



# **Ventus 2 VCT plc**

## **Annual Report & Financial Statements**

for the year ended 28 February 2010



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Ventus 2 VCT plc invests in companies that develop, construct and operate renewable energy projects.

Registered No: 5667210

Cover and inside cover:  
Fenpower Limited, Cambridgeshire  
(Photograph: M. Ridley, 2010).

## I am pleased to present the Annual Report and Financial Statements of Ventus 2 VCT plc (the "Company") for the year ended 28 February 2010.

### **Net Asset Value, Results and Dividends – Ordinary Shares**

At the year end, the net asset value of the ordinary share fund of the Company stood at £10,356,000 or 84.3p per ordinary share. The revenue profit attributable to ordinary shareholders for the year was £70,000 or 0.62p per ordinary share. The capital loss attributable to ordinary shareholders for the year was £868,000 or 7.70p per ordinary share, resulting in a net loss to ordinary shareholders for the year of £798,000 or 7.08p per ordinary share.

The value of investments held by the ordinary share fund at 28 February 2010 was £8,434,000 compared to £8,100,000 at 28 February 2009. The Investment Manager's Report gives details of investments made during the year, together with information about the valuation of all investee company holdings within the portfolio.

The income generated in the ordinary share fund during the year comprised interest earned on mezzanine loan stock, UK treasury bills and cash deposits. Total income for the year to 28 February 2010 was £376,000 compared to £615,000 for the year ended 28 February 2009. The reduced income was primarily attributable to decreases in UK treasury bill yields and interest income from cash on deposit which resulted from cash being substantially deployed to acquire share capital in and to make mezzanine loans to investee companies. In addition, there was a decrease in dividend income resulting from the poor performance of Redimo LFG Limited.

During the year, the Company incurred costs amounting to £103,000 in respect of a scheme of reconstruction (the "Scheme" or "Merger") to merge the ordinary share funds of the Company and Ventus 3 VCT plc (in respect of which further details are provided below). The costs of the Scheme have been allocated to the ordinary share funds of each of the Company and Ventus 3 VCT plc in accordance with the terms of the Scheme.

The creation of a single, larger company is expected to bring significant advantages to shareholders, primarily through a reduction in the annual running costs of the enlarged company when compared to the combined running costs of each separate company. This should increase dividends in the future.

The Company declared a dividend of 1.50p per ordinary share for the first half-year, however, due to the impact on the revenue reserves of the one-off costs of the Merger, the Board does not propose to declare a dividend for the second half-year. Therefore, the total annual dividend is 1.50p per ordinary share.

### **Net Asset Value and Results – "C" Shares**

On 12 February 2009 the Company launched a joint "C" share offer with Ventus VCT plc. The first allotment of "C" shares was made on 24 March 2009 and the offer closed on 30 June 2009 having raised £6,544,000 for the Company, excluding issue costs.

At the year end, the net asset value of the "C" share fund of the Company stood at £6,381,000 or 92.1p per "C" share. The revenue loss attributable to "C" shareholders for the period was £59,000 or 0.97p per "C" share. The capital loss attributable to "C" shareholders for the period was £104,000 or 1.70p per "C" share, resulting in a net loss to "C" shareholders for the period of £163,000 or 2.67p per "C" share.

The value of investments held by the "C" share fund at 28 February 2010 was £325,000. The Investment Manager's Report gives details of investments made during the period, together with information about the valuation of all investee company holdings within the portfolio.

The income generated in the "C" share fund during the period comprised interest earned on mezzanine loan stock, UK treasury bills and cash deposits. Total income for the period to 28 February 2010 was £31,000, of which £12,000 was derived from mezzanine loan stock.

The Company has not declared a dividend in respect of the "C" shares.

### **Share Offers**

On 17 November 2009 the Company launched a joint "top-up" offer with Ventus 3 VCT plc inviting subscriptions for up to an aggregate £2.0 million of ordinary shares. The offer closed on 18 January 2010 and was fully subscribed. On 25 January 2010, 1,113,912 ordinary shares of 25p were allotted at a price of 89p per ordinary share. After issue costs, the Company raised £936,000 from the offer.

On 8 February 2010 the Company launched a second "C" share offer, seeking to raise up to £10 million jointly with Ventus VCT plc. The full terms of the offer are set out in the prospectus published on 8 February 2010. Since the year end, the Company has allotted 4,404,421 "C" shares in respect of this second "C" share offer, which has raised a further £4,162,000 for the "C" share fund, after issue costs. The offer closed on 31 May 2010.

### **Merger with Ventus 3 VCT plc**

On 6 May 2010, the Company completed a scheme of reconstruction with Ventus 3 VCT plc (the "Scheme" or "Merger"). The terms of the Scheme were set out in a circular issued by the Company on 8 February 2010. The Scheme was effected by Ventus 3 VCT plc transferring its assets and liabilities to the Company, in consideration for which the Company issued 12,250,311 new ordinary shares to the shareholders of Ventus 3 VCT plc. Under the Scheme, Ventus 3 VCT plc was placed into members' voluntary liquidation. The number of new shares issued by the Company to the shareholders of Ventus 3 VCT plc was determined on the basis of the relevant net assets of Ventus 3 VCT plc and the Company's ordinary share fund on the date prior to the Merger, adjusted in accordance with the terms of the Scheme. The new ordinary shares rank *pari passu* in all respects and form a single class with the existing ordinary shares.

### **Investments**

The Company's Investment Manager, Climate Change Capital Limited, continues to be actively engaged in managing the portfolio and in identifying and negotiating potential investment opportunities to invest the remaining ordinary and "C" share capital that has been raised. The investments made, dividends paid and capital raised constitute the important events of the year.

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As at 28 February 2010, the ordinary share fund of the Company held investments in 18 companies with a total value of £8.4 million. The "C" share fund held an investment in one company with a value of £0.3 million.

The Investment Manager's Report provides details of the investments held as at 28 February 2010 and as at the date of this report. All investments are structured so as to be treated as qualifying holdings for the purposes of Venture Capital Trust ("VCT") regulations, unless otherwise stated.

#### **VCT Qualifying Status**

The Company retains PricewaterhouseCoopers LLP to review its compliance with VCT regulations. The Directors are satisfied that the Company continues to fulfil the conditions for maintaining VCT status.

#### **Shareholder Communications**

In accordance with the Company's commitment to environmental sustainability and to minimise costs wherever appropriate, the financial statements will continue to be made available through regulated news service providers and on the Company website at [www.ventusvct.com](http://www.ventusvct.com). Any shareholder who wishes to receive notification of reports by email or post may request this by contacting the Registrar.

#### **Outlook**

In order to deal with certain changes to the Listing Rules regarding independence of Directors (further details of which are set out in the Directors' Report), the Board has proposed that David Pinckney stand down as a Director. The other Directors propose to remain on the Board. The Board intends that Alan Moore will be appointed Chairman of the Company. David Pinckney will continue to serve as a director of Ventus VCT plc.

The Company has substantially invested the ordinary share capital raised and the Investment Manager is progressing several opportunities for new investments to be made from the "C" share fund. The Company has previously reported operational difficulties during the year with its investment in Redimo LFG Limited which has resulted in a reduction of the ordinary share NAV as the value of the investment has been fully written down during the year. This has also had an impact on the ability of the Company to pay a final ordinary share dividend.

It remains the long term dividend objective of the Company to pay an average annual dividend of 8p per share in respect of each share class. As further investments become fully operational within the ordinary share fund portfolio the Company is becoming less reliant on income from individual investments and the Directors consider that the Company holds a well diversified portfolio of investments that is expected to yield long term stable income streams to support the dividend objective going forward.

The UK renewable energy market continues to be an attractive sector in which to make investments and the Company remains well positioned to support small to medium sized companies at a time when access to capital continues to be a challenge. The Investment Manager's Report provides further comment on the wider market outlook and the opportunities open to the Company.

The Board of Directors would like to express its appreciation of the hard work and professionalism demonstrated by the Investment Manager and all the Company's service providers throughout the year.

**David Pinckney**

Chairman

7 June 2010

Climate Change Capital Limited (the "Investment Manager") is pleased to present a review of the investment activities of the Company since the last annual report.

Total investment value in the ordinary share fund in 19 companies

**£19.35m**

Total investment value in the "C" share fund in two companies

**£1.85m**

#### Summary of Investments – Ordinary Shares

As described in the Chairman's Statement, on 6 May 2010, the ordinary share fund of the Company acquired the assets and liabilities of Ventus 3 VCT plc. Therefore references to investment holdings as at the date of this report include the value of investments that have been acquired from Ventus 3 VCT plc since the balance sheet date.

As at the date of this report, the Company holds investments in the ordinary share fund in 19 companies with a total investment value of £19.35 million.

£10.0 million of the investments held are in investee companies which are now trading and operating their assets. The Company also holds investments valued at £5.25 million at the date of this report in companies whose assets are in construction and expected to become operational over the course of the next year and a further £4.1 million of investments in earlier stage opportunities. These are typically investee companies that are seeking planning permissions on new sites.

#### Summary of Investments – "C" Shares

The "C" share fund made its first investment during the year ended 28 February 2010. As at the date of this report, the Company holds investments in the "C" share fund in two companies with a total investment value of £1.85 million.

The "C" share fund holds an investment valued at £1.5 million in a company with planning consent to construct a wind farm. The "C" share fund also holds an investment worth £0.35 million in a company which is developing a portfolio of renewable energy assets. The loan of £350,000 advanced by the "C" share fund to Muirhall Windfarm Limited during the year has been repaid since the year end. Further details on this and other investments are presented in the investment portfolio review below.

#### Investment pipeline

The Investment Manager is assessing and progressing a range of potential investment opportunities to be made from the "C" share fund and the additional capital raised through the "top-up" offer.

#### Additional capital raised

During the year ended 28 February 2010, the Company raised £6.5 million of "C" share capital through a joint "C" share offer with Ventus VCT plc and additional ordinary share capital of £0.9 million in the joint "top-up" offer with Ventus 3 VCT plc.

Following the merger with Ventus 3 VCT plc, the Company holds the capital which derives from Ventus 3 VCT plc's net assets, including the capital raised in the joint "top-up" offer. The Company has also raised a further £4.2 million in "C" share capital since the year end, through a further joint "C" share offer with Ventus VCT plc. The "C" share offer closed on 31 May 2010.

#### Investment portfolio summary

The following table shows total investments made from the ordinary share fund as at 28 February 2010 and as at the date of this report in terms of cost and value. The additions, disposals and unrealised gains and losses made in the year are also presented. The cost and values of investments and the commitments made to investments shown as at the date of this report include the investment assets and commitments acquired from Ventus 3 VCT plc.

# INVESTMENT MANAGER'S REPORT

Continued

Ordinary Shares		Investment value as at 28 February 2009	Additions/ (disposals) in the year to 28 February 2010	Unrealised gains/ (losses) in the year to 28 February 2010	Investment cost as at 28 February 2010	Investment value as at 28 February 2010	Investment cost as at 7 June 2010	Investment value as at 7 June 2010	Investment value & commitments as at 7 June 2010
Company name	Details	£000	£000	£000	£000	£000	£000	£000	£000
Craig Wind Farm Limited*	10 megawatt wind farm	Q 502	-	(13)	349	489	698	978	978
Firefly Energy Limited*	Renewable energy	Q 200	-	-	200	200	400	400	400
Achairn Energy Limited*	6 megawatt wind farm	Q 1,118	-	278	1,118	1,396	2,236	2,792	2,792
A7 Lochhead Limited*	6 megawatt wind farm	Q 333	-	24	333	357	666	714	714
Broadview Energy Limited*	Wind farm development	Q 1,000	-	-	1,000	1,000	2,000	2,000	2,000
Redimo LFG Limited*	10 megawatt landfill gas portfolio	Q 1,000	-	(1,000)	1,000	-	2,000	-	-
PBM Power Limited	Woodchip biomass plant	Q 287	-	-	287	287	574	574	574
Spurlens Rig Wind Limited*	Wind farm development	75	24	-	99	99	198	198	198
Olgrinmore Limited*	Wind farm development	30	4	-	34	34	68	68	68
Redeven Energy Limited*	Wind farm development	90	147	-	237	237	534	534	534
Osspower Limited	Hydro-electric development	Q 150	14	-	164	164	355	355	355
Small Hydro Company Limited	Hydro-electric development	Q 58	190	-	248	248	495	495	499
Renewable Power Systems (Dargan Road) Limited	Landfill gas generator	Q 950	-	-	950	950	1,900	1,900	1,900
Sandsfield Heat & Power Limited	Biomass generator	Q 898	500	-	1,398	1,398	2,796	2,796	2,796
Twinwoods Heat & Power Limited	Biomass generator	Q 1,000	-	-	1,000	1,000	2,400	2,400	2,400
Kettering East Energy Limited	Wind farm development	125	-	-	125	125	250	250	250
EcoGen Limited	Wind farm developer & consultancy	Q 200	100	-	300	300	600	600	600
Catfield Wind Power Limited*	Wind farm development	27	(27)	-	-	-	-	-	-
Potash Wind Farm Limited*	Wind farm development	33	(33)	-	-	-	-	-	-
Stalham Wind Power Limited*	Wind farm development	6	(6)	-	-	-	-	-	-
Meridian Wind Power Limited*	Wind farm development	18	(18)	-	-	-	-	-	-
Wind Power Renewables Limited*	Wind farm development	Q -	150	-	150	150	300	300	300
Greenfield Wind Farm Limited*	Wind farm development	PQ -	-	-	-	-	1,998	1,998	1,998
<b>Total</b>		<b>8,100</b>	<b>1,045</b>	<b>(711)</b>	<b>8,992</b>	<b>8,434</b>	<b>20,468</b>	<b>19,352</b>	<b>19,356</b>

Q – Investment complies with HM Revenue & Customs VCT regulations on qualifying holdings.

PQ – Part of the investment complies with HM Revenue & Customs VCT regulation on qualifying holdings.

\* – A company in which Ventus VCT plc has also invested. Ventus VCT plc is managed by Climate Change Capital Limited.

Investment cost, values and commitments as at 7 June 2010 include the investment assets acquired from Ventus 3 VCT plc on 6 May 2010, all of which were co-invested between the Company and Ventus 3 VCT plc. The cost of the investments held on 7 June 2010 represents the aggregate cost to Ventus 2 VCT plc and Ventus 3 VCT plc of the investee companies on initial acquisition.

The following table shows total investments made from the “C” share fund as at 28 February 2010 and as at the date of this report in terms of cost and value. The total amount invested and contractually committed as at the date of this report is also presented.

“C” Shares		Investment value as at 28 February 2009	Additions in the year to 28 February 2010	Investment cost as at 28 February 2010	Investment value as at 28 February 2010	Investment cost as at 7 June 2010	Investment value as at 7 June 2010	Investment value & commitments as at 7 June 2010
Company name	Details	£000	£000	£000	£000	£000	£000	£000
Muirhall Windfarm Limited*	Wind farm development	-	325	325	325	-	-	-
Greenfield Wind Farm Limited&	Wind farm development	-	-	-	-	1,500	1,500	1,500
Renewable Power Systems Limited*	Landfill gas operator	PQ -	-	-	-	350	350	350
<b>Total</b>		<b>-</b>	<b>325</b>	<b>325</b>	<b>325</b>	<b>1,850</b>	<b>1,850</b>	<b>1,850</b>

Q – Investment complies with HM Revenue & Customs VCT regulations on qualifying holdings.

PQ – Part of the investment complies with HM Revenue & Customs VCT regulation on qualifying holdings.

\* – A company in which Ventus VCT plc has also invested.

& – A company in which Ventus VCT plc and Ventus 3 VCT plc have also invested.

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### Investment portfolio review

The investments held by the Company as at the date of this report are reviewed in detail below:

#### Craig Wind Farm Limited

Craig Wind Farm Limited is a company which operates a ten megawatt wind farm in the Scottish Borders. The site became operational in October 2007.

There has been a substantial improvement in the performance of the wind turbines in the second year of operation as the manufacturer has resolved the majority of the faults that affected production levels in the first year. The Manager is continuing to keep the situation under close review in conjunction with the other shareholders and Craig Wind Farm Limited's technical consultants.

Following the acquisition of the assets of Ventus 3 VCT plc, the Company owns 12.5% of the ordinary shares in Craig Wind Farm Limited and also provides a mezzanine loan facility. As at the date of this report, the Company's total investment is valued at £978,000 (£489,000 as at year end).

Mezzanine interest payments are being made in accordance with the loan agreement and £40,000 of mezzanine interest was paid to the Company in the financial period ending 28 February 2010 against income accrued in the current and prior periods. The Company received a further payment of mezzanine loan interest of £30,000 in April 2010.

Craig Wind Farm Limited has also applied for planning permission to extend the site by the addition of two more wind turbines. The application is pending determination by the local planning authority and if successful would create the potential to increase the overall generating capacity at the site by 50% of the existing installed capacity. The Manager is working with the other shareholders to progress this extension opportunity.

#### Firefly Energy Limited

Firefly Energy Limited is the parent company of a group of trading subsidiaries that have entered into long term power purchase agreements with

customers for 41.7 megawatts of generating capacity across five wind farm developments. The five wind farm projects are fully operational and generating revenues for the group.

Firefly Energy Limited has expanded its business of the provision of power purchase agreement administration services over the course of the financial period. There is a strong probability that further contracts of this nature will be secured, providing an ancillary income stream to the business alongside the income from the five main long term power purchase agreements.

Following acquisition of the assets of Ventus 3 VCT plc, the Company owns 50% of the ordinary share capital in Firefly Energy Limited and is providing a shareholder loan which has principal outstanding of £200,000. As at the date of this report, the Company's total investment is valued at £400,000 (£200,000 as at year end).

#### Achairn Energy Limited

Achairn Energy Limited is a company operating a six megawatt wind farm in Caithness, Scotland. The site became operational on schedule in May 2009.

Whilst the wind farm has only been operational for a relatively short period of time, performance has been satisfactory and in line with expectations.

Following the acquisition of the assets of Ventus 3 VCT plc, the Company owns 40.4% of the ordinary share capital in Achairn Energy Limited and also provides a mezzanine loan facility. As at the date of this report, the Company's total investment is valued at £2,792,000 (£1,396,000 as at year end). The Company received £114,000 of mezzanine interest in April 2010 against income accrued in the current and prior periods.

#### A7 Lochhead Limited

A7 Lochhead Limited is a company that operates a six megawatt wind farm in Lanarkshire, Scotland. Construction was completed on time and on budget in June 2009.

The wind farm has only been operational for a relatively short period of time, however performance to date has been satisfactory and in line with expectations

Following the acquisition of the assets of Ventus 3 VCT plc, the Company owns 20% of the ordinary share capital in A7 Lochhead Limited and also provides a mezzanine loan facility. As at the date of this report, the Company's total investment is valued at £714,000 (£357,000 as at year end).

Since the year end the Company has received interest payments of £11,000, against income accrued in the current and prior periods, and dividends of £10,000.

#### Broadview Energy Limited

Broadview Energy Limited is an established wind farm development company and operator of small wind sites.

Broadview Energy Limited has constructed a three turbine wind farm in Aberdeenshire which is now fully operational and has secured planning consent for a further site in the north east of England which will consist of five wind turbines. A further four turbine site has also received consent and two further sites are expected to receive planning determinations shortly.

Following the acquisition of the assets of Ventus 3 VCT plc, the Company owns 2.32% of the ordinary share capital of Broadview Energy Limited and also provides a shareholder loan with £1.8 million principal outstanding. As at the date of this report, the Company's total investment is valued at £2.0 million (£1.0 million as at year end).

Broadview Energy Limited has not declared or made any payment of dividends as the strategy of the business is currently to reinvest any trading revenues back into growing the business in the immediate future.

#### Redimo LFG Limited

Following the acquisition of the assets of Ventus 3 VCT plc, the Company owns 50% of the ordinary share capital of Redimo LFG Limited. Redimo LFG Limited owns and operates a portfolio of generating stations which use landfill gas to produce electricity for export onto the grid.

The Company announced on 1 December 2009 that Redimo LFG Limited had encountered

operational issues with the generating equipment at one of the sites that it operates. Two of the key variables in Redimo LFG's financial performance are the number of operational hours achieved by the engines at each of its sites (and therefore the amount of electricity that is generated) and the price at which that electricity can be sold.

The operational issues with the generating equipment at Redimo LFG's largest site led to more engine downtime than had been projected in the budget at the time the investment was made. Redimo LFG has also experienced a decline in gas volumes at the smallest of the sites within its portfolio at a quicker rate than originally forecast. This has resulted in lower than expected energy generation at this site. In addition, Redimo LFG is the only operating asset in the Company's investment portfolio to have a significant element of electricity market risk in its energy offtake contracts. Winter 2009/10 and Summer 2010 wholesale energy prices have been set much lower than anticipated and this has further contributed to a shortfall against Redimo LFG's anticipated revenues.

The ability of Redimo LFG to trade out of its current position remains contingent on improved levels of operational performance and also on the level of future wholesale energy prices. Given the uncertainty on both of these key elements at the time of the announcement and given that Redimo LFG remains in breach of certain covenants under its banking facilities, the Company determined in December 2009 that it was prudent to fully write down the value of its investment in Redimo LFG.

Remedial work to rectify the operating issues continues but, despite some improvement in operating performance, the expectation remains that Redimo LFG will operate below its budgeted financial performance for the foreseeable future as a result of increased operating costs and continued depressed forward wholesale electricity projections. It has therefore been determined that the value of the investment should be held at nil at this time.

## **PBM Power Limited**

PBM Power Limited is a company operating a biomass electricity generating plant in Lincolnshire. The plant is fuelled by waste wood and therefore the scheme benefits from enhanced support from the Renewable Obligation mechanism.

The plant became operational in April 2009, which was approximately five months later than scheduled as a result of delays in provision of the grid connection by the network operator. There were some operational issues with the plant in the early months of full commercial production which are in the process of being rectified by the plant manufacturer under warranty. This has involved plant shutdown to allow remedial works to take place and has meant that the plant has yet to produce a stable period of consistent generation. The technical issues that have arisen are expected to be resolved by these works.

Together with the delayed start, the remedial works shutdowns have led to significantly lower than expected generation volumes compared to the original year one operating budget.

As a result of the lower than expected revenue in the first contractual year, PBM Power Limited is currently in negotiation with its lending bank regarding the rescheduling of its long term loan facilities. This is expected to result in the deferment of the payment of the first dividends to shareholders by approximately twelve months.

The Company invested £287,000 to acquire 12.5% of the ordinary shares in PBM Power Limited. The investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 25% of the share capital in PBM Power Limited for which a total consideration of £574,000 has been paid.

In view of the need for the generating plant to demonstrate a consistent period of stable operation, the investment has not been revalued using a discounted cash flow methodology. However, based on technical advice that the remedial works referred to above have had the

desired effect, the Company does not consider the investment to be impaired. The fair value of this investment is not considered to be materially different to the historic cost of investment.

## **Spurlens Rig Wind Limited**

The Company has invested £99,000 in Spurlens Rig Wind Limited to acquire 30% of the ordinary share capital. Spurlens Rig Wind Limited holds the rights to a wind farm being developed in the Borders region of Scotland. The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 60% of the share capital in Spurlens Rig Wind Limited for which a total consideration of £198,000 has been paid.

Permission is being sought to install six wind turbines and a planning application is expected to be submitted shortly. The original wind farm proposal envisaged a site comprised of five turbines, however the development consultants engaged by Spurlens Rig Wind Limited have identified the potential to increase the scope of the scheme in consultation with the local planning authorities.

Once the planning application has been submitted, a decision is anticipated within six to twelve months. The Company has secured the rights to provide the finance required to build the wind farm should planning permission be granted.

## **Olgrinmore Limited**

An investment of £34,200 has been made for 8.8% of the ordinary share capital of Olgrinmore Limited, a company developing a two turbine wind farm in Caithness, Scotland. The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 17.6% of the share capital in Olgrinmore Limited for which a total consideration of £68,400 has been paid.

A planning application was submitted in January 2009 but was refused in June 2010; the company is considering an appeal.

The Company has secured the rights to provide the finance required to build the wind farm should planning permission be granted subject to an appeal against the initial planning decision being made.

#### **Redeven Energy Limited**

As at the year end the Company had made an investment of £237,000 in Redeven Energy Limited, by way of a loan, to fund the development of three wind farm sites in East Anglia. The Company has a 30% shareholding in this wind farm development company which has entered into a joint venture agreement with the landlord at the three sites. The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 60% of the share capital in Redeven Energy Limited and is providing shareholder loans in the total sum of £474,000. Since merging with Ventus 3 VCT, the Company has increased the loan to Redeven Energy Limited by a further £60,000.

Planning consent was awarded on the first site in December 2009 to install five wind turbines. Consent for the second site which will include two wind turbines was granted in June 2010. The planning application for the third site which will include two wind turbines is expected to be submitted later this year once the required planning reports have been completed.

The Company has secured the rights to provide the finance required to build the wind farms for the sites when planning permissions are obtained.

#### **Osspower Limited**

Osspower Limited is a company developing a group of four small scale hydro-electric generating assets in Scotland. The Company invested £150,000 for 25% of the ordinary shares of Osspower Limited. The Company has also negotiated the rights to arrange the finance to build the hydro-electric schemes as planning permissions are obtained.

The Company has also provided additional funding to Osspower Limited by way of a shareholder loan facility of £27,500 of which

£13,750 was drawn down at the year end and the balance has been drawn down since the year end.

The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 50% of the share capital in Osspower Limited and provides shareholder loans amounting to £55,000.

The planning applications for the four hydro-electric schemes were submitted to the Scottish Government Consents Unit in July 2009 and full planning permission was granted in April 2010. The Investment Manager is currently working with the other shareholders of Osspower Limited to determine the strategy to take the consented sites forward.

#### **The Small Hydro Company Limited**

The Company invested £57,500 for 12.5% of the ordinary share capital of The Small Hydro Company Limited, a company developing a number of small scale hydro-electric generating assets in England. The Company's equity stake reduced to 11.25% as a result of the introduction of an additional shareholder in January 2010. The Company has also committed a shareholder loan facility of up to £192,000 to be drawn down to meet the cost of making planning applications. £190,000 of this facility had been drawn down as at the date of this report.

The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 22.5% of the share capital in The Small Hydro Company Limited and provides shareholder loans amounting to £380,000.

The Small Hydro Company Limited submitted planning applications for its first five sites in July 2009 and is currently working with the relevant authorities to manage the applications through the planning process. One of the planning applications was initially refused. Three sites have been consented and the other application is yet to be determined.

#### **Renewable Power Systems (Dargan Road) Limited**

Renewable Power Systems (Dargan Road) Limited is a company operating a landfill gas generating scheme on Belfast City Council's North Foreshore waste management site.

The project manager and developer is Renewable Power Systems Limited, an experienced UK landfill gas generation specialist. Renewable Power Systems Limited own 50% of Renewable Power Systems (Dargan Road) Limited and provide long term operational support services.

Construction on the site began in 2008 and the plant became operational on schedule and to budget in August 2009.

The Company invested £390,000 to acquire 25% of the ordinary share capital in Renewable Power Systems (Dargan Road) Limited and has provided a further £560,000 by way of a mezzanine loan facility.

The Company received mezzanine loan interest of £63,000 in early January 2010 and received a further amount of £36,000 in April 2010 against income accrued in the current and prior periods.

The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 50% of the share capital in Renewable Power Systems (Dargan Road) Limited and provides shareholder loans amounting to £1,120,000.

On 17 May 2010, the Company received a dividend of £150,000 from Renewable Power Systems (Dargan Road) Limited.

As the generating plant has only been operating for a relatively short period of time, the fair value of this investment is not considered to be materially different from the historic cost of investment.

#### **Sandsfield Heat & Power Limited**

Sandsfield Heat & Power Limited is a company developing a biomass generating scheme in North Yorkshire. The scheme will use waste wood as a fuel to generate electricity, via a conventional steam turbine, for export to the grid.

The project manager and developer is Bioflame Limited, a company specialising in energy from waste systems. Bioflame Limited own 30% of Sandsfield Heat & Power Limited.

The Company invested £898,000 to acquire 22.45% of the ordinary share capital in Sandsfield Heat & Power Limited. In June 2009 the Company provided a further £500,000 by way of a mezzanine loan facility. The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 44.9% of the share capital in Sandsfield Heat & Power Limited and provides a mezzanine loan amounting to £1,000,000.

Construction on the site commenced in early 2009 and the plant is expected to be operational in the first half of 2010 in line with the construction schedule.

### **Twinwoods Heat & Power Limited**

Twinwoods Heat & Power Limited is a company developing a waste wood biomass generating scheme in Bedfordshire. The plant design is identical to the Sandsfield Heat & Power Limited development and is again being developed in partnership with Bioflame Limited which owns 30% of Twinwoods Heat & Power Limited.

The Company invested £1,000,000 to acquire 25% of the ordinary share capital in Twinwoods Heat & Power Limited. The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 50% of the share capital in Twinwoods Heat & Power Limited.

On 2 June 2010 the Company invested a further £400,000 by way of a mezzanine loan.

Construction on the site commenced in 2009 and the plant is expected to be operational in the first quarter of 2011.

### **Kettering East Energy Limited**

The Company made an investment of £125,000 by way of a loan facility to Kettering East Energy Limited, a company developing a seven turbine wind farm project in Northamptonshire with full

planning consent. The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now provides a loan facility amounting to £250,000 to Kettering East Energy Limited.

As a result of unforeseen difficulties in the site development process and other technical issues the Company has elected not to proceed with this scheme and is negotiating the repayment of the loan facility with the project owners. The Company expects to receive repayment of the loan facility in the course of 2010.

### **EcoGen Limited**

The Company invested £200,000 to acquire 6% of the ordinary share capital of EcoGen Limited, an experienced wind farm owner, operator and development consultant. A further investment of £100,000 was made by way of a subscription for convertible loan notes. The original investments were matched by identical investments from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 12% of the ordinary share capital in EcoGen Limited and holds convertible loan notes amounting to £200,000.

EcoGen is actively managing the development of a series of new wind farm sites in the UK. Its most advanced planning application for a five turbine wind farm project in Cambridgeshire was recently refused. EcoGen is considering an appeal of the planning decision. Detailed work has begun on the pre-planning process for a number of additional sites.

### **Wind Power Renewables Limited**

In August 2009 the Company's positions in Catfield Wind Power Limited, Potash Wind Farm Limited, Stalham Wind Power Limited, Meridian Wind Power Limited and Witton Wind Farm Limited were consolidated by way of a share for share transfer into Wind Power Renewables Limited, which is the holding company for these development companies. The Company has invested £90,000 to acquire 15% of the ordinary shares of Wind Power Renewables Limited. The Company had also provided £60,000 by way of a mezzanine loan.

The original investment was matched by an identical investment from Ventus 3 VCT plc and therefore, following the acquisition of the assets of Ventus 3 VCT plc, the Company now owns 30% of the share capital in Wind Power Renewables Limited and provides shareholder loans amounting to £120,000.

Two of the six wind farm developments that comprise the company's assets have been submitted for planning approval and are awaiting determination. One of the developments has been refused planning permission and an appeal is being considered. One further site is ready for submission to the planning authorities and scoping activity on the remaining two sites has been undertaken with a view to submitting applications in due course.

### **Greenfield Wind Farm Limited / Muirhall Windfarm Limited**

During the year ended 28 February 2010, the Company advanced an interim loan facility totalling £325,000 to Muirhall Windfarm Limited, a company owning a fully consented six turbine wind farm site in West Lothian, Scotland. The loan facility was provided as part of an exclusivity arrangement in respect of the long term financing of the project and to facilitate the costs of securing the grid connection for the scheme. The loan was extended by £50,000 in March 2010 and was repaid in full when the Company acquired a holding in Muirhall Windfarm Limited's parent company, Greenfield Wind Farm Limited, on 19 March 2010 as part of the long term financial structure for the wind farm scheme.

On 19 March 2010 the Company's ordinary share fund acquired 167 shares in Greenfield Wind Farm Limited for a consideration of £334,000, representing a shareholding of 8.35%. The Company's "C" share fund acquired 250 shares for a consideration of £500,000, representing a shareholding of 12.5%. The ordinary share fund and "C" share fund also advanced mezzanine loans of £668,000 and £1,000,000 respectively.

Following the acquisition of the assets of Ventus 3 VCT plc, the Company's ordinary share fund now holds an additional 166 ordinary shares representing 8.3% with value of £332,000 and a

mezzanine loan amounting to £664,000. Therefore, the Company holds 29.15% of the ordinary share capital of Greenfield Wind Farm Limited in aggregate.

The Company, in aggregate with Ventus VCT plc (a company also managed by Climate Change Capital Limited), has invested a total of £6,000,000 in Greenfield Wind Farm Limited.

Works on the site commenced in early April 2010 and the six wind turbines are scheduled to be installed and fully operational by the end of December 2010.

The investment in the ordinary shares of Greenfield Wind Farm Limited has been structured so that it meets the qualifying tests

under HM Revenue & Customs VCT regulations. The mezzanine loans are not structured as qualifying holdings.

#### Renewable Power Systems Limited

Since the year end, the "C" share fund has provided a loan facility of £350,000 to Renewable Power Systems Limited, a company which specialises in the development and operation of landfill gas sites and other forms of energy from waste generation. As part of the agreement to provide the loan facility, the Company has secured an exclusivity agreement over the projects which Renewable Power Systems requires external finance to progress.

This facility is structured as a short to medium term investment and, as the Company does not hold equity in Renewable Power Systems Limited, it is not a qualifying investment under HM Revenue & Customs VCT regulations.

#### Top ten investments

Details of the top ten investee companies held by the Company at 28 February 2010, by value, including those with a value greater than 5% of the total portfolio at that date, are disclosed in the table below:

	Investment information					Portfolio company information			
	Cost £000	Value £000	Shareholding and voting rights %	Income recognised by the Company during the year £000	Basis of valuation	Date of latest audited accounts	Net Assets £000	Turnover £000	Profit/(loss) before tax £000
Achairn Energy Limited	1,118	1,396	20.20%	93	DCFU	30/11/2008	1,219	-	20
Sandsfield Heat & Power Limited	1,398	1,398	22.45%	51	PORI	31/12/2009	1,741	-	(57)
Broadview Energy Limited	1,000	1,000	1.16%	102	PORI	31/12/2008 <sup>A</sup>	1,526	n/a	n/a
Twinwoods Heat & Power Limited	1,000	1,000	25.00%	-	PORI	n/a <sup>*</sup>	n/a	n/a	n/a
Renewable Power Systems (Dargan Road) Limited	950	950	25.00%	74	PORI	31/07/2009	652	-	(128)
Craig Wind Farm Limited	349	489	6.25%	27	DCFU	31/08/2009	2,071	1,959	438
A7 Lochhead Limited	333	357	10.00%	8	DCFU	31/03/2009	1,957	-	52
EcoGen Limited	300	300	6.00%	1	PORI	30/09/2008 <sup>A</sup>	2,092	n/a	n/a
PBM Power Limited	287	287	12.50%	-	PORI	31/12/2009	1,234	375	(35)
Small Hydro Company Limited	248	248	11.25%	3	PORI	31/03/2009	148	-	-

A – Abbreviated accounts (unaudited)

\* – Accounts not yet available as the company is in its first accounting period

Basis of valuation:

DCFU = Discounted future cash flows from the underlying business excluding interest earned to date

PORI = Price of recent investment, reviewed for impairment

## Valuation policy

It is the accounting policy of the Company to hold its investments at fair value. In this report, investee companies whose assets have been fully constructed and have passed an initial satisfactory operational period are valued using a discounted cash flow methodology to establish their fair value. The periodic adjustment to the valuation of these investments is primarily attributable to the changes in long term projected value of the energy and associated benefits that are generated by the assets when compared to the original assumptions used at the last valuation date and changes in the discount factors applied to the resultant cash flows. With the exception of Redimo LFG Limited, which has been revalued at nil, the fair values of the other investee companies are not considered to be materially different from the historical cost of investment. However, those investments that are not fully operational and have not passed a period of satisfactory operation are reviewed for impairment. Investments in companies that are not building operational assets are also reviewed for impairment.

## Investment Policy

The investment policy of the Company is focused on investing in companies developing renewable energy projects with installed capacities of two to twelve megawatts, although larger projects may also be considered. Given the target investment size, investments will generally be in companies developing projects initiated by specialist small-scale developers, small industrial sites and smaller projects which are not attractive to large development companies and utilities.

## Asset Allocation

The Investment Manager seeks to maximise, so far as is practicable, the Company's investment in equity securities and loan stock of companies owning renewable energy projects with full planning consent, ready for construction of the project to commence or whose assets are

already operational. Up to 10% of net proceeds raised from the initial share offer and the "C" share offer respectively may be allocated to development funding for early stage renewable energy projects prior to planning permissions being obtained.

The Company's policy is to maintain cash reserves of at least 5% of net proceeds raised from the initial share offer and the "C" share offer for the purpose of meeting operating expenses and purchasing its shares in the market. Circumstances may arise which will require the Company to hold less than 5% of net proceeds in cash for a limited period of time.

In order to comply with VCT requirements, at least 70% by value of the Company's investments are required to be comprised of qualifying investments. The Company typically invests up to £2 million in equity and loan stock in each investee company with no more than £1 million invested in an investee company in any single tax year.

Since the acquisition of Ventus 3 VCT plc's assets, the Company typically owns 25% to 50% of the equity share capital of each investee company and a portion of its investment in each investee company may be in the form of loan stock.

The Company's uninvested funds are placed on deposit or invested in short-term fixed income securities until suitable investment opportunities are found.

## Risk Diversification

The geographical focus of the portfolio is centred on the UK market. This is mitigated by making investments in a wide geographical spread of projects that are situated throughout the UK. Funds are also invested with a range of small-scale independent developers so project risk is not concentrated with only a few developers. The portfolio contains projects at different stages of the asset lifecycle, ranging from pre-planning, to construction and then into operation. Investments are made via subscriptions for new share capital or via loan stock instruments in order to secure a

negotiated level of return from the project. The majority of investments are made in special purpose companies set up specifically to develop each project and any bank debt financing will normally be non-recourse to the Company.

The returns from projects are largely dependent on the UK Government's continued support for renewable energy, primarily under the Renewables Obligation and Feed In Tariff mechanisms. The effects of any negative change to this policy are mitigated by the UK Government's historic practice of grandfathering financial support mechanisms for existing assets. This risk is further mitigated by the Company typically negotiating fixed and/or floor price mechanisms into the power purchase agreements entered into by project companies for the sale of their generated output.

## Gearing

The Company does not intend to borrow funds for investment purposes. However the Company is exposed to gearing through its investee companies which typically fund the construction costs of each project through senior bank debt finance. The Investment Manager is involved in negotiating the terms of this finance to ensure competitive terms are achieved. The interest rate is typically fixed via an interest rate swap for the duration of the bank loan so that investee companies are not exposed to changes in market interest rates.

To the extent that borrowing is required, the Directors shall restrict the borrowings of the Company, and shall so far as possible by the exercise of the Company's voting powers in and other rights or powers of control over its subsidiaries secure that they restrict their borrowings. The aggregate principal amount at any time outstanding in respect of money borrowed by the group shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to 10% of the adjusted share capital and reserves of the Company in accordance with its Articles. These provisions only apply to the bank debt taken by investee companies where those companies are

considered to be subsidiaries of the Company. At the year end none of the investee companies were considered to be subsidiaries. As at the date of this report the aggregate borrowings of the investee companies which are considered to be subsidiaries of the Company do not exceed 10% of the adjusted share capital and reserves of the Company.

### Maximum Exposures

In order to gauge the maximum exposure of the funds to various risks, the following can be used as a guide:

*i) Investments in qualifying holdings*

70-95% of the funds will be invested in qualifying holdings no later than three years after the date that provisional approval by HM Revenue & Customs of the Company's status as a VCT becomes effective. The relevant compliance date for the initial share offer was 1 March 2009 and for the first "C" share offer and ordinary share "top-up" offer is 1 March 2012. The relevant compliance date for the second "C" share offer is 1 March 2013.

For the purposes of the 70% qualifying holdings requirement, disposals of qualifying investments for cash may be disregarded for a period of six months. Where a VCT breaches one or more of the requirements due to factors outside of its control, it may apply to HM Revenue & Customs for a determination that the breach will be disregarded for a period of 90 days while the breach is remedied.

*ii) Concentration limits*

Under VCT regulations no more than 15% of the Company's total assets should be in a single investee company at the time the investment is made in that investee company.

*iii) Investments in pre-planning projects*

A maximum of 10% of the net funds raised from each of the initial share offer and "C" share offer respectively may be invested in pre-planning projects.

### UK Market Outlook

The UK wind market saw a record year during 2009. According to renewableUK (formerly the British Wind Energy Association) approximately 650 megawatts of new capacity was installed onshore during the year (532 megawatts during 2008) and 200 megawatts installed offshore. In addition, approximately 1,800 megawatts of new, onshore capacity was submitted to planning as was 1,200 megawatts of new offshore installations. The UK now has over 4,000 megawatts of installed wind capacity, including 1,000 megawatts offshore. These milestones were achieved against a background of continued turmoil in the wider economy and a banking sector still recovering from the shocks of the global credit crunch.

As reported last year, the disruption in credit markets had resulted in a significant tightening of terms and conditions for new lending and increased pricing for such facilities. While the number of lending banks in the renewables space remained relatively small in 2009 it was at least reassuring to note that terms being offered had stabilised, providing a degree of certainty that funding could be procured for appropriately structured transactions.

Bank leverage ratios have remained broadly where they were in 2008, resulting in a greater requirement for equity contributions to projects. As such, the number of opportunities for investors with capital to deploy remains significant, particularly as project developers have witnessed a deterioration in the likely purchase price of sites as short to medium term power prices have fallen away and other potential investors in the market see internal competition for capital to increase still further. Whilst the fall in wholesale electricity prices has not been helpful, the factors mentioned above, coupled with the downward pressure on turbines prices and shorter delivery times, have combined to provide a welcome environment for the Company as a key provider of investment capital to the small to medium sized UK market.

The UK legislative and political framework has provided mixed fortunes for the various renewable technologies. The £4 billion liquidity capital facility provided by the European Investment Bank through a panel of domestic banks and intended to improve the access to capital for UK renewable energy projects has seen a number of projects funded, but these appear to have been at the medium and larger end of the market and, as such, smaller projects have not been beneficiaries.

Wind has seen its pivotal role further reinforced through the introduction of the UK's Feed in Tariff on 1 April 2010, with installations of less than 500 kilowatts receiving particularly favourable pricing outside the ROC scheme and a Feed in Tariff being offered to new offshore wind installations. Other emerging technologies have fared well with the Feed in Tariff as the Government has sought to strengthen the role of a more diverse renewable generation portfolio in the UK, in both size and technology terms, whilst bringing domestic users the potential to earn from micro generation capabilities.

**Climate Change Capital Limited**  
Investment Manager

7 June 2010

## The Directors present their Annual Report and the audited Financial Statements for the year ended 28 February 2010.

### Business review

The business review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006 and best practice. The purpose of the review is to provide shareholders with a summary of the business objectives of the Company, the board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators (KPI's) used to measure performance.

### Principal activities and status

The Company is an investment company, as defined in Section 833 of the Companies Act 2006, and has received approval as a Venture Capital Trust from HM Revenue & Customs for the year ended 28 February 2009. The Directors consider that the Company has conducted its affairs in a manner to enable it to continue to comply with Section 274 of the Income Tax Act 2007. The investment policy of the Company is set out in the Investment Manager's Report. The Company is a public limited company, incorporated in England and listed on the London Stock Exchange. The registered address of the Company is The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

The Company has no employees other than the Directors.

The Company's business during the year and future developments are reviewed in the Chairman's Statement and the Investment Manager's Report.

### Companies Act 2006 disclosures: environmental matters

The Board recognises the requirement under Section 417(5) of the Companies Act 2006 to detail information about environmental matters (including the impact of the Company's business on the environment). It is the specific purpose of the Company to invest in companies that develop and operate assets which generate energy from renewable sources. Through its investment policy, the Company is committed to mitigating the impact of climate change by contributing to the transition to a low carbon economy and a cleaner environment.

### Key performance indicators

#### Results and dividends

For the year ended 28 February 2010	Ordinary Shares		"C" Shares		Total
	£000	Pence per share <sup>1</sup>	£000	Pence per share <sup>1</sup>	
Revenue profit/(loss) attributable to equity shareholders	70	0.62	(59)	(0.97)	11
Capital loss attributable to equity shareholders	(868)	(7.70)	(104)	(1.70)	(972)
Net loss attributable to equity shareholders	(798)	(7.08)	(163)	(2.67)	(961)
Dividends paid during the year	(335)	(3.00)	-	-	(335)
Total movement in equity shareholders' funds excluding capital raising	(1,133)	(10.08)	(163)	(2.67)	(1,296)
		%		%	%
Total expense ratio <sup>2</sup>		3.37%		3.04%	3.24%

As at 28 February 2010	Ordinary Shares		"C" Shares		Total
	£000	Pence per share <sup>3</sup>	£000	Pence per share <sup>3</sup>	
Net asset value	10,356	84.3	6,381	92.1	16,737
Total shareholder return <sup>4</sup>	11,295	92.7	6,381	92.1	17,676

- The "per share" value is determined in respect of the weighted average number of shares in issue during the year, except in respect of the dividends paid in the year, which is determined on the basis of the number of shares eligible to receive dividends at the time the dividends were paid.
- The total expense ratio represents the total operating expenditure during the year (excluding irrecoverable VAT and Merger costs) as a percentage of the net asset value of the Company at year end.
- The "per share" value is determined in respect of the number of shares in issue as at the year end.
- The total shareholder return represents the net asset value of the Company at year end plus the cumulative dividends paid by the Company since incorporation.

The performance of the Company is reviewed in the Investment Manager's Report, including the Company's compliance with HM Revenue & Customs VCT regulations. The Company's prospects are considered in the UK Market Outlook section of the Investment Manager's report.

### Principal risks

Other than the inherent risks associated with investment activities, which are discussed in the Investment Manager's Report, the risks described below are those which the Directors consider to be material:

- Failure to meet and maintain the investment requirements for compliance with HM Revenue & Customs VCT regulations.

*The Board mitigates this risk by regularly reviewing investment management activity with appropriately qualified advisers and by obtaining pre-approval from HM Revenue & Customs for each investment.*

- Inadequate control environment at service providers.

*The Board mitigates this risk by only appointing service providers of a high standing under agreements that set out their responsibilities*

and by obtaining assurances from them that all exceptions have been reported to the Board.

- Non-compliance with the Listing Rules of the Financial Services Authority, Companies Act Legislation, HM Revenue & Customs VCT regulations and other applicable regulations.

*The Board mitigates this risk by employing external advisers fully conversant with applicable statutory and regulatory requirements who report regularly to the Board on the Company's compliance.*

#### Going concern

The Company has significant cash and liquid resources and the major cash flows (namely investments and dividends) are within the Company's control. The Board has a reasonable expectation that the Company is able to continue in operational existence for a period of at least twelve months from the date of this report. The Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

The liquidity risks and details of the Company's policy for managing its financial risks are shown in note 17. The Company's investment activities are described in the Investment Manager's Report and its performance is reviewed in the Directors' Report.

#### Share capital

At a general meeting held on 2 March 2009, the Company passed several resolutions concerning the Company's share capital:

#### Authorised share capital

The authorised share capital was increased from £7,500,000 to £12,500,000 by the creation of 20,000,000 "C" shares of 25p each.

#### Authority to allot

The Directors were authorised to allot relevant securities (within the meaning of section 551 of the Companies Act 2006) up to a maximum aggregate nominal amount of £5,931,111.25. This authority expires on 1 March 2014.

#### Disapplication of pre-emption rights

The Directors were empowered to allot equity securities for cash (further to the authority referred to above) without first offering such securities to existing shareholders in proportion to their shareholdings – such power being limited to the allotment of securities only in certain, defined circumstances. This power expires on 1 March 2014.

#### Authority to repurchase shares

At the Annual General Meeting ("AGM") held on 1 July 2009 the Company renewed its authority to repurchase up to 14.99% of its own issued ordinary share capital and up to 14.99% of its own issued "C" share capital.

#### Issued share capital

During the year, 1,113,912 ordinary shares and 6,924,686 "C" shares were allotted.

#### Post balance sheet share allotments

Between the year end and the date of this report a further 4,404,421 "C" shares were allotted pursuant to the joint offer which opened on 8 February 2010. On 6 May 2010, pursuant to a scheme of reconstruction, the Company acquired the assets and liabilities of Ventus 3 VCT plc and issued 12,250,311 new ordinary shares in consideration. As at the date of this report, the share capital is made up of 24,537,560 ordinary shares of 25p each and 11,329,107 "C" shares of 25p each which have been issued and are fully paid up and are quoted on the London Stock Exchange.

#### Rights and restrictions attaching to shares

The rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association. Copies of the Articles of Association can be obtained from Companies House in the UK or by writing to the Company Secretary.

#### CREST

The Company's shares are available for trading in CREST, the settlement system for uncertified stocks and shares.

#### Dividends

The dividend for the half-year to 31 August 2009 of 1.50p per share was paid on 13 January 2010 to ordinary shareholders on the register on 13 December 2009. The Directors do not recommend a final dividend for the year. The total dividend for the year was therefore 1.50p per ordinary share. Note 8 of the Financial Statements gives details of the dividends declared and paid in the current and prior financial years.

#### Directors and their interests

The Directors who held office during the year and their interests in the Company were as follows:

	28 February 2010 Ordinary Shares	28 February 2010 "C" Shares	28 February 2009 Ordinary Shares
D Pinckney (Chairman)	5,150	2,600	5,150
A Moore	8,043	5,200	5,150
P Thomas	5,150	5,200	5,150
C Wood	5,150	5,200	5,150

All the Directors are non-executives and all are independent, except Paul Thomas who is Chairman of the Investment Committee of the Investment Manager.

The Listing Rules governing the constitution of VCT boards of directors will change in September 2010. Specifically, the definition of "independent" with respect to directors of VCTs will change. It has always been the case that a VCT board is required to have a majority of directors who are independent of the investment manager as well as an independent chairman. From September 2010 however, a director of a VCT will not be considered independent with respect to that VCT if he or she is also a director of another VCT managed by the same investment manager. At present, each of the VCTs managed by Climate Change Capital Limited, Ventus VCT plc and

Ventus 2 VCT plc, has the same directors. In order to comply with the Listing Rules, the Boards of Ventus VCT plc and the Company will be reconstituted. The Board has resolved that, with effect from 13 July 2010, Mr David Pinckney will resign from the Board of Directors and Mr Alan Moore will be appointed Chairman of the Company. The Board believes that this reconstitution of the Board is the most appropriate way to deal with the new Listing Rules and is in the interests of the shareholders. Mr Pinckney is proposed to continue in office as the Chairman of Ventus VCT plc.

In accordance with the Company's Articles of Association and the Financial Reporting Council's (FRC) 2006 Combined Code and the Listing Rules of the Financial Services Authority, Paul Thomas and Colin Wood will retire at the AGM and being eligible, will offer themselves for re-election. As both Mr Thomas and Mr Wood have acted in the interests of the Company throughout the period of their appointment and demonstrated commitment to their roles, the Board recommends they be re-elected at the AGM.

Biographical information on the Directors is shown on page 21. The terms of the Directors' appointment and replacement are set out in the Corporate Governance Statement.

## Substantial interests

As at 28 February 2010 and the date of this report, the Company was aware that Pershing Nominees Limited and Heartwood Nominees Limited held 4.66% and 3.35%, respectively, of the beneficial interests and voting rights of the Company's ordinary share capital. The Company was not aware of any other beneficial interest exceeding 3% or more of the voting rights attached to the Company's ordinary or "C" share capital.

## Investment management, administration and performance fees

Climate Change Capital Limited, whose ultimate parent undertaking is Climate Change Capital Group Limited, is the Investment Manager of the Company and provides management and other administrative services. Climate Change Capital Limited also provided similar services to Ventus

VCT plc and Ventus 3 VCT plc during the financial year. The principal terms of the investment management agreement are set out in note 3 of the Financial Statements.

In the opinion of the Directors, the continuing appointment of the Investment Manager, on the terms agreed, is in the interests of the shareholders. The Directors are satisfied that the Investment Manager will continue to manage the Company's investment programme in a way which will enable the Company to achieve its objectives.

## Company Secretary

The City Partnership (UK) Limited has been appointed to provide company secretarial services to the Company as set out in the company secretarial services agreement. For these services the Company Secretary has received an annual fee of £5,000 plus VAT. The company secretarial services agreement was for an initial period of three years terminable thereafter by either party giving not less than six months notice in writing.

## VCT monitoring status

The Company retains PricewaterhouseCoopers LLP to advise on its compliance with the taxation requirements relating to VCTs.

## Financial instruments

The Company's financial instruments comprise investments in unquoted companies, Government securities, cash, trade and other receivables and trade and other payables. Further details are set out in note 17 of the Financial Statements.

## Supplier payment policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. During the year, all suppliers were paid within the terms agreed.

## Directors' statement as to disclosure of information to the Auditors

The Directors who were in office on the date of approval of these Financial Statements have confirmed that, as far as they are aware, there is no relevant audit information of which the Auditors are unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditors.

## Auditors

A resolution to re-appoint PKF (UK) LLP as the Auditors of the Company will be proposed at the forthcoming AGM.

Details of the non-audit services provided to the Company by the Auditors are set out in note 5 of the Financial Statements.

## Annual General Meeting

Enclosed with this Annual Report and Financial Statements is the Notice of Annual General Meeting ("AGM") of the Company (or any adjournment thereof) to be convened for Tuesday, 13 July 2010 at 12.15pm. A copy of the Notice is set out on page 44 of this document (the "Notice"). A Form of Proxy for use in connection with the AGM has been issued with this document.

The business of the meeting is outlined below:

### Resolution 1 – Annual Report and Financial Statements

The Directors are required to present to the AGM the Annual Report and Financial Statements for the financial year ended 28 February 2010.

### Resolution 2 – Directors' Remuneration Report

Under Regulation 11 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Company is required to produce a Directors' Remuneration Report for each relevant

financial year and to seek shareholder approval for that report at the AGM. The Directors' Remuneration Report is on pages 16 and 17 of the Annual Report and Financial Statements.

#### **Resolution 3 – Re-election of Director**

Mr Paul Thomas retires in accordance with Listing Rule 15.2.13A and, being eligible, offers himself for re-election.

#### **Resolution 4 – Re-election of Director**

Mr Colin Wood retires by rotation in accordance with the Company's Articles of Association and, being eligible, offers himself for re-election.

#### **Resolution 5 – Re-appointment of Auditors**

This resolution proposes that PKF (UK) LLP be re-appointed as Auditors of the Company.

#### **Resolution 6 – Remuneration of the Auditors**

This resolution proposes that the Directors be authorised to set the Auditors' remuneration.

#### **Resolution 7 – Purchase of shares by the Company**

This resolution, which will be proposed as a special resolution, will, if passed, authorise the Company to purchase in the market up to 3,678,180 ordinary shares and 1,698,233 "C" shares, representing 14.99% of the current issued share capital of each class, at a minimum price of 25p per share, exclusive of any expenses, of not more than an amount equal to the higher of (a) 105% of the average of the middle market prices shown in the quotations for a share in The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003. This authority will be effective until the earlier of the date of the AGM of the Company to be held in 2011 and the date which is 18 months after the date on which this resolution is passed (unless the authority is

previously revoked, varied or extended by the Company in general meeting). The Board believes that it is beneficial to the Company for it to continue to have the flexibility to purchase in the market its own shares. However, the Board considers it in the best interests of all shareholders if the Directors use their authority to make share buy-backs sparingly. This resolution seeks authority from the shareholders for the Company to be authorised to do so when considered appropriate by the Directors. This resolution would renew the authority granted to the Directors at the last AGM of the Company. The minimum and maximum prices to be paid for the shares are stated in the Notice. Repurchases of shares will be made at the discretion of the Board and will only be made in the market at prices below the prevailing net asset value ("NAV") per share as and when market conditions are appropriate. Any shares which are repurchased in this way may be cancelled or held as treasury shares, which may then be cancelled or sold for cash, as determined by the Board. The Directors consider that this authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares. The Directors are aware that the secondary market for the shares of VCT companies can be illiquid and that shares may trade at a discount to their NAV. The Company has established a special reserve out of which it may fund share buy-backs.

#### **Action to be taken**

Shareholders have been issued with a Form of Proxy for use in connection with the AGM. Shareholders are requested to complete the Form of Proxy in accordance with the instructions printed on it and to return it to the Company's Registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the AGM (excluding any time which is not part of a working day). Completion and return of a Form of Proxy will not preclude shareholders from attending and voting at the AGM in person should they subsequently decide to do so.

#### **Recommendation**

The Directors believe that all of the resolutions are in the best interests of the Company and its shareholders as a whole and, accordingly, unanimously recommend that you vote in favour of the resolutions, as they intend to do in respect of their own beneficial holdings of shares.

By order of the Board

**The City Partnership (UK) Limited**  
Secretary

7 June 2010

# DIRECTORS' REMUNERATION REPORT

This report has been prepared by the Directors in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Company and Groups (Accounts and Reports) Regulations 2008. An ordinary resolution to approve the report will be proposed at the AGM to be held on Tuesday, 13 July 2010.

## Remuneration policy

The Board comprises four Directors, all of whom are non-executive. The Board does not have a separate remuneration committee, as the Company has no employees, other than the non-executive Directors.

The Board considers that Directors' fees should reflect the time commitment required and the high level of responsibility borne by Directors and should be broadly comparable to those paid by similar companies. It is not considered appropriate that Directors' remuneration should be performance-related, and none of the Directors are eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive Directors of the Company. The total remuneration of non-executive Directors has not exceeded the £100,000 per annum limit set in the Articles of Association of the Company.

No Director has a contract of service with the Company. All of the Directors have been provided with letters of appointment. The Articles of Association provide that Directors shall retire and offer themselves for re-election at the first AGM after their appointment and at least every three years thereafter. A Director's appointment will continue unless terminated by the Company by giving three months written notice; it may also be terminated in certain other circumstances.

## Directors' fees (audited information)

The following fees were paid to individual Directors in respect of the year ended 28 February 2010 with comparative figures for the year ended 28 February 2009:

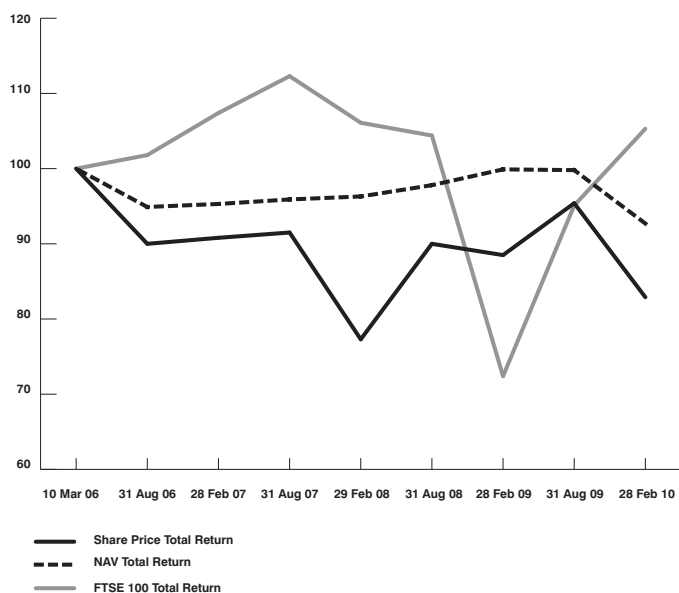
	28 February 2010 £	28 February 2009 £
D Pinckney (Chairman)	10,000	10,000
A Moore	7,500	7,500
P Thomas	7,500	7,500
C Wood	7,500	7,500
Aggregate emoluments	32,500	32,500

None of the Directors received any other remuneration during the year.

## Company performance

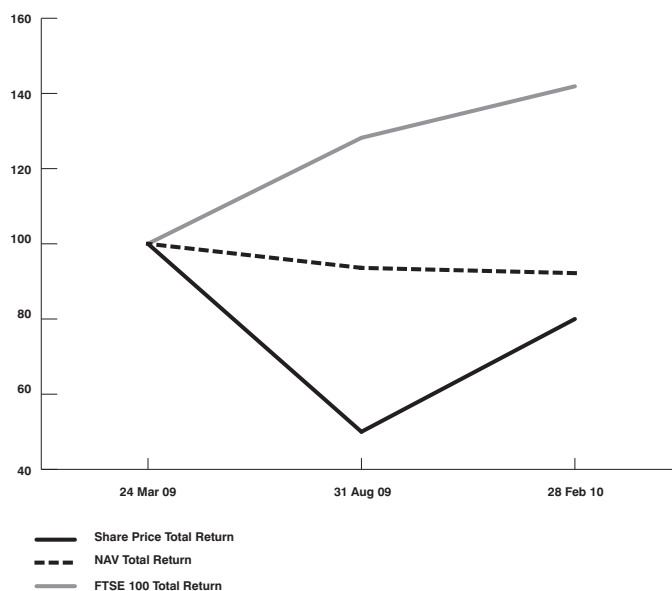
Due to the positioning of the Company in the market as a specialist VCT investing in companies that will develop, construct and operate small on-shore UK renewable energy projects, the Directors consider that, currently, there is no suitable company or index that can be identified for comparison. However, in order to comply with Directors' Remuneration Report Regulations 2002, the FTSE 100 Index has been used as a comparative.

### Total shareholder return on ordinary shares



The graph demonstrates the change in value, in terms of Share Price Total Return<sup>1</sup> and NAV Total Return<sup>2</sup>, based on £100 invested in ordinary shares on the date they were first listed on the London Stock Exchange (10 March 2006) over the period to 28 February 2010 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. The graph shows that there has been a reduction in shareholder value during the year in respect of total shareholder return based on NAV, which is representative of the net downward revaluation of investments as detailed in the Investment Manager's report.

### Total shareholder return on "C" shares



The graph demonstrates the change in value, in terms of Share Price Total Return<sup>1</sup> and NAV Total Return<sup>2</sup>, of £100 invested in "C" shares on the date they were first listed on the London Stock Exchange (24 March 2009) over the period to 28 February 2010 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. The graph shows that there has been a reduction in shareholder value during the year in respect of total shareholder return based on NAV which is representative of the "C" share fund's loss for the year. To date there have been no dividends paid to "C" shareholders.

- 1 Share Price Total Return is the return attributable to the share price of the shares held assuming that dividends paid to those shares were immediately reinvested in shares at the market price as at the date the dividends were paid.
- 2 NAV Total Return is the net asset value of the shares held plus the cumulative dividends paid to those shares over the period in which they were held.

By order of the Board

**The City Partnership (UK) Limited**  
Secretary

7 June 2010

The Board of Ventus 2 VCT plc has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

This is the first year in which the Company has reported against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), the Board considers that reporting against these principles and recommendations will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to:

- the role of the chief executive
- executive directors' remuneration
- the need for an internal audit function.

For the reasons set out in AIC Guide, and in the preamble to the Combined Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

In addition to the provisions above, the Directors acknowledge that the Company did not comply with the AIC Code in its recommendation that the chairman of a company may not chair the Audit Committee. However, the Board considers that, in view of his extensive international auditing experience, it is appropriate and in the interests of shareholders that David Pinckney, as Chairman of the Company, should also chair the Audit Committee. Also, contrary to the recommendations of the AIC Code, due to the small number of Directors comprising the Board, it has not been considered necessary by the Directors to implement a formal review process

in respect of the Board's performance and that of individual Directors.

#### Board of Directors

Throughout the year ended 28 February 2010 the Board consisted of four Directors, all of whom are non-executive. The Board ensures that it has the appropriate balance of skills, experience and age amongst its Directors. Biographical information on the Directors, is shown on page 21.

#### Independence

In accordance with the Listing Rules of the Financial Services Authority, the Board has reviewed the independence of each Director and of the Board as a whole. Directors withdrew from discussions concerning their individual status.

Mr Thomas is also the Chairman of the Investment Committee of the Investment Manager and is therefore not considered to be independent. In the last year all Board members have served as Directors of Ventus VCT plc and Ventus 3 VCT plc. These companies have appointed Climate Change Capital Limited as their Investment Manager. The Board believes that each Director, with the exception of Mr Thomas, has demonstrated that he is independent in character and judgement and independent of the Investment Manager and therefore, that Mr Pinckney, Mr Moore and Mr Wood are each considered independent.

As discussed in the Directors' Report in detail, in order to comply with impending changes to the Listing Rules in regard to Directors' independence, the Board has resolved that David Pinckney will resign as a Director of the Company with effect from 13 July 2010. Under the changes to the Listing Rules, Mr Pinckney would not be considered as independent should he remain in office. This is because, subject to re-election, he will continue as a director of Ventus VCT plc, which is a company which is also managed by Climate Change Capital Limited.

#### Directors' responsibilities

The Board meets at least quarterly and is in regular contact with the Investment Manager between these meetings. The Directors held 13 meetings of the Board during the year. In addition there were a number of ad-hoc meetings, including meetings related to the approval of the Half-yearly Report and the Interim Management Statements. The number of meetings of the Board and the Audit Committee held during the year and the attendance of the Directors is shown in the table below:

	Board Meeting Attendance	Audit Committee Attendance
D Pinckney (Chairman)	13 (13)	2 (2)
A Moore	8 (8)	N/A
P Thomas	11 (11)	2 (2)
C Wood	7 (7)	2 (2)

The figure in brackets indicates the total number of meetings at which the Director was expected to attend.

All the Directors are equally responsible under the law for the proper conduct of the Company's affairs. In addition, the Directors are responsible for ensuring that the policies and operations are in the best interests of all the Company's shareholders and that the best interests of creditors and suppliers to the Company are properly considered.

The AIC Code states that the Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that it has firm direction and control of the Company. The schedule of matters reserved to it includes the general investment strategy of the Company and the performance of the Company. The terms and conditions of appointment of non-executive Directors are available upon written application to the Company Secretary.

All Directors have direct access to the Company Secretary and independent advisers at the Company's expense provided prior clearance has been obtained from the Board. The Company Secretary is responsible to the Board for ensuring that Board and Committee procedures are followed and for compliance with applicable rules and regulations. The Company Secretary is also responsible to the Board for

ensuring the timely delivery of information and reports and that the statutory obligations of the Company are met.

When Directors have concerns that cannot be resolved about the running of the Company or a proposed action, they are asked to ensure that their concerns are recorded in the Board minutes. On resignation, a Director who has any such concerns is encouraged to provide a written statement to the Chairman, for circulation to the Board.

At each AGM of the Company one third of the Directors shall retire from office. The Directors to retire will be those who have been longest in office or, in the case of those who were appointed or reappointed on the same day, will be (unless they otherwise agree) determined by lot. Furthermore, no Director shall be required to retire by rotation earlier than the third AGM after the meeting at which he was elected. In addition, as Mr Thomas is the Chairman of the Investment Committee of the Investment Manager, he is subject to re-election under Listing Rule 15.2.13A, and will therefore offer himself for re-election at the AGM and annually thereafter.

In accordance with the AIC Code, the Company has in place directors' and officers' liability insurance.

Upon joining the Board, new Directors will receive a full, formal and tailored induction. As the Company has no major shareholders, it is considered unnecessary to provide shareholders with the opportunity to meet new non-executive Directors at a specific meeting other than the AGM.

Due to the size and structure of the Board together with the nature of the Company's business, a formal performance evaluation of the Board, its committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise.

#### **Audit Committee**

The Audit Committee comprises David Pinckney, Colin Wood and Paul Thomas. Due to his extensive international auditing experience (detailed in the Directors' Information on page 21), it is deemed appropriate that David

Pinckney is Chairman of both the Audit Committee and the Board of the Company. The Committee meets twice a year to review the Half-yearly Report and Annual Financial Statements before submission to the Board. The roles and responsibilities of the Audit Committee, including reviewing the Company's internal controls, risk management systems and monitoring auditor independence, are set out in written terms of reference. These are available upon written application to the Company Secretary. The Audit Committee has primary responsibility for making recommendations on the appointment, reappointment and removal of the external Auditors.

The Audit Committee reviews the nature and extent of non audit services provided by the Company's external Auditors and ensures that the Auditors' independence and objectivity is safeguarded.

The appointment of PKF (UK) LLP as the Company's Auditors was approved by shareholders at the AGM held on 1 July 2009. The Board recommended the services of PKF (UK) LLP to the shareholders in view of the firm's extensive experience in auditing Venture Capital Trusts.

During the year under review, the Company's external Auditors also provided tax compliance services and advice. The Board is satisfied that the fees charged and work undertaken did not affect the Auditors' objectivity.

#### **Nomination and Remuneration Committees**

To date, no Nomination or Remuneration Committees have been established. The establishment of a Nomination Committee is not considered necessary as the appointment of new Directors and recommendations for the re-election of Directors are matters considered by the Board. Matters relating to remuneration of Directors, all of whom are non-executive, are considered by the Board and any Director is excluded from meetings whose purpose is the setting of his own remuneration.

Each Director has signed a formal letter of appointment, copies of which are available from the registered office and will be available on the day of the AGM. None of the Directors has a

contract of service with the Company, nor have there been any other contracts or arrangements between the Company and any Director at any time. No Director has been granted any options to acquire shares in the Company.

#### **Internal control**

In accordance with the AIC Code, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The Board acknowledges that it is responsible for the Company's system of internal control and financial reporting. Internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has delegated, contractually to third parties, the management of the investment portfolio, the custodial services (which include safeguarding the Company's assets), the day-to-day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place for the period under review and up to the date of approval of the accounts. This process is regularly reviewed by the Board. Having considered the need for an internal audit function, the Board has decided that the structure of the Company does not justify it. The Board will continue to monitor and review the risk management process on a regular basis.

The Company has a clearly defined investment policy. Investment decisions are taken by the Board after due consideration of the recommendations of the Investment Manager's Investment Committee. The Board performs regular reviews of the Company's performance in respect of the investments and other assets, liabilities, revenue and expenditure.

The Audit Committee reviews each of the Company's half-yearly and annual reports, interim management statements and associated announcements. The Audit Committee regularly reviews management accounts information to

make comparisons to budget. The Audit Committee also regularly reviews the internal controls adopted and implements appropriate policies to deal with operational risks. The findings of the external Auditors in respect of internal controls and financial reporting are discussed at Audit Committee meetings and appropriate recommendations are made to the Board.

The principal features of the internal control systems which the Company has in place in respect of financial reporting include:

- segregation of duties between the analysis of investment valuations, review of the assumptions made in valuing investments and the recording of these valuations in the accounting records;
- bank reconciliations are carried out on a regular basis; and
- the Audit Committee reviews financial information prior to its publication.

#### Performance of the Investment Manager

The primary focus of regular board meetings is to review the investment performance against the Company's stated investment policy and objectives. In doing so, the Board assesses the performance of the Investment Manager and considers whether the arrangements made between the Company and the Investment Manager are appropriate and in the interests of shareholders.

#### Going concern

The Directors are required to consider the going concern status of the Company and prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. The going concern status of the Company is discussed in the Directors' Report.

#### Listing Rules disclosures: DTR 7.2.6

The Company has two classes of shares, ordinary and "C" shares, which carry no right to fixed income. Details of the Company's share capital, including the number of shares authorised and allotted, are set out in the Directors' Report.

At a general meeting of the Company, on a show of hands, every member who is present in person and entitled to vote shall have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for every share held.

Any profits of each share fund which the Company may determine to distribute in respect of any financial year shall be distributed among the shareholders pro rata according to the amounts paid up or credited as paid up on the shares held.

The capital and assets of the Company on a winding-up or other return of capital shall be applied in repaying to the shareholders the amounts paid up or credited as paid up on such shares and subject thereto shall belong to and be distributed according to the number of such shares held.

The identity of each of the shareholders with a significant holding as at the year end and the date of this report, including details of the size and nature of their holding, is disclosed in the Substantial Interests section of the Directors' Report.

As at the year end and date of this report the Company had no immediate or ultimate controlling parties and there were no shares in issue carrying special rights with regard to control of the Company.

In accordance with the Company's Articles of Association, subject to the provisions of the Companies Act 2006 and to any special rights conferred on the holders of any other shares, any shares may be issued with or have attached to them such rights and restrictions as the Company may by ordinary resolutions decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may decide.

There are no shares in issue which hold special rights.

The Company may by ordinary resolution appoint any person who is willing to act as a Director, either to fill a vacancy or as an additional Director. Each Director is to be appointed by separate resolution.

The Company may by special resolution make amendment to the Company's Articles of Association.

The powers of the Company's Directors in relation to the Company issuing or buying back its own shares are set out in the Director's Report.

#### Relations with shareholders

The Company communicates with shareholders and solicits their views where it is appropriate to do so. All shareholders are welcome at the AGM which provides a forum for shareholders to ask questions of the Directors and to discuss with them issues affecting the Company. The Board as a whole approves the Chairman's Statement which forms part of the Annual and Half-yearly Reports to shareholders in order to ensure that they present a balanced and understandable assessment of the Company's position and future prospects. Notice of the AGM accompanies this Annual Report, which is sent to shareholders a minimum of 20 working days before the meeting.

A separate resolution is proposed at the AGM on each substantially separate issue. The Registrar collates the proxy votes, and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the Combined Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the next AGM and proxy form can be found at the end of these Financial Statements. A proxy form in respect of this meeting has been issued to shareholders separately.

The Company's Board comprises four Directors, three of whom are independent of the Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Company. The Directors have wide experience of investment in both smaller growing companies and larger quoted companies. The proposed changes to the constitution of the Board are also set out below.

**David Pinckney FCA** - Chairman (aged 69)

David Pinckney was, from 1998 until December 2003, first chief operating officer for the Far East and then Vice Chairman of AXA Investment Managers SA, the investment management arm of the AXA Group with over US\$500 billion under management. He was a member of the Executive and Audit Committees. From 1987 to 1997, he was Group Finance Director and Joint Managing Director of The Thornton Group (a subsidiary of Dresdner Bank), which specialized in equity investment management, in particular in the Asia/Pacific region. From 1984 to 1986, he was Managing Director of Wrightson Wood Financial Services Limited, a company specialising in international corporate finance and venture capital. From 1963 to 1983, he was with Peat, Marwick Mitchell (now KPMG), where, in his last six years, he was Senior Audit Partner for France and French speaking Africa. He was non-executive Chairman of the AIM-quoted Park Row Group PLC from 2002 to 2003, when the Group was successfully sold. He is a Director of Albion Development VCT PLC and Chairman of DP Property Europe Limited (formerly Rutley European Property Limited) and was Chairman of Syndicate Asset Management PLC until 31 March 2010, when he retired. He is a Chartered Accountant and an "Expert Comptable" (a French Accountant). He has been a member of the Board since January 2006.

**Alan Moore OBE, CEng FIMechE** (aged 61)

Alan Moore has more than 40 years' experience in the UK electricity industry, beginning his career with the Central Electricity Generating Board. From 1998 to May 2004, he was the Managing Director of National Wind Power (now npower Renewables), one of the largest developers and owners of wind generation assets in the UK. He is Co-Chairman of the UK Government's Renewables Advisory Board and Chairman of Cowrie Limited, a fund which invests in offshore environmental research projects, and he is also a non-executive director of Partnerships for Renewables Limited. He is a past Chairman of the British Wind Energy Association. He has been a member of the Board since January 2006.

**Paul Thomas ACA** (aged 53)

Paul Thomas is Managing Director of Private Investor Capital Limited, the London-based independent private equity firm that invests in transactions of up to £5 million in growing, unquoted UK businesses. He has over 25 years of private equity experience, including 19 years with ECI Partners LLP, the London based midmarket buy-out house, where he was Managing Director until retiring in 2003. During his time with ECI, the firm made over 100 equity investments in transactions ranging in size from £500,000 to £25 million, deploying capital of more than £200 million. Previously, he was with Price Waterhouse for 6 years, latterly in corporate finance. He is a physics graduate and a Chartered Accountant. He is Chairman of the Ventus funds Investment Committee of the Manager and has been a member of the Board since January 2006.

**Colin Wood** (aged 63)

Colin Wood spent 27 years as a civil servant in the Scottish Office before retiring from a senior position in the Scottish Executive in 2001. He is an economics graduate and from 1993 to 1998, he was Senior Economic Adviser and Head of the Economics and Statistics Unit at the Scottish Office Industry Department, where he was responsible for providing economic advice on a range of issues including energy markets and the environment. He is a Director of The Century Building Society in Edinburgh. He has been a member of the Board since January 2006.

**Appointments and resignations**

As discussed in the Directors' Report, in order to comply with the changes to the Listing Rules, which will become effective in September 2010, David Pinckney will resign as a Director with effect from 13 July 2010. The Board has proposed that, with effect from 13 July 2010, Alan Moore will be appointed as Chairman of the Company and, subject to re-election, Colin Wood will chair the Audit Committee.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they 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 Financial Statements have been prepared in accordance with IFRS as adopted by the European Union
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Directors confirm, to the best of their knowledge that:

- the Financial Statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the management report included within the Chairman's Statement, Investment Manager's Report and Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The names and functions of all the Directors are stated on page 21.

# DIRECTORS AND ADVISERS

## Directors

David Pinckney FCA  
Alan Moore OBE, CEng FIMechE  
Paul Thomas ACA  
Colin Wood

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## Investment Manager

Climate Change Capital Limited  
3 More London Riverside  
London  
SE1 2AQ

## Company Secretary

The City Partnership (UK) Limited  
Thistle House  
21 Thistle Street  
Edinburgh  
EH2 1DF

## Auditors

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

## Registrars and Registered Office

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Principal Banker

HSBC Bank plc  
60 Queen Victoria Street  
London  
EC4N 4TR

## VCT Taxation Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

## Broker

Matrix Corporate Capital LLP  
One Vine Street  
London  
W1J 0AH

## Solicitor

Berwin Leighton Paisner LLP  
Adelaide House  
London Bridge  
London  
EC4R 9HA

# INDEPENDENT AUDITORS' REPORT

to the members of Ventus 2 VCT plc

We have audited the Financial Statements of Ventus 2 VCT plc for the year ended 28 February 2010 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for auditors.

## Scope of the audit

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. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements.

## Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the information given in the Corporate Governance Statement in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the Financial Statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- 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
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 13, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

**Rosemary Clarke** (Senior statutory auditor)  
for and on behalf of  
PKF (UK) LLP, Statutory auditors  
London, UK

7 June 2010

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2010

	Note	Ordinary Shares			"C" Shares			Revenue £000	Capital £000	Total £000
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000			
Net unrealised loss on investments	10	-	(711)	(711)	-	-	-	-	(711)	(711)
Income	2	376	-	376	31	-	31	407	-	407
Investment Management fees	3	(66)	(199)	(265)	(36)	(106)	(142)	(102)	(305)	(407)
Merger costs	4	(103)	-	(103)	-	-	-	(103)	-	(103)
Other expenses	5	(91)	-	(91)	(56)	-	(56)	(147)	-	(147)
<b>Profit/(loss) before taxation</b>		116	(910)	(794)	(61)	(106)	(167)	55	(1,016)	(961)
Taxation	7	(46)	42	(4)	2	2	4	(44)	44	-
<b>Profit/(loss) and total comprehensive income for the year attributable to equity shareholders</b>		70	(868)	(798)	(59)	(104)	(163)	11	(972)	(961)
<b>Return per share:</b>										
Basic and diluted return per share (p)	9	0.62	(7.70)	(7.08)	(0.97)	(1.70)	(2.67)			

The Company has only one class of business and derives its income from investments made in the UK.

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union. The revenue and capital columns shown above constitute supplementary information prepared under the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" 2009 ("SORP") published by the Association of Investment Companies.

The accompanying notes on pages 30 to 43 form an integral part of these Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2009

	Note	Revenue £000	Capital £000	Total £000
Net unrealised gains on investments	10	-	153	153
Income	2	615	-	615
Investment Management fees	3	(57)	(171)	(228)
Other expenses	5	(129)	-	(129)
<b>Profit/(loss) before taxation</b>		429	(18)	411
Taxation	7	(53)	36	(17)
<b>Profit and total comprehensive income for the year attributable to equity shareholders</b>		376	18	394

## Return per share:

Basic and diluted return per share (p)	9	3.36	0.16	3.52
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The first allotment of "C" shares took place on 24 March 2009, therefore the statement of comprehensive income for the year ended 28 February 2009 represents the ordinary share fund only.

The Company has only one class of business and derives its income from investments made in the UK.

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union. The revenue and capital columns shown above constitute supplementary information prepared under the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" 2009 ("SORP") published by the Association of Investment Companies.

The accompanying notes on pages 30 to 43 form an integral part of these Financial Statements.

# BALANCE SHEET

as at 28 February 2010

	Note	Ordinary Shares £000	As at 28 February 2010 "C" Shares £000	Total £000	As at 28 February 2009 £000
<b>Non-current assets</b>					
Investments	10	8,434	325	8,759	8,100
Trade and other receivables	11	126	-	126	139
		<b>8,560</b>	<b>325</b>	<b>8,885</b>	8,239
<b>Current assets</b>					
Trade and other receivables	11	508	28	536	100
Cash and cash equivalents	12	1,364	6,495	7,859	2,452
		<b>1,872</b>	<b>6,523</b>	<b>8,395</b>	2,552
<b>Total assets</b>		<b>10,432</b>	<b>6,848</b>	<b>17,280</b>	10,791
<b>Current liabilities</b>					
Trade and other payables	13	(76)	(467)	(543)	(238)
<b>Net current assets</b>		<b>1,796</b>	<b>6,056</b>	<b>7,852</b>	2,314
<b>Net assets</b>		<b>10,356</b>	<b>6,381</b>	<b>16,737</b>	10,553
<b>Equity attributable to equity holders</b>					
Share capital	14	3,071	1,731	4,802	2,793
Share premium		658	4,813	5,471	-
Special reserve		7,803	-	7,803	7,803
Capital reserve – realised		(651)	(104)	(755)	(494)
Capital reserve – unrealised		(558)	-	(558)	153
Revenue reserve		33	(59)	(26)	298
<b>Total equity</b>		<b>10,356</b>	<b>6,381</b>	<b>16,737</b>	10,553
<b>Basic and diluted net asset value per share (p)</b>	15	<b>84.3</b>	<b>92.1</b>		94.5

The first allotment of "C" shares took place on 24 March 2009, therefore the balance sheet as at 28 February 2009 represents the ordinary share fund only.

Approved by the Board and authorised for issue on 7 June 2010.

## David Pinckney

Director

The accompanying notes on pages 30 to 43 form an integral part of these Financial Statements.

Ventus 2 VCT plc. Registered No: 05667210

## STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2010

Ordinary Shares	Share capital £000	Share premium £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>At 1 March 2009</b>	2,793	-	7,803	(494)	153	298	10,553
Shares issued in the year	278	713	-	-	-	-	991
Issue costs	-	(55)	-	-	-	-	(55)
Profit/(loss) and total comprehensive income for the year	-	-	-	(157)	(711)	70	(798)
Dividends paid in the year	-	-	-	-	-	(335)	(335)
<b>At 28 February 2010</b>	3,071	658	7,803	(651)	(558)	33	10,356

"C" Shares	Share capital £000	Share premium £000	Capital reserve realised £000	Revenue reserve £000	Total £000
<b>At 1 March 2009</b>	-	-	-	-	-
Shares issued in the year	1,731	5,194	-	-	6,925
Issue costs	-	(381)	-	-	(381)
Profit/(loss) and total comprehensive income for the year	-	-	(104)	(59)	(163)
<b>At 28 February 2010</b>	1,731	4,813	(104)	(59)	6,381

Total	Share capital £000	Share premium £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>At 1 March 2009</b>	2,793	-	7,803	(494)	153	298	10,553
Shares issued in the year	2,009	5,907	-	-	-	-	7,916
Issue costs	-	(436)	-	-	-	-	(436)
Profit/(loss) and total comprehensive income for the year	-	-	-	(261)	(711)	11	(961)
Dividends paid in the year	-	-	-	-	-	(335)	(335)
<b>At 28 February 2010</b>	4,802	5,471	7,803	(755)	(558)	(26)	16,737

All amounts presented in the Statement of Changes in Equity are attributable to equity holders. The revenue reserve is a distributable reserve. The special reserve may be used to fund buy-backs of shares as and when it is considered by the Board to be in the interests of the shareholders.

The accompanying notes on pages 30 to 43 form an integral part of these Financial Statements.

## STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2009

	Share capital £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>At 1 March 2008</b>	2,793	7,803	(359)	-	246	10,483
Profit/(loss) and total comprehensive income for the year	-	-	(135)	153	376	394
Dividends paid in the year	-	-	-	-	(324)	(324)
<b>At 28 February 2009</b>	2,793	7,803	(494)	153	298	10,553

The first allotment of "C" Shares took place on 24 March 2009, therefore the Statement of Changes in Equity for the year ended 28 February 2009 represents the ordinary share fund only.

All amounts presented in the Statement of Changes in Equity are attributable to equity holders. The revenue reserve is a distributable reserve. The special reserve may be used to fund buy-backs of shares as and when it is considered by the Board to be in the interests of the shareholders.

The accompanying notes on pages 30 to 43 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

for the year ended 28 February 2010

	Year ended 28 February 2010			Year ended 28 February 2009
	Ordinary Shares £000	"C" Shares £000	Total £000	£000
<b>Cash flows from operating activities</b>				
Investment income received	103	-	103	175
Deposit interest received	18	20	38	323
Investment management fees paid	(199)	(142)	(341)	(250)
Other cash payments	(355)	(46)	(401)	(180)
<b>Net cash (used in)/generated from operations</b>	(433)	(168)	(601)	68
Taxes paid	(17)	-	(17)	(29)
<b>Net cash (outflow)/ inflow from operating activities</b>	(450)	(168)	(618)	39
<b>Cash flows from investing activities</b>				
Purchases of investments	(1,045)	(325)	(1,370)	(6,634)
<b>Net cash outflow from investing activities</b>	(1,045)	(325)	(1,370)	(6,634)
<b>Cash flows from financing activities</b>				
"C" shares issued	(194)	6,925	6,731	194
"C" share issue costs	-	(381)	(381)	-
"C" shares to be issued	-	444	444	-
Ordinary shares issued	991	-	991	-
Ordinary share issue costs	(55)	-	(55)	-
Dividends paid	(335)	-	(335)	(324)
<b>Net cash inflow/ (outflow) from financing activities</b>	407	6,988	7,395	(130)
<b>Net (decrease)/ increase in cash and cash equivalents</b>	(1,088)	6,495	5,407	(6,725)
<b>Cash and cash equivalents at the beginning of the year</b>	2,452	-	2,452	9,177
<b>Cash and cash equivalents at the end of the year</b>	1,364	6,495	7,859	2,452

The first allotment of "C" Shares took place on 24 March 2009, therefore the Statement of Cash Flows for the year ended 28 February 2009 represents the ordinary share fund only.

The accompanying notes on pages 30 to 43 form an integral part of these Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2010

## 1. Accounting policies

### Accounting convention

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), to the extent that they have been adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies under IFRS.

The Financial Statements have been prepared on the historical cost basis, as modified for the measurement of certain financial instruments at fair value through profit or loss. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" 2009 ("SORP") is consistent with the requirements of IFRS, the Directors have sought to prepare the Financial Statements on a basis compliant with the recommendations of the SORP.

### Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year except as follows:

*IAS 1 (revised) "Presentation of Financial Statements":*

The Company has elected to present a single performance statement: the Statement of Comprehensive Income. The change in accounting policy only impacts presentation aspects of the Financial Statements.

*IFRS 7 "Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments":*

Amendments to IFRS 7 were issued by the IASB in March 2009 and are effective for annual periods beginning on or after 1 January 2009. The amendments require enhanced disclosures around fair value measurement to be disclosed, using a three-level hierarchy.

*IFRS 8 "Operating Segments":*

The adoption of this standard has had no material impact on the segmental information reported by the Company.

Other standards and interpretations which are effective for this financial period but are not currently relevant for the Company are IFRS 2 (amendment), IAS 23, and IFRICs 13 to 16.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been early adopted in these Financial Statements. These include IFRS 1, IFRS 2, IFRS 3, IFRS 5, IAS 1, IAS 24, IAS 27, IAS 32, IAS 38, IAS 39, IFRIC 14, IFRS 9, IFRIC 9, IFRIC 17, IFRIC 18 and IFRIC 19. These changes are not expected to have a material impact on the financial statements.

### Income

Income on investments is stated on an accruals basis, by reference to the principal outstanding and at the effective interest rate applicable.

Interest receivable on cash and non-equity investments is accrued to the end of the year. No tax was withheld at source on interest income.

Dividend income from investments is recognised when the shareholders' rights to receive payment has been established, normally the ex-dividend date.

### Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except when expenses are split and charged partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The investment management fee has been allocated 25% to revenue and 75% to capital, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company.

Other than the management fees, expenses have been allocated between the ordinary and "C" share funds on the basis of the number of shares in issue during the year.

### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets or liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Due to the Company's status as a Venture Capital Trust, no provision for deferred taxation is required in respect of any realised or unrealised appreciation in the Company's investments.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Financial Instruments

Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company has become a party to the contractual provisions of the instrument.

#### *Trade and other receivables*

Trade and other receivables are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. A provision for impairment is made where there is objective evidence (including counterparties with financial difficulties or in default on payments) that amounts will not be recovered in accordance with original terms of the agreement. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flow discounted using the original effective interest rate. The carrying value of the receivable is reduced through the use of an allowance account and any impairment loss is recognised in the Statement of Comprehensive Income.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Company with maturities of less than three months. These short-term deposits are classified under cash equivalents as they meet the definition in IAS 7 "Cash Flow Statements" of a short-term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

#### *Trade and other payables*

Trade and other payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received amount, net of direct issue costs.

#### *Special reserve*

The special reserve was created further to a plea made at the High Court to cancel the Company's share premium account in respect of the shares issued in the initial offer for the Company's ordinary shares. The special reserve may be used to fund buy-backs of shares as and when it is considered by the Board to be in the interests of the shareholders.

#### *Capital reserve - realised*

This reserve includes gains and losses compared to cost on the realisation of investments and expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policy on expenses.

#### *Capital reserve – unrealised*

This reserve includes increases and decreases in the valuation of investments held at fair value.

#### *Investments*

As the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends and increases in fair values, all investments are designated as fair value through profit or loss on initial recognition. A financial asset is designated within this category if it is acquired, managed and evaluated on a fair value basis in accordance with the Company's documented investment policy. In the year of acquisition, investments are initially measured at cost, which is considered to be their fair value. Thereafter, the investments are measured at subsequent reporting dates on a fair value basis in accordance with IFRS. Gains or losses resulting from revaluation of investments are taken to the

capital account of the Statement of Comprehensive Income.

Investments in unquoted companies are valued in accordance with International Private Equity and Venture Capital Valuation Guidelines. The price of recent investment methodology, reviewed for impairment, is applied until the relevant investee company's generating assets have proved stable operational performance for an acceptable period of time. This time period will vary depending on the nature of the renewable energy technology that the investee company uses, but is typically between 6 and 18 months following completion of the construction phase. The investments in unquoted companies are subsequently valued using the discounted future cash flows from the underlying business excluding interest earned to date.

The key assumptions that have a significant impact on fair value in the discounted cash flow valuations are the discount factor used, the price at which the power and associated benefits can be sold and the level of electricity the investee company's generating assets are expected to produce. The discount factor applied to the cash flows is regularly reviewed by the Investment Committee of the Investment Manager to ensure it is set at the appropriate level and is benchmarked to other investments in the renewable energy sector using similar generating technology. The Investment Committee and the Board will also give consideration to the specific performance characteristics of the particular type of generating technology being used. The price at which the output from the generating assets is sold is often fixed in the medium term under power purchase agreements. For periods outside the term of these agreements the assumed future prices are taken from external third party market data which take the form of specialist consultancy reports. Specifically commissioned external consultant reports are also used to verify the expected electrical output from the investee company's generating assets taking in to account their type and location. All of these key assumptions are reviewed regularly by the Investment Committee of the Investment Manager and the Board.

When an investee company has gone into receivership or liquidation, the investment, although physically not disposed of, is treated as being realised. The company has taken the exemption, permitted by IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures, from equity accounting for investments where it has significant influence or joint control.

The majority of money held pending investment is invested in financial instruments with same day or two-day access and as such is treated as cash and cash equivalents.

#### **Key assumptions and key sources of estimation uncertainty**

The preparation of the Financial Statements requires the application of estimates and assumptions which may affect the results reported in the Financial Statements. Estimates, by their nature, are based on judgement and available information. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities are those used to determine the fair value of investments at fair value through profit or loss.

#### **Dividends payable**

Dividends payable are recognised as distributions in the Financial Statements when the Company's liability to make payment has been established.

#### **Segmental Reporting**

The Directors consider that the Company has engaged in a single operating segment as reported to the chief operating decision maker which is that of investing in equity and debt. The chief operating decision maker is considered to be the Board.

#### **Exceptional items**

Exceptional items are those significant items of income or expense which by virtue of their size or incidence are separately disclosed to enable a better understanding of the Company's financial performance.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2010

## 2. Income

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2010</b>			
<b>Income from investments</b>			
Mezzanine loan stock interest	371	12	383
	371	12	383
<b>Other income</b>			
UK treasury bill income	3	15	18
Bank deposit interest	2	4	6
	376	31	407
<hr/>			
<b>Year ended 28 February 2009</b>			
<b>Income from investments</b>			
Mezzanine loan stock interest income			114
Dividend income			175
			289
<b>Other income</b>			
UK treasury bill income			301
Bank deposit interest			25
			615

## 3. Investment management fees

	Ordinary Shares £000	"C" Shares £000	2010 Total £000	2009 Ordinary Shares £000
Investment management fees	265	142	407	228

The Investment Manager is entitled to an annual fee equal to 2.5% of NAV. This fee is exclusive of VAT and is paid quarterly in advance. The fee covers the provision by the Investment Manager of investment management services as well as all accounting and administrative services together with the additional annual trail commission payable to authorised financial intermediaries. Total annual running costs are in aggregate capped at 3.6% of NAV (excluding the Investment Manager's performance-related incentive fee, any irrecoverable VAT and the Merger costs), with any excess being borne by the Investment Manager.

The Investment Manager will receive a performance-related incentive fee subject to the Company achieving certain defined targets. No incentive fee will be payable until the Company has provided a cumulative return to investors in the form of growth in NAV plus payment of dividends ("the Return") of 60p per share. Thereafter, the incentive fee, which is payable in cash, is calculated as 20% of the amount by which the Return in any accounting period exceeds 7p per share. The incentive fee is exclusive of VAT.

The management agreement may be terminated on 12 months' notice, given at any time after 21 January 2013.

## 4. Merger costs

The non-contingent costs incurred by the Company in respect of the Merger with Ventus 3 VCT plc, amounting to £102,846, were accrued and charged to the Statement of Comprehensive Income during the year ended 28 February 2010. The Directors consider the Merger costs to be an exceptional item, therefore this item has been presented separately on the Statement of Comprehensive Income.

## 5. Other expenses

	Ordinary Shares £000	"C" Shares £000	2010 Total £000	2009 Ordinary Shares £000
Directors' remuneration	20	13	<b>33</b>	33
Fees payable to the Company's Auditors for:				
- Audit of the Company's Annual Financial Statements	12	6	<b>18</b>	12
- Other services relating to taxation	1	1	<b>2</b>	2
- Other services	1	1	<b>2</b>	3
Legal and professional fees	-	-	-	2
Other expenses	57	35	<b>92</b>	77
	91	56	<b>147</b>	129

Other services provided by the Company's Auditors related to the reviews of the Half-yearly Report. Tax services provided by the Company's Auditor related to corporation tax compliance.

## 6. Directors' remuneration

	Ordinary Shares £000	"C" Shares £000	2010 Total £000	2009 Ordinary Shares £000
D Pinckney	6	4	<b>10</b>	10
A Moore	5	3	<b>8</b>	7
P Thomas	4	3	<b>7</b>	8
C Wood	5	3	<b>8</b>	8
Aggregate emoluments	20	13	<b>33</b>	33

Further details regarding Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 16 and 17.

## 7. Taxation

	Ordinary Shares £000	"C" Shares £000	2010 Total £000	2009 Ordinary Shares £000
(a) <b>Tax charge/(credit) for the year</b>				
Current UK corporation tax:				
Charged/ (credited) to revenue reserve	46	(2)	<b>44</b>	53
Credited to capital reserve	(42)	(2)	<b>(44)</b>	(36)
	4	(4)	-	17
(b) <b>Factors affecting the tax charge/ (credit) for the year</b>				
(Loss)/ profit before taxation	(794)	(167)	<b>(961)</b>	411
Tax charge/ (credit) calculated on (loss)/profit before taxation at the applicable rate of 21% (2009: 21%)	(167)	(35)	<b>(202)</b>	86
Effect of:				
UK dividends not subject to tax	-	-	-	(37)
Capital losses/(gains) not subject to tax	149	-	<b>149</b>	(32)
Unrecognised deferred tax asset	-	31	<b>31</b>	-
Non-deductible Merger costs	22	-	<b>22</b>	-
	4	(4)	-	17

No provision for deferred taxation has been made on potential capital gains due to the Company's current status as a VCT under section 274 of the ITA and the Directors' intention to maintain that status. The Company intends to continue to meet the conditions required to maintain its status as a Venture Capital Trust for the foreseeable future. There is an unrecognised deferred tax asset of £30,853 in respect of unrelieved surplus operating expenses. The Merger costs represent an exceptional item, these costs are not deductible for corporation tax therefore they do not reduce the Company's profits chargeable for tax.

# NOTES TO THE FINANCIAL STATEMENTS

Continued

## 8. Dividends

	2010 £000	2009 £000
Amounts recognised as distributions to ordinary shareholders in the year:		
Previous year's final dividend of 1.50p per ordinary share (2009: 1.40p)	168	156
Current year's interim dividend of 1.50p per ordinary share (2009: 1.50p)	167	168
	<b>335</b>	<b>324</b>

There were no dividends paid to "C" shareholders during the year ended 28 February 2010.

The Directors do not propose to pay a final dividend to either the ordinary or "C" shareholders.

	2010 £000	2009 £000
Amounts paid or to be paid to ordinary shareholders in respect of the financial year:		
Interim dividend for the year ended 28 February 2010 of 1.50p per ordinary share (2009: 1.50p)	167	168
Nil final dividend for the year ended 28 February 2010 (2009: 1.50p per ordinary share)	-	168
	<b>167</b>	<b>336</b>

## 9. Basic and diluted return per share

The net loss per ordinary share for the year ended 28 February 2010 is based on £798,000 (2009: net profit of £394,000) and the weighted average number of ordinary shares in issue during the year of 11,280,150 (2009: 11,173,337).

The basic revenue return per ordinary share is based on the net revenue from ordinary activities after taxation of £70,000 (2009: £376,000) and the weighted average number of ordinary shares in issue during the year of 11,280,150 (2009: 11,173,337).

The net capital loss per ordinary share is based on the net loss from ordinary activities after taxation of £868,000 (2009: net gain of £18,000) and the weighted average number of shares in issue during the year of 11,280,150 (2009: 11,173,337).

There is no difference between the basic loss per ordinary share and the diluted loss per ordinary share because no dilutive financial instruments have been issued.

On 6 May 2010, pursuant to the Merger, the Company acquired the assets and liabilities of Ventus 3 VCT plc and issued 12,250,311 new ordinary shares in consideration. As at the date of this report, the ordinary share capital is made up of 24,537,560 ordinary shares of 25p each which have been issued and are fully paid up and are quoted on the London Stock Exchange.

The net loss per "C" share for the year ended 28 February 2010 is based on £163,000 and the weighted average number of "C" shares in issue during the period of 6,089,818.

The basic revenue loss per "C" share is based on the net loss from ordinary activities after taxation of £59,000 and the weighted average number of "C" shares in issue during the period of 6,089,818.

The net capital loss per "C" share is based on the net loss from ordinary activities after taxation of £104,000 and the weighted average number of shares in issue during the period of 6,089,818.

There is no difference between the basic loss per "C" share and the diluted loss per "C" share because no dilutive financial instruments have been issued.

Since the year end, the Company has issued a further 4,404,421 "C" shares in respect of the Company's second "C" share offering, which launched on 8 February 2010, therefore the total number of "C" share in issue at the date of this report is 11,329,107. The offer closed on 31 May 2010.

## 10. Investments

Year ended 28 February 2010	Ordinary Shares			"C" Shares		Total		
	Shares £000	Mezzanine loan stock £000	Total £000	Mezzanine loan stock £000	Shares £000	Mezzanine loan stock £000	Total £000	
<b>Opening position</b>								
Opening cost	5,323	2,624	7,947	-	5,323	2,624	7,947	
Opening unrealised gains	153	-	153	-	153	-	153	
Opening fair value	5,476	2,624	8,100	-	5,476	2,624	8,100	
<b>During the year</b>								
Purchases at cost	22	1,023	1,045	325	22	1,348	1,370	
Unrealised (losses)/gains	(764)	53	(711)	-	(764)	53	(711)	
Closing fair value	4,734	3,700	8,434	325	4,734	4,025	8,759	
<b>Closing position</b>								
Closing cost	5,345	3,647	8,992	325	5,345	3,972	9,317	
Closing unrealised gains	(611)	53	(558)	-	(611)	53	(558)	
Closing fair value	4,734	3,700	8,434	325	4,734	4,025	8,759	

Year ended 28 February 2009	Ordinary Shares		
	Shares £000	Mezzanine loan stock £000	Total £000
<b>Opening position</b>			
Opening cost	1,014	299	1,313
Opening fair value	1,014	299	1,313
<b>During the year</b>			
Purchases at cost	4,309	2,325	6,634
Unrealised gains	153	-	153
Closing fair value	5,476	2,624	8,100
<b>Closing position</b>			
Closing cost	5,323	2,624	7,947
Closing unrealised gains	153	-	153
Closing fair value	5,476	2,624	8,100

The shares held by the Company are in unquoted UK companies. The Investment Manager's Report on pages 3 to 11 provides details in respect of the Company's shareholding in each investment together with details of mezzanine loans issued.

Investments acquired and disposed of during the year are detailed in the Investment Manager's Report.

There was a material write down in the value of Redimo LFG Limited during the year, which amounted to £1,000,000 in total. The value of the investment in Redimo LFG Limited is held at nil as at the balance sheet date. An explanation of the reasons for the impairment in the value of this investment is provided in the Investment Manager's Report.

Under IFRS 7, the Company is required to report the category of fair value measurements used in determining the value of its investments, to be disclosed by the source of inputs, using a three-level hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the instrument that are not based on observable market data (unobservable inputs) (Level 3).

As at 28 February 2010, each of the Company's investments held was valued using inputs which are considered to be Level 3 inputs and a reconciliation of the movements is in the table above. The Company is further required to disclose the effect of changing one or more inputs with reasonable alternative assumptions where a significant change to the fair value measurement would result. The investment portfolio has been reviewed for the effect of alternative valuation inputs, namely the sensitivity of the total value of all investments to a 1% increase or decrease in the discount factor applied to the valuation models of investments which have been valued using the discounted future cash flows from the underlying business. The application of the upside alternative discount factor would have resulted in the total value of all investments having been £185,038 or 2.19% higher. The application of the downside alternative discount factor would have resulted in the total value of all investments having been £177,402 or 2.10% lower.

# NOTES TO THE FINANCIAL STATEMENTS

Continued

## 11. Trade and other receivables

	Ordinary Shares £000	"C" Shares £000	2010 Total £000	2009 Ordinary Shares £000
<b>Non-current assets</b>				
Accrued interest income	126	-	<b>126</b>	139
	126	-	<b>126</b>	139
<b>Current assets</b>				
Accrued interest income	292	12	<b>304</b>	24
Other receivables	211	13	<b>224</b>	-
Prepayments	5	3	<b>8</b>	76
	508	28	<b>536</b>	100

Included in accrued interest income is mezzanine loan stock interest totalling £126,000 (2009: £138,680) which is due after more than one year, which represents non-current assets. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

## 12. Cash and cash equivalents

	Ordinary Shares			"C" Shares			Total		
	Cash £000	Treasury Bills £000	Total £000	Cash £000	Treasury Bills £000	Total £000	Cash £000	Treasury Bills £000	Total £000
As at 1 March 2009	832	1,620	2,452	-	-	-	832	1,620	2,452
Net increase/(decrease)	532	(1,620)	(1,088)	2,497	3,998	6,495	3,029	2,378	5,407
<b>As at 28 February 2010</b>	1,364	-	1,364	2,497	3,998	6,495	3,861	3,998	7,859

	Ordinary Shares		
	Cash £000	Treasury Bills £000	Total £000
As at 1 March 2008	202	8,975	9,177
Net increase/(decrease)	630	(7,355)	(6,725)
<b>As at 28 February 2009</b>	832	1,620	2,452

Cash and cash equivalents comprise bank balances and cash held by the Company including UK treasury bills. The carrying amount of these assets approximates to their fair value.

## 13. Trade and other payables

	Ordinary Shares £000	"C" Shares £000	2010 Total £000	2009 Ordinary Shares £000
Corporation tax	4	(4)	-	17
Other payables	-	457	<b>457</b>	194
Accruals	72	14	<b>86</b>	27
	76	467	<b>543</b>	238

Other payables includes £444,000 of subscriptions to the "C" share offer received before the allotment of "C" shares had been approved by the Board (2008: £194,000). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

#### 14. Share capital

	Ordinary Shares		"C" Shares		Total
	Number of shares of 25p each	£000	Number of shares of 25p each	£000	£000
At 1 March 2009	30,000,000	7,500	-	-	7,500
Shares authorised during the year	-	-	20,000,000	5,000	5,000
<b>At 28 February 2010</b>	<b>30,000,000</b>	<b>7,500</b>	<b>20,000,000</b>	<b>5,000</b>	<b>12,500</b>

	Ordinary Shares		"C" Shares		Total
	Number of shares of 25p each	£000	Number of shares of 25p each	£000	£000
At 1 March 2009	11,173,337	2,793	-	-	2,793
Allotted, called up and fully paid during the year	1,113,912	278	6,924,686	1,731	2,009
<b>At 28 February 2010</b>	<b>12,287,249</b>	<b>3,071</b>	<b>6,924,686</b>	<b>1,731</b>	<b>4,802</b>

At 28 February 2010, the Company had two classes of shares which carry no right to fixed income. The rights and obligations attaching to the Company's shares are set out in the Corporate Governance Statement on pages 18 to 20.

#### "C" share offer

Further to an Extraordinary General Meeting held on 2 March 2009 the authorised share capital of the Company was increased from £7,500,000 to £12,500,000 by the creation of 20,000,000 "C" shares of 25 pence each.

During the year the following allotments of "C" shares of 25 pence took place at a price of 100 pence per share:

Date of allotment	Number of shares
24 March 2009	2,200,023
3 April 2009	2,448,579
4 April 2009	806,826
18 May 2009	843,482
7 July 2009	625,776
<b>Total</b>	<b>6,924,686</b>

Following these allotments there were 6,924,686 "C" shares of 25 pence each in issue at 28 February 2010.

The offer for "C" shares was closed on 30 June 2009 and the final allotment was made on 7 July 2009. After issue costs, £6,543,828 was raised from these share issues. Under an agreement between the Company and the Investment Manager, the Company agreed to pay the Investment Manager an offer fee of 5.5% of the gross proceeds (but net of up front commission paid to authorised introducers by the Company). During the year, Climate Change Capital Limited earned a fee of £201,986 from the Company in respect of this offer.

#### Ordinary share "top-up" offer

Under the authority granted to them at the Extraordinary General Meeting held on 2 March 2009, on 17 November 2009 the Directors announced a joint offer with Ventus 3 VCT plc to invite subscriptions for up to £2.0 million of ordinary shares. The offer closed on 18 January 2010 and was fully subscribed. On 25 January 2010, 1,113,912 ordinary shares of 25 pence were allotted at a price of 89 pence per share.

Following this allotment there were 12,287,249 ordinary shares of 25 pence each in issue at 28 February 2010.

After issue costs, the Company raised £936,000 from this ordinary share offer. Under an agreement between the Company and the Investment Manager, the Company agreed to pay the Investment Manager an offer fee of 5.5% of the gross proceeds. During the year, Climate Change Capital Limited earned a fee of £54,526 from the Company in respect of this offer.

**15. Basic and diluted net asset value per share**

The calculation of net asset value per ordinary share as at 28 February 2010 is based on net assets of £10,356,000 (2009: £10,553,000) divided by 12,287,249 (2009: 11,173,337) ordinary shares in issue at that date. The net asset value per "C" share as at 28 February 2010 is based on net assets of £6,381,000 divided by 6,924,686 "C" shares in issue at that date.

**16. Post balance sheet events**

Since the balance sheet date the "C" share fund increased its loan to Muirhall Windfarm Limited by £50,000, however the loan of £375,000 was repaid in full when the Company acquired a holding in Muirhall Windfarm Limited's parent company, Greenfield Wind Farm Limited on 19 March 2010. The Company's ordinary share fund subscribed for 167 shares in Greenfield Wind Farm Limited for a consideration of £334,000. The "C" share fund subscribed for 250 shares for £500,000. The Company's ordinary share fund and "C" shares fund also advanced mezzanine loans of £668,000 and £1,000,000 respectively. By virtue of the Merger with Ventus 3 VCT plc, the Company holds a further 166 ordinary shares in Greenfield Wind Farm Limited with a value of £332,000 and mezzanine loan of £664,000.

On 29 March 2010, the "C" share fund advanced a loan of £200,000 to Renewable Power Systems Limited. A further amount of £150,000 was advanced to the company by the "C" share fund on 9 April 2010.

On 25 May 2010, the ordinary share fund advanced a further £60,000 loan to Redeven Energy Limited.

On 2 June 2010, the ordinary share fund invested a further £400,000 in Twinwoods Heat & Power Limited by way of a mezzanine loan.

Since the balance sheet date, the Company has allotted a further 4,404,421 "C" shares. As at the date of this report, there are 11,329,107 "C" shares in issue. The Company's second "C" share offer closed on 31 May 2010. The issue price of each "C" share is £1. The rights attaching to each class of shares are set out in full in the Company's Articles of Association.

On 6 May 2010, the Company completed a scheme of reconstruction with Ventus 3 VCT plc (the "Scheme" or "Merger"). The terms of the Scheme were set out in a circular issued by the Company on 8 February 2010. The Scheme was effected by Ventus 3 VCT plc transferring its assets and liabilities to the Company, in consideration for which the Company issued 12,250,311 new ordinary shares to the shareholders of Ventus 3 VCT plc. Under the Scheme, Ventus 3 VCT plc was placed into members' voluntary liquidation. The number of new shares issued by the Company to the shareholders of Ventus 3 VCT plc was determined on the basis of the relevant net assets of Ventus 3 VCT plc and the Company's ordinary share fund on the date prior to the Merger, adjusted in accordance with the terms of the Scheme. The new ordinary shares rank *pari passu* in all respects and form a single class with the existing ordinary shares.

The following unaudited pro forma balance sheet of the enlarged ordinary share fund of the Company is provided for illustrative purposes only. Its purpose is to illustrate the effect of the Merger on the assets, liabilities and equity shareholders' funds of the Company's ordinary share fund as if the Merger had taken place on 28 February 2010. The pro forma balance sheet includes an adjustment to demonstrate the requirement of the Company to consolidate investments in which it holds a controlling interest. Subsequent to the Merger the Company has a shareholding of 60% of the shares issued by each of Redeven Energy Limited and Spurlens Rig Wind Limited (details on which are presented in the Investment Manager's Report), therefore these investments have been consolidated into the pro forma balance sheet.

**Pro forma Balance Sheet**  
as at 28 February 2010

	Ventus 2 VCT plc	Ventus 3 VCT plc (unaudited)	Merger Adjustments (unaudited)	Consolidation Adjustments (unaudited)	Ventus 2 VCT plc pro forma (unaudited)
	Ordinary Shares £000	£000	£000	£000	Ordinary Shares £000
<b>Non-current assets</b>					
Investments	8,434	8,434	-	(672)	16,196
Plant & equipment	-	-	-	985	985
Trade and other receivables	126	126	-	-	252
	8,560	8,560	-	313	17,433
<b>Current assets</b>					
Trade and other receivables	508	329	-	80	917
Cash and cash equivalents	1,364	1,527	-	64	2,955
	1,872	1,856	-	144	3,872
<b>Total assets</b>	10,432	10,416	-	457	21,305
<b>Current liabilities</b>					
Trade and other payables	(76)	(81)	(71)	(5)	(233)
<b>Net current assets</b>	1,796	1,775	(71)	139	3,639
Financial liabilities	-	-	-	(332)	(332)
<b>Net assets</b>	10,356	10,335	(71)	120	20,740
Share capital	3,071	3,071	(8)	-	6,134
Share premium	658	658	6,574	-	7,890
Special reserve	7,803	7,803	(7,803)	-	7,803
Capital reserve – realised	(651)	(644)	684	-	(611)
Capital reserve – unrealised	(558)	(558)	558	-	(558)
Revenue reserve	33	5	(76)	2	(36)
Equity attributable to equity holders	10,356	10,335	(71)	2	20,622
Minority interests	-	-	-	118	118
<b>Total equity</b>	10,356	10,335	(71)	120	20,740
<b>Basic and diluted net asset value per share (p)</b>	84.3	84.1			84.0

**17. Financial instruments and risk management**

The Company's financial instruments comprise investments in unquoted companies, cash and cash equivalents, trade and other receivables and trade and other payables. The investments in unquoted companies and UK treasury bills are categorised as "fair value through profit or loss" and the other financial instruments are initially recognised at fair value and subsequently at amortised cost. The main purpose of these financial instruments is to generate revenue and capital appreciation.

The Company has not entered into any derivative transactions and has no financial asset or liability for which hedge accounting has been used.

The main risks arising from the Company's financial instruments are interest rate and investment risk. The Board reviews and agrees policies for managing each of these risks, and they are summarised below. These policies have remained unchanged since the beginning of the financial year.

**Interest rate risk profile of financial assets and financial liabilities**

**Financial assets**

**As at 28 February 2010**

	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<b>Ordinary Shares</b>				
<i>At fair value through profit or loss:</i>				
Ordinary shares	4,734	n/a	n/a	n/a
Mezzanine loan stock	3,700	0%-15%	11.60%	12 years
<i>Loans and receivables:</i>				
Cash	1,364	0.25%	0.55%	n/a
Accrued interest income	418	n/a	n/a	n/a

	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<b>"C" Shares</b>				
<i>At fair value through profit or loss:</i>				
Ordinary shares	-	n/a	n/a	n/a
Mezzanine loan stock	325	12.50%	12.50%	1 month
UK treasury bills	3,998	0.41%	0.44%	3 months
<i>Loans and receivables:</i>				
Cash	2,497	0.25%	0.33%	n/a
Accrued interest income	12	n/a	n/a	n/a

**As at 28 February 2009**

	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<i>At fair value through profit or loss:</i>				
Ordinary shares	5,476	n/a	n/a	n/a
Mezzanine loan stock	2,624	11%-13.5%	12.20%	16 years
UK treasury bills	1,620	3.07%-5.42%	4.67%	86 days
<i>Loans and receivables:</i>				
Cash	832	2.76%	2.76%	n/a
Accrued interest income	163	n/a	n/a	n/a

The Company's trade and other receivables did not hold a right to interest income.

The impact of applying a reasonable sensitivity in interest rates to cash on deposit is not significant.

The risk from future fluctuations in interest rate movements should be mitigated by the Company's intention to complete its investment strategy and to hold a majority of its investments in instruments which are not exposed to market interest rate changes.

Interest income earned from mezzanine loan stock held by both the ordinary share fund and "C" share fund is not subject to movements resulting from market interest rate fluctuations as the rates are fixed, therefore this income presents a low interest rate risk profile. However, interest earned from mezzanine loan stock remains exposed to fair value interest rate risk when bench-marked against market rates.

### **Financial liabilities**

The Company has no guarantees or financial liabilities other than the accruals. All financial liabilities are categorised as other financial liabilities.

### **Currency exposure**

All financial assets and liabilities are held in sterling, hence there is no foreign currency exchange rate exposure.

### **Borrowing facilities**

The Company has no committed borrowing facilities as at 28 February 2010 (2009: £nil).

### **Investment risk**

As a VCT, it is the Company's specific business to evaluate and control the investment risk in its portfolio of unquoted companies, the details of which are discussed in the Investment Manager's Report.

### **Investment price risk**

Investment price risk is the risk that the fair value of future investment cash flows will fluctuate due to factors specific to an investment. The Company aims to mitigate the impact of investment price risk by adhering to its investment policy of risk diversification, as described in the Investment Manager's Report.

The sensitivity of the investments held by the ordinary share fund to a 10% increase or decrease in valuation would be an increase or decrease in the profit before tax of the share fund of £843,342 or 106.21% (2009: £809,981 or 197.27%) and an increase or decrease in net asset value of the same amount or 8.19% (2009: 7.68%).

The sensitivity of the investments held by the "C" share fund to a 10% increase or decrease in valuation would be an increase or decrease in the profit before tax of the share fund of £32,500 or 19.45% and an increase or decrease in net asset value of the same amount or 0.51%.

A 10% variable is considered to be a suitable factor by which to demonstrate a potential change in fair value over the course of a year. The analysis assumes no tax effect applied on the gain or loss.

### **Liquidity risk**

Due to the nature of the Company's qualifying investments, it is not possible to liquidate investments in ordinary shares and mezzanine loan stock easily. The main cash outflows are made for investments, which are within the control of the Company. In this respect, the Company may be regarded as subject to a low level of liquidity risk.

### **Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company is exposed to credit risk through its receivables, investments in mezzanine loan stock and through cash held on deposit with banks.

The Investment Manager evaluates credit risk on mezzanine loan stock prior to making investments as well as monitoring ongoing exposures. Mezzanine loan stock has a fixed charge or a fixed and floating charge over the assets of the investee company in order to mitigate the gross credit risk. The Investment Manager regularly reviews management accounts from investee companies and generally appoints directors to sit on their boards in order to identify and manage the credit risk.

Cash is held on deposit with banks which are AA rated (or equivalent) financial institutions. Consequently, the Directors consider that the risk profile associated with cash deposits is low and the carrying value in the Financial Statements approximates to fair value.

The maximum credit risk of the Company is £12.5 million (2009: £5.0 million) of which the ordinary share fund is exposed to £5.7 million and the "C" share fund is exposed to £6.8 million.

During the year ended 28 February 2010, the value of the investment the Company holds in Redimo LFG Limited was written down to nil. The write down was applied in reaction to Redimo LFG Limited's current poor operational performance and lower than expected revenue, which has resulted in certain loan covenants having been breached. Further details about Redimo LFG Limited are provided in the Investment Manager's Report.

The mezzanine loan agreement with Firefly Energy Limited was renegotiated during the year ended 28 February 2010. With effect from 1 March 2009, the rate of interest applied to the loan of £100,000 was reduced and it was agreed that interest would not be applied to accrued interest amounts. Had the agreement not been amended, the accrued interest would have been disclosed as past due.

# NOTES TO THE FINANCIAL STATEMENTS

Continued

At the year end, no debt due for payment to the Company was considered to have been impaired. The expected timing of receipt of trade and other receivables is presented below:

	Total £000	Within 1 year £000	Between 1 and 2 years £000	Over 2 years £000
<b>Ordinary Shares</b>				
Accrued interest income	418	292	8	118
Other receivables	211	211	-	-
	629	503	8	118
<b>"C" Shares</b>				
Accrued interest income	12	12	-	-
Other receivables	13	13	-	-
	25	25	-	-

## 18. Contingencies, guarantees and financial commitments

On 31 July 2006, the Company registered a charge over its shares in Craig Wind Farm Limited to Alliance & Leicester Commercial Bank plc as security for a senior loan facility of £7.6 million raised by Craig Wind Farm Limited to finance the construction costs of the wind farm. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Craig Wind Farm Limited.

On 2 April 2008, the Company undertook a commitment to Alliance & Leicester Commercial Bank plc to subscribe for further equity in Redimo LFG Limited by signing and delivering an application for 2,500 shares, for a consideration of £250,000, on or before 31 December 2008. The Company satisfied this commitment on 19 December 2008. On 2nd April 2008, the Company registered a charge over its shares in Redimo LFG Limited to Alliance & Leicester Commercial Bank plc as security for a senior loan facility of £16.9 million raised by Redimo LFG Limited. The charge includes all existing and future shares that the Company owns in Redimo LFG Limited and therefore includes the 2,500 shares the company acquired on 19 December 2008 and the further 2,000 shares the Company acquired on 18 February 2009. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Redimo LFG Limited, which was valued at nil at 28 February 2010 for the reasons described in the Investment Manager's Report.

On 22 October 2008, the Company registered a charge over its shares in Achairn Energy Limited to Alliance & Leicester Commercial Bank plc as security for a senior loan facility of £6.9 million raised by Achairn Energy Limited to finance the construction costs of the wind farm. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Achairn Energy Limited.

On 28 November 2008, the Company registered a charge over its shares in A7 Lochhead Limited to Alliance & Leicester Commercial Bank plc as security for a senior loan facility of £7.8 million raised by A7 Lochhead Limited to finance the construction costs of the wind farm. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of A7 Lochhead Limited.

On 28 April 2008, the Company registered a charge over its shares in PBM Power Limited to Alliance & Leicester Commercial Bank plc as security for a senior loan facility of £3.8 million raised by PBM Power Limited to finance the construction costs of the biomass generator. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of PBM Power Limited.

On 15 January 2010, the Company registered a charge over its shares in Sandsfield Heat & Power Limited to Cooperative Bank plc as security for a senior loan facility of £5 million raised by Sandsfield Heat & Power Limited to finance the construction costs of the biomass generator. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Sandsfield Heat & Power Limited.

On 15 January 2010, the Company registered a charge over its shares in Greenfield Wind Farm Limited to Cooperative Bank plc as security for a senior loan facility of £18.3 million raised by Greenfield Wind Farm Limited to finance the construction costs of the wind farm. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Greenfield Wind Farm Limited.

As at the year end the Company had provided committed loan facilities to the following companies that were partly drawn down:

- i. The Small Hydro Company Limited. £192,000 facility of which £190,000 was drawn down.
- ii. Osspower Limited. £27,500 facility of which £13,750 was drawn down as at year end. The balance was drawn down in April 2010.
- iii. On 14 January 2010, the Company entered a loan agreement to provide Renewable Power Systems Limited with a loan of £350,000. As at 28 February 2010, no amount of the loan had been drawn down.

As at 28 February 2010, the Company was committed to take advice on the Merger, the costs of which were contingent on the Merger taking place. It is estimated that these costs will amount to £31,000.

The Company had no other contingencies, financial commitments or guarantees as at 28 February 2010.

The guarantees and loan commitments set out above were matched by Ventus 3 VCT plc (excluding the loan commitment made to Renewable Power Systems Limited). Following the Company's acquisition of the assets and liabilities of Ventus 3 VCT plc on 6 May 2010, the Company has assumed the guarantees and commitments made by Ventus 3 VCT plc.

## 19. Related party transactions

The Company retains Climate Change Capital Limited as its Investment Manager, a subsidiary of Climate Change Holdings Limited, which is a subsidiary of Climate Change Capital Group Limited. Details of the agreement with the Investment Manager are set out in note 3 of the Financial Statements. During the year the Company was charged investment management fees of £407,000 by the Investment Manager (2009: £286,000 net of £58,000 recovered VAT) of which £265,000 was charged to the ordinary share fund and £142,000 was charged to the "C" share fund.

During the year ended 28 February 2010, the Investment Manger earned offer fees of £201,986 in respect of the first "C" share offer and £54,526 from the ordinary share "top-up" offer.

Climate Change Capital Limited was also the Investment Manager of Ventus VCT plc and Ventus 3 VCT plc during the year; Ventus 2 VCT plc held certain of its investments in common with these companies as detailed in the Investment Manager's Report. At 28 February 2010, the Company was owed £1,113 by Ventus 3 VCT plc and owed £10,787 to Ventus VCT plc.

The investee companies in which the Company has a shareholding of 20% or more, as identified in the Investment Manager's Report, are related parties; all of which are held by the ordinary share fund only. The aggregate balances at the balance sheet date and transactions with these companies during the year are summarised below.

### Ordinary Shares

	28 February 2010 £000	28 February 2009 £000
<b>Balances</b>		
Investments - shares	3,352	4,112
Investments - mezzanine loan stock	2,092	1,369
Accrued interest income	247	82
	Year ended 28 February 2010 £000	Year ended 28 February 2009 £000
<b>Transactions</b>		
Mezzanine loan stock interest income	229	82
Dividend income	-	175

As at the year end the Company's ordinary share fund was owed £189,000 by PBM Power Limited in respect to amounts which had been advanced to fund the investee company's operating expenses. The Company's shareholding in PBM Power Limited was 12.5% as at the year end. In view of the amount outstanding to the Company, PBM Power Limited is regarded to be a related party.

## 20. Controlling party

In the opinion of the Directors there is no immediate or ultimate controlling party.

## 21. Management of capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to continue to provide returns for shareholders.

The requirements of the Venture Capital Trust regulations and the fact that the Company has a policy of not having any borrowings, means that there is limited scope to manage the Company's capital structure. However, to the extent to which it is possible, the Company can maintain or adjust its capital structure by adjusting the amount of dividends paid to shareholders, purchasing its own shares or issuing new shares.

The Board considers the Company's net assets to be its capital.

The Company does not have any externally imposed capital requirements.

There has been no change in the objectives, policies or processes for managing capital from the previous year.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the AGM of Ventus 2 VCT plc will be held at 12.15pm on Tuesday, 13 July 2010 at Climate Change Capital's office at 3 More London Riverside, London, SE1 2AQ for the purpose of considering and, if thought fit, passing the following Resolutions (of which, Resolutions 1 to 6 will be proposed as Ordinary Resolutions and Resolution 7 will be proposed as a Special Resolution):

## Ordinary Business

1. To receive the Company's audited Annual Report and Financial Statements for the year ended 28 February 2010.
2. To approve the Directors' Remuneration Report for the year ended 28 February 2010.
3. To re-elect Mr Paul Thomas as a Director of the Company.
4. To re-elect Mr Colin Wood as a Director of the Company.
5. To re-appoint PKF (UK) LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
6. To authorise the Directors to determine the remuneration of the Auditors.

## Special Resolution

7. That the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of 25p each and "C" shares of 25p each in the capital of the Company provided that:
  - (i) The maximum aggregate number of shares hereby authorised to be purchased is an amount equal to 3,678,180 ordinary shares and 1,698,233 "C" shares, representing 14.99% of the issued share capital of each class;
  - (ii) The minimum price which may be paid for a share is 25p per share;
  - (iii) The maximum price, exclusive of any expenses, which may be paid for a share is an amount equal to the higher of; (a) 105% of the average of the middle market prices shown in the quotations for a share in The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;
  - (iv) The authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the AGM of the Company to be held in 2011 and the date which is 18 months after the date on which this resolution is passed; and
  - (v) The Company may make a contract or contracts to purchase its own shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of its own shares in pursuance of any such contract or contracts as if the authority conferred hereby had not expired.

By order of the Board

**The City Partnership (UK) Limited**  
Secretary

7 June 2010





**The Ventus Funds**  
Managed by Climate Change Capital Ltd

[www.ventusvct.com](http://www.ventusvct.com)



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