



UK Government Investments Limited Annual Report and Accounts 2017-18



UK Government
Investments



UK Government Investments Limited

Annual Report and Accounts 2017-18

Presented to Parliament

by the Economic Secretary to the Treasury

by Command of Her Majesty

July 2018

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UKGI

UKGI is unique.

We bring a private sector perspective to public asset stewardship, transactions and corporate situations in the national interest that is not otherwise readily available inside government.

Our people are skilled, experienced professionals drawn from the best of the private sector and the civil service.

Together, we work on some of the most complex and demanding tasks across government – promoting good governance of publicly owned businesses, supporting government’s private sector interventions and delivering orderly transactions that generate value for money.

As the boundary between the public and private sectors is increasingly in focus, we provide the clarity of advice and solutions that inform and translate government’s policy decisions into effective outcomes.



£4bn
£4bn
RAISED
IN ASSET
SALES
ACROSS
2017/18

MANAGEMENT OF

23



PORTFOLIO ENTITIES



WORKING WITH

12

WHITEHALL
DEPARTMENTS



100

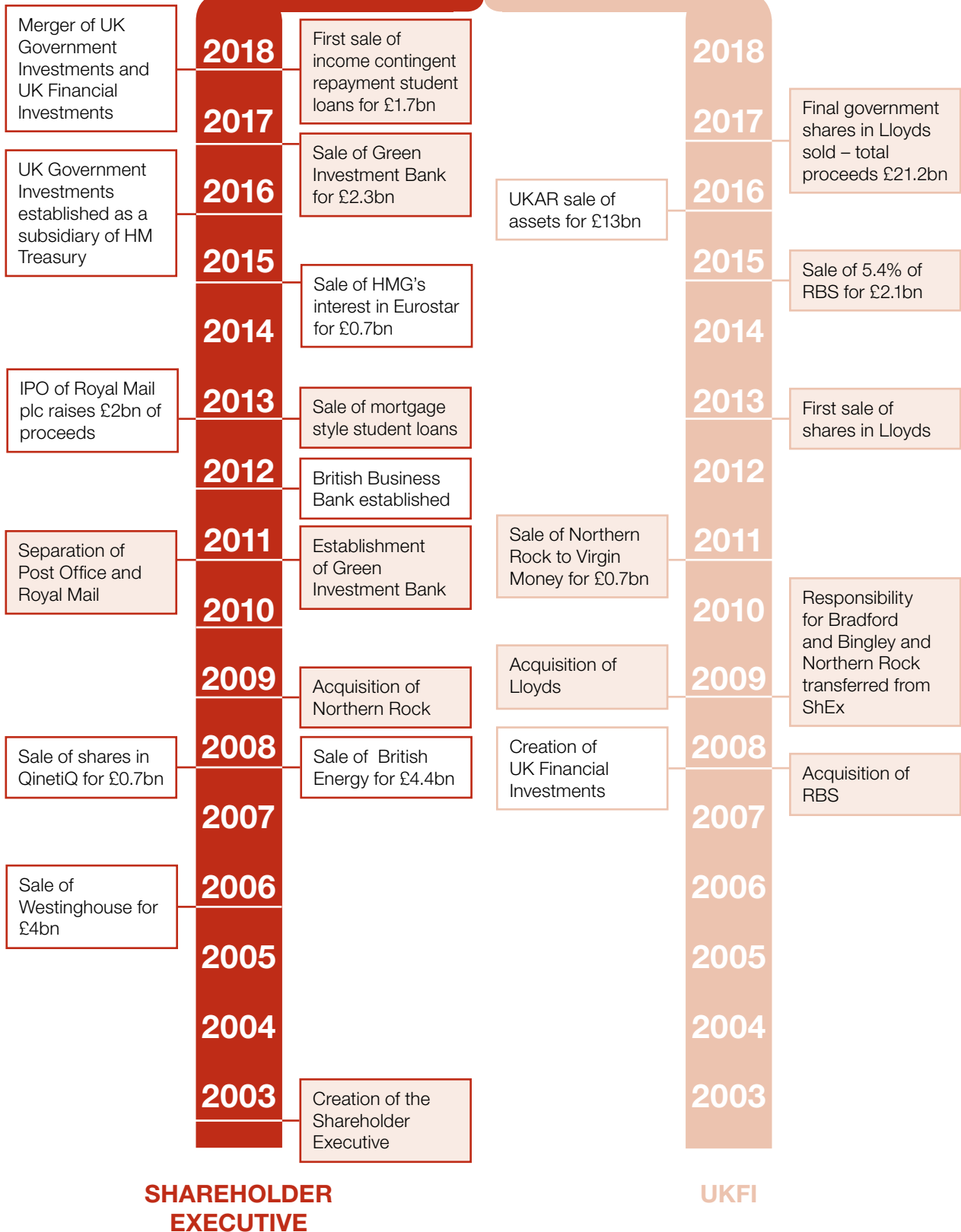
EXPERTS
IN FINANCE AND
GOVERNMENT

2018 - UK Government Investments:

the UK government's centre of excellence for corporate finance and governance

UKGI/UKFI JOINTLY:

- Have generated proceeds of £70bn for the Exchequer
- Hold a portfolio of 25 businesses owned by the taxpayer
- Provide support to 12 Whitehall departments



UKFI

UK Financial Investments Limited (UKFI) was created in November 2008 as part of the UK's response to the financial crisis.

Until the end of March 2018, UKFI was responsible for managing the government's shareholdings in The Royal Bank of Scotland Group (RBS) and Lloyds Banking Group (Lloyds) and for managing the government's 100 per cent shareholding in and loans to UK Asset Resolution Ltd (UKAR). UKAR was formed in October 2010 to integrate the activities of NRAM (previously known as Northern Rock (Asset Management) plc) and Bradford & Bingley plc.

UKFI's overarching objective was to manage these shareholdings commercially to create and protect value for the taxpayer as shareholder and to devise and execute a strategy for realising value for the government's ownership stakes in an orderly and active way over time within the context of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and acting in a way that promotes competition.

UKFI successfully delivered against this mandate. The remainder of the government's shares in Lloyds Banking Group were sold in the early part of the year, with total proceeds realised from share sales and dividends received in relation to Lloyds of £21.2bn, which is approximately £900m more than the government paid for the shares. UK Asset Resolution (UKAR) has continued to make material progress in the reduction of its balance sheet, which at year end had been reduced to £19.8 billion, down from a peak level of over £115.8 billion.

In view of the significant reduction in the size of the government's financial sector assets under UKFI's stewardship, UKFI ceased trading and transferred its residual assets and liabilities (operations and staff) to UKGI on 1 April 2018. UKGI provides a single source of expertise within government on corporate finance and governance issues, making it easier for government experts to work together to deliver the sale of a wide range of publicly-owned assets in a way that secures good value for money for taxpayers. UKGI and UKFI

provide complementary skillsets and the synergies between the two will facilitate the government's aim of raising the efficiency and performance of large publicly-owned delivery bodies and assets.

The operations and staff of UKFI transferred to UKGI and became the new 'Financial Institutions Group' (FIG). At the same time, responsibility for the execution of UKFI's investment mandate (which provided the framework by which UKFI developed and executed its investment and management strategy) transferred to UKGI. HM Treasury and UKGI have entered into a memorandum of understanding ("MoU") in relation to the management by UKGI of the government's interest in Royal Bank of Scotland and UK Asset Resolution ("UKAR"). This MoU took effect on the date of transfer and is available on the UKGI website.

A new sub-committee of the UKGI Board has been established, the "Transactions Committee", with a specific focus on the FIG mandate, and the Committee includes some members of the former UKFI Board to ensure continuity.

For details of UKFI's performance in 2017-18, please refer to the UKFI Annual Report and Accounts, available on the UKGI website.

Chairman's statement



This is my second Chairman's statement since UKGI was formed two years ago to combine the Shareholder Executive and, from 1 April 2018, UK Financial Investments ("UKFI"). Against an uncertain backdrop which has included the EU Referendum and a general election during that time, our focus has remained firmly on successfully ensuring that financial and market discipline is brought to asset sales, to the governance of publicly controlled businesses and to the corporate finance advice we provide in support of government's private sector negotiations and interventions. In each of these areas, we are committed to ensuring value for money and the highest possible standards in everything that we do.

Our only asset is our people. So one important focus of the Board is to ensure that we have an executive and non-executive team with the skills and capabilities to match our mission, and the values to ensure we execute that mission in the right way. It is our aim to recruit the very best from the private and public sectors with the authentic promise of providing extraordinarily interesting and complex work and a culture that is designed to bring out the very best in all our people.

A key focus of our recruitment, both from the private sector and from within Whitehall, is on the diversity of our workforce and on promoting inclusivity. An effective diversity and inclusivity strategy promotes staff engagement and well-being. To achieve this diversity we are developing working practices and a flexibility of approach to attract an appropriate mix of talent. We have further work to do to achieve our goals on this but we certainly have the ambition to do so. And in our governance role, we are also looking at all our portfolio entities to ensure that they have the right diversity and inclusivity strategies in place; this will be a key theme of our engagement with them over the coming year.

I believe that this has been a year in which UKGI has continued to further its reputation as the government's centre of excellence for corporate finance and governance. During the year, to ensure the Board gets first hand feedback on our performance, I have

met with the permanent secretaries of all the major government departments which UKGI advises, as well as with the Chairs of all UKGI's portfolio entities. Overall, their feedback on UKGI has been thoroughly positive, a testament to the skill, dedication and leadership of Mark Russell, his senior management team and all the staff at UKGI.

In April 2018, the mandate for the stewardship and eventual disposal of the government's interests in the financial investments acquired during the 2008 financial crisis transferred from UKFI to UKGI. We have been preparing for this since UKGI was established two years ago. The achievements of UKFI over the last ten years should be acknowledged, indeed celebrated; over £50 billion of proceeds have been delivered from the sale of financial assets, including the complete divestment by the government of its Lloyds Banking Group shareholding. In addition, the balance sheet of the legacy Northern Rock and Bradford & Bingley portfolios has wound down from £115.8bn to just £19.8bn. In many cases these disposals have been executed in ground-breaking ways.

Following the transfer of UKFI to UKGI on 1 April 2018, UKFI's work will continue to be carried out by the executive team who transfer to UKGI to form our new Financial Institutions Group, so that their expertise and experience is retained within UKGI. We also benefit from a high degree of continuity at Board level between UKFI and UKGI, with three of the UKFI former Board members also serving on the UKGI Board since its inception, while other UKGI Board members have been attending the UKFI Board over the last year. Together, we have now formed a Transaction Committee of the UKGI Board, chaired by James Leigh-Pemberton, which will have specific responsibility for implementing the Financial Investment Group's mandate as well as other transactions specified by the UKGI Board. I am confident that both the executive team and Board are

fully prepared to take on this additional, and nationally significant, work. My thanks go to UKGI's Deputy Chairman and former Chairman of UKFI, James Leigh-Pemberton, and Oliver Holbourn, the outgoing former CEO of UKFI, for all they have done over the last two years in facilitating a smooth, well-ordered integration of UKFI into UKGI.

As we take on this financial investment mandate, we are committed to ensuring that UKGI continues to develop its relationship with the UK's financial services sector. The success of UKGI depends in part on attracting staff from this sector, both on a permanent and on a secondment basis. The experience of working at UKGI is undoubtedly of enormous benefit to both the individuals and their employers, given the opportunity it offers to work on some of the most complex transactions and the insight and understanding they gain of how government operates. And of course, the knowledge-transfer works both ways, with civil service colleagues increasing their understanding of corporate finance and commercial disciplines.

In the context of the financial sector, the sale by way of securitisation of £3.5 billion of face value of Student

Loans in December, 2017 provides an excellent example of the unique combination and quality of public and private sector talent that UKGI is able to deploy on even the most complex of transactions. This was first ever securitisation of income contingent loans. The successful outcome was nonetheless executed precisely as advised to our client department, the Department for Education.

My thanks go to my colleagues on the Board and to all of the staff at UKGI for their efforts over the year. Together, we can look forward to continuing to deliver against our mandate and to providing the highest standards of corporate finance and governance advice to government over the coming year.



Robert Swannell

Chairman
26 June 2018

Chief Executive's review

UKGI provides a single source of expertise on corporate finance and governance issues that isn't readily available elsewhere in government, and 2017-18 was a year in which demand for our services from across Whitehall, and the scope of our services, continued to increase.

Our asset sale mandate saw the completion of two major and highly complex disposals, of the Green Investment Bank and of the first tranche of Income-Contingent Repayment student loans, a transaction which saw us successfully create new asset class from scratch (see case study on p 14).

Highlights of our work in our governance and shareholding role included supporting the expansion of the British Business Bank (BBB) - an entity we have incubated - so that it can continue to provide finance to SMEs in readiness for any exit of the European Investment Fund from the UK market. We also worked with colleagues in the Department of Business, Energy and Industrial Strategy (BEIS) and HM Treasury (HMT) to agree a new £370m, three-year investment plan for the Post Office. Elsewhere, we have enhanced our governance of the Nuclear Decommissioning Authority (NDA) so that it is better defined and understood after applying the lessons learned from the NDA's failed Magnox decommissioning procurement process.

Our corporate finance advisory service saw the most significant step-up in activity over the year. We supported the government in its successful appeal against tariffs on the Bombardier C Series, helping to protect jobs across the UK. We were also involved in negotiations with Airbus in relation to its launch investment and have supported our sponsor department, HM Treasury, in both its Balance Sheet Review and Patient Capital Review. Our work with the Ministry of Defence (MOD) continues to expand, particularly in regard to real estate and infrastructure financing. Our work on inward investment and inward M&A continues to be of strategic importance and we have increased our capacity to

respond to distressed situations in specific sectors or businesses.

We have responded to this increased demand for our services across government by continuing

to strengthen our senior team and I was delighted to be able to make four new Director-level appointments to our senior management team. Michael Harrison and Henry Lloyd were promoted from within UKGI while Tom Cooper and Candida Morley were recruited externally, from Deutsche Bank and Hg Capital respectively, demonstrating both the strength of our second tier of management and the continuing attraction of UKGI as an attractive and challenging place to work.

Tom and Candida were appointed on a part-time basis; other members of our senior team are also able to work on a flexible basis. Our enthusiastic readiness to accommodate a variety of working patterns is part of our strong commitment to maximising the diversity of our workforce. This commitment has been reflected in our participation in HM Treasury's Women in Finance scheme. Our existing target of ensuring that by 2021 at least 40% of our Director and Executive Director complement are female will form part of our commitment in this regard, and I am taking personal accountability and responsibility for increasing gender diversity and inclusivity at senior levels.

During 2018-19 we will continue to deliver against our corporate objectives and we expect this work to include preparing and executing further sales of the Student Loan Book, as well as sales from the UK Asset Resolution mortgage book which now falls within our mandate. We will continue to expand our governance portfolio. And we will ensure that our corporate restructuring skills and market intelligence are brought to bear in response to cases of distress in specific sectors or businesses.



I would like to thank all our staff for their efforts over the year and I am confident that UKGI's unique mix of civil servants and corporate finance specialists will ensure that we continue to deliver our varying and increasing workload to the highest standards.

A handwritten signature in black ink that reads "M.F. Russell". The letters are cursive and somewhat stylized.

Mark Russell



Chief Executive Officer

26 June 2018

Strategic Report

Objectives and strategy

UK Government Investments (UKGI) is the government's centre of excellence in corporate finance and corporate governance. UKGI is charged by HM Treasury to undertake the following:

 <p style="text-align: center;">Asset Realisation</p> <p>We prepare and execute all significant corporate asset sales by the UK government.</p>	 <p style="text-align: center;">Corporate Finance</p> <p>We advise on major corporate finance matters, including all major UK government financial interventions into corporate structures and on major UK government corporate finance negotiations.</p>	 <p style="text-align: center;">Governance</p> <p>We act as shareholder for, and lead establishment of, UK government arm's-length bodies, as required and in line with HMT priorities.</p>
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UKGI business model

UKGI began operating on 1 April 2016 as a government owned company, wholly-owned by HM Treasury. UKGI brings together the functions of the Shareholder Executive (ShEx) (ShEx was formally part of the Department for Business Innovation and Skills) and, from April 2018, UK Financial Investments Ltd. UKGI works across government on some of its most interesting and complex commercial tasks. We work on the boundary of the public and private sectors, with regular interaction with ministers, Parliament and Whitehall departments. UKGI operates in a way that is consistent with the government's policy objectives including, but not limited to, the promotion and preservation of orderly, competitive markets.

UKGI's people have expertise in asset sales, interventions, arms-length body (ALB) set-up, incubation and governance, market intelligence and analysis, transaction execution and larger scale corporate negotiations.

Formal assurance is provided by Memoranda of Understanding with the Whitehall departments we work with, setting out the services we offer and how we work with them to deliver those services. When working for ministers, UKGI staff demonstrate the same degree of confidentiality as ministers would expect of their own officials, to the standards contained within the Civil Service Code.

UKGI performance

UKGI is accountable to Parliament for specific matters pertaining to preparation of accounts, governance and acting in accordance with Managing Public Money, and to HM Treasury for performance against its objectives as set out above. UKGI's performance in the year against all its objectives has been strong.



Asset realisation

We prepare and execute all significant corporate asset sales by the UK government.

UKGI works across government to support departments on asset sales, advising ministers and senior officials on the best strategies and structures for a sale, carrying out market testing, and devising and managing the sale execution process to achieve value for money for the taxpayer.

Key asset sales completed during this year include the successful sale of the Green Investment Bank (GIB) to Macquarie Group Limited, on behalf of the Department of Business, Energy and Industrial Strategy (BEIS). The transaction had a value of £2.3bn, including £500m of commitments that will be met by Macquarie. This returned all the taxpayer funding invested in GIB since its creation, including set-up costs, and generated a premium on investment of around £186m. UKGI was instrumental in the creation and development of the GIB, the first institution of its kind.

The first tranche of income contingent student loans was sold in December 2017, this was the first in a programme of sales that UKGI is leading on behalf of the Department for Education. UKGI's model of combining public and private sector expertise has produced a multidisciplinary team uniquely placed to deliver this complex and innovative project.

UKGI has a long track record of disposing of assets where there is no policy reason for government to hold the asset, and where a sale can achieve value for money. In recent years, major transactions include Eurostar for £0.8bn and Royal Mail for in excess of £3bn.

STUDENT LOAN SALE

In December 2017, the first tranche of income contingent repayment student loans was sold, generating proceeds of £1.7bn. This landmark transaction is the first time income-contingent loans have been sold anywhere globally, and marks the launch of a new asset class in the capital markets. One of the largest securitisations since the financial crisis, income contingent loans will join longer established classes such as mortgage backed, asset backed, collateralised loans and future flows-backed securities. The sale was delivered by a team drawing on a wide range of skills available to UKGI, with a modelling team comprising a mix of economists, mathematicians, statisticians and actuaries; legal and structuring expertise to design the new securities; communications and project management skills to drive the process through Whitehall; and in-house syndicate experts to lead the banks. The team was jointly led by a civil servant and corporate finance expert, exemplifying the unique blend of public and private sector skills at UKGI.



Corporate Finance

We advise on major corporate finance matters, including all major UK government financial interventions into corporate structures and on major UK government corporate finance negotiations

We provide specialist corporate finance advice across government and support the government's financial interventions into corporate structures. We also deploy our expertise in all significant negotiations between government and the private sector, for example when the government considers whether to put money into corporate structures in support of companies in distress.

BOMBARDIER NEGOTIATIONS

UKGI contributed to the government's response to the recent trade remedy case, initiated by Boeing against Bombardier, working closely with BEIS and DIT. The dispute centred around Boeing's claim that Bombardier was selling its new C Series aircraft into the US market at artificially large discounts facilitated by state subsidies from the Canadian, Quebec and UK governments.

The dispute saw the US Department of Commerce agree with Boeing's complaint and seek to levy tariffs of around 300% on the price of each C Series aircraft sold into the US. As a key market for the C Series, the US tariffs would have had a serious impact on the programme.

With around 4,000 people in Bombardier's Belfast factory, the potential tariffs could have led to significant job losses.

The UK had provided a small proportion of the start-up financing for the C Series through a royalty based risk-sharing investment known as Repayable Launch Investment (RLI). Working alongside the government and its UK and US legal advisers, UKGI took the lead in marshalling the corporate finance arguments and analysis to support the UK's defence of its investment. And in parallel, we carried out detailed financial analysis and industrial impact analysis once it was apparent that the tariffs might be levied. This work culminated in the UKGI team giving evidence as part of the UK's panel at a challenging, three-and-a-half-hour, face-to-face verification interview with US Department of Commerce officials.

In a welcome ruling in January 2018, the US International Trade Commission decided unanimously that there was no material threat of injury to US industry, effectively meaning that no tariffs will be applied.

Our Special Situations team of corporate restructuring practitioners, including qualified insolvency practitioners and experienced restructuring bankers, advise ministers and departments where there is actual or likely financial distress.

UKGI's body of work has significantly increased over the year with key assignments beginning with HM Treasury, in particular in relation to the Patient Capital Review, the Ministry of Defence and the Department of Health and Social Care.

UKGI runs the Public Sector Spectrum Release Programme through the Central Management Unit (CMU) on behalf of the Department for Digital, Culture, Media & Sport (DCMS). The government's target is to release 750MHz of spectrum by 2022. CMU works with government departments, partners and Ofcom to facilitate the release of spectrum from the public to the private sector, to enable economic growth. 'Smart motorways', driverless cars, and better mobile phone and Wi-Fi connectivity on trains are just some of the possible uses for the released spectrum.

So far, nearly 400MHz have been released with plans for the sale of more in the future. Around 190MHz of spectrum will shortly be auctioned by Ofcom for mobile phones. This sale is expected to realise a significant receipt for government.

UKGI takes a lead role for government in the commercial negotiations with industry for aerospace Repayable Launch Investment (RLI) contracts, to support the design and development of new aircraft programmes, such as the A350XWB aircraft with Airbus and GKN. This involves working with a wide range of officials from the Department for Business, Energy and Industrial Strategy and HM Treasury, as well as independent financial, technical and legal advisors. These are complex contracts to negotiate and construct – each being bespoke – and involve large sums of public funding. Securing agreement with applicant companies on RLI contracts involves intensive negotiations over key contract terms, including aspects such as target returns, levy rates, product definitions, security and contract duration.



Governance

We act as shareholder for, and lead establishment of, UK government arm's-length bodies, as required and in line with HMT priorities.

UKGI manages a portfolio of 23 businesses (including, from April 2018, the financial institutions previously managed by UKFI) in which the government has a shareholding, working with more than ten government departments and management teams to help these businesses optimise their performance and operate as effectively as possible. The principles by which UKGI executes this mandate are set out below.

UKGI works closely with BEIS, across many sectors. UKGI was instrumental in the establishment of the British Business Bank and leads on its governance, monitoring of targets and performance against strategic objectives on behalf of BEIS. In 2017, UKGI worked with BBB, BEIS and HMT and, following on from the recommendations of the Patient Capital Review, £2.5bn of government funding was provided to BBB, which will unlock up to £13bn of equity finance to support UKGI SMEs.

UKGI manages government's 100% shareholding in the Post Office on behalf of BEIS which involves a range of activities including holding a seat on the board, monitoring corporate performance against annual targets and ensuring the business is provided with sufficient investment and subsidy funding to achieve its target of being commercially sustainable. In the year, UKGI worked with Post Office Ltd, HMT and BEIS to agree a £370m programme of investment which will modernise the network and protect community branches.

Our relationship with the Nuclear Decommissioning Authority (NDA) has evolved over the year, as both the NDA and UKGI seek to respond to the NDA's failed Magnox procurement. Candida Morley, a director-level employee of UKGI, has joined the NDA board as a non-executive director. The UKGI team undertaking the shareholder role has been expanded, in light of the corporate and operational challenges which the NDA needs to address following its failed procurement of Magnox decommissioning works. The key focus for Candida and the team will be to challenge and support the NDA board as it seeks to strengthen its capacity, capability and culture, so that NDA emerges stronger from the current period of public scrutiny.

GEOSPATIAL DATA COMMISSION

UKGI was tasked by the Cabinet Office with implementing a manifesto commitment to create a geospatial data body. During 2017 UKGI worked to develop the options, and consider the potential scope, economic opportunities and governance of such a body. Recommendations were put to the Prime Minister, and in the Autumn Budget 2017 announced the creation of a Geospatial Data Commission. UKGI is working to establish the set-up of the Commission which will draw together bodies that hold this data, improve links between them, and seek to promote economic growth through better use of this data. UKGI has worked at pace to deliver this work, demonstrating flexibility and an ability to work collaboratively across Whitehall and with bodies both within its portfolio, notably HM Land Registry and Ordnance Survey, and many outside its portfolio, including the British Geological Survey, UK Hydrographic Office, the Coal Authority and Valuation Office Agency.

UKGI works with the Department for International Trade to act as the shareholder for UK Export Finance (UKEF). Its mission is to ensure that no viable UK export fails for lack of finance or insurance, while operating at no net cost to the taxpayer. UKGI's priorities in this role are to ensure that UKEF fully understands its addressable markets and that it operates as commercially and as efficiently as possible in order to fulfil this mission. In the year, UKEF has extended its support for exports to over 60 currencies (from just 15 in 2010), and UKGI supported the development of a new business plan which responds to the doubling of UKEF's risk appetite limit to £5 billion and the doubling of its maximum country limit to £5 billion, helping to boost the UK's exports.

Stewardship of assets

UKGI undertakes a shareholder role, for numerous vital publicly-owned assets, ensuring their effective and efficient management.

UKGI will adhere to the Financial Reporting Council's UK Stewardship Code in respect of its stewardship of the government's interest in RBS from April 2018. Alongside this, we have developed equivalent bespoke principles to ensure the consistency and quality of stewardship of entities within our portfolio which are not listed. These are the UKGI Principles of Portfolio Governance, which are summarised below:

- **Leadership & governance**

- We work with the organisation to facilitate appropriate governance frameworks being put in place for the organisation.
- We make sure Board roles are clearly established and defined.
- We provide clarity on who in the organisation leads on the relationship with the shareholder (usually the Chair).

- **Effectiveness**

- We advise upon Board appointments made by Ministers or public bodies, and help manage the appointment process where applicable.
- Where appropriate, we act as a representative for the government on Boards (and on Board sub-committees).
- We advise Ministers and sponsors on various aspects of the government's day-to-day relationship with the organisation – covering the government's interests from a shareholder perspective.

- **Objectives, strategy & accountability**

- We advise Ministers upon, and hold the Board to account with respect to, the overarching objectives and strategy which the Board proposes for the organisation.
- Where possible, we seek to align the organisation's strategy with its sponsor department's objectives.
- We advise the sponsor department/relevant government Ministers on whether to approve business plans.
- Where appropriate, we advise on setting annual budgets for organisations and we monitor financial performance throughout the year.

- **Remuneration & accounting officer obligations**

- We advise on remuneration, including, where relevant, whether this is compliant with government objectives.
- We ensure the accounting officer (AO) for an organisation is aware of, and complies with, its AO obligations, where these apply.
- For assets funded by government departments other than HMT, we liaise with the finance team of the relevant department and HMT to ensure direct line of sight for the principal accounting officer, who is often the permanent secretary of the relevant department.

- **Risk management**

- We encourage all appropriate risk management processes and structures to be put in place, with clear lines of accountability and responsibility.
- We would expect these arrangements to flow up from individual operating risks through to the Audit and Risk Committee (ARC) and then on the main asset Board.
- We would expect the ARC to review the main risk register in detail on a regular basis (typically quarterly) and at least annually to conduct a thorough review and challenge of this register. The Board should consider the summary risks on a regular basis – potentially as a standing item.
- As part of our shareholder function, we would expect to see regular updates of the organisation’s principal risk register and have the opportunity to discuss this with the organisation.
- In our shareholder role, asset teams should have processes in place to escalate risks to the relevant Department and its Ministers.

- **Relationship management**

- We develop and maintain clear lines of communication with the Chair, Board and Executive of each portfolio organisation.
- We would expect to have UKGI NED representation on the organisation’s Board (at Director or Executive Director level).
- We aim to maintain an effective regular meeting “rhythm” with Chair, Board and Executive, ensuring free flow of information through mutual trust.
- We promote and encourage a “no surprises” culture.

UKGI's portfolio entities



UKGI also works on the international stage and is often approached by international delegations for advice. UKGI has worked within the Organisation for Economic Co-operation and Development (OECD) (see case study) while also sharing how we manage the governance of our SOEs or approach major privatisations. In the last two years UKGI has presented to delegations from Indonesia, Saudi Arabia, Nepal, China, and the Ukraine.

INTERNATIONAL ACTIVITIES

UKGI has provided the UK representative on the Working Party on State Ownership and Privatisation Practices (WPSOPP) since 2008. The WPSOPP supports the work of the OECD's Corporate Governance Committee. It publishes its own guidelines on the corporate governance of state-owned enterprises (recently revised) which provide advice to countries on how to manage their responsibilities as company owners more effectively, thus helping to make state-owned enterprises (SOEs) more competitive, efficient and transparent.

UKGI involvement in recent years has included:

- presentations to delegates on privatisations of Royal Mail and the Green Investment Bank;
- the UK's response to the 2008 banking crisis; and
- facilitating and contributing to sessions on national reviews of corporate governance, a privatisation primer for countries embarking on privatisation programmes and country accessions (the process by which countries join the OECD).

UKGI is often approached to attend regional network meetings given the experience we bring and the reputation we have for good corporate governance and a track record of large and successful privatisations. Our recent involvement includes:

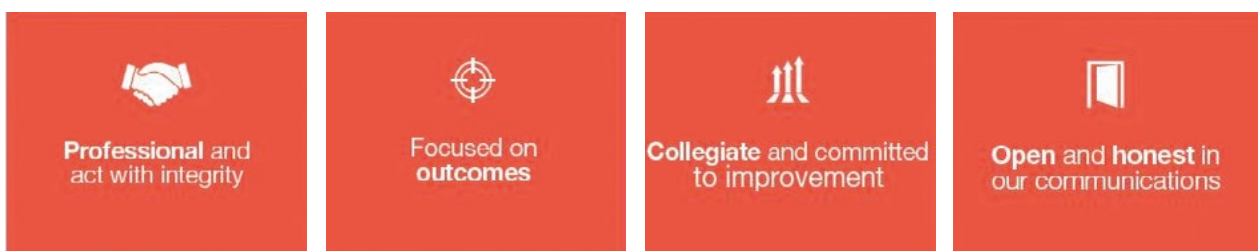
- representing the OECD at the Southern African network meeting in Zimbabwe and presenting on the work of UKGI;
- representing UK at the SE Asian network meeting in Kuala Lumpur and presenting on risk management; and
- representing UK at a G20 side-event in Buenos Aires and advising on the formulation of anti-corruption and integrity guidelines.

People

UKGI values

Our values define who we are, what we stand for and how we behave. Our values are the foundation for how we do business, inform the type of work we do, and hold us accountable to do our best. They govern our actions and determine our success. They were developed by colleagues across our organisation, so everyone feels a personal responsibility towards creating a great work environment. UKGI rewards those who demonstrate these values day to day and encourages people to challenge those who don't act in accordance with them, the values feature as part of the objective setting and appraisal process in UKGI.

UKGI's four core values are:



UKGI's success depends on its staff, drawn from both the public and private sectors, including professionals with corporate finance skills and civil servants. Expertise is drawn from both private and public sector institutions with a mix of tenure (some permanent, some seconded and some fixed term appointments).

UKGI provides staff with the opportunity to work on a variety of diverse projects across its broad business portfolio, and access a range of learning and development opportunities. Depending on the size of the business /project and nature of the role, employees can expect to work on a number of workstreams simultaneously. Whatever their background and experience, everyone is given the opportunity to improve their skills and develop their career during their time at UKGI.

As the centre of excellence for corporate finance and governance in government, UKGI offers a wide range of learning and development opportunities. Employees have access to:

- technical training, including corporate finance courses;
- personal development, leadership and skills training;
- a UKGI seminar programme;
- the Corporate Finance Profession; and
- mentoring and coaching.

**SIMARDEEP SOOR
CORPORATE
FINANCE
MANAGER**



“Leading work streams in large complex deals has developed my confidence in communicating to a range of stakeholders, my project management skills and my organisational skills.

I have also developed my ability to think through complex situations and consider wider implications of projects, such as the impact on economy and society, as well as legal, regulatory and media considerations. Lastly, working with departments across government has provided me with a useful insight into how broader government works.”

UKGI is committed to supporting diversity and inclusion in the workplace. This includes a commitment to build a more balanced and fair industry and improve gender diversity, both in UKGI and more widely. UKGI was integral to the launch of the Future Board Scheme. This scheme provides talented senior women a unique opportunity to get real board experience to progress their careers to the next level. We ourselves are members of this exciting development scheme.

UKGI has an active learning and development team who are continually seeking high quality and beneficial training schemes to build and maintain our high performing team and build the pipeline of talent for the future. This includes a mentoring scheme for our senior executives, and a range of technical and skills-based training for all staff including inclusive leadership programmes.

UKGI is also proud to offer a range of flexible working options to all colleagues, including senior executives to support a diverse workforce.

Our goal is to be a company which is open and accessible, recruiting, diverse talented people.

UKGI's diversity and inclusion efforts focus on:

- Leading and managing inclusively;
- Creating opportunities that enable development and learning; and
- Creating a work environment where all staff feel involved and valued.



**75% OF STAFF AGREE UKGI
SUPPORTS AND ENCOURAGES
LEARNING AND DEVELOPMENT**

2017 people survey

My UKGI

secondment has provided my career with additional direction and purpose. With insights on a range of challenging projects across multiple sectors, and with a greater understanding on the approach and perspectives within government, I believe I will be a more rounded and experienced individual wherever my career progresses. I have also had the chance to broaden my network of professional contacts and mentors and have made some fantastic friends whilst at UKGI.

Emily Bunting, Rothschild Seconded

ELIZABETH O'NEILL UKGI GENERAL COUNSEL



UKGI's work is fascinating because we operate at the intersection of public and private spheres. Our projects have to deliver on both commercial and public policy objectives. This interplay of strategic, commercial and policy considerations is what makes the work so distinctive and fun.

As you would expect, the quality and diversity of the work is reflected in colleagues – we are drawn in from across many disciplines (lawyers, accountants, career civil servants, bankers, economists, actuaries, analysts, modellers.). As a government lawyer who used to work with UKGI from the outside, I was drawn to join the organisation on secondment by the consistently positive, professional and supportive approach which UKGI teams demonstrated in all our interactions.

76% OF PEOPLE FEEL THAT THEY ACHIEVE THE CORRECT WORK LIFE BALANCE

2017 people survey

**ED EMERSON
ASSISTANT
DIRECTOR**



“UKGI can offer work that is complex, important and focussed on making things better. There is also a great variety to the projects we work on, which I enjoy, and the calibre of my colleagues and clients is exceptional – it’s a great place to learn about government and corporate finance and governance in a political context.”

73% OF PEOPLE CONFIRMED
UKGI HAD A POSITIVE INFLUENCE
ON THEIR CAREER

2017 /18 exit interviews

“UKGI is a dynamic, stimulating and fun place to work. Colleagues are motivated by working at the heart of the UK government, on projects which are often complex, sometimes headline-grabbing and always rewarding

It brings together outstanding individuals from both private and public sectors, and provides a unique environment which enables them to access experiences that would otherwise be out of reach.”

Rachel Mortimer Chief Operating Officer

UKGI's approach to risk

UKGI's risk appetite statement, as approved by its Board, is as follows:

"As an organisation whose role it is to act as an agent for Ministers and government departments, the key risks UKGI must manage are those which arise as a consequence of discharging its mandate.

UKGI seeks to achieve its objectives whilst eliminating, or minimising, all risk including operational, execution and reputational risks. In those circumstances where it may be necessary to take some risk in order to deliver the organisational objectives, UKGI will rely upon its governance structure to mitigate risk.

Risks will be monitored and controlled by systematic review by the Board, by the Executive Committee, by the Risk & Audit committee and through a regular review of the risk registers. In addition, the culture of open and proactive communication, and continuous learning and training, throughout UKGI underpins UKGI's ability to control risks that do arise."

UKGI monitors a number of operational and strategic risks. These include risks regarding staffing, IT systems and relationships around Whitehall.

Individual project risks are also managed by UKGI, working closely with the ministers and government departments for which we act as an agent.

We currently have a number of mechanisms in place to manage UKGI's risk, summarised below:

- UKGI's Executive Committee, Board and Audit and Risk Committee (ARC) work together to define risks across the organisation and ensure that a strategy and processes are in place to mitigate those risks.
- UKGI has a Memoranda of Understanding in place with government departments to clearly define its role as an agent of that customer and limit risks by defining ownership of risks.
- UKGI's values and culture of continuous learning – to ensure employees act in a collegiate manner, to have open and honest communication so that individuals feel comfortable raising risks and know that they will receive support in managing those risks, to be committed to continuous professional development and bettering our people and to mitigate the risk of UKGI advice not being professional and to the required standard.

UKGI's high level corporate risks are set out below. Beneath these are risks specific to individual assets, mandates or asset sales; these risks will evolve through the course of a project lifecycle, and fluctuate through the year, but are monitored through peer-led risk reviews, management-level risk and assurance reviews, senior management review at Executive Committee and non-executive review at the Board and ARC. UKGI has had no security incidents throughout the year.

Risks and mitigations

Key risk	Description	Mitigation
People	UKGI cannot access the right people to deliver against its objectives	People strategy which focuses on staff engagement, providing interesting, challenging work, and detailed skills mapping.
Reputation	Threats to UKGI's reputation reduce appetite of departments, recruits and advisers to work with UKGI	Robust quality assurance processes and engagement with key stakeholders so that UKGI's mandate is understood
Execution of asset sale objective	Failure to achieve value for money in our asset sales	Transaction Committee provides internal challenge and assurance
Execution of governance objective	Failure to provide sound shareholder role for assets and ensure good governance	Portfolio governance review process provides internal challenge and assurance

UKGI funding model

UKGI is funded by HM Treasury under clause 32 of the Enterprise Act 2016. UKGI's funding agreement for 2016-2017, 2017-2018 and its expected funding in 2018-2019 is set out below. The funding is the total available and does not necessarily align to the grant-in-aid drawn down in the year as disclosed in the financial statements.

UKGI may recharge for specific costs incurred on behalf of another department; recharges may be via budget transfers or invoicing. During this financial year, UKGI received budget transfers from the Department for Education, Cabinet Office, Ministry of Defence, and the Department for Business, Energy and Industrial Strategy. These transfers were made through HM Treasury and the transfers form part of the total UKGI budget.

	2016-17 (£m)	2017-18 (£m)	2018-19 (£m)
HM Treasury	11.4	11.0	12.8*
Department for Transport	0.4	0.4	0.4
Department for Education	0.5	0.5	0.5
Ministry of Defence		0.3	0.3
Cabinet Office		0.6	
Department for Business, Energy and Industrial Strategy		0.3	
Total Funding	12.3	13.1	14.0

* Funding includes budget transferred to UKGI on dissolution of UKFI.

Approval and signing

The Strategic Report was approved by the Board of Directors on 26 June 2018 and was signed on its behalf by:



Mark Russell

Chief Executive



Robert Swannell

Chairman

UKGI Company Number 09774296

Directors' Report and Governance Statement

The UKGI Board provides strategic direction to the Company and ensures UKGI is equipped to perform its functions, including having sufficient resourcing and a suitable organisational structure. The Board also enables effective arrangements to be put in place to provide assurance on risk management, governance and internal control.

The Executive Committee is responsible for the day to day running of UKGI. It comprises the UKGI Chief Executive Officer, and UKGI senior management including the Chief Financial Officer and Chief Operating Officer. UKGI senior management were also invited to attend Executive Committee meetings. The Executive Committee meets weekly to discuss UKGI business. It reviews key management information documents on a monthly basis. This process of regular review and challenge by UKGI executives ensures that the

information provided to the Board and its committees is up-to-date and reliable. This in turn enables the UKGI directors to carry out their duties.

UKGI has an agreed Framework Document with HM Treasury. This document sets out the broad framework within which UKGI will operate and can be found on the UKGI website at www.ukgi.org.uk. HM Treasury, as sole shareholder, has various reserved rights, including appointment of the Chair, Chief Executive, and a shareholder representative director; approval of board appointments, the terms of any board appointments, the Company's remuneration framework and the Company's budget.

The UKGI directors are listed below. They provide the company with the appropriate expertise, skills and experience required to deliver its objectives.

Board Member	Position	Committee Membership
Robert Swannell (appointed 11 September 2015)	Chairman	N (Chair)
James Leigh-Pemberton (appointed 11 September 2015)	Non-Executive Deputy Chairman	N
Mark Russell (appointed 11 September 2015)	Chief Executive Officer	
Jane Guyett (appointed 12 February 2016, appointed as Senior Independent Director 28 September 2016)	Senior Independent Director	A (Chair), N
Jitesh Gadhia (appointed 12 February 2016)	Non-Executive Director	R, N
Robin Lawther (appointed 12 February 2016)	Non-Executive Director	A, R, N
Caroline Thomson (appointed 12 February 2016)	Non-Executive Director	R (Chair), N
Simon Palley (appointed 19 May 2016)	Non-Executive Director	A, N
Alex Chisholm (appointed 28 September 2016)	BEIS-Appointed Non-Executive Director	N
Charles Roxburgh (appointed 28 September 2016)	Treasury-Appointed Non-Executive Director	N
Philip Duffy (appointed 29 June 2017)	Treasury-Appointed Non-Executive Director (Alternate)	N

Key: R = Remuneration Committee; A = Audit and Risk Committee; N = Nominations Committee;

All Board appointments are for a period of three years, and can be terminated by either party with three months' notice.

Philip Duffy was appointed on 29 June 2017 as an alternate for Charles Roxburgh as the Shareholder's representative director.

The Board has put in place arrangements to manage any conflicts of interest. As part of this each director has disclosed, at the outset of their term as a director, and again subsequently at the start of each financial year, any direct or indirect conflicts of interest they are aware of and may have in connection with being appointed a

director of the Company. None have been noted to date. Directors' external interests are set out in their profiles.

The Board has a high degree of oversight of the Company's activities, ensuring independent checks on all aspects of the Company's activities.

Each non-departmental non-executive director is assigned one or more sponsorship oversight roles over major projects or assets. These arrangements allow for a deeper insight for non-executives into the work of the organisation, and provide for a more substantial challenge and independent check on the work of management. In terms of direct responsibilities, it is not

expected that directors will be formally bound by their fiduciary duties as members of the Board when acting in their oversight roles. Board decisions will only be taken by a quorum of directors in a Board meeting.

All committees are chaired by non-executive directors.

Director indemnities

Each Director is indemnified by the Company and in turn by HM Treasury. The Directors are therefore indemnified to the extent permitted by law in respect of the performance of their duties as directors.

Corporate governance

UKGI follows the standards of good practice set out by the HM Treasury Corporate Governance Code. UKGI does not hold an annual general meeting, however its sole shareholder is represented on the Company's Board.

Data received by the Board

The Board receives extensive data allowing it to form judgements around the performance of the Company, in particular financial data, workforce data and key performance indicators relating to project delivery. Through its risk management framework, internal audit arrangements and systems of internal management review, the Board is content that this data is of sufficient quality to allow for informed decision making and evaluation of performance.

Internal audit

The Board has appointed the Government Internal Audit Agency (GIAA) as the Company's internal auditor. In the last year GIAA has undertaken an audit plan, which has produced both moderate and substantial opinions, across a range of UKGI processes including workforce planning, financial controls and knowledge and information management. GIAA have given a moderate opinion for 2017-18; some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. UKGI is committed to implementing the recommendations of the GIAA.

Transparency

UKGI adheres to the government's transparency agenda and publishes a range of data online, including:

- directors' hospitality and expenses;
- transactions over £25,000;
- corporate credit card transactions over £500; and
- contracts awarded.

Review of effectiveness

The Chairman has commissioned a detailed review of the effectiveness of the Board and its committees, facilitated by the Company's secretarial function. The review found that overall the Board operates effectively and in accordance with its responsibilities as defined in the Board mandate and Framework Agreement. No substantive issues were noted, but minor recommendations around the structure of agendas have been implemented.

The Senior Independent Director has conducted a review of the effectiveness of the Chairman, and no issues were noted.

Sustainability

UKGI occupies premises in 1 Victoria St, London. The head lessee is the Department for Business, Energy and Industrial Strategy (BEIS). It is not possible to separately identify emissions, waste or consumption arising from UKGI's proportion of the premises. Full sustainability data for BEIS is reported in its annual report and accounts, available at www.gov.uk.

Payment of suppliers

In May 2010, the Government introduced a 5 day target for Small and Medium sized Enterprise (SME) suppliers to receive payment. This represented accelerated payment from the previous 10 day target set in November 2008.

During 2017-2018, UKGI made 92.72% (2016-17: 93.20%) of all supplier payments within 5 days. Prompt payment targets fell during the first two months of the financial year when a new ERP system was implemented

by HM Treasury group. Once this system was fully operational the payment targets again exceeded HM Treasury group's target of 90%. UKGI will continue to seek further improvements in its payment processes in order to push towards making all supplier payments within 5 days.

Going concern

UKGI is funded annually by Parliament through grant-in-aid financed from the HM Treasury supply estimate. A multi-year budget settlement for UKGI has been agreed with HM Treasury, comprising a commitment to financial year 2019-2020. UKGI's status will be reviewed periodically. The date of the next review will be in 2019.

The financial statements for 2017-2018 show a negative reserve in the Statement of Changes in Taxpayer Equity. This reflects UKGI's funding arrangement with HM Treasury, as set out in our framework document:

'The grant-in-aid will normally be paid in monthly instalments on the basis of written applications showing evidence of need. UKGI will comply with the general principle that there is no payment in advance of need. Cash balances accumulated during the course of the year from grant-in-aid or other Exchequer funds shall

be kept to a minimum level consistent with the efficient operation of UKGI. Grant-in-aid not drawn down by the end of the financial year shall lapse. Subject to approval by Parliament of the relevant Estimates provision, where grant-in-aid is delayed to avoid excess cash balances at the year-end, the department will make available in the next financial year any such grant-in-aid that is required to meet any liabilities at the year end, such as creditors.'

For the purposes of the Framework Document, the relevant grant-in-aid budget has been drawn down to meet UKGI's financial obligations. Grant-in-aid cash has been transferred to meet UKGI's financial obligations as they fall due. Grant-in-aid cash has not been transferred for expenditure incurred and recognised, but not yet paid as at year end. The corresponding cash will be transferred as and when the obligations crystallise.

HM Treasury has also formally confirmed that it undertakes to ensure that UKGI has, and at all times shall have sufficient funds available to pay and discharge each and all of its financial obligations, as and when they fall due.

It has accordingly been considered appropriate to adopt a going concern basis for these financial statements.

Summary of meetings and attendance

Number of meetings attended in 2017-18	Board (8)	Audit and Risk (4)	Remuneration (2)
	Attended	Attended	Attended
Robert Swannell	8		
Alex Chisholm	7		
Jitesh Gadhia	7		2
Jane Guyett	8	4	
Robin Lawther	7	4	2
James Leigh-Pemberton	7		
Simon Palley	7	3	
Charles Roxburgh	7		
Mark Russell	8		
Caroline Thomson	7		2

Robert Swannell, Mark Russell and James Leigh-Pemberton were invited to attend all committee meetings as observers

Events after the reporting period

The integration of UK Financial Investments (“UKFI”) into UKGI occurred on 1 April 2018. This is in line with the government’s objective, announced in May 2015, of merging UKFI and UKGI by March 2018 into a single, government-owned company with its own independent Board of Directors.

The former UKFI executive team now forms a new, specialist Financial Institutions Group within UKGI which will continue to focus on the stewardship and divestment of the government’s remaining holdings in RBS and UK Asset Resolution (UKAR), as well as enhancing UKGI’s Financial Institutions expertise for deployment on a wider range of project and transaction work for government. UKGI has delegated to its Transaction Committee the responsibility for determining advice to HM Treasury ministers in respect of the stewardship of and any disposal of, government’s interest in the Financial Institution assets (RBS and UKAR).

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors’ Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company’s auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company’s auditors were aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

UKGI has appointed the Comptroller and Auditor General as its external auditor. The National Audit Office carries out the audit for and on behalf of the Comptroller and Auditor General. The remuneration paid to its external auditor for work during this financial year was £21,900 exclusive of VAT (2016-17: £18,300). No non-audit work was undertaken by the auditors.

Other matters

The review of business and disclosure of principle activities and risks in the year are included in the Strategic Report.

The UKGI Board



Robert Swannell – Chairman

Robert is the Chairman of UKGI.

Robert was previously the Chairman of the Shareholder Executive, UKGI's predecessor entity. Robert was Chairman of Marks and Spencer, from January 2011 to September 2017. He is a director of the Investor Forum and a member of the Take-Over Appeal Board.

Until 2010, Robert spent over 30 years in investment banking with Schroders/Citigroup. He was formerly Vice-Chairman of Citi Europe and Chairman of Citi's European Investment Bank. He was senior independent director of both the British Land Company plc (NED 1999 to 2010) and of 3i Group plc (NED, 2006 to 2010). Robert was Chairman of HMV Group plc from February 2009 until March 2011.



James Leigh-Pemberton – Non-Executive Deputy Chairman

James Leigh-Pemberton was the Chairman of UKFI and is the Deputy Chairman of UKGI. He took on these roles in April 2016.

James joined UKFI as Chief Executive in October 2013 and served as Executive Chairman of the organisation from January 2014 – March 2016.

Before joining UKFI, James was Managing Director and Chief Executive Officer of Credit Suisse in the United Kingdom, based in London. James held several senior roles within Credit Suisse's Investment Banking Department, including Head of European Investment Banking Department, Head of European Equity Capital Markets and Chairman of UK Investment Banking. He joined Credit Suisse First Boston (CSFB) in 1994. Prior to joining CSFB, he was a Director of S.G. Warburg Securities, where he worked for 15 years.



Mark Russell – Chief Executive

Mark Russell was appointed Chief Executive of the Shareholder Executive (the predecessor body of UKGI) in April 2013. Mark joined the Shareholder Executive as head of its Corporate Finance Practice in November 2004 and was appointed Deputy Chief Executive in April 2008.

Previously Mark was a partner in the corporate finance departments of KPMG London and KPMG Frankfurt. Prior to this Mark worked at PwC Corporate Finance and Robert Fleming & Co., Lazard Brothers and A.T. Kearney.

Mark is senior independent non-executive director of London and Continental Railways Limited, independent non-executive director of DP World, non-executive director of the Submarine Delivery Agency, and was formerly non-executive director of Eurostar International Limited.



Jane Guyett – Senior independent director

Jane Guyett is the senior independent director of UKGI. She is the Chair of Connect Plus (M25) plc, and is a non-executive director on the Boards of Kerry London Ltd, UK Financial Investments, Dalcour Pharma and Trade Direct Insurance Services Ltd.

Jane spent 15 years with Bank of America Merrill Lynch where she held various roles in London and New York. She was Chief Operating Officer (EMEA and Asia) of the Global Markets Group and sat on the Board of Bank of America Securities, London. She began her career in Corporate Restructuring at Mitsubishi Bank Ltd London, before joining Bank of America in 1994. Jane holds a degree in Economics and is an active supporter of the Globe Theatre.



Baron Gadhia of Northwood – Non-executive director

Jitesh Gadhia has over 25 years' investment banking experience, having held senior positions at Blackstone, Barclays Capital, ABN AMRO and Baring Brothers. He has advised on a wide range of high profile M&A and capital raising transactions across developed and emerging markets.

Jitesh is also a board member of UKFI and BGL Group, which owns comparethemarket.com, the UK's largest digital price comparison website for financial and household services.

Jitesh graduated from Cambridge University with a degree in economics and attended the London Business School as a Sloan Fellow. He has served as a Trustee of Guy's and St Thomas' Charity and of Nesta. He was selected as a Young Global Leader by the World Economic Forum. Jitesh has been a member of House of Lords since September 2016.



Simon Palley – Non-executive director

Simon has had a successful and wide-ranging career in investment banking, consulting and private equity. He started his career at Chase Manhattan Bank before moving to Bain & Company. He left in 1988 to join Bankers Trust as a vice president and moved to BC Partners, a leading European private equity firm, in 1990 where he worked for 17 years, rising to the position of Managing Partner. Simon then became Chairman of the private equity firm Centerbridge Partners Europe, a post he held until 2013.

He is now a non-executive director of Land Securities plc, a senior adviser to TowerBrook Capital Partners and an adviser to the private equity arm of GIC. Simon is also a trustee of the University of Pennsylvania and an executive trustee of the Tate Foundation.



Robin Lawther – Non-executive director

Robin Lawther is a non-executive board member of Nordea, the largest Nordic bank and of Oras Investments. She is chair of the remuneration committee on the Nordea Board and was a member of the risk committee for three years. In addition, Robin works with her own privately held student housing developments in the UK, US, and Germany.

Robin previously worked as a managing director at JP Morgan in London, Scandinavia, Turkey, and New York for 28 years in a number of senior positions in investment banking, including as the Head of European Financial Institution Merger and Acquisitions Execution Team and as the Head of the Nordic Team across all businesses. She specialised in mergers and acquisitions and capital raising. Robin is also a supporter of several London theatres and is actively involved in women's mentoring programs in the UK, US, and Scandinavia.



Caroline Thomson – Non-executive director

Caroline Thomson is the chair of Digital UK, the body which is responsible for digital terrestrial television. She is also Chair of Oxfam GB.

Alongside these chairmanships, she is a non-executive director of VITEC plc (and chair of the remuneration committee) and of CN media group. Caroline is a trustee of Tullie House Gallery in Cumbria, a director of London First, trustee of The Conversation and a member of York University Council.

In the arts world, Caroline stepped down from her role as deputy chair of the National Gallery in August 2016 and retired as Executive Director of English National Ballet in March 2016.

Originally a journalist, until 2012 Caroline was Chief Operating Officer at the BBC — having served twelve years as a member of the Executive Board. As Chief Operating Officer, she was the Deputy Director General and was responsible for all the non-programme parts of the BBC except finance.

She has an honorary degree from the University of York and is an honorary fellow of the University of Cumbria.



Alex Chisholm – Non-executive director

Alex Chisholm became Permanent Secretary for the Department for Business, Energy and Industrial Strategy in September 2016. Prior to that he was Joint Permanent Secretary for BEIS. He is also a trustee and Deputy Chair at the international charity Breadline Africa.

He was Permanent Secretary for the Department of Energy and Climate Change (DECC), having previously served as Chief Executive of the Competition and Markets Authority (CMA), Chairperson and Commissioner of Ireland's communications regulatory agency, ComReg, Chair of the Economic Regulators Network in Ireland and has held senior executive positions in the media, technology and e-commerce industries, with Pearson plc, Financial Times Group, eCountries Inc and Acceleration Ltd.



Charles Roxburgh – Non-executive director

Charles Roxburgh is the Second Permanent Secretary at Her Majesty's Treasury. He took up this position in July 2016. In this role, he is responsible, at the Treasury, for all issues relating to growth, productivity, infrastructure, financial services and financial stability. He is also a member of the Executive Management Board at the Treasury. Charles represents HM Treasury on the Bank of England's Financial Policy Committee.

Prior to joining HM Treasury in 2013, Charles spent 26 years at McKinsey & Company. In his consulting work, he focused primarily on serving clients in the financial services sector. He was based in London for most of his career, but also spent seven years working in McKinsey's New York Financial Institutions practice. His client work spanned retail banking, corporate and investment banking, insurance and asset management.

He held a number of leadership positions at McKinsey, including: co-head of the Global Strategy Practice; head of the UK Financial Institutions Group; and co-leader of the Global Corporate and Investment Banking Practice. In 2009, he became the London-based Director of the McKinsey Global Institute (MGI). In 2011, he was elected to the global board of McKinsey & Company.

He was educated at Cambridge University, where he read Classics. He holds an MBA from the Harvard Business School.

Audit & Risk Committee Report

Audit & Risk Chair's foreword

The Audit & Risk Committee's (ARC) overarching theme has been to build on the processes and procedures that were put in place during UKGI's first two years in operation. Whilst UKGI established the highest standard of risk management processes, which are an exemplar for other government bodies, the focus for the Committee has been continuous improvement and ensuring that other aspects of processes and quality management are similarly well developed. To this end, in the year, the Committee:

- oversaw the updating of the UKGI risk management process, to ensure risk reporting is at the heart of UKGI activity and guarantees Board oversight of the projects and programmes that are currently reporting the highest level of risks;
- agreed the new Portfolio Management process created to add value and mitigate risk by improving the framework for managing the UKGI asset portfolio;
- continued working with the Government Internal Audit Agency (GIAA) developing a rolling programme

of internal audits and reviewing pertinent audit reports from the HM Treasury group, specifically around IT infrastructure and support, where reliance could be taken; and

- undertook a Committee Effectiveness review to ensure the ARC is discharging its duties effectively.

Looking forward to 2018-2019, the key objectives for the ARC will be to ensure horizon scanning and risk reporting are functioning effectively and thus providing the Board with the required level of oversight. The Committee will continue to work closely with GIAA and the NAO, supported in particular by UKGI's finance and corporate services functions.

Jane Guyett

Chair of the Audit and Risk Committee

Activities of the Audit & Risk Committee

The ARC supports the Board and the Chief Executive as Accounting Officer on matters relating to risk, internal control and governance. The members of the ARC in 2017-2018 were all Directors of UKGI and are:

- Jane Guyett (Chair)
- Simon Palley
- Robin Lawther

At least four meetings of the ARC are scheduled annually. Usually the UKGI Chairman, Chief Executive, Chief Financial Officer and Chief Operating Officer attend as observers. Representatives from the external auditors, the National Audit Office (NAO), and internal auditors, the Government Internal Audit Agency (GIAA), are also invited.

The ARC applies the principles of good practice as set out in HM Treasury's Audit and Risk Assurance Committee Handbook. Accordingly, the ARC has agreed terms of reference which define its scope as follows:

- **Financial reporting** – responsibility for accounting policies, implementing and monitoring the maintenance of adequate accounting and other records, and reviewing the annual report and accounts;
- **Internal control and risk** – ensuring that the Company's management establish and maintain appropriate controls and associated risk management frameworks, and accordingly, monitoring the Company's operating, strategic and project risks;

- **External audit** – overall responsibility for the relationship with the NAO;
- **Internal audit** – approving and, where necessary, directing the Company's internal audit programme and reviewing the performance of the GIAA's service to UKGI;
- **Compliance** – Approving the Company's compliance policies, in particular the compliance manual and whistleblowing policies.

The Chief Executive, as Accounting Officer, is responsible for maintaining a sound system of internal control which supports the achievement of UKGI's objectives whilst safeguarding public funds and departmental assets, in accordance with the responsibilities assigned to him in Managing Public Money. Upon the recommendation of the ARC, the Board has adopted a formal risk appetite statement setting out the level of risk that UKGI is willing bear, the system of internal control is proportionate to that statement.

Critical to the system of internal control is the risk management framework, which ensures that the respective responsibilities of senior management, the Chief Executive, the ARC and the Board are fulfilled. The risk management framework is structured as follows:

- **Operational level risk management:** day to day risk management is the responsibility of the staff of UKGI. In order to promote good risk management, the Chief Operating Officer chairs regular Risk and Assurance Committees, to challenge and monitor risk management on individual projects. These are augmented by Portfolio Reviews, where a peer group reviews the stewardship of assets by UKGI teams. The Executive Committee reviews on a monthly basis the project risk map.
- **Non-Executive risk management:** oversight of risk management is provided by the Board, which receives the risk map on a monthly basis, and in particular the ARC, which systematically reviews the UKGI operational and strategic risk registers.
- **Independent risk management:** UKGI has elected to utilise the services of the GIAA to provide assurance on the overall effectiveness of UKGI's risk management framework and system of internal control. This is discharged via a risk-based work programme approved by the ARC each year.

The Chief Executive as Accounting Officer has confirmed to the ARC that there were no significant control issues in the year under review and that UKGI has an appropriate and effective system of internal control and risk management framework.

Remuneration Committee Report

Remuneration Chair's foreword

UKGI is wholly dependent upon its people and the key to its success depends upon attracting a unique mix of people from both the public and private sectors. The development of our staff is a top priority and we aim for everyone who passes through UKGI to move on to a better role than would otherwise be the case. The Remuneration Committee has worked closely with management to design a remuneration framework which attracts and retains the best people and incentivises them to perform to the best of their ability to ensure the success of UKGI. The Committee has responsibility for approving the remuneration of director

level employees. It is committed to ensuring that, within the framework set by public sector pay guidance, director-level remuneration is sufficient in combination with the unique and interesting work that UKGI can offer, to attract the very best leaders. The calibre of the new director-level staff appointed in the year is evidence that the remuneration framework remains fit for purpose.

Caroline Thomson

Chair of the Remuneration Committee

Activities of the Remuneration Committee

The Remuneration Committee operates as a sub-committee of the UKGI Board. It comprises the Chair, who is an independent non-executive director of the Company, and two additional independent non-executive directors. The Board is responsible for any new appointments to the Remuneration Committee. The current members are:

- Caroline Thomson (Committee Chair),
- Robin Lawther
- Jitesh Gadhia

The Committee's terms of reference state that it will meet at least once a year and ad hoc as required. The Remuneration Committee met twice in this reporting period. The Chair is responsible for reporting to the Board on the Committee's activities after each meeting of the Committee or otherwise as requested by the Board.

The purpose of the Remuneration Committee is to:

- approve the Company's Remuneration Framework and Performance-related pay policy;
- approve the Remuneration and Performance-related pay of the Chief Executive, UKGI director level staff and;
- recommend the approval of remuneration packages of the Chief Executive, his direct reports and UKGI director level staff to HM Treasury, and where required, to the Cabinet Office.

Remuneration policy

In approving the remuneration for Board members and other UKGI employees, the Remuneration Committee takes into account all factors which it deems necessary. This includes HM Treasury's interest, primarily ensuring that remuneration levels:

- deliver value for money;
- are sufficient to attract and motivate high-calibre individuals to drive the delivery of the activities and objectives set out in the Framework Document and the UKGI strategic plan; and
- are in line with best practice, linked to performance, with no reward for failure or excessive risk taking.

UKGI operates a performance appraisal system through which performance is reviewed semi-annually. Performance-related pay is awarded in relation to performance linked to the annual staff appraisal and takes the form of bonus payments for those staff who have performed well in their roles.

Any UKGI performance-related pay is calculated as a fraction rather than multiple of salary. It is UKGI's policy that staff employed directly by UKGI are entitled to be considered for variable pay each year on the basis of their performance and affordability.

In this report the disclosures on senior management remuneration, CETV and pensions, fair pay disclosures staff numbers and costs, exit payments have been audited. No other disclosures have been audited.

Remuneration received including pension benefits (audited)

In accordance with the requirements of the Companies Act 2006, remuneration is shown for UKGI's board members and senior management below:

	Salary £'000	Bonus payments £'000	Pension benefits £'000	Total £'000	2016-2017 £'000
Robert Swannell	40-45			40-45	40-45
Jitesh Gadhia	0-5			0-5	0-5
Jane Guyett	5-10			5-10	5-10
Robin Lawther	30-35			30-35	30-35
Simon Palley	25-30			25-30	25-30
Mark Russell	160-165	20-25	35-40	225-230	220-225
Caroline Thomson	30-35			30-35	30-35

Alex Chisholm, James Leigh-Pemberton, Charles Roxburgh and Philip Duffy received no fee for their roles as directors of UKGI. Jitesh Gadhia and Jane Guyett, as non-executive directors of UKFI, received fees only in relation to their UKGI sub-committee responsibilities.

Total remuneration includes, where appropriate, salary, non-consolidated performance related payments, benefits-in-kind and any severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Remuneration multiples (audited)

The relationship between the remuneration of the highest-paid member of the UKGI Board and the median remuneration of the organisation's workforce is reported below. (staff on secondments into UKGI are not included in the figures)

The Chief Executive is the highest-paid member of the UKGI Board and the organisation's wider workforce. In the financial year 2017-18 the total remuneration was £189,760 (2016-17: £185,710). This was 2.1 times (2016-17: 2.4 times) the median remuneration of the workforce which was £87,852 (2016-17: £78,045).

Performance related payments (PRP) (audited)

The payment of performance related awards is assessed annually by the remuneration committee. These one-off payments are determined by individual and Company performance and criteria associated with the UKGI performance management process and are aligned to the policy for public sector pay. The payments relating to performance in each financial year are shown separately.

	2017-2018 £'000	2016-2017 £'000
Total performance related pay	598	432

Pension (audited)

Pension information for UKGI's senior management is show below:

	Accrued pension at pension age as at 31 March 2018 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31 March 2018 £'000	CETV at 31 March 2017 £'000	Real increase in CETV £'000
Mark Russell	35-40	0-5	704	625	33

Non-executive directors are not entitled to any pension benefits.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension

figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash equivalent transfer values (audited)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension

payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

UKGI pension scheme

Employees who joined UKGI after 1 April 2016 are enrolled into a defined contribution pension scheme administered by Aviva; employer contributions are 5% of base salary and the employee contributes a minimum of 3%.

Staff numbers and related costs (audited)

	Permanent and FTA staff £'000	Staff seconded into UKGI £'000	Total 2017-18 £'000	Total 2016-17 £'000
Salaries (including PRP)	6,360	1,859	8,219	7,974
Social security	792	201	993	887
Other pension costs	923	290	1,213	1,264
Recoveries in respect of outward secondments	(301)		(301)	(213)
Total net costs	7,774	2,350	10,124	9,912
Staff numbers (including non-executive Board members)	81	28	109	104

Staff numbers are the average monthly headcount for the year. Permanent and FTA staff includes non-executive board members.

Exit payments (audited)

There were no exit payments made in 2017-2018.

Male / female staff breakdown (audited)

The number of male and female staff at UKGI as at 31 March 2018 was:

	Male	Female
Non-executive Board members	6	3
Staff	62	48
Total	68	51

Employees include staff on secondment to other Government departments and staff seconded to UKGI.

Equal opportunities

UKGI is an equal opportunities employer. Policies are in place to ensure that no job applicant or member of staff receives less favourable treatment on grounds of gender, gender re-assignment, marital or family status, colour, racial origin, sexual orientation, age, background,

religion, disability, trade union membership or by any other condition or requirement.

Off-payroll engagements

There were no off-payroll engagements during 2017-2018.

Employee relations

UKGI recognises the following trade unions: Prospect, PCS and FDA. UKGI met with trade union representatives regularly throughout the year. Staff are free to join the trade union of their choice.

Learning and development

UKGI's learning and development policy aims to ensure that its staff have the right skills to meet its objectives. UKGI provides targeted training and support for professional studies to enhance the skills base of its employees.

Staff sickness absence

Recorded working days lost due to UKGI staff sickness absence in 2017-2018 were 132.5, or 0.5% per cent of the total available (2016-17: 92 or 0.3%).

Social, community and human rights issues

UKGI has no social, community or human rights issues to report which are relevant to understanding its business.

Gender pay

As an entity with only 70 employees, UKGI is not required to publish gender pay data required for companies with over 250 employees under the provisions of the Equality Act 2010 and associated regulations. We are however committed to the highest standards of transparency, and have therefore elected to disclose our gender pay data, setting out the difference in average hourly pay between men and women. As at 31 March 2018 our mean gender pay gap was 27.2% (31 March 2017: 32.4%), and our median gender pay gap was 31.6% (31 March 2017: 30.3%). Our mean and median bonus gap was 39.8% (31 March 2017: no comparable data as the first bonuses awarded by UKGI were not paid until the financial year 2017-18).

We have analysed the data collected to calculate the gender pay gap, and it is clear that our gender pay gap is driven by the composition of the organisation, with the majority of the senior roles occupied by men, and junior and administrative roles staffed predominantly by women.

We are currently working to address our existing gender pay gap. Our focus will be on recruiting and retaining women at senior levels. As at March 2018, 32% of our ED level and above staff were female. This compares well with the Hampton-Alexander Review's 2020 target for female representation within senior leadership teams to be 33% or higher, and well ahead of the average for FTSE 250 companies of 24%. UKGI already champions diversity, advocating diversity and inclusion across its portfolio entities. We pioneered the Women on Board scheme, which has now joined forces with a similar private sector initiative to become the Future Board Scheme. This initiative offers talented, senior women board-level opportunities.

We are though committed to further increasing the diversity of our senior workforce, and to improve our recruitment and retention of women at senior levels. Our target is to have at least 40% of our executive director and director level posts filled by women by March 2021. This target forms part of our commitment under HM Treasury's Women in Finance charter, to which UKGI became a signatory in the year. It is a challenging target, but we believe that this is achievable through a combination of mentoring and development of internal candidates; a clear offer of flexible and variable working patterns; and targeted recruitment.

Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Financial Statements in accordance with International Accounting Standards and applicable law (International Financial Reporting Standards). The Financial Statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the applicable International Financial Reporting Standard has been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going-concern basis.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

This report has been approved by the Board of Directors and is signed by the CEO and Chairman on behalf of the Board of Directors.

The Accounting Officer of HM Treasury has designated the Chief Executive as the Accounting Officer of UKGI.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding UKGI's assets, are set out in Managing Public Money, published by HM Treasury. In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- confirm that they take responsibility for the judgements made to ensure the annual report and accounts as a whole is fair, balanced and understandable;
- observe the Accounts Direction issued by HMT, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

This statement was approved by the Board of Directors on 26 June 2018 and was signed on its behalf by:



Mark Russell

Chief Executive Officer

UKGI Company Number 9774296



Robert Swannell

Chairman

UKGI Company Number 9774296

Independent Auditor's Report to the Member of UK Government Investments Limited

Opinion on financial statements

I have audited the financial statements of UK Government Investments Limited for the period ended 31 March 2018 which comprise the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of the loss for the period then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my audit report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the UK Government Investments Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' and Accounting Officer's responsibilities in respect of the Directors' Report and the Financial Statements, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UK Government Investments Limited's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether

a material uncertainty exists related to events or conditions that may cast significant doubt on the UK Government Investments Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

Directors are responsible for the other information. The other information comprises information included in the Strategic Report and Directors' Report and Governance Statement other than the parts of the Directors Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial

statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the company.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- the part of the Directors Remuneration Report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual;
- in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Peter Morland

Senior Statutory Auditor
26 June 2018

For and on behalf of the

Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or

Financial Statements of UK Government Investments Limited

Statement of comprehensive net expenditure for the year ended 31 March 2018

	Notes	2017-2018 £000	2016-2017 £000
Staff costs	3	10,425	10,125
Operational costs	4	2,856	1,998
Total operating expenditure		13,281	12,123
Revenue	5	(842)	(353)
Net operating expenditure before tax		12,439	11,770
Taxation		25	0
Net operating expenditure after tax		12,464	11,770

The notes on pages 54–60 are an integral part of these financial statements.

All activities are classified as continuing. There has been no other comprehensive income or expenditure in this year.

Financial Statements of UK Government Investments Limited

Statement of financial position as at 31 March 2018

	Notes	31-Mar-18 £000	31-Mar-17 £000
Current assets			
Trade and other receivables	7	507	223
Cash and cash equivalents	8	1,025	242
Total current assets		1,532	465
Current liabilities			
Trade and other payables	9	(2,816)	(2,435)
Total current liabilities		(2,816)	(2,435)
Net Current assets/(liabilities)		(1,284)	(1,970)
Taxpayers' equity			
General fund		(1,284)	(1,970)
Total taxpayers' equity		(1,284)	(1,970)

The notes on pages 54–60 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 26 June 2018 and were signed on its behalf by:



Mark Russell

Chief Executive

UKGI Company Number 09774296



Robert Swannell

Chairman

UKGI Company Number 09774296

Statement of cash flows for the year ended 31 March 2018

	Notes	2017-2018 £000	2016-2017 £000
Cash flows from operating activities			
Net operating costs		(12,439)	(11,770)
Increase in trade and other receivables	7	(284)	(223)
Increase in trade and other payables	9	381	2,435
Corporation tax		(25)	
Net cash outflow from operating activities		(12,367)	(9,558)
Cash flows from financing activities			
Grant-in-Aid from HM Treasury		13,150	9,800
Intercompany – account movements			
Net financing		13,150	9,800
Net increase/(decrease) in cash and cash equivalents in the period		783	242
Cash and cash equivalents at the beginning of the period		242	0
Cash and cash equivalents at the end of the period		1,025	242

The notes on pages 54–60 are an integral part of these financial statements.

Statement of changes in taxpayers' equity for the year ended 31 March 2018

	General Reserve £000
Balance at 1 April 2016	0
Grant-in-Aid from HM Treasury	9,800
Comprehensive expenditure for the year	(11,770)
Balance at 31 March 2017	(1,970)
Grant-in-Aid from HM Treasury	13,150
Comprehensive expenditure for the year	(12,464)
Balance at 31 March 2018	(1,284)

The notes on pages 54–60 are an integral part of these financial statements.

Notes to the Financial Statements

1. Reporting entity

UK Government Investments Limited (the Company) is a Company limited by shares incorporated in the United Kingdom. The address of the Company's registered office is 27-28 Eastcastle Street, London W1W 8DH.

2. Statement of accounting policies

These financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards as adopted by the EU (IFRS). In addition these financial statements follow the requirements and principles of the Government Financial Reporting Manual (FRoM) to the extent that they clarify or build on the requirements of IFRS and the Companies Act 2006. UKGI's accounts have been prepared in accordance with the Accounts Direction given by HM Treasury, under the legislative authority of the Government Resources and Accounts Act 2000.

Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Company for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As per the FRoM, these accounts apply EU adopted IFRS and Interpretations in place as at 1 January 2017. The Company has reviewed the effects that new accounting standards are expected to have on its financial statements and there is no material impact.

(a) Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention.

(b) Going concern

It has been considered appropriate to adopt a going concern basis for the preparation of these financial statements as UKGI has in place an agreed multi-year budget settlement with HM Treasury, comprising a commitment to financial year 2019-2020. UKGI will be reviewed periodically, the date of the next review will be in 2019, and produces separate financial statements.

(c) Subsidiary

UKGI is the sole member of UK Financial Investments (UKFI). Under the Framework Agreement, between HM Treasury and UKFI, HM Treasury exercises control over UKFI, and therefore in accordance with the requirements of IFRS 10, UKGI does not consolidate UKFI into its accounts. UKGI's investment in its subsidiary is accounted for at cost in accordance with IAS 27. UKGI purchased the entire share capital of UKFI for £1.

(d) Revenue

Revenue is recognised in the statement of comprehensive expenditure on an accruals basis.

(e) Financing

The Company is financed via Grant-in-Aid from HMT. The Grant-in-Aid is credited to the general fund in the year in which it is received. The total Grant-in-Aid received by the Company from HMT in the financial year 2017-18 was

£13.2m (2016-17 £9.8m). This total represents the cash requirement within the reporting period and the carryover of a cash balance into the following financial year.

(f) Pensions

The provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS), which are described in the Remuneration Remuneration Committee Report and cover staff transferred from the Civil Service and who are subject to TUPE. The defined benefit schemes within the PCSPS and CSOPS are unfunded and contributory. UKGI recognises as a cost the monthly charges made by the PCSPS and CSOPS to contribute to the schemes.

Employees are entitled to enrol into UKGI's group stakeholder pension plan, a defined contribution scheme administered by Fidelity. Contributions are charged in the Statement of Comprehensive Net Expenditure as they become payable in accordance with the rules of the scheme.

(g) Employee benefits

The Company has accrued for the cost of the outstanding employee paid holiday entitlement. The accrual is based on salary, Employer's National Insurance Contributions and pension contributions.

(h) Financial instruments

UKGI is not exposed to significant financial risk factors arising from financial instruments. Financial assets and liabilities are generated by day-to-day operation activities rather than being held to change the risks facing UKGI in undertaking its activities.

UKGI's financial assets are: trade receivables due from related parties and other trade receivables. All are classified as 'loans and receivables' and denominated in pounds sterling.

UKGI's financial liabilities are: trade and other payables due to related parties, other trade payables, non-trade payables, taxation and social security and other payables. All are classified as 'other financial liabilities' and denominated in pounds sterling.

The carrying values of short-term financial assets and liabilities (at amortised cost) are not considered different from fair value.

(i) Market risk

Market risk is the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements. The vast majority of UKGI's transactions are undertaken in sterling and so its exposure to foreign exchange risk is minimal. UKGI's income and operating cash flows are substantially independent of changes in market interest rates.

(ii) Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to UKGI. Credit risk arises from deposits with banks as well as credit exposures to HM Treasury and other debtors. The credit risk exposure to HM Treasury is considered negligible; UKGI's operating costs are recovered from HM Treasury, which is financed by resources voted by Parliament. Surplus operating cash is only held within the Government Banking Service.

(iii) Liquidity risk

Liquidity risk is the possibility that UKGI might not have funds available to meet its commitments to make payments; this is managed through prudent cash forecasting and is considered negligible as expenses are recouped through grant-in-aid.

(i) Tax

Value Added Tax - In general input tax on purchases is not recoverable. Irrecoverable tax is charged to the relevant expenditure category or included in the capitalised purchase of non-current assets. Where output VAT is charged or input VAT is recoverable, amounts are stated net of VAT.

Corporation Tax – UKGI is liable to pay corporation tax on taxable profits earned. Payment of £15k was made to HMRC in relation to the period 1 April 2016 to 31 March 2017.

(j) Estimates and judgements

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimate and assumptions that affect the application of accounting policies and the reported amounts of asset, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There were no such revisions to estimates or judgements in this period.

(k) Functional & presentational currency

These Financial Statements are presented in pounds sterling, which is the Company's functional currency.

(l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2018, and have not been applied in preparing these financial statements. The following have been considered but are not expected to have an effect on UKGI's financial statements:

- IFRS 9 Financial Instruments - effective for annual reporting periods beginning on or after 1 January 2018;
- IFRS 15 Revenue from Contracts with Customers - effective for annual reporting periods beginning on or after 1 January 2018; and
- IFRS 16 Leases - effective for annual reporting periods beginning on or after 1 January 2019.

3. Staff costs

	2017-2018	2016-2017
	£000	£000
Salaries	6,360	6,142
Employer national insurance contributions	792	737
Pensions costs	923	985
Secondees	2,350	2,146
Agency staff	0	115
Total Costs	10,425	10,125

Further details of staff costs and numbers are disclosed in the Remuneration Committee Report.

4. Operational costs

	2017-2018	2016-2017
	£000	£000
Office related costs	688	741
Professional services	1,744	916
Staff related costs including training, travel and expenses	424	341
Total Costs	2,856	1,998

Professional services include audit fees payable to the National Audit Office of £21,900, exclusive of VAT (2016-17: £18,300). UKGI occupies premises at 1 Victoria St, London; the head lessor is the Department for Business, Energy and Industrial Strategy (BEIS). HM Treasury reimburses BEIS directly for the proportion of the rent and service charges relating the premises occupied by UKGI.

5. Revenue

	2017-2018	2016-2017
	£000	£000
Legal costs recovery	0	140
Staff costs recovery	301	213
Recharges and recoveries	541	0
Total	842	353

6. Directors' emoluments

	2017-2018	2016-2017
	£000	£000
Directors' emoluments	375	366
Total	375	366

Directors' emoluments include salary, bonuses awarded in the period and employer's pension contributions. Full details of the Directors' remuneration including policies are available within the remuneration section of this report.

7. Receivables

	2017-2018	2016-2017
Amounts falling due within one year	£000	£000
Trade and other receivables	12	73
Prepayments and accrued income	495	150
Total	507	223

8. Cash and cash equivalents

	2017-2018	2016-2017
	£000	£000
Cash held with the Government Banking Service	1,025	242
Total	1,025	242

9. Payables

	2017-2018	2016-2017
Amounts falling due within one year	£000	£000
Trade payables	113	1,223
Accruals	2,478	1,000
Taxation and social security	225	212
Total	2,816	2,435

10. Commitments and leases

The Company has neither entered any capital commitments nor any non-cancellable contracts.

The Company occupies office space within 1 Victoria Street, London. This is achieved by means of an agreement as set out within a Memorandum of Terms of Occupation between HM Treasury (UK Government Investments) and the Department for Business, Energy and Industrial Strategy (BEIS). This covers the provision of accommodation. The agreement runs for a period of 4 years and 2 months from 1 April 2016 to 30 June 2020.

An annual contribution is paid by HM Treasury to BEIS directly on the Company's behalf. For the financial year 2017-2018 the contribution was £722,492 (2016-17: £681,000).

11. Called up share capital

The Company's share capital consists of 1 Ordinary Share of £1. The share is fully paid up.

12. Related party transactions

UKGI is a wholly-owned subsidiary of HM Treasury. HM Treasury is regarded as a related party. During the year, UKGI has had various material transactions with HM Treasury, with payments totalling £877k (2016-17: £375k), primarily in relation to recoveries for IT, finance and HR shared services, and receipts of £124k (2016-17: £93k) in respect of the outward secondment of staff by UKGI.

UKGI also had material transactions with BEIS and the Department for Exiting the European Union (DEEU). Payments totalling £686k (2016-17: £1,069k) were made to BEIS for the provision of secondees to UKGI while receipts of £138k (2016-17: nil) were received from DEEU in respect of outward secondment of staff from UKGI.

There have been no material transactions between UKGI and UKFI. No Board member, key manager or other related party has undertaken any material transactions with UKGI during the year.

13. Contingent assets and liabilities

UKGI has no contingent assets or liabilities.

14. Subsidiary

UKGI holds the entire allotted share capital of UKFI at cost, being £1. UKFI's registered office is 27/28 Eastcastle Street, London, and its main place of business is 1 Victoria Street, London.

15. Ultimate parent

The ultimate parent entity of UKGI is HM Treasury, which holds the entire allotted share capital of ordinary shares of £1.

16. Dividends

UKGI has no intention of making a profit, and does not intend to declare a dividend at any point. No dividend was declared or paid during the year (2016/17: Nil).

17. Events after the reporting period

UKFI ceased operations on the 31 March 2018 and activities were transferred by absorption to UKGI on 1 April 2018. The balances transferred to UKGI are set out below:

UKFI balances transferred to UKGI on 1 April 2018	
Trade and other receivables	105
Cash and cash equivalents	942
Trade and other payables	(532)
Net assets/(liabilities)	515

18. Post balance sheet events

In June 2018, UKGI, which assumed responsibility for continuing UKFI's mandate on 1 April 2018, completed a sale of shares in Royal Bank of Scotland Group. This event has had no impact on these financial statements.

19. Date authorised for issue

The financial statements were authorised for issue on 26 June 2018

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