficiency, waste and bioenergy and offshore wind;
- each investment must offer returns against our green and financial double bottom line:
    - Every investment must make a positive contribution to at least one of our five green purposes, outlined in the Green Performance section.
    - Every investment must provide market-based commercial returns in line with the project's risk.
- we invest on terms equivalent to others in the market; we do not offer low cost finance or grants;
- we work to mobilise other private sector capital, crowding-in additional finance not displacing other investors; and
- we are committed to being innovative by building and strengthening the UK market not simply serving it.

If we are successful in our mission we will have created a virtuous cycle:

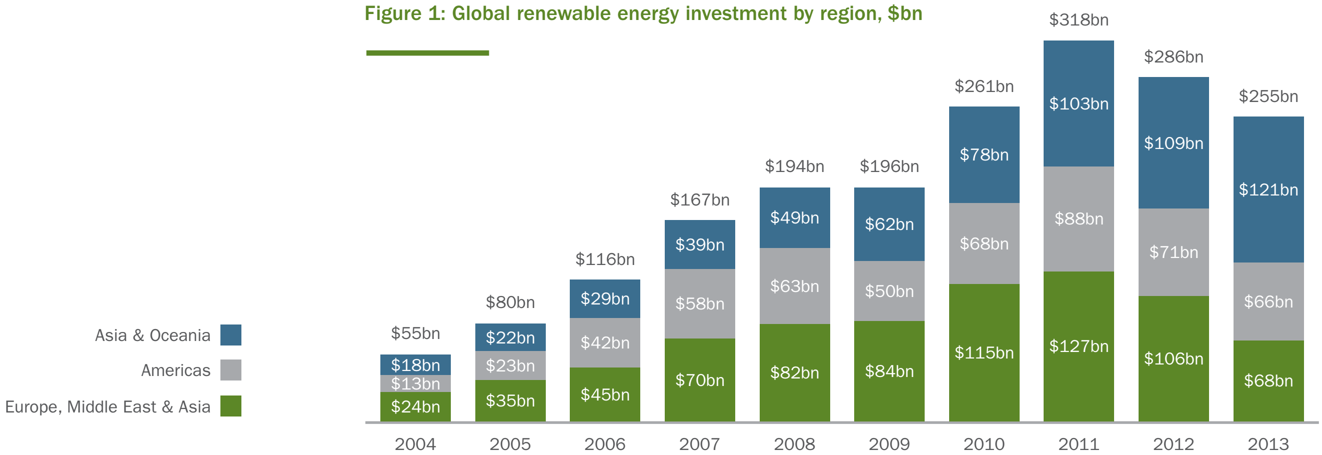


# Our market

GIB operates at the intersection of the renewable energy, energy efficiency and financial markets.

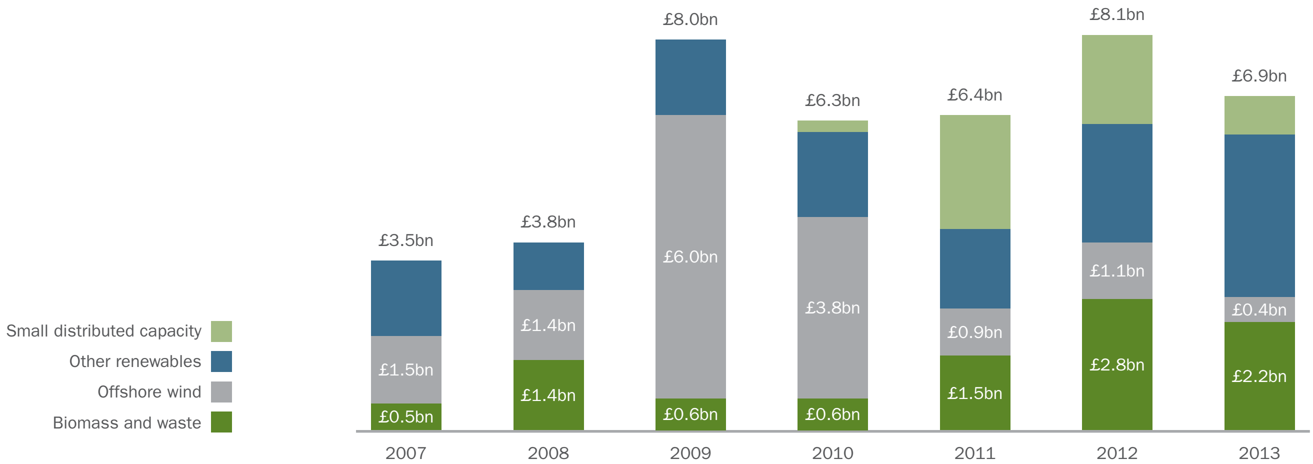
2013 was a tough year for the renewable energy sector with investment down 11 per cent globally and 36 per cent in Europe (Figure 1). In the UK, investment levels fell by 15 per cent on 2012 for the wider renewable energy sector (Figure 2), and were down by 32 per cent for the renewable energy sectors we are focused on (Figure 3).[5] This has had a significant impact on our ability to commit capital as we can only back projects that are under development.

**Figure 1: Global renewable energy investment by region, $bn**




*Source: BNEF*

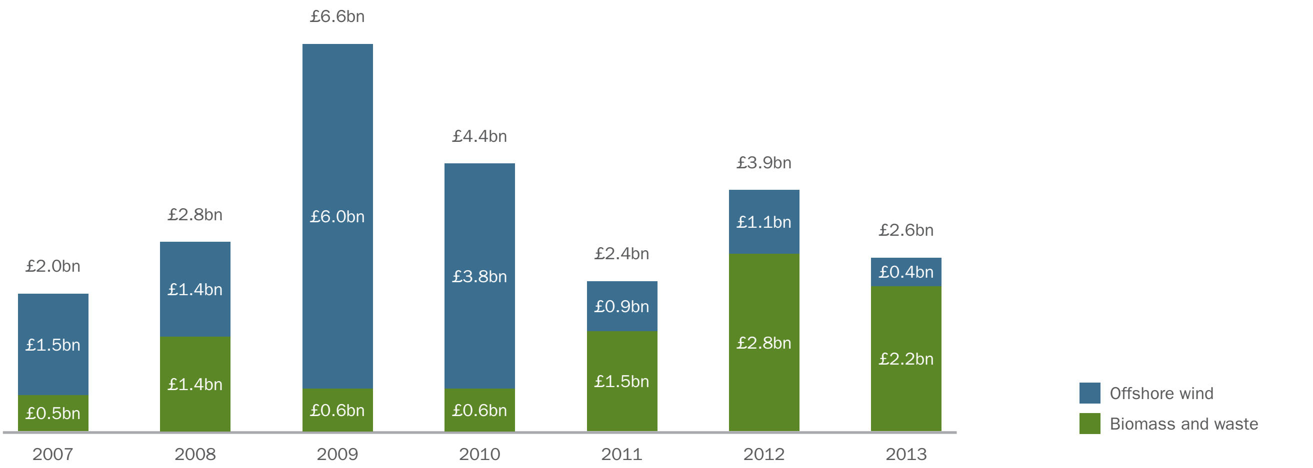
**Figure 2: UK renewable energy investment by sector 2007-13 (Calendar)**




*Note: All data excludes energy efficiency investment due to lack of consistent data sources.*
*Source: GIB estimates based on BNEF, Infrastructure Journal and Lets Recycle data*

5. *All figures in this paragraph are for calendar years, not financial years.*

**Figure 3: Investment in GIB's target renewable energy sectors 2007-13 (Calendar)**

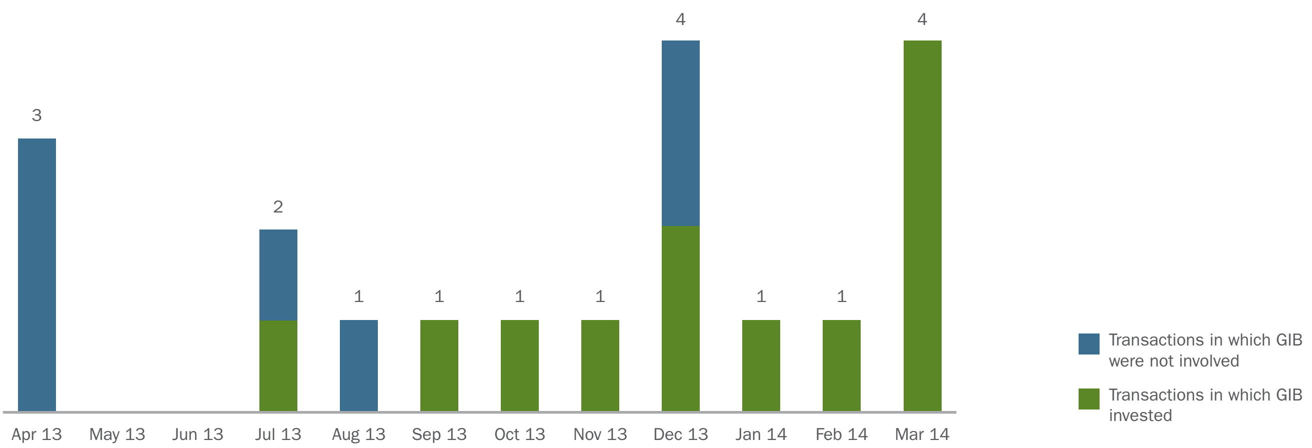



*Source: GIB estimates based on BNEF, Infrastructure Journal and Lets Recycle data. Data excludes energy efficiency.*

In the UK we had an inevitable period of uncertainty as we transitioned through EMR, leading to an investment hiatus. This investment pause was most apparent in the offshore wind sector and in the development of large biomass projects.

Across the UK, in the period from 1 April 2013 to 31 March 2014 (our reporting period), there were 19 investments in our target renewable energy sectors (offshore wind and waste and bioenergy) with a total value of £4.1bn (Figure 4). We invested in 56 per cent of those projects by value (10 projects including investments made by our funds).This contrasts with 20 investments in the same period in 2012-13 with a value of £4.5bn[6], of which we were involved in eight, 43 per cent of the market.

**Figure 4: Investment in projects in GIB's target renewable energy sectors in FY2013-14 by month**




*Source: GIB analysis*

6. *Includes the Greencoat transaction (£260m). See p.19 for more information.*

More broadly, the year brought some important developments and innovations in our markets. On technology, in offshore wind we saw the first commercial deployment of Siemens' next generation 6 MW turbine and in the waste sector, we saw the introduction of advanced combustion technologies in the UK (see more details on p.28 and 30 respectively). In energy efficiency, the trend of lowering costs and improving performance continued, most notably with LED lighting, which is now ready for mass deployment (page 33).

2013-14 was also the year when the 'YieldCo model', pioneered by Greencoat Capital, built momentum. Since Greencoat's successful listing we have seen a further five similar listings in the UK, raising a total of £1.3bn (Figure 5). These transactions mark an important period of financial markets innovation which we hope to see continue.

**Figure 5: Green infrastructure fund IPOs**

| LSE listed funds | Raised | Sectors |
|---|---|---|
| Greencoat | £260m | Wind (on/offshore) |
| Bluefield Solar | £130m | Solar |
| TRIG | £300m | Wind and solar |
| Foresight | £150m | Solar |
| Infinis Energy (corporate) | £234m | Wind, gas and hydro |
| Greencoat 2 | £83m | Wind (on/offshore) |
| JL Environmental Fund | £160m | Wind, solar and waste PFIs |
| **Total** | **£1.3bn** | |

*Source: IJ online, Preqin, BNEF, Bloomberg, FT, SA, TRIG IPO prospectus, Reuters, BofAML, Capital IQ, FT, Foresight prospectus.*

# Our strategy

We have individual investment strategies designed to meet the needs of each sector we target. These are set out below. However, we apply elements of a common approach to all our investments.

We are a flexible investor. We can invest across the full capital structure, from debt to equity to mezzanine to guarantees. We can invest over short periods and long, up to 25 years. We can invest in the construction of new projects or in the refinancing of existing projects where there is a value in creating a secondary market. Our investments in operational assets also allow the asset owner to reinvest their development capital back into the UK's green economy.

We can invest in large projects or programmes directly and smaller projects indirectly through our five funds in the waste and energy efficiency sectors. See p.20 for a summary of the funds we have invested in.

We are a targeted investor, focusing our efforts on investments in projects with proven, bankable technologies that can be deployed at scale.

We use our sector expertise and focus to fully understand the risks associated with each project and price them appropriately. We believe our ability to do this well will build confidence amongst mainstream investors, reducing perceptions of risk, encouraging investment at scale and driving down costs.

We aim to mobilise investment on a project by project basis but also, through a positive demonstration effect, to improve the attractiveness of the wider sector.

We take a proactive approach to managing risk across our business, including investment, operational, green, liquidity and reputational risk.

We target three sectors – offshore wind, waste and bioenergy and energy efficiency. An overview of each of our investment approaches and experience to date for these sectors is set out below.

### Target sector investment approach and experience

✓ Low focus area

✓ High focus area

– Not a strategic priority

| | Product | | | Stage | | Route to market | Technology |
|---|---|---|---|---|---|---|---|
| | Debt | Equity | Funds | Construction | Operational | | |
| Offshore wind | ✓ | ✓ | – | ✓ | ✓ | - Mainly large utilities<br>- Other financiers | - Offshore wind turbines |
| Waste and bioenergy | ✓ | ✓ | ✓ | ✓ | ✓ | - Utilities<br>- Developers | - Energy from waste plants<br>- Anaerobic digestion<br>- Combined heat and power (CHP) plants<br>- Dedicated biomass and coal conversions<br>- Biofuels |
| Energy efficiency | ✓ | ✓ | ✓ | ✓ | ✓ | - Project hosts<br>- Energy Service Companies (ESCOs)<br>- Utilities<br>- Other financiers | - Building retrofits (e.g. lighting, insulation, glazing)<br>- Onsite generation (e.g. CHP, renewable heat, heat pumps)<br>- Industrial process (e.g. motors, pumps, kilns)<br>- Infrastructure (e.g. streetlighting, heat networks, transport, smart meters) |

### Offshore wind

For details of our investments in offshore wind see p.28 and 29.

The UK is an attractive location for investment in offshore wind. The combination of natural resources (strong and consistent wind), favourable locations for turbines, a stable regulatory regime and a well-established and experienced industry has helped the UK secure its position at the forefront of the global offshore wind sector, with 3.6 GW in operation and 1.4 GW under construction.

GIB has pursued a two-step strategy in this sector.

Our first priority was to help establish a secondary market for operating assets. The purpose of this strategy is to buy operating assets from developers, freeing up their capital to re-invest in the development and construction phases of projects. This strategy is essential if the UK is to realise significant growth in offshore wind as the small number of developers do not have the capital required to build and hold these assets. Also, operating offshore wind assets are low risk, long term investments offering a stable yield – the types of investments ideally suited to long term investors such as sovereign wealth funds and pension funds.

"We aim to mobilise investment on a project by project basis but also, through a positive demonstration effect, to improve the attractiveness of the wider sector."

In pursuit of this strategy, GIB has refinanced or invested equity in three offshore wind projects – Walney, Rhyl Flats and the world's largest, London Array. In addition to this, GIB played a vital role, offering expertise to the UK Government's Department for Business, Innovation and Skills, in the successful flotation of the UK's first listed renewable energy fund, Greencoat Capital, which invested in the Rhyl Flats offshore wind farm alongside us.

The second plank of our strategy is to invest directly in projects in the construction phase. The purpose of this strategy is to ensure that developers can release their capital earlier in the process and to enable larger projects to happen. GIB has, this year, invested equity in two offshore wind projects in the construction phase – Gwynt y Môr and Westermost Rough.

2013-14 was a tough year for the UK's offshore wind industry. The year was dominated with discussions about and the introduction of a new market support mechanism, moving from the long established Renewables Obligation Certificates (ROCs) to Contracts for Difference (CfDs), as part of a wider reform of electricity markets. This inevitably resulted in some uncertainty and an investment hiatus which led to project delays. At the end of the year we have greater certainty with projects supported under the interim Investment Contracts moving ahead while other developers have initiated a review of their long term investment strategy in the sector.

GIB is committed to pursuing its current two-step strategy.

### Waste and bioenergy

For details of our investments in waste and bioenergy see p.30 and 31.

The UK has, over the past ten years, seen a transformation in its management of household waste. This has been most marked within local authorities as they make the transition from landfill to recycling/composting and energy recovery.

To date, the main focus of investors has been with local authority PPP/PFI waste projects. The majority of the required investments in this area is now largely behind us, although there are some important projects still outstanding. GIB has supported the tail end of this pipeline including projects at Wakefield, Gloucester, West London, Merseyside and Norfolk.

We are now seeing the waste market move towards what we would term 'merchant' projects. These are projects which utilise private, specialist fuel supply such as refuse derived fuel, commercial and industrial waste, and waste wood. In addition, they tend to utilise new advanced conversion technologies and include specialist sub-sectors like anaerobic digestion. We have backed a number of projects in these areas, both directly and through our funds, such as Evermore in Northern Ireland and Birmingham BioPower.

Like offshore wind, the waste sector has also been spending the year coming to terms with changes in the UK's market support mechanisms with the switch from ROCs to CfDs.

During the year GIB published a report on the issues facing the market within the anaerobic digestion sector, with the objective of identifying the opportunities and barriers for new investment.

GIB has also supported the UK bioenergy sector through involvement in a number of biomass projects. This has included projects which involve conversion from coal to biomass like Drax and dedicated new build, often CHP plants like Evermore. GIB will continue to consider both new build and conversion projects.

### Energy efficiency

For details of our investments in energy efficiency see p.32 and 33.

In response to the early stage and fragmented nature of the UK's energy efficiency financing market, GIB's investment strategy has focused on developing financing products for three sets of customers:

- the NHS, commercial and industrial players;
- project developers such as ESCOs and utilities; and
- financial services companies that finance projects but lack sufficient capital and/or expertise to expand their energy efficiency business.

Over the last year, GIB has worked with a number of pathfinder organisations in each of these sectors to develop financial products that can help accelerate the development of the market.

First, project hosts, or energy users, are critical as the primary decision-makers for energy efficiency projects. GIB has a set of flexible financing solutions which can be tailored for a specific customer's needs, including the energy efficiency technologies involved, debt tenor and host balance sheet treatment. For example, we recently launched the Green Loan which is a corporate loan for the local authority market. This financing solution is initially targeting over 6.5m inefficient streetlights of a total 7.4m in the UK which are costing £300m to run annually. Our launch partner is Glasgow City Council, which plans to convert to 70,000 high efficiency streetlights.

Secondly, ESCOs and utilities are the main developers of projects in the market, working with hosts to design and deliver the projects. GIB is working with leading ESCOs to develop funding lines to provide certainty of funding costs and terms. GIB plans to launch this into the market in FY2014-15.

Lastly, GIB is focused on partnering with other financiers in the market. Due to the nascent nature of the energy efficiency financing market and the broad range of financiers involved, GIB has identified sub-sectors where its expertise and capital resource can help existing financiers expand their energy efficiency business. For example, we launched a £50m alliance with Societe Generale Equipment Finance in February to finance UK energy efficiency projects. The first project financed was the retrofit of Rampton Hospital in Nottinghamshire, including installation of a CHP unit and biomass boilers.

In addition to working directly with our three customer sets, GIB has invested in three energy efficiency funds, which are focused on developing financing programmes with smaller project hosts and developers. These fund managers, Aviva Investors, SDCL and Equitix, have invested £93m in total with £45m coming from GIB.

Both GIB and our fund managers are focused on a broad range of technologies that reduce energy consumption and/or emissions. Typically these are found in four types of technology:

1. Building retrofits (e.g. lighting, insulation, glazing)
2. Onsite generation (e.g. CHP, renewable heat, heat pumps)
3. Industrial process (e.g. motors, pumps, kilns)
4. Infrastructure (e.g. streetlighting, heat networks, transport, smart meters)

Individual projects can range from single technology (e.g. streetlighting) to multiple technologies (e.g. large industrial retrofit, including building retrofit, onsite generation and industrial process).

### Other sectors

In addition to these sectors, GIB will also consider investments in carbon capture and storage, marine energy and biofuels for transport. These sectors are typically at earlier stages in their development. Although we continue to monitor them closely we do not expect to make any significant investments in projects in the near term.

Furthermore, GIB maintains an ongoing review of the other sectors of the UK green economy. This enables us to identify other green and profitable investment areas where our capital is additional, for discussion with our Shareholder and, where necessary, the European Commission.

### GIB investments into funds

GIB has capitalised a series of funds to support smaller projects requiring finance of less than £30m and often considerably smaller. Details of the projects backed by these funds are set out in the Performance section, which begins on p.23.

| Fund manager | Focus | Capital allocation (£m) | Date of allocation |
|---|---|---|---|
| Foresight | Waste and bioenergy | 50 | Nov 2012 |
| Greensphere | Waste and bioenergy | 30 | Nov 2012 |
| SDCL | Energy efficiency | 50 | Nov 2012 |
| Equitix | Energy efficiency | 50 | Nov 2012 |
| Aviva Investors | Energy efficiency | 50 | Mar 2013 |
| Foresight | Additional capital to finance the Evermore transaction | 20 | July 2013 |

# Outlook

The successful passage of the EMR in 2013 should enable the UK renewables market to benefit from greater stability in the year ahead, enabling more transactions to progress and reach financial close. There is likely to be some pressure to close transactions in the first half of the year, particularly in the waste and bioenergy sector, due to the phasing out of the Renewables Obligation.

The economic recovery is also likely to have a positive effect on both renewables and energy efficiency investments. On the former, EY (Ernst & Young) rates the UK as the second most attractive renewables market for macro-economic stability. On the latter, public and private organisations will be able to finalise longer term investments such as energy efficiency and distributed generation projects which have been held up while the economic recovery has taken hold.

**"The economic recovery is likely to have a positive effect on both renewables and energy efficiency investments."**

In financial markets, the strengthening of the banks should bring a tightening of pricing, a lengthening of tenor and an increasing risk appetite, all to the benefit of the wider sector. In addition, we believe that institutional investors will continue increasing their allocation to the infrastructure sector. Currently more than half of all institutional investors have less than 1 per cent allocated to infrastructure but a recent study shows that most investors are planning to increase their allocation to the sector.[7] This will also be supported by new routes to the market such as listed "green" vehicles, following the path set by Greencoat Capital.

In the offshore wind sector, in addition to the finalisation of EMR, this year saw two important supply chain developments which we expect will give an important boost to the sector over the following years. First, Siemens announced that it will invest in creating a manufacturing unit in the UK. We believe that this will eliminate various supply chain constraints easing the implementation and potentially lowering the cost of new projects. Secondly, the deployment of larger next generation turbines (e.g. the 6 MW Siemens turbine in the Westermost Rough project) is expected to bring the cost of generation of offshore wind projects down making the sector more competitive and hence more attractive to investment.

Finally, new players like Marubeni and CDPQ (Canadian pension fund) entering the offshore wind sector in 2012-13 sent positive signals to the market. On the other hand some large energy utilities' decision to step back from some future offshore wind projects demonstrates market players are still facing important challenges.

*7. Preqin.*

In the waste sector, the next year will see a transition away from traditional PPP/PFI transactions as most local authorities have now procured their chosen waste management solutions. Therefore 'merchant' opportunities (not backed by local authority guarantees) will represent a larger proportion of the project pipeline for investors to consider. As a result, we expect to see greater focus on securing reliable feedstock supplies, with projects needing to demonstrate effective strategies in light of both regional and export market dynamics. Alternative feedstock sources and specialist sub-sectors such as waste wood, advanced conversion technologies, anaerobic digestion and waste tyres will continue to attract interest from investors and project developers, particularly due to the competitive project economics available. In the broader waste and bioenergy market, we anticipate that the deadlines and grace periods for the Renewable Obligation will drive increased focus for projects to achieve a timely financial close, leading to a significant increase in transaction activity towards Q3/Q4 of 2014.

In energy efficiency, we expect to see a continued maturing of the market in 2014-15. In the public sector, the growth of procurement schemes (such as the Carbon and Energy Fund in the NHS) and regional schemes (such as Warm Up North) will help more energy efficiency projects come to market. In the private sector, there will be increasing awareness of the benefits of energy efficiency and distributed generation, but the need to understand contracting structures and potential accounting treatment could delay projects.

During the next financial year, there are scheduled to be elections to the European Parliament, the appointment of a new College of Commissioners in Brussels and the Scottish independence referendum. Preparations for the UK General Election, to be held in May 2015, will also be underway. Although all of these events could have a significant effect on GIB, the status of UK Green Investment Bank plc as publicly-owned and publicly-financed means that we do not comment on political events.

Fuller details of the principal risks and uncertainties facing GIB are set out in the Audit and Risk Committee report in our full Annual Report.

In May 2014 the European Commission issued a decision approving the expansion of GIB's activities. The approval came in three parts. It cleared an additional £800m for financial year 2015-16 allocated to GIB by the UK Government in the spending round which concluded in summer 2013. It approved GIB extending its investment activities to finance community scale renewable projects. The Commission decision also allows GIB to mobilise third party capital through a new asset management vehicle focused initially on operating offshore wind farms. These latter two new areas will be a major focus of GIB activity in 2014-15.

# Measuring our performance against our double bottom line

Our mission is to invest in projects which are both green and profitable; this is our double bottom line.

In this section we report on our performance during 2013-14. We provide details of our key performance indicators (KPIs) for the year and report on our investment performance, green performance and financial performance.

In the Investment Performance section we will provide an overview of all our investments. Greater emphasis is placed on projects we committed to in 2013-14 with a brief update on projects where a commitment was made in 2012-13.

In the Green Performance section we provide an overview of the green impact of our investments in aggregate.

In the Financial Performance section, which begins on p.40, we provide a summary of our financial results and accounts.

## Performance highlights

### Investment performance

In 2013-14 we backed **18 new projects,** taking our total to **26.**

We are the **most active investor** in the UK's green economy.

We have been **innovative** in how we have built and **strengthened our markets.**

### Green performance

All our investments make a material contribution to **at least one** of our five green purposes.

Once built our investments will **reduce annual GHG emissions** by 3.5m tonnes $CO_2e$, equivalent to **1.6m cars off the road.**

Once operating our investments **will generate 12.8 TWh** of renewable energy, enough to power **3m homes.**

Our investments are projected to **avoid 1.3m tonnes** of waste from landfill each year, the equivalent of **the waste of 1.3m homes.**

Our portfolio of investments will, on average, **recycle 450,000 tonnes** of material annually when built, equivalent to recycling **the waste of 450,000 homes**.

### Financial performance

All our investments were made on **full commercial terms.**

Once operational we project that our current portfolio of investments will generate an **overall return of 8 per cent.**

Our income for the year increased to **£15.4m.**

Our costs are **well below** the industry average.

In line with expectations, the deferral of income and the early stage of most of our investments mean that we posted a **pre-tax loss** for the year of **£5.7m.**

# Our key performance indicators

GIB works to a series of key KPIs. These KPIs allow us to track our progress against a number of specific objectives linked to our strategy. They enable us to measure our business performance and report to our Board, Shareholder and the public. We publish our KPIs on a yearly basis as part of our commitment to transparency.

The table below gives an overview of our KPIs for the 2013-14 financial year. These reflect the stage of our operations as we complete our transition from start-up to a fully operational business.

The KPIs demonstrate our focus on:

- committing capital to projects which are both green and profitable;
- ensuring we make a commercial return and mobilise additional capital;
- developing innovative finance solutions and acting as a catalyst to promote the development of the UK's green economy;
- maintaining strong financial discipline;
- being a market-leader on green reporting; and
- ensuring a strong corporate governance culture.

Further details on our performance in the 2013-14 financial year can be found in the rest of this section.

### 2013-14 KPIs

| KPI | Capital commitment | Financial returns | Mobilisation of additional capital |
|---|---|---|---|
| Measure | Amount of capital committed to green, profitable projects. | Forecast portfolio return. | Portfolio mobilisation ratio on transactions. |
| Target | Capital commitment of £1.0bn in 2013-14 with an average mobilisation ratio of 2.5:1 and a forecast portfolio return greater than 3.5 per cent. | Commercial returns commensurate with the risk taken.<br><br>At a minimum this must meet our Shareholder Relationship Framework requirement of a minimum 3.5 per cent annual nominal return on total investments, after operating costs but before tax. | Mobilisation of private capital averaging above a 1 to 2.5 ratio. |
| Performance | £668m in capital committed to green, profitable projects in the 2013-14 year. | Overall portfolio return is estimated at an 8 per cent internal rate of return. | Mobilisation rate of 1:3. This represents approximately £3 in private sector capital into the green economy for every pound we invest. |

| Innovation | Financial performance | Green leadership | Corporate governance |
|---|---|---|---|
| Innovation in financial products and specific investments to develop the green economy. | Move to profitability through combination of revenue growth from investments and strong cost discipline. | Demonstration of leadership in green policies and reporting. | Demonstration of high standards of corporate governance, in line with industry practice. |
| Attempt to make investments by way of new or novel approaches to foster innovation in the market, including:<br><br>• introduction of new financial products; and<br>• use of innovative deal structure. | Direct and operating costs below budget of £25.66m. | Following appropriate internal and external consultation:<br><br>• complete all Green Policies;<br>• receive Board approval for their adoption; and<br>• provide that all such policies are publicly available; and at the centre of all investment, risk and business operations of GIB. | Corporate governance developed and staff compliance processes and staff training up to date, as part of ensuring the appropriate culture in GIB. |
| Investment in innovative gasification technology in Birmingham BioPower.<br><br>Launch of new Green Loan to help local authorities make switch to LED streetlighting.<br><br>Investment in Westermost Rough, first commercial deployment of 6 MW turbines. | Direct and operating costs of £20.7m are within budget for the 2013-14 year. | Green policies launched in November 2013 following broad consultation, benchmarked to best practice.<br><br>Green Data and Public Reporting Peer Review and Benchmark Study completed November 2013, with positive results against peers.<br><br>Sustainable Finance Advisory Group established January 2014. | Comprehensive committee structure in place.<br><br>Clear reporting lines established.<br><br>All staff trained on compliance and completed Code of Conduct attestation.<br><br>A strong compliance and risk management framework established with no material or significant policy breaches. |

# Investment performance

We have now built a well balanced portfolio with a range of small and large investments spread across the UK, our sectors and the type of product.

### Our portfolio

Our existing investments have performed well, with all transactions in 2012-13 and 2013-14 on track to produce financial results in line with our expectations.

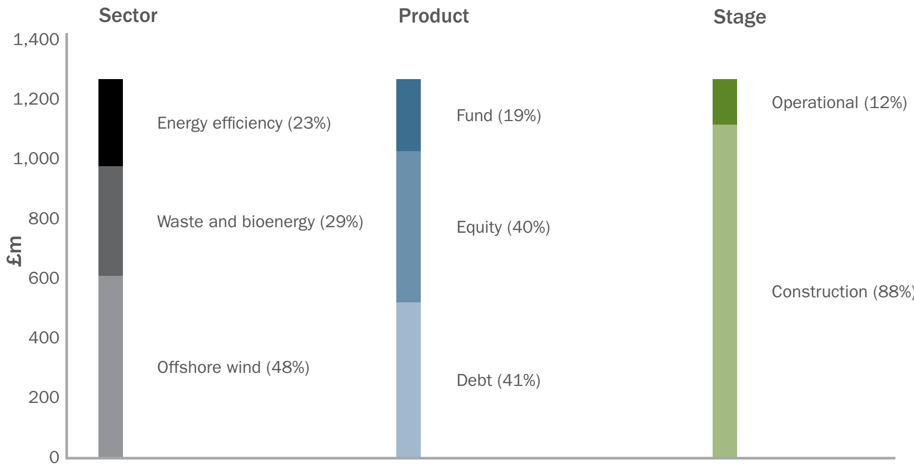
By sector, half our committed capital has been invested in offshore wind projects with the remaining half split between waste and bioenergy and energy efficiency (which is inflated by a one-off investment in the Green Deal). This reflects the scale of the value of our individual investments in offshore wind.

By product, one fifth of our commitments have been to capitalise our five funds to support smaller projects. Of the remaining commitments we have a broadly even split between debt and equity.

All of our commitments have been to fund construction phase projects with the exception of three operating wind farms, in line with our strategy to create a stronger market for operating offshore wind assets. In February 2014, the first project to receive GIB funding, TEG Biogas, became operational, completing on time and on budget.

GIB has supported a balance of small, medium and large infrastructure projects. Seven projects have a total capital requirement of under £10m, four have a total capital requirement between £10m and £30m and the remaining 15 had a total capital requirement of more than £30m, the largest of which was the Westermost Rough offshore wind farm at £888m.

### GIB's investment portfolio (at 31 March 2014)



## Our investment assessment process

To reach the approval stage, each potential investment has to pass through a robust, consistent investment process. The process has four phases – preview, structure, pre-final and final. A transaction cannot proceed from one stage to another or from the final stage to signing without the formal approval of the Investment Committee. Investments in excess of £50m require an additional approval from the Board. As well as the formal Investment Committee process, a weekly Deal Review Committee examines the quality and status of transaction opportunities.

These Committees play a key role in GIB's business model. The professional expertise and narrow focus of Committee membership allows GIB to scrutinise investment opportunities and effectively consider and price the risk of each investment. In many instances this allows us to invest in transactions that are commercially viable but more innovative than currently considered by mainstream financiers. This supports our mission to be a catalyst in the industry. The committee structure also allows us to ensure that each transaction passes the appropriate tests for green impact and commerciality and that each approved transaction meets the criteria imposed by our mandate.

## Working within our mandate

As a Government backed institution GIB is bound by a series of state aid restrictions, agreed between the UK Government and the European Commission. These restrictions determine our mandate and are a critical consideration of whether or how we can invest in any transaction.

A transaction must first sit within our permitted sectors, characterised by a market failure in the availability of finance; primarily offshore wind, waste and bioenergy and energy efficiency. We must be additional, meaning that our support of a transaction must fill a gap; crowding-in and not crowding-out other capital. And we must invest on terms equivalent to and not any better than would be provided by the market; the Market Economy Investor Principle.

These restrictions inevitably limit our investment scope. The practical implication of this is that, where we are sizing a market, we filter out parts of that market which are outside our state aid permitted scope or where private sector capital is already available in sufficient amounts and on acceptable commercial terms.

Taken together, these restrictions mean that we are only able to invest in one third of the UK's wider green economy.

## Investment performance highlights

| | 2013-14 | 2012-13 | Overall |
|---|---|---|---|
| Number of projects | 18 | 8 | 26 |
| Capital committed (£m) | 668 | 635 | 1,303 |
| Private capital (£m) | 1,879 | 1,630 | 3,509 |
| Total funds mobilised (£m) | 2,547 | 2,265 | 4,812 |
| Mobilisation ratio | 1:3 | 1:3 | 1:3 |

## Offshore wind

This year, GIB invested £520m in three offshore wind projects. We expanded our mandate to include investment in construction stage projects. Full details of our investment strategy for offshore wind can be found in the preceding Strategy section.

### Offshore wind investments to date

| Year of investment | Project name | Location | GIB investment (£m) | Product | Phase |
|---|---|---|---|---|---|
| 2013-14 | Westermost Rough | Off Yorkshire and the Humber estuary | 241 | Equity | Construction |
| | Gwynt y Môr | Off North Wales | 220 | Equity | Construction |
| | London Array | Off SE England | 59 | Debt | Operational |
| 2012-13 | Walney | Off NW England | 46 | Debt | Operational |
| | Rhyl Flats | Off North Wales | 58 | Equity | Operational |
| Total direct | | | 624 | | |

### Westermost Rough

In March 2014, GIB made its first construction phase investment in an offshore wind project. GIB committed £241m, alongside Marubeni Corporation, to purchase jointly a 50 per cent stake in the 210 MW Westermost Rough wind farm, located off the coast of Yorkshire, from DONG Energy, one of the leading Northern European energy groups, headquartered in Denmark.

In addition to this being the first time that GIB has taken construction risk in an offshore wind investment, the project also marks the first commercial deployment of the next generation Siemens 6 MW direct drive turbines in the UK. This is an important development in reducing the construction and operation costs of offshore wind and thus lowering the cost of electricity from renewable energy generation.

DONG Energy is one of a small number of experienced offshore wind developers with an active interest in the UK offshore wind sector. GIB's investment, alongside that of Marubeni Corporation, will see both parties sharing construction risk with DONG Energy. This approach aims to provide a demonstration effect to the market, especially around the use of new turbine technology. The transaction will also free up capital from DONG Energy to allow it to reinvest in future projects. Helping early stage developers to recycle their capital is critical for the continued growth of the UK's offshore wind sector. DONG Energy has a series of projects under construction and new projects in the pipeline in the UK.

Once operational, Westermost Rough will generate over 800 GWh per annum of carbon-free electricity, equivalent to the consumption of c. 200,000 homes, a city the size of Edinburgh.

We are the most active non-utility investor in the UK's offshore wind sector.

1st

We have made our first investment in an offshore wind project in the construction phase.

800 GWh
carbon free electricity generated by Westermost Rough

Equivalent to:

the electricity consumption of
200,000 homes

## Gwynt y Môr

In March 2014, GIB agreed to acquire a 10 per cent stake in the 576 MW Gwynt y Môr wind farm, off the coast of Wales, for a purchase price of £220m from RWE Innogy. The transaction is expected to reach financial close once the wind farm's construction is complete.

Once operational, the wind farm will generate over 1,700 GWh of net renewable electricity each year. This is equivalent to the electricity consumption of 400,000 households, a city the size of Birmingham.

## London Array

In October 2013, GIB refinanced a significant portion of Masdar's 20 per cent equity stake in the 630 MW London Array project, the world's largest offshore wind farm. This project is part of our strategy to create a secondary market in offshore wind assets.

We invested £59m of senior debt alongside the Bank of Tokyo-Mitsubishi UFJ, Ltd; KfW IPEX-Bank GmbH; Siemens Bank GmbH; and, Sumitomo Mitsui Banking Corporation. The total transaction size was £266m.

## Update on our 2012-13 investments

**Rhyl Flats**
The wind farm has been fully operational since December 2009 and is continuing to produce renewable energy.

**Walney**
The wind farm has been fully operational since April 2012 and is continuing to produce renewable energy.

## Waste and bioenergy

In 2013-14 we invested £140m in six waste projects, both directly and through our dedicated waste fund managers. Full details of our investment strategy for waste and bioenergy can be found in the preceding Strategy section.

### Waste and bioenergy investments to date

| Year of investment | Project name | Location | GIB investment (£m) | Product | Phase |
|---|---|---|---|---|---|
| **2013-14** | West London | London & SW England | 20 | Debt | Construction |
| | Merseyside | NW & NE England | 20 | Debt | Construction |
| | Birmingham BioPower | West Midlands | 12 | Debt | Construction |
| | Via our Foresight Fund – Birmingham BioPower | West Midlands | 6 | Fund | Construction |
| | Norfolk | East of England | 51 | Debt | Construction |
| | Via our  Greensphere Fund - Port Talbot | Wales | 11 | Fund | Operational |
| | Via our Foresight Fund – Evermore | Northern Ireland | 20 | Fund | Construction |
| **2012-13** | Wakefield | Yorkshire and the Humber | 30 | Debt | Construction |
| | Gloucester | SW England | 47 | Debt | Construction |
| | Via our Foresight Fund – TEG Dagenham | London | 2 | Fund | Construction |
| | Via our Greensphere Fund – Greenlight AD | NE England | 8 | Fund | Construction |
| | Drax | Yorkshire and the Humber | 100 | Debt | Construction |
| **Total direct** | | | 280 | | |
| **Total fund** | | | 47 | | |
| **Overall total** | | | **327** | | |

### Birmingham BioPower

In December 2013, GIB made its first investment into a gasification project.

The £48m plant is the first time that Nexterra's innovative gasification technology, proven in the USA and Canada, has been used in the UK. The 10.3 MWe plant will take locally sourced waste wood and convert it into electricity using a form of advanced thermal treatment. This treatment involves the carbon-based material in the waste being converted into a gas, which is used to raise steam. This is then passed through a turbine to produce electricity.

The plant will generate enough electricity to power 17,000 homes each year. It will reduce greenhouse gas emissions by 2.1m tonnes annually, equivalent to taking 45,000 cars off the road. It will also avoid 1.3m tonnes of waste going to landfill.

The waste wood will be provided by JM Envirofuels Ltd, a local SME. As well as supporting this local business, the project will create 119 jobs, of which 19 will be permanent full time roles.

GIB directly invested £12m in preferred loan stock. Through our cornerstone investment in the Foresight managed fund, UK Waste Resources and Energy Investments (UKWREI), we indirectly invested a further £6.2m in equity. Eternity Capital Management invested £6.2m in equity on the same terms as the UKWREI fund and Balfour Beatty Investments, whose £12.4m completes the c. £24.8m equity investment. GCP Infrastructure Fund (GCP) provided the final £11m as preferred loans.

**49 MW**
capacity of Merseyside waste power plant

**60,000 homes**
powered by electricity generated

**420,000 tonnes**
of waste diverted from landfill per year

**126,000 tonnes**
of material per year recovered for other uses

## PPP/PFI

Over the course of the year, GIB invested a total of £91m into local authority waste projects. These PPP/PFI projects allow local authorities to deal with their waste sustainably and avoid millions of tonnes going to landfill.

Our first PPP/PFI investment of the year, a £244m project with the West London Waste Authority, will collect up to 300,000 tonnes of waste from 1.6m people, diverting 96 per cent of the West London boroughs' waste from landfill. It will produce enough electricity to power 50,000 homes each year and will create 200 construction jobs and 53 full time operations jobs.

The project is part of a 25 year contract between the West London Waste Authority and a consortium led by SITA UK, Scottish Widows Investment Partnership (SWIP) and the ITOCHU Corporation. GIB invested £20m of senior debt alongside a lending club of Credit Agricole Corporate & Investment Bank, Bank of Tokyo-Mitsubishi UFJ Ltd, Sumitomo Mitsui Banking Corporation and Mizuho Bank. Equity will be provided by SITA UK, Japan's ITOCHU Corporation and Scottish Widows Investment Partnership.

Our second PPP/PFI waste project, with the Merseyside Waste Authority, was structured and financed on a similar basis. GIB has invested £20m of the senior debt alongside the same lending club, with the addition of Banco Bilbao Vizcaya Argentaria, S.A., London Branch and Unicredit Bank AG, London Branch. Equity is provided by SITA UK Limited, Sembcorp Utilities Limited and Japan's ITOCHU Corporation (on behalf of I-Environment Investments Ltd).

The project will generate enough electricity to power 60,000 homes and is expected to create more than 100 jobs during construction, with 75 permanent operations jobs.

We announced our third PPP/PFI project in March 2014, a new energy from waste plant in Kings Lynn, Norfolk. GIB has committed £51m, investing alongside the Royal Bank of Scotland Group plc and Sumitomo Mitsui Banking Corporation. In early April Norfolk County Council decided not to proceed, ending our involvement with the project.

## Evermore

In July 2013, GIB made its first investment in Northern Ireland into the £81m Evermore Renewable Energy plant in Derry/Londonderry. The project, which will increase Northern Ireland's renewable energy generation by 10 per cent, will produce enough electricity to power more than 25,000 homes. It will be the biggest renewable energy plant in the region and is expected to save around 3.7m tonnes of greenhouse gas emissions over its lifetime.

The 15.8 MWe plant will convert over 2m tonnes of wood to energy, which would have otherwise gone to landfill over the 20 year expected lifetime of the project. The electricity will be sold to the National Grid and the heat output will be used by an integrated wood drying facility, supplying fuel for new biomass boilers within Northern Ireland. The project will also create 200 construction jobs and 20 full time operational jobs.

GIB invested an additional £20m into its Foresight managed UKWREI fund to make the investment. The fund, in which GIB is the cornerstone investor, sourced co-investment from GCP Infrastructure Fund Limited (GCP) and Burmeister & Wain Scandinavian Contractor A/S (BWSC) and worked alongside Investec Bank plc and Eksport Kredit Fonden (EKF) in structuring and financing the project.

## 2013-14 fund investments

**Port Talbot**
The retrofit of the plant, to increase its capacity to process waste wood, is underway.

## Update on our 2012-13 investments

**Wakefield**
The Wakefield Waste PFI project is currently in construction and is expected to be operational by September 2015.

**Gloucester**
Planning approval for the Gloucestershire PFI Project was rejected on 21 March 2013. An appeal has been lodged and a final decision is expected in September 2014.

**Drax**
Our £100m commitment to Drax's project to convert three of its six generation units from coal to biomass firing was reduced to £50m on 28 March 2013 as Drax refinanced half of our commitment via the private sector. Our remaining £50m facility was drawn during the 2013-14 year.

**TEG Dagenham**
The project has now been completed and is producing renewable energy and compost for the agricultural industry. The heat offtake is expected to be used by a neighbouring business, Closed Loop Recycling, later in 2014.

**Greenlight AD**
Construction of the facility is underway.

## Energy efficiency

This year, we launched our first energy efficiency funding alliance alongside Societe Generale Equipment Finance (SGEF), which has already financed its first deal. We also launched a new local authority financing solution for low energy streetlighting and we have financed eight new projects via our energy efficiency funds.

Full details of our investment strategy for energy efficiency can be found in the preceding Strategy section.

### Energy efficiency investments to date

| Year of investment | Project name | Location | GIB investment (£m) | Product | Phase |
|---|---|---|---|---|---|
| **2013-14** | Societe Generale Equipment Finance | Across the UK | 25.0 | Debt | Construction |
| | Via our SGEF alliance - Rampton Hospital | East Midlands | – | Debt | Construction |
| | Via our Aviva Investors Fund – Cheltenham Hospital | SW England | 1.2 | Fund | Construction |
| | Via our SDCL Fund – St Barts Hospital | London | 1.3 | Fund | Construction |
| | Via our Equitix Fund – Bernard Matthews | East of England | 12.0 | Fund | Construction |
| | Via our SDCL Fund – National Car Parks | Across the UK | 4.2 | Fund | Construction |
| | Via our Equitix Fund – Tomatin Distillery | Scotland | 0.6 | Fund | Construction |
| | Via our Equitix Fund – Schools biomass | Across the UK | 0.4 | Fund | Construction |
| | Via our SDCL Fund – Kingspan | Wales | 0.4 | Fund | Construction |
| | Via our Equitix Fund – Roundwood Energy | Across the UK | 4.9 | Fund | Construction |
| **2012-13** | Via our Aviva Investors Fund – Addenbrooke's Hospital | SE England | 18.4 | Fund | Construction |
| | Green Deal | Across the UK | 125.0 | Debt | Construction |
| **Total direct** | | | 150.0 | | |
| **Total fund** | | | 43.4 | | |
| **Overall total** | | | **193.4** | | |

**1.3m tonnes**
of $CO_2e$ produced annually by UK streetlights

Equivalent to annual $CO_2$ emissions of
**550,000 cars**

**£300m**
cost per year to power UK's streetlights

Currently, fewer than
**1,000,000**
are low energy

### Streetlighting

The UK's seven million streetlights cost over £300m each year in electricity bills. Although this is one of a local authority's largest single costs, fewer than one million lamps are low energy.

In February 2014, GIB launched an innovative Green Loan facility to provide finance for local authorities to make the switch to low energy streetlighting.

The new product from GIB offers UK local authorities a low, fixed rate loan over a period of up to 25 years. The Green Loan has been specifically designed to finance public sector energy efficiency projects, ensuring that repayments are made from within savings. The product can also include a development loan to help local authorities with the costs of progressing their plans.

Local authorities deciding to make the switch to low energy streetlights may have a short payback period on their investment; as early as five years if funding only luminaires. The funding solution therefore allows columns and CMS to be included in the package. After that, they will be able to enjoy a reduction in their electricity bill of up to 80 per cent. Streetlighting can account for as much as 30 per cent of a local authority's energy consumption.

There are also significant environmental savings. The electricity used by UK streetlights produces 1.3m tonnes of $CO_2$ emissions every year, which is equivalent to the electricity consumption of 674,000 households or the emissions of 550,000 cars on the road.

We are launching our Green Loan to accelerate the installation of 10,000 LED lights with Glasgow City Council, as the first part of a programme to convert to 70,000 high efficiency streetlights.

### SGEF

In February 2014, GIB announced that we have joined forces with Societe Generale Equipment Finance to provide £50m of finance for energy efficiency projects, with both parties committing £25m.

Funding from the alliance will allow public and private sector organisations to put in place energy efficiency measures without having to find the finance upfront. Projects could include CHP plants, boilers, building retrofits, lighting and energy reduction technologies for production processes, amongst others.

The first project to benefit from the GIB-SGEF partnership is at Rampton Hospital, managed by Nottinghamshire Healthcare. The £5m investment will finance the installation of a CHP plant, dual fuel boilers, biomass boilers and an effluent treatment plant.

### NHS

The NHS estate is one of the biggest in Europe, and given the nature of its activities, the NHS is naturally a heavy user of energy and a significant emitter of greenhouse gases. Across the UK, NHS organisations spend more than £750m every year on energy costs. By investing in energy efficiency measures NHS organisations could cut this cost significantly and reduce their exposure to the risk of rising energy costs. Energy efficiency investment will also reduce emissions and contribute to NHS capital investment requirements.

The governance of the NHS and the diversity of its facilities and needs, means that there can be no 'one size fits all' financing solution for NHS energy efficiency projects. To reflect this, GIB has put together a programme of activity – The GIB Health Energy Efficiency Programme – to offer all parts of the NHS a suite of products to meet their needs and to encourage an increase in the pace of NHS project development. GIB has now backed four NHS energy efficiency projects through a range of funding partners, who are continuing to support development of a significant pipeline of new projects. These projects include the UK's largest energy efficiency retrofit at Addenbrooke's Hospital, as well as retrofits at Rampton Hospital, St Bartholomew's Hospital and Cheltenham General Hospital.

### 2013-14 fund investments

**NCP**
The retrofit of NCP car parks across the UK has commenced. The installation of the Manchester sites was completed in February 2014. The rest of the rollout is expected to be completed over the course of 2014.

**Bernard Matthews**
The rollout of biomass boilers at the Bernard Matthews' poultry farms has commenced and construction is expected to be completed over the course of 2014.

**Tomatin (part of distillery biomass platform)**
The biomass boiler was installed in August 2013. The project is now delivering greenhouse gas reductions of around 80 per cent.

**Roundwood biomass platform**
The two initial biomass boiler rollouts by Roundwood Energy were successfully commissioned during November 2013.

### Update on our 2012-13 investments

**Addenbrooke's Hospital**
The Addenbrooke's CHP project has received planning consent and is expected to commence construction later in 2014.

**Green Deal**
In the 2012-13 financial year we supported the Government's Green Deal by agreeing a £125m debt commitment to the Green Deal Finance Company.

# Green performance

Consistent with our double bottom line, GIB reports both the green impact of our investments as well as financial returns. This section provides details of this green impact, as well as providing information highlighting our performance on green leadership, one of our KPIs.

Total GHG emissions reduced by the portfolio in the year 2013-14: **2.6m tonnes $CO_2e$**

equivalent to **1,200,000** cars off the road for a year

Total renewable electricity generated by the portfolio in the year 2013-14: **3.4TWh**

equivalent to the annual electricity consumption of **Glasgow**

Estimated average annual GHG emissions reduced by the portfolio, when built: **3.5m tonnes $CO_2e$ per annum**

equivalent to **3.7%** of the UK's required GHG economy-wide emissions reduction from 2010 to 2020

Estimated average annual renewable energy generated by the portfolio, when built: **12.8TWh**

equivalent to **5.6%** of the UK's renewable energy target for 2020

Estimated average annual waste-to-landfill avoided by the portfolio, when built: **1.3m tonnes**

contributing **5.6%** of the UK's required biodegradable municipal waste-to-landfill reduction from 2010 to 2020

Estimated average annual waste recycled by the portfolio, when built: **450k tonnes**

contributing **1.0%** of England's household waste recycling target for 2020


In 2013-14 we completed the development and fully implemented our suite of market-leading green policies. These policies govern how we assess, monitor and report the green impact of each project we invest in. We have been fully transparent about how we do this and our pragmatic, principled approach has been welcomed by, and attracted the attention of, co-investors and the wider financial community.

GIB has now backed 26 projects. Once operational these will make a material contribution to the UK's environmental targets. They will reduce GHG emissions by 3.5m tonnes per annum, equivalent to 3.7 per cent of the UK's required GHG emissions reduction from 2010 to 2020. They will also produce 12.8 TWh of renewable energy each year, equivalent to 5.6 per cent of the UK's renewable energy target in 2020.

### Our pioneering approach to maximising green impact

In November 2013 we launched our green policies, setting out how we assess, monitor and report the green impact of each investment at all stages of the project lifecycle. Our approach was informed by good practice from across the world. We consulted widely on the policies and continue to engage with those with an interest, in the spirit of continuous improvement. They are available on our website at www.greeninvestmentbank.com and we welcome further comments which will feed into our annual policy reviews.

### Assess:

Every investment must pass through a consistent multi-stage Investment Committee approval process. At each stage a green report is provided to the Committee and the Green and Sustainability Team (Green Team) must endorse the project before it can proceed to the next stage.

Each project must make a material contribution to one of GIB's five green purposes:
- the reduction of greenhouse emissions;
- the advancement of efficiency in the use of natural resources;
- the protection or enhancement of the natural environment;
- the protection or enhancement of biodiversity; and
- the promotion of environmental sustainability.

More details of each of these follow on p.38-39.

### Monitor:

All approved investments include covenants relating to the green performance and penalties for non-compliance. Investment recipients are required to submit an annual green report of performance and regular meetings are held with clients to discuss green performance against plans, including any revisions to future performance. We monitor all available metrics to enable reporting against our five green purposes.

### Report:

We forecast the green impact of every investment with its announcement. We report annually on our green impact against each of our five green purposes, for the reporting period and the project lifetime. Covenant breaches on green issues are treated commensurate to breaches of financial covenants.

We treat our green data as equivalent to our financial data, consistent with our 'double bottom line'. Our full Green Impact Statements show actual and forecast performance and take the form of annual green accounts – these are summarised on p.36. Our published Green Impact Statements are independently assured to ensure their consistency and accuracy. Our Green Impact Statements and Independent Assurance Report can be found in our full Annual Report.

### The green impact of our investments

We measure our green impact against five key metrics; greenhouse gas emission reduction, renewable energy generated, energy demand reduced, materials recycled and waste to landfill avoided.

This information is summarised in the table below and shows the portfolio impact in 2013-14 compared to the previous year. For completeness we also show the cumulative impact of our investments over their remaining life and a summary of the average annual impact of our investments when built.

We are working on the development of additional metrics to cover all of our five green purposes.

| Green impact of GIB's portfolio in year | Year ended 31.03.14 | Year ended 31.03.13 |
|---|---|---|
| GHG emissions reduction (t $CO_2e$ '000) | 2,580 | 22 |
| Renewable energy generated (GWh) | 3,371 | 67 |
| Energy demand reduced (MWh) | 307 | - |
| Materials recycled (t) | 9,631 | - |
| Waste to landfill avoided (t) | 8,994 | - |

| Future estimated remaining lifetime green impact of GIB's portfolio at year end | 31.03.14 | 31.03.13 |
|---|---|---|
| GHG emissions reduction (t $CO_2e$ '000) | 56,428 | 42,716 |
| Renewable energy generated (GWh) | 200,360 | 159,263 |
| Energy demand reduced (MWh) | 8,459,312 | 8,227,708 |
| Materials recycled (t) | 11,228,573 | 5,262,405 |
| Waste to landfill avoided (t) | 31,727,864 | 8,066,203 |

| Future estimated average annual green impact of GIB's portfolio at year end | 31.03.14 | 31.03.13 |
|---|---|---|
| GHG emissions reduction (t $CO_2e$ '000) | 3,502 | 2,742 |
| Renewable energy generated (GWh) | 12,840 | 10,401 |
| Energy demand reduced (MWh) | 433,671 | 386,654 |
| Materials recycled (t) | 454,950 | 217,256 |
| Waste to landfill avoided (t) | 1,280,350 | 332,061 |

### Working with our stakeholders

GIB regularly meets with a broad range of stakeholders to understand developments in the green infrastructure market and latest trends in sustainability best practice. This includes meeting with leading businesses, corporate advisors, finance providers, civil society groups, academics, parliamentarians and representatives of national and local government and other specialist statutory bodies.

Prior to the launch of our Green and Responsible Investment Policies we undertook extensive stakeholder engagement to gain industry responses. In particular, GIB consulted with a range of stakeholders in relation to our waste and bioenergy and offshore wind criteria – culminating in two policy review events involving experts from non-governmental organisations, government, industry and consultancy.

### Our creative engagement

We have sought to be creative in engaging with our stakeholders. In addition to the details set out above we have launched an international network of green banks and created a Sustainable Finance Advisory Group (SFAG) described in detail in the Green Committee report in our full Annual Report. We hosted the first Green Bank Congress in October 2013 at our Edinburgh Headquarters. This was attended by a number of new or emerging green banks and some established development banks with significant environmental businesses. The two day summit discussed a range of topics with a focus on maximising green impact. We have also hosted a roundtable on bioenergy and the circular economy in partnership with Green Alliance.

### Raising biomass procurement standards

In December 2012, GIB announced its investment in Drax to convert the first three of its six coal units to biomass. The project offers significant green impact potential. Ensuring that all the biomass used is sustainable is of paramount importance to GIB. We carried out extensive due diligence to ensure the proposed fuel strategy was based on sustainably sourced biomass. In addition, as part of our covenants relating to green performance, we required Drax to commit to maintain in place their sustainability policy over time, to upgrade aspects of its biomass procurement processes and to take independent advice on specific risks arising on import of biomass from new geographies.

We also require Drax to monitor and report on the sustainability characteristics of their biomass including the quality of wood used by key category, the impact on forest carbon stocks and the GHG emissions in the biomass supply chain, together with any opportunities for improvement of sustainability standards. In the first year of reporting, Drax confirmed that all of the 1.6m tonnes of biomass consumed was sourced in accordance with their Biomass Sustainability Policy and met the sustainability requirements of the Renewables Obligation and Renewable Energy Directive. The first converted unit exceeded performance expectations and generated 2.9 TWh of renewable electricity in 2013 (around 1 per cent of all UK electricity) and resulted in a reduction of 2.4m tonnes $CO_2e$, which is equivalent to taking more than 1m cars off the road in the UK.

### Our green purposes

We measure our green impact against our five green purposes. We use a combination of quantitative measurement and qualitative assessment in our due diligence where each project is subject to a rigorous process to ascertain performance against each of the green purposes.

The information opposite provides examples of how we assess and monitor operating performance against each of our green purposes.

## Reduce greenhouse gas emissions

GIB's operating assets consist of three wind farms (Walney, Rhyl Flats and London Array), the first biomass unit converted from coal at Drax and a number of fund projects: Roundwood, Tomatin, Schools Biomass Platform (Equitix); TEG (Foresight); Port Talbot (Greensphere).

Over their lifetime, GIB's assets are expected to result in average annual GHG emissions reduction of 3.5m tonnes CO2e, which is equivalent to 1.6m cars off the road. This reduction amounts to 3.7 per cent of the UK's annual target reduction in GHG emissions from 2010-2020.

## Increase natural resource efficiency

Of our operating assets, TEG and Port Talbot are recycling materials.

Over their lifetime, GIB's committed assets are expected to result in 11m tonnes of materials recycled including ferrous and non-ferrous metals and bottom ash.

## Protect
### the natural environment

Of our operating assets, TEG is diverting waste from landfill.

Over their lifetime, GIB's committed assets are expected to result in 32m tonnes of waste diverted from landfill.

In addition to waste diverted from landfill, we require ongoing reporting of emissions to air in respect of the Environmental Permit, water consumption of the project and an environmental compliance report summarising any environmental issues encountered and plans for remediation and further prevention.

## Enhance
### biodiversity

Our Green Team analyses every proposed investment qualitatively in respect of its approach to protection and enhancement of biodiversity by carrying out due diligence prior to investment and continuously monitoring the performance of projects in its portfolio.

For example, in October 2013 GIB refinanced a portion of Masdar's equity stake in Phase 1 of the London Array offshore wind farm. Prior to the investment, GIB's Investment Committee noted that the wind farm was recommended as a Category A project under the Equator Principles, and that its potential operational impacts on the local red-throated diver bird population would require monitoring under the terms of the project's Marine Licence. The Investment Committee also noted that the RSPB had supported the developer's sensitive approach to ecological impacts, and had welcomed the opening of the wind farm.

Preliminary results from the first year of post-construction surveys suggest that red-throated divers may be less affected by wind farms than previously thought. GIB will continue to monitor the results of ongoing bird surveys at the wind farm.

## Promote
### environmental sustainability

A central part of GIB's strategy is to generate positive 'demonstration' effects to encourage additional long term investment into the green economy. Each investment is appraised not only for the potential direct environmental benefits arising, but also for the potential demonstration effect by which further capital could be attracted to the market, helping to increase the availability and reduce the cost of capital for green infrastructure. The case studies of investments to date set out on p.28-33 give more details of the range of GIB's investments.

# Financial performance

### Overall result

These financial results are the second time we have reported on our performance and cover the first full year of operations. In 2013-14:

- We committed £668m capital to 18 projects, more than our first year.
- All our investments have been made on full commercial terms and the expected rate of return across our current portfolio averages at 8 per cent.
- Our income was up 673 per cent to £15.4m, reflecting the increase in capital deployed and a full year of operations. We also generated £20.6m in cash from operations during year, up from £4.9m in 2012-13.
- Our direct investment costs were £0.7m, down by £0.9m from last year, reflecting that in 2012-13 we expensed the establishment costs for five funds.
- Our operational expenses were £20.4m, which were up from £6.6m in 2012-13 and reflects a full year of operations.
- In line with our expectations our full-year financial result shows a pre-tax loss of £5.7m and a post-tax loss of £4.2m. Our capital has not yet been fully invested and is, therefore, not generating sufficient returns to cover our investment and operational costs. As our capital commitments are deployed our income will increase and we will move towards profitability.

### Consolidated income statement
**for the period ended 31 March 2014**

| | Year to 31.03.14 | Period to 31.03.13 |
|---|---|---|
| | **£'000** | **£'000** |
| Investment income | 15,407 | 1,992 |
| Direct investment costs | (746) | (1,603) |
| **Net investment income** | **14,661** | **389** |
| Operational expenses | (20,407) | (6,601) |
| Loss before income tax from continuing operations | (5,746) | (6,212) |
| Income tax benefit | 1,517 | 1,205 |
| **Loss for the period from continuing operations** | **(4,229)** | **(5,007)** |

## Funding our business

We fund our business through a combination of cash earnings and contributions from our Shareholder.

To fund our capital investments we issue shares to our Shareholder and utilise available cash from our operations, including asset repayments and dividends. For our operational costs we utilise a combination of cash earnings and contributions from our Shareholder. With greater capital deployment we are moving towards being self-financing, moving away from requiring operational funding from our Shareholder.

The table below shows the 2013-14 position.

### Funding obtained from:

| Funds from Shareholder | £m |
|---|---|
| Shares issued | 156.0 |
| Capital contribution | 4.0 |
| | **160.0** |

| Funds from operations | £m |
|---|---|
| Undrawn facility fee and interest income | 9.2 |
| Upfront commitment fee income | 5.1 |
| Dividends and investments repayments | 8.9 |
| | **23.2** |
| Funds from consolidated entity co-investor | 0.4 |
| **Total** | **183.6** |

### Funding utilised on:

| Capital investment | £m |
|---|---|
| Loans and receivables | 136.4 |
| Available-for-sale assets | 32.2 |
| Investments in associates and joint ventures | 1.4 |
| | **170.0** |

| Operational expenditure | £m |
|---|---|
| Investment and operational costs | 18.8 |
| Fixed assets | 1.7 |
| | **20.5** |
| **Total** | **190.5** |
| **Net reduction** | **6.9** |

## Income statement

### Income

As an investment business focusing on generating appropriate risk-adjusted returns on our capital investment our financial performance is dependent on a number of significant items:

- the amount of capital we have committed and the time period over which that funding is deployed;
- the underlying operational performance of our investments and their ability to make either interest and debt repayments or dividends in the case of equity investments; and
- over time the ability to exit investments successfully and make a capital profit.

The income we recognise comprises revenue from our debt and equity investments. Our debt investments generate interest and fees, while for our equity investments we either recognise dividends, our share of the underlying asset's net profit or interest on shareholder loans to investee entities. When we sell an investment, we will also generate profits from disposal, although to date we have not made any disposals.

Income during the year was £15.4m comprising fee income of £3.8m, interest income from loans and receivables of £8.7m and £2.9m from our proportionate share of our associate investments' net profit. This was up from the £2.0m we recognised in the period to 31 March 2013.

Under our accounting policy for equity investments, certain assets are classified as an associate or joint venture because we have significant influence or joint control over the entity. Where this is the case we recognise a proportionate share of the net profit after tax of the underlying operations.

In 2013-14 this resulted in us recognising £2.9m in income for the year, compared to the £6.2m in cash dividends that we received.

### Transaction and operating costs

Transaction and operating costs totalled £21.1m for the period and comprise the costs associated with running the operations of the Company[8], including the fund management costs associated with the consolidated funds.

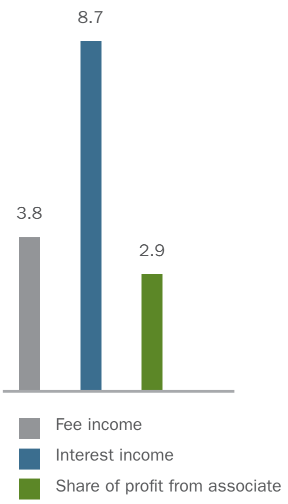
The main operating cost, as is expected in a company where success depends on the quality of its people, is people costs of £14.1m.

The other significant costs during the period were direct investment costs of £0.7m, professional fees of £1.7m, which reflect the need to finalise our staff recruitment and develop our operations and policies, and premises costs of £1.1m.

### Tax

In the period, the Group[9] has recognised a tax asset of £1.5m, as a result of the tax losses generated from operations during the period. In doing so, the Directors have taken the view that the Group expects to make sufficient profits to benefit from the deferred tax asset recognised.

**Revenue by income stream**
**£m**




*8. The Company refers to the parent company, UK Green Investment Bank plc.*
*9. By the Group, we mean UK Green Investment Bank plc and its subsidiary undertakings*

## Balance sheet

### Our assets

A significant portion of the investments we have committed to since we commenced operations in October 2012 are either construction assets or investment allocations to fund managers for future deployment.

As the underlying investments require capital the Group provides it. This means there is, at times, a delay between our investment commitment and capital being drawn. During the period to 2013-14, we deployed £278.7m in capital, against which £2.7m in upfront fees was offset. As at 31 March 2014, the Group has £393.1m of investment assets, net of deferred fees, on its balance sheet.

The split of these investments reflects that the Group has made investments across a range of product types:

- loans and other receivables £188.9m;
- available-for-sale assets £42.4m; and
- investment in associates and joint ventures £161.8m.

In March we committed to invest £51.2m in an energy from waste plant in Norfolk, led by Norfolk County Council. In early April the Council decided not to proceed, ending our involvement with the project. Our outstanding loan was repaid in May 2014. At 31 March 2014 we reclassified this loan as a current asset, with net income of c.£800k being recognised in the 2014-15 period (when the Council's decision was made and the loan repaid).

## Our funding

We require funding to make investments and run our operations. Depending on our requirements these can be met from two sources, our investment earnings and our Shareholder.

Funding for our investments is provided by the UK Government, which is the Group's only Shareholder through the Secretary of State for Business, Innovation and Skills. At 31 March 2014, UK Government held shares totalling £301.9m in the Company, comprising the entire share capital of the Company. In the year to 31 March 2014 the Company issued a further 156m shares and received £156.0m in funding from the UK Government.

Our operations are funded through earning revenue from our investment activity and where necessary further operational funding from our Shareholder.

In the year to 31 March 2014 the Group received £23.2m in operational cash. The timing of when this was received meant an amount of £4m in operational funding was required from the UK Government, which is recognised as a capital contribution from our Shareholder.

The Group used £170.0m to invest in portfolio assets and £20.5m to cover fixed asset purchases and operational expenditure.

At 31 March 2014, £20.9m is held as cash allowing the Company to maintain an appropriate liquidity position.

The majority of these funds (£20.5m) are held within the Government Banking Service, ensuring the Group has adequate liquid funds available to meet its investment and operational commitments.[10]

10. *£0.5m of these funds are held outside the Government Banking Service by consolidated entities.*

# Overview of wider team

We have now completed the initial recruitment of the GIB team. We have managed to assemble world class talent, all drawn to the opportunity of building a unique, globally important institution. Now that the team is in place our job is to make sure that we develop and enhance individual and company performance. As we worked through our first full year of operations we put in place a full suite of employee policies and developed an organisational-wide training plan.

On 31 March 2014, GIB employed 92 people. While we have completed the initial phase of recruitment we continue to recruit for a small number of positions across the organisation.

### Board of Directors and Leadership Team

GIB is governed via an independent Board of Directors chaired by Lord Smith of Kelvin KT. Members of our Board have a broad spectrum of skills and backgrounds to provide the necessary support and challenge to the Chief Executive and his Leadership Team. The Leadership Team provides day-to-day leadership for the business and is responsible for delivering the agreed strategy. The members of the Board and the Leadership Team (listed on p.46-49) are all employed directly by GIB (other than Anthony Odgers who is the Shareholder Executive Representative on the Board).

### Diversity

There are ten members of the Board of which 30 per cent are female and 70 per cent male. There are currently 23 members of staff in senior manager positions of which 22 per cent are female and 78 per cent are male. For employees not on the Board or in senior manager positions 45 per cent are female and 55 per cent are male and represent over 12 nationalities speaking over 12 languages.

GIB actively seeks diversity in the workplace to ensure it benefits from a broad range of experience. We are an equal opportunities employer and strive to treat everyone fairly regardless of their age, gender, race, ethnic affiliation, disability, religion, sexual orientation or marital status.

### Recruiting and retaining the GIB team

Our approach to recruitment remains rigorous and we look to attract and retain the best talent. We look across many different industries to ensure we have a broad range of knowledge and skills. During 2013-14 we attracted seven individuals at a senior level from industry, finance and the public sector. The process for selection ranges from candidates responding to case studies and financial modelling tests at a junior level through to extensive interviewing and referencing at a senior level. Any appointments that we have made are based on merit, taking into account the specific needs of the business at the relevant time and for the overall benefit of the company and its stakeholders.

The Board and Leadership Team believe that an efficient workforce requires a blend of diverse and relevant skills and backgrounds to ensure measured and informed decision-making. The quality of our people is critical to our success and it is vital that we ensure that those with the right skills, ability and experience to join GIB have the opportunity to do so.

In the past year staff turnover of permanent contracted employees was 13 per cent.

### A great place to work

GIB is committed to providing a safe, sustainable and positive workplace to attract and retain high quality staff and has incorporated a range of HR policies to meet these aims.

- Every employee has the opportunity to build their professional skills through formal and informal training opportunities. A training calendar is in place within the business and personal development is at the heart of our appraisal process.
- We continue to offer a structured career path and have key competencies for every role within our investment team. This provides clarity on career progression and our policy is for everyone to develop professionally, regardless of role and gain a wide range of knowledge and opportunity unrivalled at other firms.
- We have introduced a full online appraisal process, e-learning modules to reinforce good corporate governance and have conducted 360 degree feedback surveys for all staff. We also assess how well employees demonstrate our values during this process. Later this year we will conduct our first employee satisfaction survey.
- We support flexible working to accommodate those employees who work less than full time hours. We have developed a number of return to work programmes for staff members who have had a long term absence from work.
- Technology is utilised to allow a more flexible workplace and to capture the benefits from increased collaboration across the firm.
- Our Edinburgh headquarters recently won an award from the British Council of Offices for the creation of a sustainable and positive working environment.

To continue to attract and retain the right people, GIB has an appropriate range of employee benefits which includes a salary, pension contributions (subject to a minimum personal contribution), private medical care, life assurance and permanent health insurance. In addition, we offer salary sacrifice options including childcare vouchers. In 2013 we also introduced an extended range of options including bike to work and season ticket loans and now offer medicals to a number of individuals.

Full details of our policy and disclosures on remuneration can be found in the Remuneration Committee report in our full Annual Report and on our website at www.greeninvestmentbank.com.

### Company values

During the year we conducted an extensive internal consultation process to develop a set of robust and sustainable company values to guide how we do business.

The five values that were agreed upon are:

Prudence

Courage

Directness

Openness

Passion

Each month, the Leadership Team reviews nominations for an ‘employee of the month’. Nominations can be submitted by anyone and are judged on which individual has best demonstrated one or more of our values.

### Community and charitable activities

While GIB itself does not make corporate contributions to charity, our staff identified Renewable World as its chosen charity.
We encourage staff to take part in charitable events and in the past year members of staff have supported a wide range of charities and community groups. We see this type of community activity as a critical part of our culture and expect these activities to broaden over time.

# The Board

**Lord Smith of Kelvin KT, Chair**
**Chair of Nomination Committee, Chair's Committee and Valuation Committee**

Lord Smith has a strong financial services background and a wealth of experience gleaned from a wide range of positions. Currently Chair of SSE, which is the second largest producer of energy in the UK and has the largest renewables portfolio in Britain, he has a comprehensive knowledge of energy trends. He is also Chair of the Organising Committee for Glasgow 2014 (Commonwealth Games) and a Non Executive Director of Standard Bank Group Ltd. He stood down as Chairman of the Weir Group plc on 31 December 2013 and has previously held positions on various private and public boards including the Financial Services Authority and Financial Reporting Council (FRC) and a number of key positions within the banking industry. He chaired the group set up by the FRC in 2003 to clarify the role of audit committees.

**Prof. Dame Julia King DBE, Non Executive Director**
**Member of Remuneration Committee and Green Committee**

Professor Dame Julia King is the Vice-Chancellor of Aston University and a Fellow of the Royal Academy of Engineering. She has had a career in academia and industry, including senior engineering and manufacturing roles at Rolls-Royce plc in marine, energy and aerospace. Julia is a member of the Board of Universities UK, a council member of the Engineering and Physical Sciences Research Council and of the Committee on Climate Change and a director of the Greater Birmingham and Solihull Local Enterprise Partnership. She was appointed as the UK's Low Carbon Business Ambassador in November 2010.

**Shaun Kingsbury, Chief Executive**
**Member of Valuation Committee and Green Committee**

Prior to joining GIB as Chief Executive, Shaun Kingsbury was responsible for European activities at Hudson Clean Energy Partners, a leading US clean energy private equity firm. A long-time renewable energy investor and advisor, Shaun was a founding partner of Pulsar Energy Capital. He also advised 3i on a number of European renewable energy transactions including its €170m acquisition of GES, where he was a Non Executive Director. Shaun previously worked at Shell in Europe, the US and Asia and for Centrica's retail power business in the US. He also founded and chaired the Low Carbon Finance Group, a group of the leading investors in the clean energy space.

**Fred Maroudas, Non Executive Director**
**Member of Investment Committee***

Fred Maroudas is a specialist in financing the UK's core infrastructure, most recently as Chief Financial Officer of Eversholt Rail Group.Fred previously worked as Director of Treasury for Heathrow Airport and Network Rail and was responsible for raising close to £40bn from the banking and capital markets to fund investment programmes. He is also Deputy Chair of Local Partnerships and sits on the investment committee for a number of pension schemes.

*This is not a Committee of the Board.*

**Tom Murley, Non Executive Director**
**Member of Investment Committee***

Tom Murley leads the renewable energy team at HgCapital and is responsible for HgCapital Renewable Power Partners' funds. Tom joined HgCapital in 2004 and has more than 20 years' experience in providing equity finance to the US and European conventional and renewable power sectors.

*This is not a Committee of the Board.*

*Lord Smith of Kelvin KT*

*Shaun Kingsbury*

*Professor Dame Julia King DBE*

*Fred Maroudas*

*Tom Murley*

*David Nish*

*Anthony Odgers*

*Tony Poulter*

*Professor Isobel Sharp CBE*

*Tessa Tennant*

### David Nish, Non Executive Director

**Chair of Audit and Risk Committee, Member of Valuation Committee**

David Nish has been Chief Executive at Standard Life since January 2010. He is also Deputy Chair of the Association of British Insurers, a member of the UK Strategy Committee of TheCityUK and of the Financial Services Advisory Board of the Scottish Government. He was formerly a partner with Price Waterhouse, Finance Director of Scottish Power plc and a Non Executive Director of Northern Foods plc, Thus plc and the Royal Scottish National Orchestra.

### Anthony Odgers, Shareholder Representative Director

**Member of Nomination Committee, Remuneration Committee, Chair's Committee and Investment Committee***

Anthony Odgers is Deputy Chief Executive of the Department for Business, Innovation and Skills' Shareholder Executive. He has over 20 years banking experience having joined Morgan Grenfell in 1989 and then subsequently at Lehman Brothers (1999-2007) and Deutsche Bank (2007-2010). His experience includes project finance, corporate finance, restructuring advisory and general management. At the Shareholder Executive, Anthony has overall responsibility for the corporate finance practice; he also has specific responsibility for issues relating to Urenco and the Post Office.

**This is not a Committee of the Board.*

### Tony Poulter, Senior Independent Director

**Member of Nomination Committee, Audit and Risk Committee and Chair's Committee**

Tony Poulter is a partner at PwC, where he is the Global Head of Consulting. He was originally a UK civil servant and then a leading adviser on infrastructure financing and Public-Private Partnerships. He has 20 years' experience of working with governments and developers in the UK and internationally, during which he has helped to develop new industry and contractual structures and to raise equity and debt for over £15bn of infrastructure investment.

### Professor Isobel Sharp CBE, Non Executive Director

**Chair of Remuneration Committee; Member of Nomination Committee and Valuation Committee**

Isobel Sharp is a Chartered Accountant. She retired as senior technical partner of Deloitte LLP in May 2012. She is a Visiting Professor and member of the International Advisory Board at the University of Edinburgh Business School. Isobel is a Non Executive Director and Audit Committee Chair at Winton Capital Group. She holds similar roles at HM Passport Office and is a member of the Home Office's Audit and Risk Committee.

### Tessa Tennant, Non Executive Director

**Chair of Green Committee; Member of Audit and Risk Committee**

Tessa Tennant has devoted her career to innovation in financial services for sustainability. She co-founded the UK's first green equity investment fund in 1988, now called the Jupiter Ecology Fund. She co-founded The Ice Organisation, creator of the environmental rewards programme myice.com, and is now its non executive President. Tessa has co-founded numerous initiatives, such as asria.org in Hong Kong and The Carbon Disclosure Project, cdproject.net. She has served on fund, company and not-for-profit boards.

# Leadership Team

### Shaun Kingsbury, Chief Executive

Prior to joining GIB as Chief Executive, Shaun was responsible for European activities at Hudson Clean Energy Partners, a leading US clean energy private equity firm. A long-time renewable energy investor and advisor, Shaun was a founding partner of Pulsar Energy Capital. He also advised 3i on a number of European renewable energy transactions including its €170m acquisition of GES, where he was a Non Executive Director. Shaun previously worked at Shell in Europe, the US and Asia and for Centrica's retail power business in the US. He also founded and chaired the Low Carbon Finance Group, a group of the leading investors in the clean energy space.

### Jennifer Babington, Chief of Staff

Jennifer works directly for the Chief Executive, liaising with the Leadership Team and the wider business. Jenn is responsible for advising the Chief Executive and the Leadership Team on key business and strategic priorities. Jenn is a corporate lawyer, who practised at international law firm Norton Rose LLP for seven years, specialising in private equity investments. Prior to joining GIB, Jenn spent four years as Legal Counsel at Element Power, a leading renewable IPP where she was responsible for legal aspects of the company's Northern European projects and the Group's global corporate administration and taxation policy.

### Jeremy Burke, Finance Director

Jeremy is responsible for the finance function of the Group. He leads on financial and management reporting to the Board and Shareholder as well as ensuring compliance with the Group's valuation, taxation and travel and expenses policies. Jeremy joined GIB from the Department for Business, Innovation and Skills where he led on strategic financial planning. He is a Chartered Accountant and has worked in the private and public sector in Melbourne, New York and London and is currently the chair of school governors at Grange Primary in Southwark and was previously involved with the Alternative Technology Association in Melbourne.

### Rob Cormie, Group Operations Director

Rob is responsible for the operational aspects of GIB, including communications, human resources, IT and the green and technical teams. He also acts as a key interface with the Scottish Government and represents GIB externally on a range of issues. Rob works closely with the Chair on all matters relating to Scotland. Rob joined GIB after 20 years of commercial experience in banking and specifically the renewable energy sector where he has held senior roles as a partner at KPMG, CIBC World Markets, Commerzbank and the Sakura Bank.

### Oliver Griffiths, Head of Government Affairs and Policy

Oliver is responsible for GIB's interactions with its Shareholder, the UK Government, as well as with the Welsh Government and the Northern Ireland Executive. His role includes providing input into the formation of public policy that supports the financing of the green economy. Oliver previously practised as a corporate lawyer at Freshfields Bruckhaus Deringer. He joined GIB from the Shareholder Executive, where he managed the UK Government's 100 per cent shareholding in Post Office Ltd and latterly led the Government team that set up GIB.


*Shaun Kingsbury*


*Jennifer Babington*


*Jeremy Burke*


*Rob Cormie*


*Oliver Griffiths*

*Peter Knott*

*Rob Mansley*

*Euan McVicar*

*Edward Northam*

*Bill Rogers*

### Peter Knott, Chief Risk Officer

As Chief Risk Officer, Peter has responsibility for GIB's Risk and Compliance functions and has oversight responsibility for the Portfolio Management and Finance functions. He chairs the Portfolio Management Committee and the Risk and Compliance Committee and is a member of the Investment Committee. Peter qualified as a Chartered Accountant with Deloitte and has over 25 years' experience in investment banking working in London, New York and Asia for JP Morgan Chase and Standard Chartered, where he held roles including Group Treasurer, Consumer Banking Group Chief Risk Officer and Group Head of Operational Risk.

### Rob Mansley, Head of Capital Markets*

Rob is responsible for managing GIB's capital market activities and relationships with third party investors. Rob works closely with both the investment banking team and the Leadership Team in identifying innovative financing and structuring options at both a project investment level and a corporate level. Prior to joining GIB Rob was a Managing Director and Head of European Renewables at Morgan Stanley. He previously worked at Credit Suisse and HSBC where he led transactions across multiple products such as mergers and acquisitions and restructuring, initial public offerings and equity issues and debt capital markets.

**Joined Leadership Team on 24 February 2014*

### Euan McVicar, General Counsel

Euan joined GIB in August 2013 as General Counsel and Company Secretary with responsibility for managing the Group's legal risk and corporate governance. Euan succeeded Tony Marsh as Chair of the Investment Committee, which is responsible for approving each of the Group's investments. Euan joined GIB following 18 years as a lawyer advising the energy industry, latterly as a partner leading the Energy Projects team of an international law firm. For the last 12 years of his private practice career his focus was on renewable energy and other low carbon projects on which he advised a number of leading banks, project developers and equity investors.

### Edward Northam, Head of Investment Banking

Ed is Head of Investment Banking and is responsible for GIB's investment origination and execution activities. Ed manages the investment banking team and, along with the sector managing directors, is responsible for the training and development of the investment banking team members. Ed has been involved in the global renewable energy industry for 20 years and during that time has developed and financed more than 80 renewable energy projects globally. In his early career Ed acted as a legal adviser to public and private organisations engaged in the power sector, before working in industry in various project and corporate development and fundraising roles. Prior to joining GIB, he spent ten years as co-founder and Chief Executive Officer of an Australian based clean energy investment fund.

### Bill Rogers, Head of Strategy and co-Managing Director of Energy Efficiency*

Bill has a dual role at GIB. As Head of Strategy he is responsible for GIB's corporate and investment strategy, including covering GIB's non-core sectors and reviewing potential areas for expansion. As co-Managing Director of Energy Efficiency he is jointly responsible for GIB's investment activities in the energy efficiency and community scale renewables sectors. Prior to joining GIB he spent 15 years in private equity and the energy sector, including senior roles at Hudson, Candover, McKinsey and Shell.

**Joined Leadership Team on 24 February 2014*

*During the year Anthony Marsh left his role within GIB. Anthony made an important contribution to the development of GIB and leaves with the best wishes of the organisation. Ian Nolan served on the Leadership Team up until 30 April 2014 after which he took on a different, part-time role, with executive responsibility for GIB's five funds.*

# Our commitment to sustainability

We aspire to become a market leader in responsible investment practices. Effective assessment, monitoring and reporting of material environmental, social and governance (ESG) matters can help to achieve improved performance. They also provide wider societal benefits and can improve financial returns especially over the long term. This integrated approach is entirely consistent with achieving our 'double bottom line' objective.

### Human rights

GIB's Responsible Investment Policy states that we expect entities and projects in which we invest to comply with all applicable social laws (including all health and safety) and to demonstrate that they have the commitment, capacity and management systems to identify, monitor and manage the environmental, social and governance risks facing their business. In engaging with our stakeholders, we seek to align ourselves with the highest standards of conduct and integrity. We respect human rights and avoid causing or contributing to adverse human rights impacts. With our UK-only investment mandate, our exposure in this area is low, however we nevertheless require that projects report any such community or social issues and implement an approved action plan. No such issues have been reported to GIB during the reporting period.

### Equator Principles

Following a period of shadowing compliance, GIB fully adopted the Equator Principles on 2 December 2013. The Equator Principles are a global risk management framework, for determining, assessing and managing environmental and social risk in projects and supporting responsible risk decision-making. Full details of our experience of Equator Principles implementation and project reporting are provided on p.51.

Since adopting the Equator Principles two applicable projects have reached financial close. Both are waste sector projects and have been assessed as being 'Category B'. Such projects present limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures.

### PRI

On 24 February 2014 we became a signatory of the Principles for Responsible Investment (PRI) initiative. The PRI initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. We support PRI's goal to understand the implications of sustainability for investors and incorporate these issues into investment decision-making and ownership practices. The six principles are:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be active owners and incorporate ESG issues into our ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which we invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance our effectiveness in implementing the Principles.
6. Report on our activities and progress towards implementing the Principles.

### Materially adverse environmental and social incidents

As part of our stated commitment to market-leading good practice and transparency in responsible investment, we require all projects to report on material breaches in environmental and social operational compliance (including health and safety). Within the reporting period we received notification of two health and safety incidents. One related to the discovery of asbestos-containing materials during pre-construction activities and the other involved a project contractor receiving an injury to a hand which included broken fingers. In each case the Health and Safety Executive was notified. No material environmental incidents have been notified to GIB. However, one project was required to resubmit an environmental permit to ensure future compliance.

### Monitoring and engagement

Once an investment has been made we monitor the performance of the investment. This includes compliance with agreed covenants and management of wider environmental and social risks over the life of the investment. In the reporting year we engaged with the majority of our clients to discuss environmental, social and responsible investment issues. The nature and extent of monitoring and engagement is a function of the specific characteristics of the investment, its sector, size of investment, the nature of covenants agreed and an assessment of the environmental and social risks associated with each project.

**Improvements made to our offices**
**2013-14**


### Equator Principles reporting: Projects that have reached financial close within the reporting period

| | Project breakdown by Category | | |
|---|---|---|---|
| | Category A | Category B | Category C |
| Waste | 0 | 2 | 0 |
| **Independent review of assessment documentation** | | | |
| Yes | N/A | 1 | N/A |
| No | N/A | 1 | N/A |

*Note: All projects reported are classified as project finance, are within the UK (and therefore in a 'designated' country under the Equator Principles) and are within the waste sector only. The data reported comprises all applicable projects completed after GIB adopted the Equator Principles on 2 December 2013.*

### Our own sustainability

#### Corporate GHG footprint

| | Scope 2 GHG (t $CO_2e$) | Scope 3 GHG (t $CO_2e$) | Intensity metric |
|---|---|---|---|
| Offices | 238 | 13 | 511 kg $CO_2e/m^2/yr$ |
| Travel | 0 | 335 | 3,868 kg $CO_2e$/employee |
| **Total (t $CO_2e$)** | **238** | **348** | **6,772 kg $CO_2e$/employee** |

In November 2013 GIB also adopted formally our Corporate Environmental Policy (available at www.greeninvestmentbank.com), which sets out how we consider and manage environmental impacts associated with our activities and those of our key suppliers. Our policy focuses on our impact arising from travel emissions, operation of our premises and procurement of subcontractors and suppliers.

In January 2014 we began to collect data relating to our usage of the video conferencing facilities at our Edinburgh and London offices. By the year end we recorded 264 hours of outgoing calls and we intend to use this metric as a measure of avoided travel in future.

In addition to our GHG footprint, GIB is measuring our paper usage in order to identify opportunities for improvement.

#### Equator Principles implementation

Our environmental and social risk appetite is considered as an integral part of GIB's risk framework which is reviewed and approved by the Audit and Risk Committee of the Board. Details of GIB's risk framework can be found in the Audit and Risk Committee report in our full Annual Report.

The Green Investment Policy and the Responsible Investment Policy set out our approach to assessment, monitoring and reporting of environmental and social risk including the incorporation of Equator Principles.

Our in-house Green Team works with the investment banking team to analyse every proposed investment in line with the requirements of the Equator Principles (in addition to our Green and Responsible Investment Policy suite) in accordance with the Equator Principles Reporting Criteria, which can be found on our website.

Our Green Team is comprised of five environmental and sustainability specialists. One Green Team member is allocated responsibility for each specific investment sector. Working alongside colleagues from the Investment Banking, Risk, Compliance, Legal, and Portfolio Investment Management teams, this integrated team ensures the projects are appropriately categorised, assessed, covenanted and monitored.

For each proposed investment, the findings of the environmental and social due diligence, along with potential risk controls and mitigants are presented for consideration to our Investment Committee. All Investment Committee papers include consideration of the Equator Principles as standard.

If the transaction is approved, the Portfolio Investment Management team works with the Risk and Green Teams to monitor the project ensuring that the risks are appropriately managed and the project is in compliance with applicable standards, which includes environmental and social requirements as appropriate.

All members of the Green Team have been involved with the development of the environmental and social risk framework and have received training on the implementation of environmental and social risk within the investment process. Initial Equator Principles awareness raising has commenced within GIB, with formal training scheduled for roll-out for all key functions before the end of June 2014.

This Strategic Report has given an overview of our business, our strategy, our performance and our people. Further details on governance, financial accounts and results and our green impact can be found in our full Annual Report, available at www.greeninvestmentbank.com.

**Shaun Kingsbury**
**Chief Executive**

# Glossary

| | |
|---|---|
| **Advanced conversion technology** | One of a range of more innovative technologies for energy recovery (in the form of heat, electricity or fuel). Examples include gasification and pyrolysis. |
| **Advanced thermal treatment** | This term is used interchangeably with advanced conversion technology. |
| **Anaerobic digestion** | Anaerobic digestion is a collection of processes by which microorganisms break down biodegradable material in the absence of oxygen. The process is used for industrial or domestic purposes to manage waste and/or to produce fuels. |
| **ARC** | Audit and Risk Committee. |
| **Assess, monitor, report** | This is the process by which GIB identifies the green impact of its investments. |
| **Bioenergy** | Renewable energy derived from animal or plant matter of recent origin. |
| **BNEF** | Bloomberg New Energy Finance. |
| **Bottom ash** | Bottom ash is part of the non-combustible residue of combustion in a furnace or incinerator. |
| **BREEAM** | Building Research Establishment Environmental Assessment Methodology. |
| **C&I** | Commercial and Industrial. |
| **Capital investment** | Funds invested in the acquisition of capital assets or fixed assets. |
| **CfD** | Contracts for Difference. |
| **CHP** | Combined heat and power. |
| **Circular economy** | A circular economy is an alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life. |
| **$CO_2e$** | Equivalent carbon dioxide. |
| **Company** | UK Green Investment Bank plc. |
| **Consolidated entities** | Consolidated entities are those entities where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. |
| **Constitution** | GIB's Articles of Association and Shareholder Relationship Framework Document. |
| **Contracts for Difference** | Form of hedging on the future price of a commodity in which a strike price is pre-specified. Payments are made between counterparties depending on the difference between the strike price and the market price at the time. It is the UK Government's market support mechanism under Electricity Market Reform. |
| **Corporate Environmental Policy** | This policy sets out GIB's approach to management of its own environmental impact. |
| **Debt investment** | An obligation that enables the issuing party to raise funds by promising to repay a lender in accordance with the terms of a contract. |
| **Double bottom line** | The combination of both green impact and financial returns on investment. These are equally important to GIB and referred to as our 'double bottom line'. |

| | |
|---|---|
| EE | Energy efficiency. |
| EfW | Energy from waste. |
| Electricity Market Reform | EMR is being introduced by the UK Government in order to help deliver "greener energy and reliable sources at the lowest possible cost". EMR comprises two main elements – Contracts for Difference and Capacity Market. GIB's principal focus is on Contracts for Difference. |
| EMR | Electricity Market Reform. |
| EP | Equator Principles. |
| Equator Principles | The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. |
| Equity investment | Investment in a project through purchase of shares in the project company. This can provide the Group with influence over the operations of the project company. |
| Equivalent carbon dioxide | The mass of carbon dioxide emission that would give rise to the same level of radiative forcing, integrated over a 100-year time period, as a given mixture of greenhouse gas emissions. |
| ESCO | Energy service company. |
| ESG | Environmental, Social and Governance. |
| EY | Ernst & Young (now known as EY). |
| FCA | Financial Conduct Authority. |
| Ferrous metal | Ferrous metal is any metal, including alloys, which contains iron in appreciable amounts. It is generally less expensive than non-ferrous metals. Ferrous metals include steel and pig iron and alloys such as stainless steel. |
| Funds | This refers to the series of funds which GIB capitalised: the Energy Saving Investments L.P, UK Waste & Energy Investments L.P, UK Green Sustainable Waste & Energy Investment L.P., UK Energy Efficiency 1 LP, Aviva Investors REaLM Energy Centres LP. The word 'Fund' relates to one of the above. |
| Gasification | A process that converts organic or fossil based carbonaceous materials into carbon monoxide, hydrogen and carbon dioxide. This is achieved by reacting the material at high temperatures (>700 °C), without combustion, with a controlled amount of oxygen and/or steam. The resulting gas mixture is called syngas (from synthesis gas or synthetic gas) and is itself a fuel. |
| GDFC | Green Deal Finance Company. |
| GHG | Greenhouse Gas. |
| GIB | Green Investment Bank. |
| GmbH | Gesellschaft mit beschränkter Haftung - German "company with limited liability". |

| | |
|---|---|
| **Green impact** | A positive measure of performance against GIB's five green purposes. |
| **Green Impact Reporting Criteria** | Set out GIB's approach to measuring green impact. |
| **Green Investment Policy** | Defines GIB's approach to green investment. |
| **Green Investment Principles** | Define GIB's approach to investment. |
| **Green purposes** | Five measures, set out in our Articles of Association, against which we measure green impact. |
| **Green risk** | Green risk is the risk that transactions represent an unacceptably low level of green or sustainability benefits or reflect irresponsible investing. |
| **Group** | UK Green Investment Bank plc together with its subsidiary undertakings. |
| **GW** | Gigawatt. Equal to 1,000,000,000 Watts. |
| **GWh** | Gigawatt hour. Equal to 1,000,000,000 Watt hours. |
| **IC** | Investment Committee. |
| **IFRS** | International Financial Reporting Standards. |
| **Investment Risk** | Investment risk is the risk of loss due to inappropriate investment decisions or a failure in the investment and portfolio management process. |
| **IPO** | Initial Public Offering. |
| **KPI** | Key Performance Indicator. |
| **kt** | kilotonne. Equal to 1,000 tonnes. |
| **kWh** | kilowatt hour. Equal to 1000 Watt hours. |
| **LED** | Light Emitting Diode. |
| **Liquidity risk** | Liquidity risk is the risk that GIB does not have sufficient financial resources in the short term to meet its financial obligations as they fall due or its strategy is constrained by inadequate or inappropriate funding sources. |
| **Loans and receivables** | Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. |
| **Merchant** | Projects which utilise private, specialist fuel supply such as refuse derived fuel, commercial and industrial waste and waste wood. |
| **Mt** | Megatonne. Equal to 1,000,000 tonnes. |
| **MW** | Megawatt. Equal to 1,000,000 Watts. |
| **MWe** | Megawatt electrical. Electricity generation capacity equal to 1,000,000 Watts. |

| | |
|---|---|
| **MWh** | Megawatt hour. Equal to 1,000,000 Watt hours. |
| **NCP** | National Car Parks. |
| **Non-domestic** | Pertaining to buildings/properties that are not associated with households. |
| **Non-ferrous metal** | Any metal, including alloys, that does not contain iron in appreciable amounts. |
| **Non-utilisation fees/ undrawn facility fees** | GIB provides loan facilities to borrowers to enable them to complete construction projects. In return for providing this, GIB receives a fee on the undrawn portion of the facility, calculated in arrears. |
| **Operational risk** | Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. |
| **OSW** | Offshore wind. |
| **Pathfinder organisations** | An organisation which discovers or shows other organisations a way forward. |
| **PMC** | Portfolio Management Committee. |
| **PPP/PFI** | Public-private partnership/Private Finance Initiative. |
| **PRI** | (United Nations) Principles for Responsible Investment. |
| **Principles for Responsible Investment** | The United Nations-supported Principles for Responsible Investment Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices. |
| **Qualitative** | Relating to, measuring, or measured by the quality of something rather than its quantity. |
| **Quantitative** | Relating to, measuring, or measured by the quantity of something rather than its quality. |
| **RCC** | Risk and Compliance Committee. |
| **Refinance** | Refers to the replacement of an existing debt obligation with another debt obligation under different terms. |
| **Refuse derived fuel** | Refuse-derived fuel or solid recovered fuel/ specified recovered fuel is a fuel produced by shredding and dehydrating solid waste with a Waste converter technology. RDF consists largely of combustible components of municipal waste such as non-recoverable plastics and biodegradable waste. |
| **Renewable Energy Directive** | The Renewable Energy Directive sets mandates for the use of renewable energy in the European Union. |
| **Renewable Heat Incentive** | The Renewable Heat Incentive is a UK payment system for the generation of heat from renewable energy sources. |

| | |
|---|---|
| **Renewable Obligation Certificates** | Suppliers meet their obligations under the RO by presenting Renewable Obligation Certificates (ROCs) to Ofgem. ROCs are intended to create a market and be traded at market prices that differ from the official buy-out price. |
| **Renewables Obligation** | Places an obligation on licensed electricity suppliers in the United Kingdom to source an increasing proportion of electricity from renewable sources. |
| **Reputational risk** | Reputational risk is the risk of damage to GIB's reputation as a result of stakeholders forming a negative view of GIB's actions. |
| **Responsible Investment Policy** | Defines GIB's approach to responsible investment. |
| **ROC** | Renewables Obligation Certificate. |
| **Senior manager** | A senior manager is defined as an employee of the company with responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company. |
| **SGEF** | Societe General Equipment Finance |
| **State aid** | State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. |
| **Tax assets** | An asset that may be used to reduce any subsequent period's income tax expense. |
| **The Code** | UK Corporate Governance Code. |
| **TWh** | Tera Watt hour. Equal to 1,000,000,000,000 Watt hours. |
| **Upfront fees** | A fee paid by a borrower to a lender for making a loan. Usually paid at the time a contract is signed. |
| **Watt** | A unit of power. For example a 6 MW wind turbine can generate up to a maximum of 6m Watts at any given point in time. |
| **Watt hour** | A unit of energy. For example, a 60 W light bulb operating for 10 hours uses 600 Watt hours of energy. |

## Cautionary statement

This Annual Report contains forward-looking statements with respect to the financial condition, operations and performance of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

## Registered office and company number

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**Edinburgh**
**EH3 8EX**
**Company Number SC424067**

**For more information, visit www.greeninvestmentbank.com**

It is important that our Annual Report is produced in an environmentally responsible manner, including the sourcing of materials. The Annual Report is printed in the UK by Core Image, an FSC-Accredited printing company using vegetable-based inks. Cover printed on Conqueror CX22 Recycled Diamond White 320gsm and text pages printed on Conqueror CX22 Recycled Diamond White 120gsm, material which is 100 per cent recycled and FSC certified. The printer and paper manufacturing mill both have ISO 14001 accreditation for environmental management.

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