

**Ventus 2 VCT plc**

**Annual Report and Financial Statements**

for the year ended 28 February 2019

Registered No: 05667210

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## Chairman's Statement

I am pleased to present the Annual Report and Financial Statements of Ventus 2 VCT plc (the "Company") for the year ended 28 February 2019.

The performance of the Company over the financial year has been strong with significant increases in net asset value ("NAV") across all share classes.

The Company has also progressed a number of important initiatives that will serve to increase or bring forward cashflow from its investee companies both now and in coming years. These include agreeing terms to reduce the cost of the debt held by many of our investee companies as well as agreeing to release debt service reserve accounts held by the investee companies. The Board has quantified the impact of these actions, together with an agreement reached with Temporis Capital Limited ("Temporis") to reduce investment management fees, as follows:

Share Class	Estimated increase in cash available over next 5 years <sup>1</sup>
Ordinary Shares	7.75p/share
"C" Shares	11.04p/ share
"D" Shares	17.44p/share

In light of the expected increases in free cash the Board is reviewing its capital allocation framework and will communicate the results of this review in October 2019. This framework will consider share buybacks, increased dividends and re-investment within the investee companies.

For this year the Board proposes to pay a special dividend of 1.00p in addition to the 2.50p final dividend in the ordinary shares and 1.00p in addition to the 4.00p final dividend in the "C" shares, resulting in a total dividend for the year of 6.00p in the ordinary shares and 9.00p in the "C" shares. The Board proposes to pay a 2.50p dividend in the "D" shares.

Together the growth in NAV and the interim and proposed final dividends gives an appreciable total return for each share class:

	NAV at 28-Feb-18	NAV at 28-Feb-19	Increase in NAV	Dividend in respect of the year	Total Return*
	p/share	p/share	p/share	p/share	p/share
Ordinary shares	78.2	84.1	5.9	6.00	11.9
C shares	134.2	140.1	5.9	9.00	14.9
D shares	126.2	147.2	21.0	2.50	23.5

\*Subject to approval of the final dividend by shareholders at the Annual General Meeting.

Over the previous five years each share class is amongst the top performers in its VCT fundraising vintage. Citywire shows that over the previous five years the six Company and Ventus VCT plc share classes are the six best performing environmental VCTs<sup>2</sup>.

<sup>1</sup> Comprised of (i) interest savings in investee company debt costs either concluded or agreed (ii) brought forward release of debt service reserve accounts and (iii) expected reduction in management fees per terms agreed with Temporis. Note that the estimated increase in cashflow does not appear in the Company's NAV, as the Company values its assets on an unlevered basis. The NAV also excludes the impact of future management fees.

<sup>2</sup> [https://citywire.co.uk/investment\\_trust\\_insider/investment-trusts/best-investment-trusts-by-sector.aspx?citywireclassid=56](https://citywire.co.uk/investment_trust_insider/investment-trusts/best-investment-trusts-by-sector.aspx?citywireclassid=56)

### **Shareholder requisitioned resolutions**

Shareholders will be aware that a group of minority shareholders in the Company has acted to place shareholder requisitioned resolutions at this year's Annual General Meeting ("AGM") promoting the removal of the current experienced Board of Directors and replacement with new Directors, all but one of whom have no experience of operating a listed company. Needless to say, I believe these resolutions are not in the best interests of shareholders and should be soundly rejected by shareholders at the forthcoming AGM.

I am confident that what follows in this Chairman's Statement and throughout this Annual Report demonstrate to all shareholders that the Company is in good hands, that as a result of the Board and the Investment Manager's continued efforts the Company is performing near the top of its class, and that, with the tangible, changes set out below the Company is well positioned to continue its good performance.

### **Strategy**

As well as updating you on the progress of the Company during the year ended 28 February 2019, I would like to take this opportunity to outline your Board's vision for the future as we approach the continuation vote in 2020. The Board has, over the last 12 months, given careful consideration to the Company, management, Board composition and strategy through to, and beyond, the 2020 continuation vote. I am pleased to report a number of important announcements and proposals that will add to shareholder value as the Company matures:

- The Board has negotiated an agreement with the Investment Manager, Temporis, to reduce management fees. Fees will drop from 2.25% to 2.00% on entry to a new contract and will fall further to 1.50% of NAV immediately after the 2020 AGM. The proposed agreement with the Investment Manager is an extension to the current contract such that the opportunity to invoke the 24 month notice period cannot be taken until the first anniversary of entry into the revised agreement. The Board proposes to implement the new arrangements shortly after the AGM.
- The Company proposes to appoint Jane Tozer MBE OBE to the Board. Jane brings a lifetime of relevant experience to the Board in the run up to the 2020 continuation vote. She would chair the Audit Committee, become the Senior Independent Director and has held similar non-executive positions in numerous high profile listed and unlisted companies. Jane Tozer's proposed election is to be confirmed by shareholders at the AGM. Jane Tozer will replace Colin Wood, who is standing down at this year's AGM.
- As set out above, as a result of a number of initiatives, the Company expects to have additional cash of 7.75p per ordinary share, 11.04p per "C" share and 17.44p per "D" share in the next five years. The Board is reviewing its capital allocation framework and will communicate the results of this review in October 2019. This framework will consider share buybacks, increased dividends and re-investment within the investee companies.
- The Board has again reviewed the potential to merge the share classes and believes that the challenges that existed two years ago (resulting in the May 2017 decision not to recommend a merger) can now be overcome, particularly given the further stabilisation of the operating record of the assets. The Board expects to conclude a share class merger in the next year.

Further detail on these matters follows within this Chairman's Statement and throughout the Annual Report and Financial Statements themselves.

### Financial performance across the portfolio

The company continues to perform well with significant increases in forecast cashflow. The breakdown of these expected increases in available cash (in pence per share) is as shown in the following table. The anticipated additional cashflow presented is not included in the Company's NAV as at 28 February 2019:

	Debt service reserve releases			Reduced cost of debt			Reduced investment management fees			Total expected additional cash		
Pence per share	Ordinary Shares	"C" Shares	"D" Shares	Ordinary Shares	"C" Shares	"D" Shares	Ordinary Shares	"C" Shares	"D" Shares	Ordinary Shares	"C" Shares	"D" Shares
Additional cash available in year ended 28 February 2020	1.83	5.44	3.12	0.83	0.50	2.21	0.12	0.20	0.21	2.78	6.14	5.54
Additional forecast cash flow 2021-2024	0.00	0.00	0.00	3.22	1.98	8.83	1.75	2.92	3.07	4.97	4.90	11.90
Total	1.83	5.44	3.12	4.05	2.48	11.04	1.87	3.12	3.28	7.75	11.04	17.44

#### *Actions taken by the Board and Investment Manager to increase shareholder value*

The following actions and initiatives undertaken by the Board and Investment Manager have increased or brought forward cashflow to the Company as set out above:

- The refinancing of an investee company which owns the 10.25MW Halesworth wind farm, reducing the cost of debt in the company to 3.29% per annum.
- The Investment Manager acted to fix near term electricity prices in many of our investee companies at an attractive rate in September 2018. The prices secured were 24% ahead of the relevant price forecast.

#### *Exceptional operational issues managed by the Board and Investment Manager*

The Investment Manager has also acted decisively to preserve value in the portfolio by managing the successful reconstruction of the intake at the Upper Falloch hydro scheme. The site is now operating in line with expectations, and through significant contractual negotiations the repayment of all historical revenue losses and construction costs has been secured.

#### *Additional actions underway*

The following workstreams are well under way and are expected to conclude before the semi-annual accounts are issued:

- A further refinancing, which is expected to deliver a similar lending rate to that of the Halesworth wind farm investee company, is about to be completed in Osspower Limited, held by the ordinary shares. This will serve to improve cashflow to the Ordinary shareholders in the Company by way of enhanced dividends over the coming years.
- Renegotiating debt terms with an existing lender to three of the Company's investee companies, which will again appreciably reduce the cost of debt when final documentation is in place. This is again expected to deliver meaningful savings to the relevant investee companies

enhancing dividends over the coming years as well as bringing forward the release of the debt service reserve accounts.

The following activity is ongoing, but the benefits cannot yet be quantified:

- The Investment Manager is in the process of rolling out upgrades to both hardware and software across the portfolio with turbine suppliers and independent technology companies. It is expected that as these upgrades are rolled out they will be accretive to electricity generation levels for a given level of resource and as such deliver additional free cash flow to the Company in the near term and over the remaining project life.

#### **Investment Manager – proposed reduction in investment management fees**

Temporis has been the Investment Manager of the Company since September 2011. It is the Board's view – shared by many shareholders – that Temporis has performed well. Since 2011 the Company has delivered substantial increases in value in each share class and the Investment Manager has converted the portfolio of partly developed assets and uninvested cash that it inherited into a stable operational portfolio of yielding assets.

The Board renegotiated the terms of the investment management agreement ("IMA") with the Investment Manager in May 2017. The result was that management fees were reduced to 2.25% of NAV from 1 November 2017, with a scheduled reduction in fees to 2.00% from November 2021. The agreement reached in May 2017 was for a minimum term of two years, with two years' notice, and therefore May 2019 was the earliest opportunity for the Board to next negotiate with the Investment Manager. If the agreement were terminated, the currently agreed fees would need to be paid for 2 years.

In the Board's view it is in the interests of shareholders to continue with Temporis as Investment Manager. In addition to the strong performance of the Company in the period since 2011, the Board also recognises the significant value in stability and continuity in management of the portfolio and that there would be appreciable risks and costs in moving the management of the funds to a completely new team. The revised arrangements detailed below would allow the Company to secure significantly reduced investment management fees whilst continuing to benefit from continuity of personnel and the significant investment that the Investment Manager has made in systems and resources over the course of its tenure as Investment Manager of the Company.

The proposal is that:

- Management fees reduce from 2.25% to 2.00% on entry to a new contract. Fees will fall from 2.00% to 1.50% of NAV immediately after the 2020 AGM;
- The two years' notice period cannot be invoked until the first anniversary of entry into the revised agreement.
- The Board will implement the new arrangements shortly after the AGM.
- The other terms of the IMA would remain unchanged. In particular, the revised contract would retain a provision to reduce the termination notice period to one year should shareholders vote to not continue the Company in 2020.

The entry into the renegotiated IMA constitutes a smaller related party transaction under listing rule 11.1.10 and will be dealt with accordingly by the Company.

For illustrative purposes, assuming future fees are calculated using the NAV as at 28 February 2019, the investment management fees applicable to each financial year is set out in the table below:

Financial Year Ended	Current IMA Weighted Average Fee (%)	Proposed IMA Weighted Average Fee (%)	Benefit (%)	Potential Saving to the Company (£)
28 February 2020	2.25%	2.10%	0.15%	£57,000
28 February 2021	2.21%	1.71%	0.50%	£196,000
28 February 2022	2.08%	1.50%	0.58%	£229,000
28 February 2023	2.00%	1.50%	0.50%	£196,000

Another way to look at the beneficial economics of the new fee proposal is a comparison in percentage terms over its three-year life with the alternative of giving the required two years notice under the current IMA and then appointing someone new for year three.

The table below shows the proposed new fee percentages over three years (totalling 5.00%) and those that would continue to be paid for two years under the current IMA. It also shows the imputed 0.59% annual fee that would need to be secured from any new investment manager for year three to deliver the same 5.00% over the whole period of the proposed new contract. As 0.59% is modest in scale, the Board is satisfied that the proposed arrangements offer value to shareholders over the period of the proposed agreement.

Comparison	Annual fee % to July 2020	Annual fee % to July 2021	Annual fee % to July 2022	Total Fees
Renegotiated Temporis fees	2.00%	1.50%	1.50%	5.00%
Temporis terminated and replaced in Year 3	2.25%	2.16%	<b>0.59%*</b>	5.00%

\*Implied cost to equal the renegotiated fee base

### Board Composition

The current Directors, including myself as Chairman, have been in place since the Company was launched in 2005. In 2011 the Company got into some difficulty and the Board took the hard and complex decision to move the investment management of the Company from the previous investment manager to Temporis. The Board has felt a responsibility to see this decision through and has remained in place through to a period of stability and the 2020 continuation vote.

Over the last seven years the Company has seen an appreciable growth in value across all share classes, the delivery of an operational portfolio of renewable energy assets, a stable and sustainable dividend policy and a considerable narrowing of the discount to NAV.

The Company is now approaching the continuation vote at the 2020 AGM, at which shareholders will be asked to consider whether or not the Company should continue in its current format and the Board believes that bringing in a new Director will assist in that crucial process. The Board therefore proposes to appoint Jane Tozer as a Director to the Company at the forthcoming AGM. Jane brings significant investment management and finance experience to the Board. Jane's biography can be found on page 49 of this Annual Report.

Colin Wood will be standing down as a Board Director and as Chairman of the Audit Committee. I would like to personally thank Colin for his much-valued service and advice to the Board and the Company, which will be missed.

As stated at last year's AGM, I propose to retire as Chairman after next year's AGM and continuation vote in the summer of 2020. An orderly process is underway to find a suitable replacement.

### **Annual General Meeting**

The Company's AGM will be held on 8 August 2019 at the offices of Howard Kennedy LLP, No. 1 London Bridge, London, SE1 9BG. The AGM will be preceded by a presentation from the Investment Manager at 11.30am to which all shareholders are invited to attend. The AGM will follow at 12.30pm. Details of the resolutions to be put to shareholders at the meeting are set out in a separate Notice of AGM which accompanies this Annual Report.

### **Longer term financial performance and shareholder value**

The Company's key objectives remain:

- To achieve a sustainable level of dividends from the management of a portfolio of renewable energy assets held within a tax efficient VCT.
- To protect the capital of shareholders and to enhance its value by the active management of the assets operated by investee companies, which are generally joint venture companies.
- To manage the assets of the Company with a view to maximising their longevity and optionality.

The Board, together with the Investment Manager, reviews these objectives periodically and intends to conduct the next phase of that review with the additional welcome input of the new Board Director. As part of this review the Board will also consider further strategies to enhance shareholder value, including a merger of share classes.

In light of the significant proposed decrease in management fees, the significant drop in the cost of investee company debt, and enhancements in the operational performance of the assets, the Board will also review the projected dividends for each class. As part of this exercise, the Board will consider how best to deploy any excess cash at investee company level to maximise value for shareholders. This framework considers share buy backs, increased dividends and re-investments within the investee companies.

The Board expects to publish a report in October 2019, along with the half-yearly accounts, to set out the future landscape for the Company. The aim of this will be to both enhance shareholder communication and give clear information to allow shareholders to appraise the Company's shares as an investment in the run up to the continuation vote at the 2020 AGM.

### **NAV, Results and Dividends – Ordinary Shares**

The NAV of the ordinary share fund was £20,523,000 at 28 February 2019 or 84.1p per ordinary share (2018: £19,704,000 or 78.2p per ordinary share). The increase in the ordinary share fund's NAV is attributable to the increased value of the portfolio and the revenue earned during the year, offset by the dividends paid. The increase in value of the portfolio is mainly due to the reduction in discount rate used in the valuation analysis and increase in inflation rate assumption, in line with the market, which is explained in detail in the Investment Managers Report.

The income generated in the ordinary share fund during the year ended 28 February 2019 totalled £1,742,000, of which £382,000 was from loan stock interest and £1,360,000 was from dividends. This compares to total income of £802,000 for the year ended 28 February 2018. The increase in revenue is substantially due to a dividend of £575,000 from Eye Wind Power Limited following the refinancing of the investee company in the prior year.

The Company proposes to declare a final dividend of 3.50p per ordinary share (comprised of a final dividend of 2.50p per share and a special dividend of 1p per share) to be paid on 21 August 2019 to all ordinary shareholders on the register as at the close of business on 26 July 2019.



The Company paid an interim dividend of 2.50p per ordinary share on 16 January 2019. Therefore, the total annual dividend will be 6.00p (2018: 5.00p) per ordinary share. This above target increase in dividend is largely driven by a number of initiatives undertaken by the Investment Manager in this year and the prior year leading to enhanced cash flows into the Company.

### **NAV, Results and Dividends – “C” Shares**

The NAV of the “C” share fund was £15,804,000 at 28 February 2019 or 140.1p per “C” share (2018: £15,147,000 or 134.2p per “C” share). The increase in the “C” share fund’s NAV is attributable to the increased value of the portfolio and the revenue earned during the year, offset by the dividends paid. The increase in value of the portfolio is mainly due to the reduction in discount rate used in the valuation analysis and increase in inflation rate assumption, in line with the market, which is explained in detail in the Investment Managers Report.

The total income of the “C” share fund for the year ended 28 February 2019 was £977,000, of which £297,000 was loan stock interest and £680,000 was from dividends. This compares with income generated by the “C” share fund of £1,120,000 in the year ended 28 February 2018. Overall, total income was lower than that in the previous year due to the extraordinary dividends received in the prior year from Weston Airfield Investments Limited (£424,000) and North Pickenham Energy Limited (£215,000) as a result of the refinancing of the Weston and North Pickenham wind farms in which they are invested.

The Company proposes to declare a final dividend of 5.00p per “C” share (comprised of a final dividend of 4.00p per share and a special dividend of 1.00p per share) to be paid on 21 August 2019 to all “C” shareholders on the register as at the close of business on 26 July 2019. The Company paid an interim dividend of 4.00p per “C” share on 16 January 2019. Therefore, the total annual dividend will be 9.00p (2018: 8.00p) per “C” share.

The Investment Manager is entitled to a performance-related incentive fee of £61,000 in respect of the total return resulting from the increase in NAV during the year and the interim dividend paid. This fee has been accrued as at 28 February 2019.

Subject to the payment of the final “C” share dividend receiving approval from shareholders at the forthcoming AGM, the Investment Manager will be entitled to a further performance-related incentive fee of £113,000. Further information about how the incentive fee is calculated is set out on page 17 of the Strategic Report and in Note 3 to the Financial Statements.

### **NAV, Results and Dividends – “D” Shares**

The NAV of the “D” share fund was £2,931,000 at 28 February 2019 or 147.2p per “D” share (2018: £2,513,000 or 126.2p per “D” share). The increase in the “D” share fund’s NAV is attributable to the increased value of the portfolio and the revenue earned during the year, offset by the dividends paid. The increase in value of the portfolio is mainly due to the reduction in discount rate used in the valuation analysis and increase in inflation rate assumption, in line with the market, which is explained in detail in the Investment Managers Report.

The total income of the “D” share fund for the year ended 28 February 2019 was £117,000, of which £74,000 was loan stock interest and £43,000 was from dividends. This compares with the income generated by the “D” share fund of £71,000 in the year ended 28 February 2018. The increase in revenue was due to a dividend of £43,000 paid by Bernard Matthews Green Energy Halesworth Limited during the year.

The Company proposes to declare a final “D” shares dividend of 2.50p per “D” share to be paid on the 21 August 2019 to all “D” shareholders on the register as at the close of business on 26 July 2019. The

Company did not pay an interim dividend. Therefore, the total annual dividends will be 2.50p (2018: 0.00p) per “D” share.

### Dividend Policy

Over the next five years, the Directors currently anticipate a target annual dividend of 5.00p per ordinary share, 8.00p per “C” share and 5.00p per “D” share. It should be stressed these are intentions only, and no forecasts are intended or should be inferred.

The ability of the Company to pay dividends is dependent on the receipt of cash from its investee companies which is uncertain and depends on various factors including the performance of the renewable energy assets, wind and rainfall conditions, the amount of energy generated, the availability of the turbines, the price of electricity and operating costs.

As indicated above, the Board has committed to review the projected levels of cash generation at investee company level and to provide a capital allocation framework in October 2019 for the coming years as part of its work to provide a landscape for the continuation vote in 2020. The review will therefore determine whether or not to increase dividend targets beyond the current target level of 5.00p, 8.00p and 5.00p per ordinary share, “C” share and “D” share respectively.

### Dividend Yield

	<b>Ordinary Shares</b>	<b>C Shares</b>	<b>D Shares</b>
Mid-market share price as at market close on 28 February 2019	71.5p	121.0p	120.0p
<b>Dividend per share for year ending 28 February 2019:</b>			
Tax-free dividend *	6.00p	9.00p	2.50p
Equivalent pre-tax dividend to Higher Rate taxpayer **	8.89p	13.33p	3.70p
Equivalent pre-tax dividend to Additional Rate taxpayer **	9.69p	14.54p	4.04p
<b>Dividend yield for year ending 28 February 2019 based on mid-market share price as at market close on 28 February 2019:</b>			
Tax-free yield *	8.4%	7.4%	2.1%
Equivalent pre-tax yield to Higher Rate taxpayer **	12.4%	11.0%	3.1%
Equivalent pre-tax yield to Additional Rate taxpayer **	13.6%	12.0%	3.4%

\* Dividend for the year ending 28 February 2019 subject to shareholder approval of the final dividend at the AGM. For eligible VCT investors (i.e. UK Residents aged over 18 years), there is no liability to tax on dividends and no Capital Gains Tax on realised gains. An investment limit of £200,000 per person per tax year applies.

\*\* Equivalent pre-tax dividends/yields are computed assuming a shareholder receives dividends from other sources in excess of the £2,000 per year tax-free dividend allowance (which became effective from April 2018). Higher Rate taxpayers pay tax on dividends in excess of the £2,000 tax-free allowance at the rate of 32.5% and Additional Rate taxpayers (taxable income in excess of £150,000) pay tax on dividends in excess of the £2,000 tax-free allowance at the rate of 38.1%.

## **Shareholder Communications**

The Directors are committed to enhancing the public profile of the Company as they believe its outlook is now very attractive given its stated strategy and the yield the Company is targeting alongside the substantial tax benefits investors enjoy from its VCT status. 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 either email or post may request this by contacting the Registrar.

**Alan Moore**

Chairman

24 June 2019

## Strategic Report

The Strategic Report has been prepared in accordance with the requirements of Section 414A of the Companies Act 2006. Its purpose is to inform the shareholders of the Company on key matters and help them to assess how the Directors have performed their duty to promote the success of the Company, in accordance with Section 172 of the Companies Act 2006.

### The Company and its business model

The Company is a public limited company, incorporated in England and premium listed on the London Stock Exchange. The registered address of the Company is Berger House, 36-38 Berkeley Square, London, W1J 5AE.

The Company is an investment company, as defined by Section 833 of the Companies Act 2006. The Directors consider that the Company has conducted its affairs in a manner to enable it to comply with Section 274 of the Income Tax Act 2007. In particular, a VCT is required at all times to hold at least 70% (80% for accounting periods beginning after 5 April 2019, so from 1 March 2020 for the Company) by value of its investments (as defined in the legislation) in qualifying holdings, of which, for funds raised after 5 April 2011, 70% must comprise eligible ordinary shares.

The Company has a clearly defined investment policy and process. Investment decisions are made by the Investment Manager after approval has been received from the Investment Committee. Regular Board meetings and strategy meetings are held to review the investment performance against the Company's stated investment policy and objectives, and in doing so, monitor the performance of the Investment Manager.

### Objectives

As highlighted in the Chairman's Statement, the Company has an objective to achieve sustainable, long-term returns to shareholders by maximising both dividend yield and enhancing the value of the shareholders' capital through its investments in a portfolio of companies operating renewable energy projects with installed capacities of up to 20 megawatts. The Company aims to manage its assets with a view to maximising their longevity and optionality.

### Investment policy

To achieve its objectives, the Company's strategy has been to focus on investing in companies developing or operating renewable energy projects with installed capacities of up to 20 megawatts. The opportunity for VCTs to make further investments in renewable energy projects is limited given new investments in companies benefiting from Renewable Obligation Certificates or Feed-in Tariffs are excluded from the VCT scheme. Further changes to legislation prevent investment in companies which are non-qualifying for VCT purposes. The Company is therefore focused on optimising the value of the investments it holds.

In accordance with the strategic objectives set by the Board, the Investment Manager has continued to focus the Company's activities on wind, hydroelectric and landfill gas investments generating stable long-term income with the objective of providing predictable dividends to shareholders. In order to improve stability of cash returns from investee companies and enhance the predictability of dividends to shareholders, more recent investments are, on average, structured with lighter leverage at financial close than earlier investments. Further information can be found in the Investment Manager's Report on page 21.

The Investment Manager's Report provides a detailed analysis of the portfolio held by each of the ordinary, "C" and "D" share funds including a schedule which sets out the stage of investment and the renewable energy technology type of the assets held by each investee company.

### Active Asset Management

In order to support the dividend objective and to maximise returns to the shareholders, the Investment Manager is actively managing the assets in the portfolio to enhance yield to the Company.

The primary means of optimising revenue from, and hence capital value of, wind and hydro assets is to keep the plant available to generate and to increase the revenue per unit of generation. The highest levels of electricity generation can be achieved by proactive management of the operation and maintenance providers by managing planned downtime and ensuring that unplanned downtime is kept

to a minimum. To this end the Board has encouraged the Investment Manager to recruit, within its existing management fee structure, specialist in-house engineering experts who continually review operational performance data to identify opportunities to improve performance of both the machines and the contractors.

Other areas where hands-on asset management delivers additional shareholder value is in relation to the negotiation of major commercial contracts including the power purchase agreements for each individual site. Coupled with this, the Investment Manager constantly monitors power prices to optimise the timing of price fixes across investee companies.

Furthermore, for our wind investments there are turbine optimisation products available to the investee companies which can also enhance generation. The Investment Manager is in the process of rolling out upgrades to both hardware and software across the portfolio with turbine suppliers and independent technology companies. It is expected that as these upgrades are rolled out they will be accretive to electricity generation levels for a given level of resource and as such deliver additional free cash flow to the Company in the near term and over the remaining project life.

The Investment Manager has also been active in seeking out ad-hoc commercial arrangements such as the grid sharing arrangements at the Achairn site.

The Investment Manager also devotes attention to carefully reviewing and managing operating costs, to ensure that the Company benefits from the scale of its operating portfolio across all investee companies. For example, these costs include site management, insurance, management oversight systems and reporting. This has resulted in operational cost savings across the portfolio. The Investment Manager also seeks to reduce operating costs on a project by project basis by, for example, successfully appealing business rates assessments which has delivered significant savings for investee companies.

### **Financial optimisation**

#### *Investee company level finance*

Each investee company has long-term senior debt in place. Such debt is secured on a fixed rate, fully amortising basis. The ratio of debt to equity within the investee companies in each share class is set out in the Investment Manager's Report.

The Investment Manager and Board periodically review opportunities to enhance shareholder value through optimising the debt structure within investee companies. Set out in the Chairman's Statement, during the current financial year the Investment Manager has recently refinanced one investee company's senior loan which is expected to enhance cash-flow to the Company and is in the process of renegotiating the debt for more favourable terms on three further investments.

Many of the senior loans in place with investee companies come with an interest rate swap, at the lenders' insistence, which provides the investee company with a fixed interest rate for the life of the loan. UK interest rates have contracted steadily since 2008 and as a consequence many of the interest rate swaps that are in place have a negative carrying value (or are 'out of the money'). Therefore, a senior loan that carries an out of the money interest rate swap comes with a repayment penalty equal to the size of the swap break cost. For this reason, it is not economic to refinance many of the investee company loans in the Company's portfolio.

Beyond refinancing, the Board has considered the level and remaining life of debt within the portfolio. The Loan to Value ratio and the tenor for each share class is set out in the Investment Manager's Report. These metrics, as well as the forward cover ratios of investee company debt, were analysed on a company by company basis. Sensitivity analysis was performed to calculate the impact of an increase in senior debt on cover ratios and investee company dividends. Generally, an increase in debt quantum would lead to an increase in the Company's sensitivity to variability in investee company performance. This may result in investee companies paying limited or no dividends to the Company in a particular year depending on the level of additional borrowing. It is for this reason that the Company has acted to set leverage in the portfolio at a sustainable level which balances predictability with value in returns from investee companies.

The Board has concluded that the loans refinanced during the year and in the process of refinancing or renegotiating are the only loans that can be economically refinanced at present and the level of gearing within each investee company is appropriate given the Company's objective of paying a sustainable level of dividend.

### **Life of the Company**

#### *Asset life*

Renewable energy installations have become an established asset class, driven in part by greater levels of deployment and investor demand for physical assets that provide long-term yield. Deployment has advanced significantly since the creation of the Ventus Funds, with over 13,000MW of onshore wind farms in operation in the UK.

Many windfarms of a scale similar to those owned by the Company's investee companies now have in excess of ten years of operating history. The technology behind wind farms is now demonstrably robust. However, there are very few new projects in development as a result of the UK Government's removal of support for onshore wind. Therefore, wind farm operators have begun to explore the possibility of extending turbine life to 25 or 30 years. In addition, market participants have begun to explore and validate the possibility of repowering i.e. replacing older turbines with newer, larger, more efficient machines. The first operational wind farm of scale in the UK, at Delabole in Cornwall, was successfully repowered with larger turbines in 2010, and others have followed.

At present, for wind farms, the Company assumes an operational life of 25 years, in line with other market participants given the design life of the turbines, albeit with a reduced annual generation assumption for the last five years of operational life. No terminal value is assumed, nor is any repowering or life extension value, because it is impossible to forecast with any accuracy the commercial and legal landscape or the electricity market that many years ahead.

Most of the land leases for investee company wind farms have clauses permitting renewal following renegotiation; grid connection agreements are generally evergreen and are owned by the investee company. The Board and Investment Manager continue to actively monitor the market and to ensure that, wherever possible, optionality to derive any value from life extensions and repowering is preserved throughout the portfolio. Such initiatives may allow the Company to extend its lifespan beyond the current assumed operational life of the portfolio. The economics of such a proposal is a function of the electricity market at the relevant time, as well as turbine technology. Extension or repowering would normally require renegotiation of land leases and renewed planning permissions. The Board does not consider it possible to ascribe a quantifiable value to life extension that may or may not be viable in 15 to 25 years. However, the Investment Manager has been instructed to preserve optionality to extend operational life throughout the portfolio. This does not significantly affect the current valuations of investee companies due to the effect of discounting over a prolonged period. However, it is likely that some value may be both achievable and more quantifiable later in the life of the Company.

Hydro-electricity stations tend to have a longer operating life than wind sites, partly because of the relative simplicity of the technology involved once the scheme is built and commissioned. Schemes can operate for 40 years or more, often without significant capital expenditure being required. Currently, the company assumes an operating life of 25 years from the valuation date for valuation purposes. The longevity of these schemes will also be relevant in the life span of the Company.

As set out above it is anticipated that free cash flow inside investee companies will increase as senior debt amortises. As well as the potential to increase cash flow to the Company it is possible that additional free cash flow could be used by the investee companies to make further investments. This would be subject to the VCT rules prevalent at the time and, where a senior lender remains in place, the lender's consent to new investment. This route may provide a means of funding a repowering exercise or capital investment to extend turbine life and the Board will explore such opportunities at the appropriate time.

### **Continuation of the VCTs and outlook**

Whilst the original intention was for the Company to operate as a permanent capital vehicle, it provided for a continuation vote in its offering documents. The Company will include a resolution to consider the

## Ventus 2 VCT plc

continuation of the Company as a VCT in its AGM in 2020. Shareholders will have the opportunity to vote directly on whether the Company should continue in the current form. If the continuation motion is not carried a general meeting will be convened within four months of the 2020 AGM to present proposals for the restructuring or voluntary winding up of the Company.

Should the UK leave the European Union, the Company does not expect material change to its business because the Company's assets and liabilities are all within the UK.

As set out in the Chairman's Statement, the Board is in the process of undertaking a strategic assessment to be delivered in October 2019 which will set out the Board's assessment on this matter and the wider capital allocation framework for the Company.

### Overview of the year and dividends

An overview of the Company's performance is set out in the Chairman's Statement together with details of the dividends paid to shareholders during the year and the final dividend declared in respect of the year.

### Investment portfolio

A summary of the performance of the investment portfolio of each share fund is set out in the Chairman's Statement. The Investment Manager's Report provides details of the investments held.

### Key performance indicators

The Directors consider the following key performance indicators, which are typical for VCTs, to best measure the Company's performance and to provide shareholders with a summary of how the business' objectives are pursued:

### Results and dividends

For the year ended 28 February 2019

	Ordinary Shares <i>Pence per share</i> <sup>1</sup>		"C" Shares <i>Pence per share</i> <sup>1</sup>		"D" Shares <i>Pence per share</i> <sup>1</sup>		Total
	£000		£000		£000		£000
Revenue profit attributable to equity shareholders	1,408	5.77	735	6.53	80	3.96	2,223
Capital gain attributable to equity shareholders	1,261	5.17	881	7.80	338	17.02	2,480
Net gain attributable to equity shareholders	2,669	10.94	1,616	14.33	418	20.98	4,703
Dividends paid during the year	(1,220)	(5.00)	(959)	(8.00)	-	-	(2,179)
Total movement in equity shareholders' funds	1,449	5.94	657	6.33	418	20.98	2,524
Ongoing charges ratio <sup>2</sup>	3.15%		3.16%		2.49%		3.10%

	Ordinary Shares <i>Pence per share</i> <sup>3</sup>		"C" Shares <i>Pence per share</i> <sup>3</sup>		"D" Shares <i>Pence per share</i> <sup>3</sup>		Total
	£000		£000		£000		£000
<b>As at 28 February 2019</b>							
Net asset value	20,523	84.10	15,804	140.07	2,931	147.20	39,258
Total shareholder return <sup>4</sup>	29,674	126.15	20,829	184.07	3,041	152.70	53,544

**Results and dividends**  
**For the year ended 28 February**  
**2018**

	Ordinary Shares		"C" Shares		"D" Shares		Total
	£000	Pence per share <sup>1</sup>	£000	Pence per share <sup>1</sup>	£000	Pence per share <sup>1</sup>	£000
Revenue profit attributable to equity shareholders	465	1.90	866	7.66	32	1.62	1,363
Capital gain/(loss) attributable to equity shareholders	66	0.27	422	3.73	(151)	(7.60)	337
Net gain attributable to equity shareholders	531	2.17	1,288	11.39	(119)	(5.98)	1,700
Dividends paid during the year	(1,220)	(5.00)	(903)	(8.00)	-	-	(2,123)
Total movement in equity shareholders' funds	(689)	(2.83)	385	3.39	(119)	(5.98)	(423)
Ongoing charges ratio <sup>2</sup>		3.52%		2.92%		3.11%	3.24%
	Ordinary Shares		"C" Shares		"D" Shares		Total
	£000	Pence per share <sup>3</sup>	£000	Pence per share <sup>3</sup>	£000	Pence per share <sup>3</sup>	£000
<b>As at 28 February 2018</b>							
Net asset value	19,074	78.20	15,147	134.24	2,513	126.20	36,734
Total shareholder return <sup>4</sup>	27,005	115.25	19,213	170.24	2,623	131.70	48,841

<sup>1</sup> 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 based on the number of shares eligible to receive dividends at the time the dividends were paid.

<sup>2</sup> The on-going charges ratio represents the Company's total operating expenditure during the year (excluding investment costs and the performance-related incentive fee) as a percentage of the NAV of the Company at the year end.

The total annual running costs cap is set out in Note 3 to the Financial Statements.

<sup>3</sup> The "pence per share" value is determined in respect of the number of shares in issue as at the year end, except in respect of the total shareholder return, which includes dividends paid which is based on the number of shares eligible to receive dividends at the time the dividends were paid.

<sup>4</sup> The total shareholder return represents the NAV at year end plus the cumulative dividends paid since incorporation.



## Principal Risks and Uncertainties

Under the Financial Conduct Authority's Disclosure and Transparency Rules, the Directors are required to identify those principal risks to which the Company is exposed and take appropriate steps to mitigate those 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. The Directors do not expect that the risks and uncertainties presented will change significantly over the current financial year.

- Failure to meet and maintain the investment requirements for compliance with HMRC VCT regulations may result in the Company losing its status as a VCT.

*The Board mitigates this risk by regularly reviewing investment management activity with appropriately qualified advisers.*

- Inadequate control environment at service providers may lead to inaccurate reporting or misappropriation of assets.

*This risk is mitigated 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. In addition, the Board has appointed an independent external party, Roffe Swayne, to report directly to the Board in respect of the Company's internal controls undertaken by the Investment Manager on behalf of the Company.*

- Non-compliance with the Listing Rules of the Financial Conduct Authority, Companies Act Legislation and other applicable regulations may result in termination of the Company's Stock Exchange listing or other sanctions.

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

- Reliance on the UK Government's continued support for the renewable energy sector and the risk of adverse changes in the application of government policies particularly in respect of the renewable energy sector and tax legislation.

*The future level of Government-mandated support for renewables has important implications for the industry and could impact the value of investments the Company has made in companies which own and operate renewable projects. However, the Directors believe that existing renewable energy tariffs supporting the assets owned by investee companies are secure.*

- The financial returns to the Company are dependent on the price of electricity its investee companies are able to sell through power purchase agreements. The value of the Company's investments is dependent on projected wholesale electricity prices.

*This risk is mitigated because investee companies have negotiated fixed or floor price mechanisms into the power purchase agreements they have entered into for the sale of their generated output. However, in the longer term, beyond the period of these agreements, the Company is exposed to wholesale prices to a greater degree. The hydro-electricity assets can opt into a floor price each year under the Feed-in Tariff arrangements, which gives these assets a floor on the price of electricity sales. The Investment Manager's Report includes information about the average remaining tenor of the fixed price contracts and the sensitivity of the value of the Company's investments to changes in energy prices.*

- The values of the Company's wind farm and hydro-electricity investments are dependent on expectations of the level of electricity export of each asset, which are driven by expectations of the long-term wind or rainfall conditions. It is possible that expectations of long-term climatic conditions may change over the life time of each investment. The Company's revenues and dividends to shareholders are dependent on actual wind and rainfall conditions.

*The Investment Manager's Report includes information about the sensitivity of the values of the Company's investments to changes in electricity export assumptions. The Company's dividend targets are based on long-term average climatic conditions.*

### **Investment management, administration and performance fees**

Temporis Capital LLP was appointed as Investment Manager of the Company on 12 September 2011. Temporis Capital LLP transferred its assets, employees and businesses to its subsidiary, Temporis Capital Limited, on 31 March 2017. The transfer was approved by the Financial Conduct Authority (the “FCA”) and Temporis Capital Limited has been granted the same permissions by the FCA as Temporis Capital LLP. The IMA with the Company was novated from Temporis Capital LLP to Temporis Capital Limited. The Company’s Investment Manager continues to be actively engaged in managing the portfolio.

Temporis Capital Limited provides management and other administrative services to the Company. The Investment Manager also provided similar services to Ventus VCT plc, Temporis Operational Renewable Energy Strategy LP and Temporis Capital Renewable Infrastructure EIS (Enterprise Investment Scheme) Fund during the financial year.

The principal terms of the IMA are set out in note 3 of the Financial Statements. The investment management services are terminable by either party giving not less than 24 months’ notice. As discussed in detail in the Chairman’s Statement the Directors evaluated the performance of the Investment Manager and agreed that, while the Directors are still of the view that the continuing appointment of Temporis is in the interests of the shareholders, the IMA is to be renegotiated. Further discussion of the Investment Manager’s performance is within the Corporate Governance Statement.

### **Thalia Power Limited**

The businesses in which the Company invests operate renewable energy assets. Investee companies do not have their own management team or employees. Therefore, it is important that a service provider is appointed to administer the investee companies. This role includes treasury management, the preparation of accounts, tax returns, liaison with the lending bank, preparation of financial models and projections, company secretarial services, insurance liaison, sales invoicing and other such tasks. These services do not fall within the Investment Manager’s remit however they are crucial to the ongoing operations of the investee companies.

When Temporis was appointed Investment Manager in 2011 it was clear that investee companies were not being adequately administered. For example, it became apparent that across the portfolio our companies had under-billed for power and related benefits. Temporis subsequently corrected this on behalf of the relevant investee companies.

Thalia Power Limited (“TPL”) is a related party to the Investment Manager. TPL provides the full scope of corporate and financial administration services to a number of the Company’s investee companies.

All but two of the Company’s investments are joint ventures that have shareholders other than Ventus VCT plc. Therefore, third parties, including joint venture directors of investee companies, have to be satisfied that TPL’s service represent value for money and are contracted on arms-length terms.

The average cost of TPL providing these services to an investee company is £29,000 per annum. Each investee company has other shareholders and as such the share of the cost borne by the Company is considerably lower, being approximately £10,000 per annum per investee company on average.

There are two investee companies where TPL does not provide these services. The average cost of the same services to those investee companies is £57,000. It is the view of the Board that the contracts in place for these necessary services represent good value for money to the investee companies. By approving service contracts with TPL, the investee company joint venture partners share this view.

The Board has previously asked whether a related party disclosure was needed in relation to TPL and it was advised by the auditors that this was not required. However, the Board believes this additional voluntary disclosure will be beneficial to shareholders.

### **Performance fees both accrued and contingent**

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 60.00p per share in excess of the initial 100.00p per share investment. 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 7.00p per share.

The "C" share fund achieved a cumulative Return in excess of 60.00p per share in respect of the year ended 28 February 2017.

Historically, the Company has not accrued any performance fee payable to the Investment Manager at year end because, until the year ended 28 February 2019, the Return for any year has been contingent on the approval by the shareholders of the final dividend at the AGM following the year end, in which case it has been recognised and paid once the final dividend has been approved.

However, for the year ended 28 February 2019, the increase in NAV plus the interim dividend alone, for the "C" share fund, has exceeded the annual hurdle of 7.00p per share and as such a performance fee is payable irrespective of the approval of the final dividend.

Because the performance fee is payable at year end, the Company is required to accrue the performance fee in the financial statements. However, the effect of accruing the fee would be to reduce the NAV. Therefore, in calculating the actual fee to be paid, the Company has calculated a deemed NAV, taking into account the fee calculated initially. The actual performance fee payable and accrued is calculated based on this reduced deemed NAV. The result of taking the initially calculated fee into account has the effect of reducing the actual performance fee payable by a total of £15,000 for the "C" shares.

Additionally, in respect of the year ended 28 February 2019, a further performance fee is contingent on approval of the final "C" share dividend. The final dividend proposed is 5.00p per "C" share. As the hurdle of 7.00p per share has been exceeded by the element of the performance fee that is already accrued, the Investment Manager is entitled to a further performance fee of 1.00p per "C" share, being 20% of 5.00p. This additional performance fee is contingent on shareholder approval of the payment of the final dividend, therefore it has not been accrued in the financial statements for the year ended 28 February 2019.

The terms of the performance fee remain unchanged from those set out in the original offer document for the Company in 2005.

### **Non-discretionary expenditure**

There are a number of other cost categories in the accounts which form the "other expenses" which the Board and the Manager have looked to minimise where possible. The overwhelming majority of these costs are non-discretionary and are a consequence of operating a VCT that is a premium listed company. The categorisation of these expenses is set out below:

AIC subscription charges

Company secretarial fees

Directors & Officers insurance

Financial Conduct Authority regulatory fees

Internal audit fees

London Stock Exchange listing fees

Registrar fees

RNS charges

Sponsor & brokerage fees

Typesetting, printing & mailing costs in respect of the annual and half-yearly reports

VCT tax compliance and monitoring fees

Where the costs above are discretionary, or multiple providers can provide the services, the costs have been negotiated extensively to ensure the Board obtains value for shareholders.

#### **Company Secretary**

The City Partnership (UK) Limited provides company secretarial services to the Company as set out in the company secretarial services agreement. For these services the Company Secretary received an annual fee of £18,332 plus VAT. The company secretarial services are terminable by either party giving not less than six months' notice in writing.

#### **VCT monitoring status**

Philip Hare & Associates LLP advises the Company on its compliance with the taxation requirements relating to VCTs.

The Board is satisfied that the Company is compliant with VCT rules as at the year end and at the date of this report.

#### **Additional disclosures required by the Companies Act 2006**

The Company had no employees during the year and the Company had three non-executive Directors, all of whom are male.

The Company, being an externally managed investment company with no employees, has no specific policies in relation to environmental matters, social, community and human rights issues. The purpose of the Company is 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.

In respect of the Bribery Act the Investment Manager believes there are no reasons or circumstances which could be foreseen in which any of the third party service providers might fall foul of the Bribery Act. The Investment Manager has detailed procedures in place covering the giving, receiving, authorising and recording of gifts and hospitality by staff of the Investment Manager.

For and on behalf of the Board

**Alan Moore**

Chairman

24 June 2019

## Investment Manager's Report

In line with the strategic objectives set by the Board, the Investment Manager has continued to focus the Company's activities on renewable energy investments generating stable long-term income with the aim of providing predictable dividends to shareholders.

The three share funds of the Company are now fully invested in companies that own operating wind, hydroelectric and landfill gas projects. All development investments have either been completed, sold or written off.

With effect from 6 April 2016, all new investments in energy generation activities (including the export of electricity and the production of gas or other fuel) are not regarded as a qualifying trade.

Further changes to the VCT regulations were introduced in the Finance Act 2016 which restrict VCTs to making only qualifying investments and certain limited investments for liquidity purposes. All other non-qualifying investments are prohibited.

As such, the Company is limited in its ability to make further investments in accordance with the Investment Policy and, therefore, has no plans to make further investments. The VCT restrictions described above do not affect any of the Company's existing investments.

However, the Investment Manager continues to explore financial and operational optimisation strategies to enhance shareholder value and deliver additional cash flows as well as exploiting ad-hoc opportunities which arise through connectivity with the Company's joint venture partners and the wider renewable infrastructure economy.

The ordinary share fund of the Company has investments in companies operating eight UK wind farms with an aggregate installed capacity of 69.35 megawatts. Five of these investee companies are also owned in part by the "C" share fund and one such company is also owned in part by the "D" share fund. The ordinary share fund also has investments in three companies with hydroelectric projects with combined capacity of 4.79 megawatts. Two of those companies, Darroch Power Limited and Upper Falloch Power Limited, are also owned in part by the "C" share and "D" share funds. These projects were completed in December 2015 and are now operational. Finally, the ordinary share fund has an investment in a company operating a landfill gas project with a capacity of 2.30 megawatts.

The "C" share fund has investments in companies operating seven UK wind farms with an aggregate installed capacity of 75.15 megawatts. Five of these seven companies are also owned in part by the ordinary share fund and one is also owned in part by the "D" share fund. The "C" share fund has also invested jointly with the ordinary and "D" shares in Darroch Power Limited and Upper Falloch Power Limited (2.80 megawatts combined).

The "D" share fund currently has three operational investments. Bernard Matthews Green Energy Halesworth Limited operates a 10.25 megawatt wind farm and is also owned in part by the ordinary and "C" share funds. The "D" share fund has also invested jointly with the ordinary and "C" shares in Darroch Power Limited and Upper Falloch Power Limited (2.80 megawatts combined).

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The following table shows key information about the renewable energy projects owned by the Company's investee companies:

	Capacity	Operational	Location	Output as % of budget - 12 months ended 28 Feb 2019*	Investment held by		
					Ord Share	C Share	D Share
	MW	since			Fund	Fund	Fund
<b>Operational Wind</b>							
Achairn Energy Limited	6.00	May 2009	Caithness, Scotland	77%	✓		
A7 Lochhead Limited	6.00	Jun 2009	Lanarkshire, Scotland	92%	✓		
Greenfield Wind Farm Limited	12.30	Mar 2011	Lanarkshire, Scotland	97%	✓	✓	
Biggleswade Wind Farm Limited	20.00	Dec 2013	Bedfordshire	87%	✓	✓	
Eye Wind Power Limited	6.80	Apr 2014	Suffolk	90%	✓		
Bernard Matthews Green Energy Pickenham Ltd/North Pickenham Energy Ltd	4.00	Apr 2014	Norfolk	94%	✓	✓	
Bernard Matthews Green Energy Weston Ltd/Weston Airfield Investments Ltd	4.00	Apr 2014	Norfolk	90%	✓	✓	
AD Wind Farmers Ltd (Allt Dearg Windfarmers LLP)	10.20	Dec 2012	Argyll and Bute, Scotland	102%		✓	
White Mill Windfarm Limited	14.40	Aug 2012	Cambridgeshire	89%		✓	
Bernard Matthews Green Energy Halesworth Limited	10.25	Aug 2015	Suffolk	87%	✓	✓	✓
<b>Operational Hydro</b>							
Osspower Limited (Allt Fionn)	1.99	Jul 2012	Near Loch Lomond, Scotland	86%	✓		
Darroch Power Limited (Derrydarroch)	1.90	Dec 2015	Near Loch Lomond, Scotland	104%	✓	✓	✓
Upper Falloch Power Limited	0.90	Dec 2015	Near Loch Lomond, Scotland	83%	✓	✓	✓
<b>Operational Landfill Gas</b>							
Renewable Power Systems (Dargan Road) Limited**	2.30	Aug 2009	Belfast, Northern Ireland	N/a	✓		

\* Budget represents the most recently adopted long term energy yield assessment for the site derived from specifically commissioned external consultants reports.

\*\* The revenues earned by Renewable Power Systems (Dargan Road) Limited consist primarily of generator availability payments and are not dependent on electricity output.

All investee companies have their registered address at: Berger House, 36-38 Berkeley Square, London, England, W1J 5AE

Except for:

A7 Lochhead Limited: 31a The Avenue, Poole, Dorset, BH13 6LJ

Achairn Energy Limited: The Ca'D'Oro, 45 Gordon Street, Glasgow, G1 3PE

Osspower Limited: Suite 2C, Second Floor Stuart House, Eskmills, Musselburgh, East Lothian, EH21 7PB

Renewable Power Systems (Dargan Road) Limited: Northwood House, 138 Bromham Road, Bedford, Beds, MK40 2QW

The performance of the assets owned by the investee companies was generally satisfactory during the year. Achairn Energy Limited's wind farm has been constrained because of the construction of a neighbouring wind farm. However, it has received compensation for the loss of income resulting from the constraint.

Upper Falloch Limited had remedial works carried out in summer 2018. The re-design of the intake chamber was completed and the scheme was recommissioned at the start of October 2018. The work carried out to implement the re-design was at no cost to Upper Falloch. The Company has now received compensation for the reduced revenue as a result of the initial design. Since the Company began operating again in October 2018, it has been operating in line with expectations. For this reason, Upper

## Ventus 2 VCT plc

Falloch has been valued on a discounted cash flow basis as at 28 February 2019 for the first time, having previously been held at cost.

The Investment Manager is working actively to increase the value of the Company's portfolio through improvements in the operations of underlying assets and, where possible, the optimisation of the financial structure of investee companies, including the refinancing and renegotiation of senior debt as detailed in the Chairman's Statement.

The Investment Manager is working actively to increase the value of the Company's portfolio through improvements in the operations of underlying assets and, where possible, the optimisation of the financial structure of investee companies. Each of the investee companies with operational assets has been financed with senior debt. Bernard Matthews Green Energy Halesworth Limited was refinanced during the year. The average percentage loan-to-value and the average remaining tenor of the debt finance of the investee companies with operational assets is set out below for each share fund's portfolio:

	<b>Ordinary Share</b>	<b>"C" Share</b>	<b>"D" Share</b>
Percentage Loan-to-Value as at 28 February 2019	47%	49%	55%
Percentage Loan-to-Value as at 28 February 2018	50%	52%	58%
Average remaining tenor (years) as at 28 February 2019	10.1	10.4	12.3
Average remaining tenor (years) as at 28 February 2018	11.1	11.4	13.3

## Ordinary share portfolio

A summary of the ordinary share fund's investment valuations as at 28 February 2019 and gains and losses during the year ended 28 February 2019 is given below:

			Voting rights	Investment value			Investment cost			Unrealised gain/(loss) in the year to 28 February 2019	Investment value Total	Investment cost Total
				Shares	Loans	Total	Shares	Loans	Total			
				as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019		as at 28 February 2018	as at 28 February 2018
			%	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Operational wind</b>												
Achairm Energy Limited	1,3	Q	40.40%	4,184	957	5,141	1,225	920	2,145	637	4,684	2,325
A7 Lochhead Limited	1	Q	20.00%	936	-	936	569	-	569	159	776	568
Greenfield Wind Farm Limited	1	PQ	16.65%	2,206	1,095	3,301	666	996	1,662	291	3,053	1,705
Biggleswade Wind Farm Limited	1,3	Q	3.50%	538	168	706	86	155	241	70	723	328
Eye Wind Power Limited	1,2,3	Q	35.38%	2,079	-	2,079	1,480	-	1,480	(245)	2,324	1,480
Bernard Matthews Green Energy Weston Limited	1	Q	50.00%	860	-	860	500	-	500	131	729	500
Bernard Matthews Green Energy Pickenham Limited	1	Q	50.00%	806	-	806	500	-	500	148	658	500
Bernard Matthews Green Energy Halesworth Limited	1,2,3	Q	10.09%	798	-	798	351	-	351	117	681	351
<b>Operational companies in the wind sector</b>												
Firefly Energy Limited	1	Q	50.00%	-	10	10	200	30	230	1	9	230
<b>Operational landfill gas</b>												
Renewable Power Systems (Dargan Road) Limited		Q	50.00%	801	659	1,460	780	616	1,396	80	1,492	1,508
<b>Operational small hydro</b>												
Osspower Limited			50.00%	3,054	-	3,054	300	-	300	101	2,953	300
Darroch Power Limited	1	Q	11.46%	354	50	404	20	46	66	11	393	66
Upper Falloch Power Limited	1	Q	10.97%	139	33	172	8	31	39	72	100	39
<b>Realised investments</b>												
Redeven Energy Limited	1		50.00%	-	-	-	-	130	130	-	-	130
<b>Total</b>				16,755	2,972	19,727	6,685	2,924	9,609	1,573	18,575	10,030

**Q** Investment complies with VCT regulations on qualifying holdings.

**PQ** Part of the investment complies with VCT regulations on qualifying holdings.

- <sup>1</sup> An investee company in which Ventus VCT plc has also invested. The Company and Ventus VCT plc are managed by Temporis.
- <sup>2</sup> An investee company in which Temporis Capital Renewable Infrastructure EIS Fund had also invested. On 23 November 2018, Temporis Capital Renewable Infrastructure EIS Fund sold its shares in the investee company to Temporis Operational Renewable Energy Strategy LP. Temporis Capital Renewable Infrastructure EIS Fund was managed by Temporis.
- <sup>3</sup> An investee company in which Temporis Operational Renewable Energy Strategy LP has also invested. Temporis Operational Renewable Energy Strategy LP is advised by Temporis.



**“C” share portfolio**

A summary of the “C” share fund’s investment valuations as at 28 February 2019 and gains and losses during the year ended 28 February 2019 is given below:

			Voting rights	Investment value			Investment cost			Unrealised gain/(loss)	Investment value	Investment cost
				Shares	Loans	Total	Shares	Loans	Total		Total	Total
				as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	in the year to 28 February 2019	as at 28 February 2018	as at 28 February 2018
			%	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Operational wind</b>												
Greenfield Wind Farm Limited	1	PQ	12.50%	1,657	822	2,479	500	748	1,248	219	2,292	1,280
White Mill Windfarm Limited	1,3	PQ	25.00%	3,025	-	3,025	1,000	-	1,000	298	2,727	1,000
AD Wind Farmers Limited	1	Q	50.00%	1,048	-	1,048	1,000	-	1,000	(49)	1,097	1,000
Biggleswade Wind Farm Limited	1	Q	21.50%	3,305	1,030	4,335	526	950	1,476	432	4,440	2,013
Weston Airfield Investments Limited	1	Q	50.00%	1,992	-	1,992	1,000	-	1,000	275	1,717	1,000
North Pickenham Energy Limited	1	Q	50.00%	1,455	-	1,455	1,000	-	1,000	(26)	1,481	1,000
Bernard Matthews Green Energy Halesworth Limited	1,2,3	Q	5.63%	447	-	447	300	-	300	66	381	300
<b>Operational small hydro</b>												
Darroch Power Limited	1	Q	4.22%	130	143	273	53	132	185	1	272	185
Upper Falloch Power Limited	1	Q	2.79%	35	94	129	17	90	107	22	107	107
<b>Realised investments</b>												
Iceni Renewables Limited	1		50.00%	-	-	-	400	18	418	-	-	418
<b>Total</b>				13,094	2,089	15,183	5,796	1,938	7,734	1,238	14,514	8,303

**Q** Investment complies with VCT regulations on qualifying holdings.

**PQ** Part of the investment complies with VCT regulations on qualifying holdings.

<sup>1</sup> An investee company in which Ventus VCT plc has also invested. The Company and Ventus VCT plc are managed by Temporis.

<sup>2</sup> An investee company in which Temporis Capital Renewable Infrastructure EIS Fund had also invested. On 23 November 2018, Temporis Capital Renewable Infrastructure EIS Fund sold its shares in the investee company to Temporis Operational Renewable Energy Strategy LP. Temporis Capital Renewable Infrastructure EIS Fund was managed by Temporis.

<sup>3</sup> An investee company in which Temporis Operational Renewable Energy Strategy LP has also invested. Temporis Operational Renewable Energy Strategy LP is advised by Temporis.

**“D” share portfolio**

A summary of the “D” share fund’s investment valuations as at 28 February 2019 and gains during the year ended 28 February 2019 is given below:

			Voting rights	Investment value			Investment cost			Unrealised gain  in the year to 28 February 2019	Investment value	Investment cost
				Shares	Loans	Total	Shares	Loans	Total		Total	Total
				as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019	as at 28 February 2019		as at 28 February 2018	as at 28 February 2018
				%	£000	£000	£000	£000	£000		£000	£000
<b>Operational wind</b>												
Bernard Matthews Green Energy Halesworth Limited	1,2,3	Q	13.38%	1,059	-	1,059	712	-	712	(41)	904	712
<b>Operational small hydro</b>												
Darroch Power Limited	1	Q	25.50%	787	351	1,138	319	325	644	103	1,119	644
Upper Falloch Power Limited	1	Q	29.58%	376	197	573	185	189	374	199	374	374
<b>Total</b>				2,222	548	2,770	1,216	514	1,730	261	2,397	1,730

**Q** Investment complies with VCT regulations on qualifying holdings.

- <sup>1</sup> An investee company in which Ventus VCT plc has also invested. The Company and Ventus VCT plc are managed by Temporis.
- <sup>2</sup> An investee company in which Temporis Capital Renewable Infrastructure EIS Fund had also invested. On 23 November 2018, Temporis Capital Renewable Infrastructure EIS Fund sold its shares in the investee company to Temporis Operational Renewable Energy Strategy LP. Temporis Capital Renewable Infrastructure EIS Fund was managed by Temporis.
- <sup>3</sup> An investee company in which Temporis Operational Renewable Energy Strategy LP has also invested. Temporis Operational Renewable Energy Strategy LP is advised by Temporis.

# Ventus 2 VCT plc

## Top 10 Investments

The details of the top ten investments, by value, held by each of the ordinary share fund, the “C” share fund and the “D” share fund at 28 February 2019 are set out in the tables below:

### Ordinary Share Fund

Company	Value	Cost	Shareholding	Voting rights	Income recognised by the Company during the year	Basis of value	Proportion of share fund portfolio by value	Date of latest accounts	Net assets	Turnover	Profit/(loss)
	£000	£000	%	%	£000		%		£000	£000	£000
Achairn Energy Limited	5,141	2,145	40.40%	40.40%	651	DCF	26.1%	30/11/2017	987	1,866	641
Osspower Limited	3,054	300	50.00%	50.00%	200	DCF	15.5%	31/03/2018	710	1,343	180
Greenfield Wind Farm Limited	3,301	1,662	16.65%	16.65%	133	DCF	16.7%	31/12/2017	944	-	(55)
Eye Wind Power Limited	2,079	1,480	35.38%	35.38%	575	DCF	10.5%	28/02/2018	3,628	1,494	183
Renewable Power Systems (Dargan Road) Limited	1,460	1,396	50.00%	50.00%	85	DCF	7.4%	31/07/2017	654	616	24
Bernard Matthews Green Energy Weston Limited	860	500	50.00%	50.00%	-	DCF	4.4%	31/03/2018	258	-	(6)
Bernard Matthews Green Energy Pickenham Limited	806	500	50.00%	50.00%	-	DCF	4.1%	31/03/2018	376	61	66
Bernard Matthews Green Energy Halesworth Limited	798	351	10.09%	10.09%	32	DCF	4.0%	31/06/2018	4,228	1,887	(470)
A7 Lochhead Limited	936	569	20.00%	20.00%	32	DCF	4.7%	31/03/2018	854	1,658	607
Biggleswade Wind Farm Limited	706	241	3.50%	3.50%	23	DCF	3.6%	30/06/2018	1,161	4,546	1,120

### “C” Share Fund

Company	Value	Cost	Shareholding	Voting rights	Income recognised by the Company during the year	Basis of value	Proportion of share fund portfolio by value	Date of latest accounts	Net assets	Turnover	Profit/(loss)
	£000	£000	%	%	£000		%		£000	£000	£000
Biggleswade Wind Farm Limited	4,335	1,476	21.50%	21.50%	165	DCF	28.6%	30/06/2018	1,161	4,546	1,120
White Mill Windfarm Limited	3,025	1,000	25.00%	25.00%	213	DCF	19.9%	31/12/2017	1,635	2,973	876
Greenfield Wind Farm Limited	2,479	1,248	12.50%	12.50%	100	DCF	16.3%	31/12/2017	944	(24)	(55)
Weston Airfield Investments Limited	1,992	1,000	50.00%	50.00%	-	DCF	13.1%	31/03/2018	989	(23)	21
North Pickenham Energy Limited	1,455	1,000	50.00%	50.00%	-	DCF	9.6%	31/03/2018	1,041	121	137
AD Wind Farmers Limited	1,048	1,000	50.00%	50.00%	125	DCF	6.9%	30/09/2017	1,520	190	175
Bernard Matthews Green Energy Halesworth Limited	447	300	5.63%	5.63%	18	DCF	2.9%	31/06/2018	4,228	1,887	(470)
Darroch Power Limited	273	185	4.22%	4.22%	18	DCF	1.8%	31/03/2018	838	1,148	(75)
Upper Falloch Power Limited	129	107	2.79%	2.79%	15	DCF	0.8%	31/03/2018	91	464	(152)

### “D” Share Fund

Company	Value	Cost	Shareholding	Voting rights	Income recognised by the Company during the year	Basis of value	Proportion of share fund portfolio by value	Date of latest accounts	Net assets	Turnover	Loss
	£000	£000	%	%	£000		%		£000	£000	£000
Darroch Power Limited	1,138	644	25.50%	25.50%	18	DCF	41.1%	31/03/2018	838	1,148	(75)
Bernard Matthews Green Energy Halesworth Limited	1,059	712	13.38%	13.38%	18	DCF	38.2%	31/06/2018	4,228	1,887	(470)
Upper Falloch Power Limited	573	374	29.58%	29.58%	15	DCF	20.7%	31/03/2018	91	464	(152)

## **Footnote to the Top 10 Investments Tables:**

### **Basis of Valuation**

**DCF** Discounted future cash flows from the underlying business excluding interest earned to date.

The ordinary share fund and the “C” share fund have shareholdings in Greenfield Wind Farm Limited of 16.65% and 12.50% respectively, therefore the Company’s aggregate shareholding is 29.15%.

The ordinary share fund and the “C” share fund have shareholdings in Biggleswade Wind Farm Limited of 3.50% and 21.50% respectively, therefore the Company’s aggregate shareholding is 25.00%.

The ordinary share fund, the “C” share fund and the “D” share fund have shareholdings in Bernard Matthews Green Energy Halesworth Limited of 10.09%, 5.63% and 13.38% respectively, therefore the Company’s aggregate shareholding is 29.10%.

The ordinary share fund, the “C” share fund and the “D” share fund have shareholdings in Darroch Power Limited of 11.46%, 4.22% and 25.50% respectively, therefore the Company’s aggregate shareholding is 41.18%.

The ordinary share fund, the “C” share fund and the “D” share fund have shareholdings in Upper Falloch Power Limited of 10.97%, 2.79% and 29.58% respectively, therefore the Company’s aggregate shareholding is 43.34%.

### **Valuation of Investments**

It is the accounting policy of the Company to hold its investments at fair value. The Company’s investments in investee companies which operate renewable energy assets are valued using a discounted cash flow methodology. The Company has applied a discount rate to the unleveraged cash flows to determine the enterprise value of the investee company and then has subtracted the market value of any senior debt (including any prepayment fees and swap break costs) to calculate the value of the equity and/or mezzanine debt in the investee company. The discount rates used to value the unleveraged cash flows of investee companies range from 6.75% to 7.50%, with discount rate of 7.50% applied to the cash flows of operating wind farms as at 28 February 2019.

The key assumptions that have a significant impact on discounted cash flow valuations for these assets are the discount rate, inflation rate, the price at which the power and associated benefits can be sold, the amount of electricity the investee companies’ generating assets are expected to produce, the length of the operating life of the asset and operating costs.

Assumptions about the length of the operating lives of the renewable energy assets have been made in determining the value of the investee companies. As at 28 February 2019, it has been assumed the operating life of a wind farm is 25 years from date of first operation (albeit with an assumed reduction in availability in the final five years of operation). The assumed reduction in availability in the final five years of operation is to take into account the expected reduction in performance of an older asset.

The assumption used in the valuation models of the hydro investments is a rolling 25 years from date of valuation. Hydro assets are generally considered to be longer-life than wind energy assets. However, there is very little consistency in the market as to the assumed operating life for hydro assets and electricity price projections beyond 25 years are very uncertain. For that reason, the Directors do not believe a change in assumption is supportable for the hydroelectric assets at the current time. The operating life assumptions for both wind energy and hydroelectric assets will be regularly reviewed in order that they may be kept in line with industry convention.

The landfill gas investment is valued based on the revenues it earns for the Company from providing generators to the landfill gas scheme during the period in which it is contracted.

## Changes to Valuation Assumptions

### *Discount Rates*

Following a downward trend in discount rates in valuing operating wind energy assets in the market, the discount rate used in valuing wind farm investments has been reduced to 7.50% (2018: 7.75%) for the base case, i.e. those investee companies which had a number of years of operating history and had undertaken an energy yield reassessment based on proven operating experience. All of the Company's wind farm investments are considered mature and have been valued on the base case basis in 2019 and 2018.

The discount rates applied to the valuation of the Company's hydro-electric investments have not changed. For the base case, i.e. a project which has more than 3 years of operating history and has undertaken an energy yield reassessment, a discount rate of 6.75% is considered appropriate. Less mature assets are valued at a 7.50% discount rate. Since Upper Falloch commenced operations again, following successful remedial work, it will now be valued on a discounted cash flow basis using the discount rate applied to a less mature hydro asset of 7.50%, as with Darroch Power Limited.

### *Inflation Rates*

The inflation rate assumption applied to the valuation of the Company's investments is 2.75% (2018: 2.5%). This has a positive impact on valuations because the renewable obligation certificate and Feed-in Tariff (government supported subsidies) revenues earned by investee companies are inflation linked.

## Sensitivity of NAV to Changes in Key Assumptions

The charts below illustrate the sensitivity of the NAV of the Company's share funds to changes of certain key input assumptions applied to the unleveraged cash flows in the valuation models.

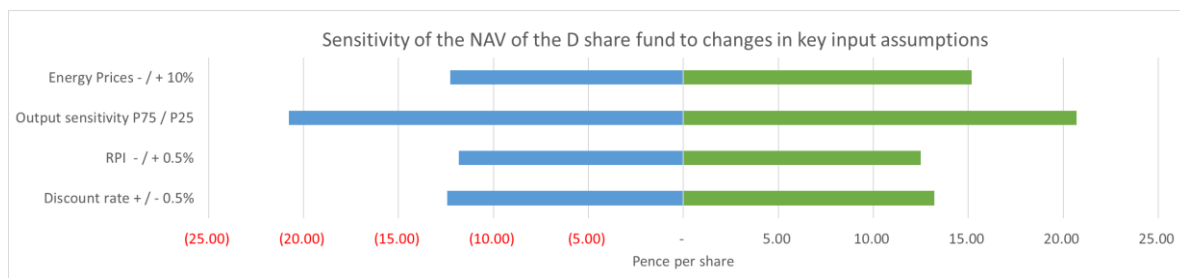
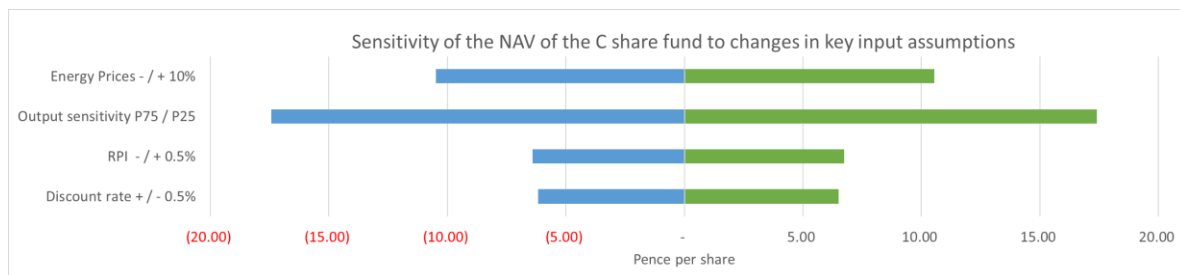
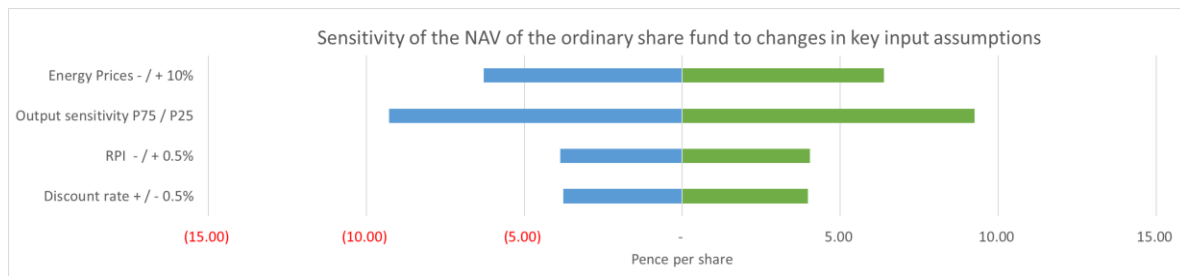
The price at which the output from the generating assets is sold is a factor of both wholesale electricity prices and Government subsidies. The selling price is often fixed in the medium term under power purchase agreements. For periods outside the terms of these agreements the assumed future prices are estimated using external third party forecasts which take the form of specialist consultancy reports. The hydro-electricity assets can opt into a floor price each year under the Feed-in Tariff arrangements, which gives these assets a floor on the price of electricity sales. In respect of each share fund, the percentages of investee companies with a fixed electricity price and the average remaining tenor of the fixed price are as follows:

	Ordinary Share	"C" Share	"D" Share
Percentage of investee companies with a fixed electricity price as at 28 February 2019	100%	100%	100%
Percentage of investee companies with a fixed electricity price as at 28 February 2018	83%	89%	100%
Average remaining tenor of the fixed electricity price (years) as at 28 February 2019	3.0	3.3	0.9
Average remaining tenor of the fixed electricity price (years) as at 28 February 2018	2.5	2.7	0.3

Specifically commissioned external consultant reports are used to estimate the expected generating output of the investee company's generating assets taking into account their type and location. The analysis set out below describe the sensitivity of each share fund's NAV to a higher (P75) or lower (P25) probability of exceedance of the forecast long-term average output versus the base case (P50).

The discount factor and inflation rate applied to the cash flows are regularly reviewed by the Investment Committee of the Investment Manager to ensure they are set at the appropriate levels. 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 range of discount factors which forms the base case in the sensitivity analysis is set out in the section above. The base case inflation rate used in the sensitivity analysis is 2.75%

## Ventus 2 VCT plc



## **Investment Policy**

The Company has focused on investing in companies developing renewable energy projects with installed capacities of up to 20 megawatts. Investments are generally in companies which own and operate projects initiated by specialist small-scale developers and smaller projects which are not attractive to large development companies and utilities.

### *Asset Allocation*

The Investment Manager has allocated the Company's investments in equity securities and loan stock of companies owning renewable energy projects, primarily wind and hydroelectric.

When there is a conflict or potential conflict of interest between the investment strategy of the Company and that of another fund managed by Temporis, the matter is referred to the Investment Manager's compliance officer who ensures any conflicts are dealt with fairly. Any investment made in a company in which another fund managed by the Investment Manager has invested or intends to invest will be approved by the Directors who are independent of the Investment Manager, unless the investment is made at the same time and on the same terms or in accordance with a specific pre-existing agreement between the Company and the Investment Manager.

The Company's policy is to maintain cash reserves of at least 5% of net proceeds raised from share offers for the purpose of meeting operating expenses. Circumstances may arise which would 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 (80% for accounting periods beginning after 5 April 2019, so from 1 March 2020 for the Company).

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.

### *Risk Diversification*

The geographical focus of the Company's portfolio is the UK and the majority of investments are in the wind sector. Funds are invested in a range of companies with small-scale projects so project risk is not concentrated in only a few schemes. All projects contained within the portfolio are now operational. Investments were 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.

### *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 funded the construction costs of each project through senior debt which is non-recourse to the Company. The Investment Manager was involved in assisting investee companies in negotiating the terms of this finance to ensure competitive terms were achieved. The interest rate is typically fixed for the duration of the loan so that investee companies are not exposed to changes in market interest rates.

To the extent that borrowing should be required by the Company for any purpose, the Directors will restrict the borrowings of the Company. The aggregate principal amount at any time outstanding in respect of money borrowed by the Company will 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.

### *Maximum Exposures*

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

i) Investments in qualifying holdings

Under VCT regulations, at least 70% of the Company's funds should be invested in qualifying holdings (80% for accounting periods beginning after 5 April 2019, so from 1 March 2020 for the Company). When there is an issue of new shares, the 70% requirement does not apply to the new funds raised for any accounting periods which end earlier than three years from the date of allotment of the new shares.

For the purposes of the 70% qualifying holdings requirement, disposals of qualifying investments for cash may be disregarded for a period of 12 months (as from 6 April 2019, whereas it had previously been 6 months). Where a VCT breaches any requirement due to factors outside of its control, it may apply to HMRC 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.

### **Temporis Capital Limited**

Investment Manager

24 June 2019



## Directors' Report

The Directors present their Annual Report and the audited Financial Statements for the year ended 28 February 2019 incorporating the Corporate Governance Statement on pages 42 to 48.

### Dividends

The Company paid an interim dividend of 2.50p per ordinary share on 16 January 2019 to all ordinary shareholders on the register as at the close of business on 14 December 2018. The Directors recommend a final dividend of 3.50p per ordinary share (comprised of a final dividend of 2.50p per share and a special dividend of 1.00p per share) to be paid on 21 August 2019 to ordinary shareholders on the register on 26 July 2019. The total dividend for the year is therefore 6.00p per ordinary share.

The Company paid an interim dividend of 4.00p per "C" share on 16 January 2019 to all "C" shareholders on the register as at the close of business on 14 December 2018. The Directors recommend a final dividend of 5.00p per "C" share (comprised of a final dividend of 4.00p per share and a special dividend of 1.00p per share) to be paid on 21 August 2019 to all "C" shareholders on the register as at the close of business on 26 July 2019. The total dividend for the year is therefore 9.00p per "C" share.

The Company did not pay an interim dividend for the "D" shareholders. The Directors recommend a final "D" share dividend of 2.50p per "D" share to be paid on 21 August 2019 to all "D" shareholders on the register as at the close of business on 26 July 2019. The total dividend for the year is therefore 2.50p per "D" share.

Note 7 of the Financial Statements gives details of dividends declared and paid in the current year and prior year.

The Company is able to pay dividends from special reserves as these are distributable reserves. Also, the Companies Act 2006 now allows investment companies to pay dividends from realised capital profits.

### Going concern

The Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the accounts. The Company's major cash flows are within the Company's control (namely dividends) or are reasonably predictable (namely the operating expenses). The Company is able to forecast cash inflows comprising proceeds from investments to a reasonable degree. Having reviewed a cash flow forecast for the 18 months from the year ended 28 February 2019, the Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

### Statement on Longer-term Viability

#### *Introduction*

As required by the UK Corporate Governance Code, the Directors are required to assess the prospects of the Company over a period longer than the 12 months associated with going concern.

#### *Period of Assessment*

The Directors consider a period of five years to be a suitable period over which to assess the longer-term viability of the Company. The Company's viability is predicated on its ability to receive returns from its investments in the form of dividends, interest and capital. The Company invests in companies which own and operate renewable energy assets which typically have an operational life of at least twenty-five years. The degree of certainty over key input assumptions used in forecasting the future cash flows

from the investee companies diminishes over time. For that reason, the Directors believe it would not be meaningful to assess the viability of the Company beyond a period of five years. The assessment has been prepared on the basis that the Company will continue to operate based on the results of the continuation vote at the AGM in 2020.

### *Risk Assessment*

The Directors have conducted a regular robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Company maintains a Risk Register which is used to document the key risks considered to be pertinent to the Company and includes an assessment of the likelihood of certain events, their potential impact and the mitigating conditions which have been put in place to manage the impact of these events. The key risks which may impact the Company's business are set out in the Strategic Report on page 15. The Investment Manager reports to the Directors on a regular basis in respect of the performance of the investee companies and cash flow forecasts setting out the returns the Company may expect to receive from its investments are reviewed. The key factors which determine the level of return the Company may receive from its investee companies are, the energy resource available to their renewable energy assets, the availability of the turbines, the amount of energy generated, the price of electricity and tariffs and the cost of operating the assets. Regular consideration is given to these factors and the sensitivity of the cash flows to variances is assessed.

### *Statement of Longer-term Viability*

Having reviewed the cash flow forecasts used in valuing the Company's investments, the assumptions used in determining these cash flows and the projected results for the Company over the period of the expected operating life of the assets owned by its investee companies, the Directors have a reasonable expectation the Company will receive returns over a period of five years which will be at a sufficient level to ensure the viability of the Company with a reasonable degree of certainty. Although the degree of certainty over key assumptions diminishes over time, the Directors' view is there no reason to suggest the Company would not be viable beyond a period of five years. The Directors have also tested the ability of the Company to remain viable under several negative scenarios and are satisfied that the Company is viable under these scenarios.

Future developments of the Company are discussed in detail in the business model and investment policy sections of the Strategic Report on page 12.

### **Directors**

The Directors of the Company during the year under review were Alan Moore, Paul Thomas and Colin Wood. Subject to shareholder approval Jane Tozer will be appointed to the Board as a non-executive director at the AGM.

Biographical information on the Directors is shown on page 49. The terms of the Directors' appointment and replacement are set out in the Corporate Governance Statement. In accordance with corporate governance best practice all Directors will retire at every AGM of the Company, and being eligible, will offer themselves for re-election. As all Directors have acted in the interest 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.

The Company has in place directors' and officers' liability insurance.

## Share capital

### *Authorised share capital*

At 28 February 2019, the Company had authorised share capital of £22,500,000 in total which was represented by 50 million ordinary shares of 25p, 20 million "C" shares of 25p each and 20 million "D" shares of 25p each being 56%, 22% and 22% of the Company's authorised share capital respectively.

### *Allotted, called and fully paid up shares*

As at 28 February 2019, the Company had allotted, called and fully paid up shares in three share funds, of which 24,392,655 shares were ordinary shares of 25p each, 11,329,107 were "C" shares of 25p each and 1,990,767 were in "D" shares of 25p each. These shares represented 65%, 30% and 5% of the Company's issued share capital respectively. The Company holds 45,900 "C" shares in treasury.

### *Authority to allot shares and disapplication of pre-emption rights*

The Board is not seeking authority to allot shares or disapply pre-emption rights.

### *Authority to repurchase shares*

At the AGM on 8 August 2019 the Board will seek authority for the Company to repurchase up to 14.99% of its issued Ordinary share capital, 14.99% of its issued C share capital and 14.99% of its issued D share capital.

### *Rights and restrictions attaching to shares and powers of the Board of Directors*

As set out in 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 share may be issued with or have attached to it such rights and restrictions as the Company may by ordinary resolution 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. The business of the Company shall be managed by the Board of Directors which may exercise all the powers of the Company, subject to the provisions of the Companies Act 2006, the Memorandum of Association of the Company, the Company's Articles of Association and any special resolution of the Company. 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.

### *Substantial interests*

As at 28 February 2019 and the date of this report, the Company was aware of the following shareholders that held beneficial interests and voting rights exceeding 3% of the voting rights attached to the Company's share capital

Shareholders	Percentage of shares held at	
	28 February 2019	24 June 2019
Hargreaves Lansdown (Nominees) Limited	6.07%	6.20%
Vidacos Nominees	4.07%	3.98%

The Company was not aware of any other beneficial interest exceeding 3% of the voting rights attached to the Company's share capital.

### **Financial instruments**

The Company's financial instruments comprise investments in unquoted companies and cash, trade and other receivables and trade and other payables. Further details, including details about risk management, are set out in note 16 of the Financial Statements.

### **Events after the year end**

Significant events which have occurred after the year end are detailed in note 15 of the Financial Statements.

### **Global Greenhouse Gas Emissions**

The Company has no direct greenhouse gas emissions to report from its operations, being an externally managed investment company. 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.

The Company has not applied the policies, of the Companies Act 2006, regarding the Employment of disabled people and Employee involvement as the Company does not have any employees other than the non-executive Directors.

### **Accountability and Audit**

The statement of directors' responsibilities is set out on page 50 of this report. 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 Auditor is 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 Auditor.

### **Auditor**

A resolution to re-appoint BDO LLP as the Auditor of the Company will be proposed at the forthcoming AGM.

### **Annual General Meeting**

Notice of the Company's AGM will follow as a separate document including the shareholder requisitioned resolutions.

By order of the Board

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

Secretary  
24 June 2019

## Directors' Remuneration Report

### Statement by the Chairman

This Directors' Remuneration Report has been prepared by the Directors in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This Directors' Remuneration Report includes the Directors' Remuneration Policy Report and the Directors' Annual Report on Remuneration. Changes in legislation, which became effective in the first financial year ended on or after 1 October 2013, require that quoted companies may only pay remuneration to Directors in accordance with a remuneration policy which has been approved by shareholders.

Details of the Company's Directors' Remuneration Policy are shown below together with an explanation of changes made to fees during the year and the reason for the changes.

Under the Companies Act 2006, certain disclosures provided in this report are required to be audited. Where disclosures have been audited they have been indicated as such.

### Directors' Remuneration Policy Report

The Board comprises three 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 Board considers that the level of remuneration should be sufficient to attract and retain Directors of appropriate experience to oversee the Company and should be adjusted, appropriately, for the level of work and responsibility required as well as for inflation.

The total remuneration of non-executive Directors should not exceed the £100,000 per annum limit set out in the Articles of Association of the Company which may not be changed without seeking shareholder approval at a general meeting.

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. A Director's appointment may also be terminated in certain other circumstances.

The date of appointment of each Director and the AGM at which he is expected to next stand for re-election is set out below:

	Date of appointment	Due date of re-election
Alan Moore (Chairman)	10 January 2006	AGM 2019
Colin Wood	10 January 2006	N/A
Paul Thomas	10 January 2006	AGM 2019

Jane Tozer is standing for election as the Company's third Director at the 2019 AGM.

Based on the current level of fees, which came into effect on 1 September 2013, the Directors' remuneration for the forthcoming financial year would be as follows:

	Year ending 28 February 2020
	£
Alan Moore (Chairman)	30,000
Colin Wood	10,997
Jane Tozer	14,003
Paul Thomas	25,000
<b>Total</b>	<b>80,000</b>

The Board will consider the level of Directors' fees at least annually. Any changes to be made to Directors' remuneration will be made in accordance with the policy stated above. Directors' remuneration must be made in accordance with the approved policy unless approved by a separate shareholder resolution. The Directors' Remuneration Policy was approved by the shareholders at the AGM on 19 July 2017 and will remain in place until 29 February 2020.

### Directors' Annual Report on Remuneration

During the financial year ended 28 February 2019, the Board resolved that it was appropriate to maintain the Directors' fees at the same level as that which was effective from 1 September 2013.

### Directors' fees (audited information)

The following fees were paid to individual Directors in respect of the year ended 28 February 2019. The fees were paid in accordance with the Directors' Remuneration Policy. Comparative figures for the year ended 28 February 2018 are also presented.

	Year ended 28 February 2019 £	Year ended 28 February 2018 £
Alan Moore (Chairman)	30,000	30,000
Colin Wood	25,000	25,000
Paul Thomas	25,000	25,000
<b>Total</b>	<b>80,000</b>	<b>80,000</b>

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

The table below shows aggregate Directors' remuneration, aggregate shareholder dividends paid and aggregate amounts paid to buy back the Company's own shares in the current and prior financial years:

	Year ended 28 February 2019 £	Year ended 28 February 2018 £	% Change
Aggregate Directors' remuneration	80,000	80,000	0%
Aggregate shareholder dividends paid	2,179,000	2,122,000	2.7%
Aggregate amounts paid to buy back the Company's own shares	-	-	n/a

**Directors' Shareholding (audited information)**

The Directors who held office during the year held the following interests in the Company:

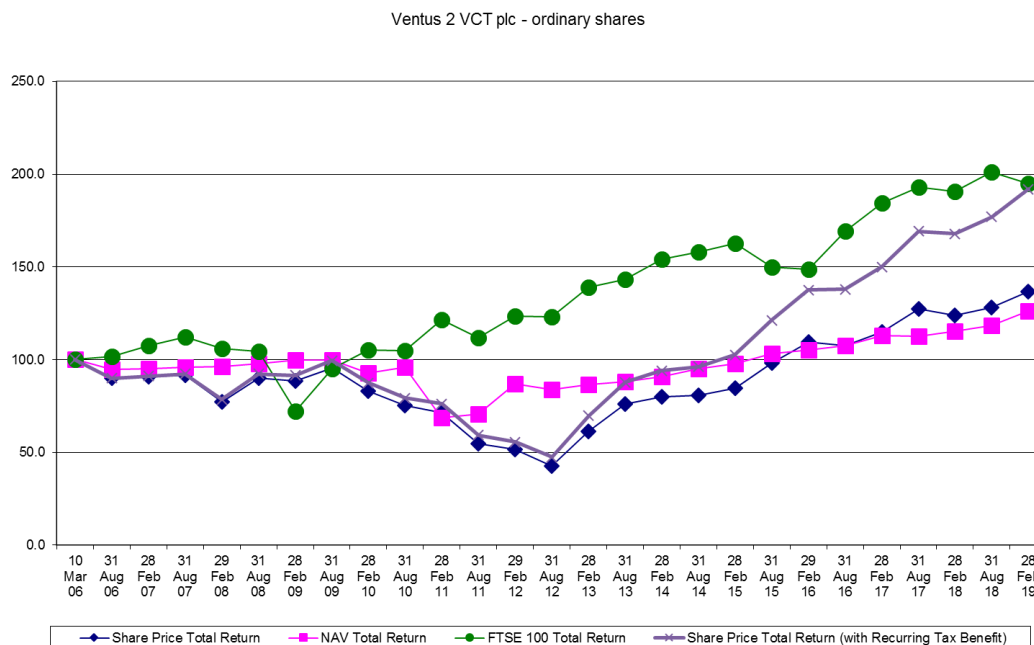
	As at 28 February 2019 £	As at 28 February 2019 £	As at 28 February 2019 £	As at 28 February 2018 £	As at 28 February 2018 £	As at 28 February 2018 £
	Ordinary shares	"C" shares	"D" shares	Ordinary shares	"C" shares	"D" shares
Alan Moore (Chairman)	28,579	10,400	7,525	28,579	10,400	7,525
Colin Wood	26,194	5,200	nil	20,090	5,200	nil
Paul Thomas	10,090	5,200	5,000	10,090	5,200	5,000

There have been no changes in the beneficial interests of the Directors between 28 February 2019 and the date of this report.

## Company performance

Due to the positioning of the Company in the market as a specialist VCT investing in companies that has developed, constructed and will operate small on-shore UK renewable energy projects, the Directors consider that there is no suitable company or index that can be identified for comparison over the period since the date the Company's shares were first issued. However, in order to comply with the Directors' Remuneration Report Regulations 2013, 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 listed on the London Stock Exchange (10 March 2006) over the period to 28 February 2019 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. For illustration purposes, a Share Price Total Return (with Recurring Tax Benefit)<sup>3</sup> is also presented.

The graph shows there was an increase in shareholder value during the year in respect of the total shareholder return based on NAV, which is representative of the net upward revaluation in investments as detailed in the Investment Manager's report, the revenue earned and dividends paid.

The ordinary share fund's Share Price Total Return and NAV Total Return presented in the graph do not include the effects of VCT tax relief or income tax and capital gains tax exemptions from which VCT shareholders may benefit. Assuming an investor had benefitted from the initial income tax relief of 40% which was available to investors in the tax years in which the initial offer for ordinary shares was made, the Share Price Total Return of the ordinary share fund would be 228%. Also, this analysis does not include the effect of the additional benefits of income tax-free dividends or capital gains tax exemptions which are available to VCT investors nor does it include the tax benefits received by shareholders who participated in the linked tender offer and ordinary share offer in 2012.

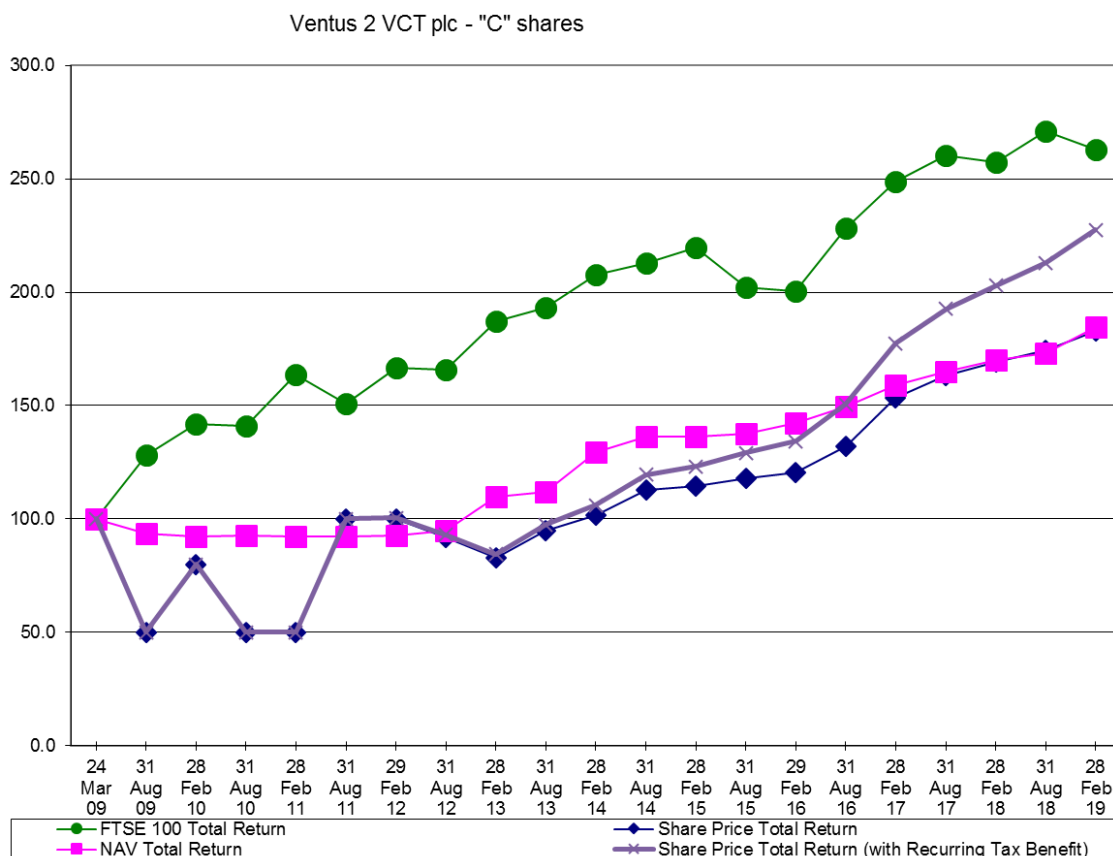
<sup>1</sup> Share Price Total Return is the return attributable to the share price of the ordinary shares held assuming that dividends paid in respect of those shares were immediately reinvested in shares at the market price as at the date the dividends were paid.

<sup>2</sup> NAV Total Return is the NAV of the ordinary shares held plus the cumulative dividends paid on those shares over the period in which they were held.

<sup>3</sup> The Share Price Total Return (with Recurring Tax Benefit) demonstrates the total return if the annual dividend was grossed-up (assuming a tax rate of 35% for illustrative purposes) and reinvested in the shares at the market price as at the date the dividends were paid. This does not include the initial tax relief available for investing in VCTs.



## 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>, based on £100 invested in “C” shares on the date they were listed on the London Stock Exchange (24 March 2009) over the period to 28 February 2019 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. For illustration purposes, a Share Price Total Return (with Recurring Tax Benefit)<sup>3</sup> is also presented.

The graph shows that there was a net increase in shareholder return based on NAV during the year, which is representative of the net increase in the value of the investments, as detailed in the Investment Manager’s Report, the revenue earned and dividends paid.

The “C” share fund’s Share Price Total Return and NAV Total Return presented in the graph do not include the effects of VCT tax relief or income tax and capital gains tax exemptions from which VCT shareholders may benefit. Assuming an investor had benefitted from the initial income tax relief of 30% which was available to investors in the tax years in which the initial offer for “C” shares was made, the Share Price Total Return of the “C” share fund would be 261%. Also, this analysis does not include the effect of the additional benefits of income tax-free dividends or capital gains tax exemptions which are available to VCT investors.

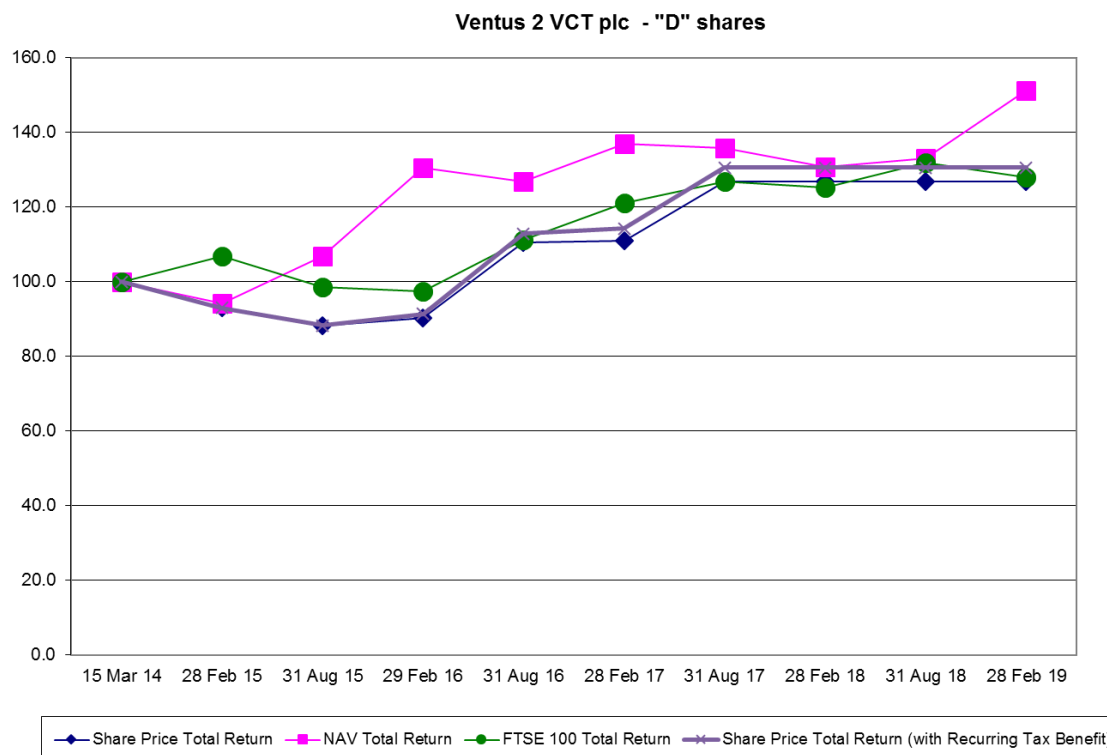
<sup>1</sup> Share Price Total Return is the return attributable to the share price of the ordinary shares held assuming that dividends paid in respect of those shares were immediately reinvested in shares at the market price as at the date the dividends were paid.

<sup>2</sup> NAV Total Return is the NAV of the ordinary shares held plus the cumulative dividends paid on those shares over the period in which they were held.

<sup>3</sup> The Share Price Total Return (with Recurring Tax Benefit) demonstrates the total return if the annual dividend was grossed-up (assuming a tax rate of 35% for illustrative purposes) and reinvested in the shares at the market price as at the date the dividends were paid. This does not include the initial tax relief available for investing in VCTs.

## Ventus 2 VCT plc

### Total shareholder return on “D” 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 “D” shares on the date they were first listed on the London Stock Exchange (15 March 2014) over the period to 28 February 2019 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. For illustration purposes, a Share Price Total Return (with Recurring Tax Benefit)<sup>3</sup> is also presented.

The graph shows that there was a net increase in shareholder return based on NAV during the year, which is representative of the net upward revaluation of investments, as detailed in the Investment Manager’s Report, and revenue earned.

The “D” share fund’s Share Price Total Return and NAV Total Return presented in the graph do not include the effects of VCT tax relief or income tax and capital gains tax exemptions from which VCT shareholders may benefit. Assuming an investor had benefitted from the initial income tax relief of 30% which was available to investors in the tax years in which the initial offer for “D” shares was made, the Share Price Total Return of the “D” share fund would be 181%. Also, this analysis does not include the effect of the additional benefits of income tax-free dividends or capital gains tax exemptions which are available to VCT investors.

<sup>1</sup> Share Price Total Return is the return attributable to the share price of the ordinary shares held assuming that dividends paid in respect of those shares were immediately reinvested in shares at the market price as at the date the dividends were paid.

<sup>2</sup> NAV Total Return is the NAV of the ordinary shares held plus the cumulative dividends paid on those shares over the period in which they were held.

<sup>3</sup> The Share Price Total Return (with Recurring Tax Benefit) demonstrates the total return if the annual dividend was grossed-up (assuming a tax rate of 35% for illustrative purposes) and reinvested in the shares at the market price as at the date the dividends were paid. This does not include the initial tax relief available for investing in VCTs.

**Voting on the Directors' Remuneration Policy and Directors' Remuneration Report at AGMs**

At the AGM held on 24 July 2018, the shareholders approved the Directors' Remuneration Report in respect of the year ended 28 February 2018. Votes representing 3,907,047 shares (99.8%) were voted in favour of the resolution and votes representing 9,235 shares (0.2%) were against. At the AGM held on 19 July 2017 shareholders approved the Directors' Remuneration Policy. Votes representing 6,258,328 shares (87.01%) were in favour of the resolution, votes representing 934,263 shares (12.99%) were against, and votes representing 74,546 shares were withheld.

An ordinary resolution to approve this Directors' Remuneration Report will be proposed at the forthcoming AGM.

On behalf of the Board

**Alan Moore**  
Chairman

24 June 2019

## Corporate Governance Statement

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 the UK Corporate Governance Code (the "Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to member companies of the AIC.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Code), will provide better information to shareholders. The Company has complied with the recommendations of the AIC Code and the relevant provisions of the Code, except as set out below.

The Code includes provisions relating to:

- > the role of the chief executive;
- > executive directors' remuneration; and
- > remuneration committee.

For the reasons set out in the AIC Guide, and as explained in the Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. The Company has therefore not reported further in respect of these provisions.

### Board of Directors

For the year ended 28 February 2019 the Board consisted of three Directors, all of whom are non-executive. The Board rightly ensures that it has the appropriate balance of skills, experience, length of service and knowledge of the Company amongst its Directors. Jane Tozer will be appointed to the Board as a non-executive Director at the AGM, subject to shareholder approval. Biographical information on the Directors is shown in the Directors' Information on page 49.

### Independence

Mr Moore and Mr Wood are considered by the Board to be independent of the Investment Manager and free of any business or other relationship which could interfere with the exercise of their independent judgement. Mr Thomas is chairman of the Ventus Funds' Investment Committee of the Investment Manager and therefore under the AIC Code is not considered to be independent of the Investment Manager. The Board considers that Mr Thomas' position on the Investment Committee of the Investment Manager is beneficial to the Company as it provides further exposure to investment discussions. The Board has reviewed the independence of each Director and of the Board as a whole. Directors withdrew from discussions concerning their individual status. The Board believes that each Director continues to demonstrate independence of character and judgement, their skills and experience add significantly to the strength of the Board. The Board is of the view that length of service will not necessarily compromise the independence or contribution of Directors of a venture capital trust, where continuity and experience can be of significant benefit to the Company and its shareholders. The Board agrees with the view expressed in the AIC Code that long serving directors should not be prevented from being considered independent but in accordance with corporate governance best practice all Directors will stand for re-election annually.

### Directors' responsibilities

The Board meets at least quarterly and is in regular contact with the Investment Manager between these meetings. The Directors also held two strategy meetings with the Investment Manager during the

year. 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 Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
Alan Moore (Chairman)	4	4	3	3
Paul Thomas	4	4	3	3
Colin Wood	4	3	3	2

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 Board has 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.

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 statutory rules and regulations and for ensuring the timely delivery of information.

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.

The terms and conditions of appointment of non-executive Directors are available upon written application to the Company Secretary. Directors appointed by the Board to fill a vacancy are required to submit to election at the next AGM by separate resolution. 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. 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. The Company may by ordinary resolution remove any Director before his period of office has expired. All Directors are subject to annual re-election as described previously.

The performance of the Board, Audit Committee and individual Directors has been evaluated through an assessment process led by the Chairman. The assessment process included consideration of performance monitoring and evaluation, strategy and corporate issues, shareholder value and communications and governance.

### Report from the Audit Committee

The Audit Committee comprises Colin Wood, Alan Moore and Paul Thomas. Colin Wood is Chairman of the Audit Committee. Alan Moore, Chairman of the Company, has been appointed to the Audit Committee due to the small size of the Board. The Committee meets at least twice a year to review the audit plan, 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 and are available on the Company's website [www.ventusvct.com](http://www.ventusvct.com) and are also 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 Auditor.

The Audit Committee met three times this year and the Audit Committee Chairman also held private discussions with the external auditor without the Investment Manager present. After each meeting, the Chairman reports to the Board on the matters discussed, on recommendations and actions to be taken.

During the year ended 28 February 2019 the Audit Committee considered, monitored and reviewed:

- > all financial statements released by the Company (including the Annual and Half-yearly Financial Report);
- > the Company's accounting policies;
- > the effectiveness of the system of internal controls and risk management; no significant weaknesses were identified in the year under review;
- > the external Auditor's plan and fees;
- > a report from the external Auditor following its detailed audit work, and discussed key issues arising from that work;
- > its own terms of reference; and
- > the internal audit plan and the recommendations of the internal Auditor.

The key areas of risk identified by the Audit Committee in relation to the business activities and financial statements of the Company are:

- > compliance with HM Revenue & Customs to maintain the Company's VCT status;
- > valuation of investments; and
- > revenue recognition and recoverability.

These matters are monitored regularly by the Investment Manager and reviewed by the Board at every Board meeting. They were also discussed with the Investment Manager and the Auditor at the Audit Committee meeting held to discuss the annual financial statements.

The Audit Committee concluded:

VCT Status – the Investment Manager confirmed to the Audit Committee that the conditions for maintaining the Company's status had been complied with throughout the year. The Company's VCT status was also reviewed by the Company's adviser, Philip Hare & Associates LLP.

Valuation of unquoted investments – the Investment Manager confirmed to the Audit Committee that the basis of valuation for unquoted investments was consistent with the prior year and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. A comprehensive report on the valuation of investments is presented and discussed at Board meetings; Directors are also consulted about material changes to those valuations between Board meetings.

Revenue recognition and recoverability – the Audit Committee considered the revenue recognised during the year and the revenue receivable by the Company at the year end and is satisfied that they are appropriately accounted for.

The Investment Manager and the Auditor confirmed to the Audit Committee that they were not aware of any unadjusted material misstatements. Having reviewed the reports received from the Investment Manager and the Auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been properly addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust.

The Audit Committee has managed the relationship with the external Auditor and assessed the effectiveness of the audit process. When assessing the effectiveness of the process for the year under review the Audit Committee considered the Auditor's technical knowledge and that it has a clear understanding of the business of the Company; that the audit team is appropriately resourced; that the Auditor provided a clear explanation of the scope and strategy of the audit and that the Auditor maintained independence and objectivity. As part of the review of Auditor effectiveness and independence, BDO LLP ("BDO") has confirmed that it is independent of the Company and has complied with professional accounting standards. BDO, has held office as Auditor since being appointed on 1 July 2009. In accordance with professional guidelines the engagement partner is rotated after at most five years and the current partner started working with the Company in the financial year ended 28 February 2019.

In accordance with prohibited non-audit services as listed in Article 5 (1) of the EU Audit Regulation BDO no longer provide non-audit services to the Company.

Under the EU Audit Regulation, there is a requirement that an audit tender process be carried out every ten years and mandatory rotation at least every twenty years. As a result, the Company undertook an audit tender for the year ending 29 February 2020. Three firms were invited to tender, including BDO. Each firm was considered to offer extensive experience of VCTs, together with accounting, tax and financial reporting and governance expertise. The result of the tender was that, on the recommendation of the Committee and taking discussions held with the engagement Partner at BDO into consideration, the Board took the decision to reappoint BDO for the period ended 29 February 2020. A resolution to re-appoint BDO as auditor will be presented for shareholder approval at the upcoming AGM.

### **Nomination Committee**

The Nomination Committee comprises Alan Moore, Paul Thomas, and Colin Wood. The Chairman of the Board acts as Chairman of the Nomination Committee. The Nomination Committee has considered the recommendations of the Code concerning gender diversity and welcomes initiatives aimed at increasing diversity generally. The Nomination Committee believes, however, that all appointments should be made on merit rather than positive discrimination. The Nomination Committee is clear that maintaining an appropriate balance round the board table through a diverse mix of skills, experience, knowledge and background is of paramount importance and gender diversity is a significant element of this.

Any search for new Board candidates will be conducted and appointments made on merit, against objective selection criteria having due regard, among other things, to the benefits of diversity on the Board, including gender.

### **Remuneration Committee**

To date no Remuneration Committee has been established. Where a VCT has no executive directors, the Code principles relating to directors' remuneration do not apply and as such no Remuneration Committee has been appointed. 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.

### **Internal control**

The Directors acknowledge their responsibility for the Company's risk management and system of internal control and for reviewing their effectiveness. Internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The Board has delegated, contractually to third parties, the investment management, 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.

In April 2012, the Company appointed Roffe Swayne, an independent external party, to undertake an internal audit of the processes and procedures in place at the Investment Manager. Roffe Swayne tests the satisfactory operation of internal controls for the Company and reports to the Audit Committee. Roffe Swayne has reported to the Audit Committee that key controls tested in the current year including core financial controls and management over-rides and General Data Protection Regulation compliance are predominantly effectively and efficiently designed and operate to mitigate the risks associated with them. The Board will continue to monitor and review the risk management process on a regular basis.

The Company has a clearly defined investment policy and process. Investment decisions are made by the Investment Manager, after approval has been received from the Investment Committee of the Investment Manager. In certain circumstances investment decisions are referred to the Board for approval after due consideration of the recommendations of the Investment Committee of the Investment Manager. 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 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 Auditor 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 Investment Manager has in place in respect of the Company's financial reporting include:

- > authorisation limits over expenditure incurred by the Company;
- > 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
- > review by the Audit Committee of 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. The Board completed a formal assessment of the performance of the current Investment Manager and in the opinion of the Directors, the continuing appointment of Temporis as the Investment Manager is in the interests of the shareholders. However, as detailed in the Chairman's Statement, the Board is negotiating with the Investment Manager to secure a significant reduction in the investment management fees payable by the Company. 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.

### **Share Capital**

The Company has three classes of shares, ordinary, "C" shares and "D" 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. 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. 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.

### **Voting**



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.

### **Dividends**

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.

### **Capital entitlement**

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.

### **Major interests in the Company's shares**

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.

### **Articles of Association**

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

### **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 undertakes to respond to any written queries made by shareholders during the course of the year. Shareholders may write to the Board of Ventus 2 VCT plc at the following address: c/o The City Partnership (UK) Limited, 110 George Street, Edinburgh, EH2 4LH.

The Board as a whole approves the Chairman's Statement which forms part of the Annual and Half-yearly Financial Reports to shareholders in order to ensure that they present a balanced and understandable assessment of the Company's position and future prospects. The Board confirms that the Annual Report and Financial Statements, taken as a whole, are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. Notice of the forthcoming AGM accompanies this Annual Report as a separate document, which is sent to shareholders a minimum of 20 working days before the meeting.

A separate resolution is proposed at the forthcoming 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 UK Corporate Governance 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 can be found at the end of these Financial Statements. A proxy form in respect of this meeting has been issued to shareholders separately.

Ventus 2 VCT plc

For and on behalf of the Board

**Alan Moore**  
Chairman  
24 June 2019

## Directors' Information

The Company's Board comprises three Directors, two of whom are independent of the Investment Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Company. The Directors have between them a wide experience of renewable energy and investment management in both smaller growing companies and larger quoted companies. Information about the Directors is presented below:

### **Alan Moore OBE - Chairman**

Alan Moore has more than 40 years' experience in the UK electricity industry and is a leading figure in the UK renewable energy industry. From 1998 to May 2004 he was the Managing Director of National Wind Power (now RWE Innogy), one of the largest developers and owners of wind generation assets in the UK. He has been Chairman of the national trade association Renewable UK, and for nine years was co-Chairman of the UK Government's Renewables Advisory Board. He is an Adjunct Professor at Imperial College, London, and is also a non-executive Director at the Offshore Renewable Energy Catapult. He has been a member of the Board since January 2006.

### **Paul Thomas - Director**

Paul Thomas is Managing Director of Pi Capital Limited, the London based independent private equity firm that invests up to £5 million in growing, unquoted UK businesses. He is also a Managing Partner of Seraphim Space Fund, the world's first venture fund to focus on space tech. He has over 30 years of private equity experience, including 19 years with ECI Partners LLP, the London based mid-market buy-out house, where he was Managing Director. During his time with the firm, ECI made over 100 investments ranging in size from £500,000 to £25 million, deploying capital of over £200 million. He is Chairman of the Ventus Funds' Investment Committee of the Investment Manager and has been a member of the Board since January 2006.

### **Colin Wood – Chairman of the Audit Committee**

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 a graduate in economics and from 1993 to 1998, he was Senior Economic Advisor 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 also held senior positions in the Scottish Office Finance Group and Scottish Office Industry Department. After leaving the civil service Colin Wood was a Director and subsequently Chairman of the Century Building Society in Edinburgh for 15 years until 2013. Colin is the Chairman of the Company's Audit Committee and is the Senior Independent Director. He has been a member of the Board since January 2006.

### **Jane Tozer MBE OBE – Director (proposed from the AGM on 8 August 2019)**

Jane Tozer brings a lifetime of relevant experience to the Board in the run up to the 2020 continuation vote. She would chair the Audit Committee, become the Senior Independent Director, and has held similar non-executive positions in numerous high profile listed and unlisted companies including John Lewis Partnership, SurfControl plc and JP Morgan Income & Growth Investment Trust plc. She is currently Senior Independent Director of StatPro Group plc, BMO Global Smaller Companies plc and Nominet Limited. Her proposed election is to be confirmed by shareholders at the AGM. Jane Tozer will replace Colin Wood, who is standing down at this year's AGM.

## Statement of Directors' Responsibilities

### Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under Company law the Directors are required to prepare the Financial Statements and have elected to prepare the Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) 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 for 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 accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare a Strategic Report, Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

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.

### Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

### Directors' responsibilities pursuant to the FCA's Disclosure and Transparency Rules

The Directors confirm to the best of their knowledge:

- The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that they face.

The names and functions of all the Directors are stated in the Directors' Information on page 49.

For and on behalf of the Board

**Alan Moore**

Chairman

24 June 2019

## Company Information

### Directors

Alan Moore OBE  
Paul Thomas  
Colin Wood

### Investment Manager and Registered Office

Temporis Capital Limited  
Berger House  
36-38 Berkeley Square  
London  
W1J 5AE

### Company Secretary

The City Partnership (UK) Limited  
110 George Street  
Edinburgh  
EH2 4LH

### Principal Banker

Barclays Bank plc  
1 Churchill Place  
London  
E14 5HP

### Auditor

BDO LLP  
55 Baker Street  
London  
W1U 7EU

### VCT Taxation Adviser

Philip Hare & Associates LLP  
Suite C- First Floor  
4-6 Staple Inn  
London  
WC1V 7QH

### Solicitors

Howard Kennedy LLP  
No. 1 London Bridge  
London  
SE1 9BG

### Broker

Panmure Gordon (UK) Limited  
One New Change  
London  
EC4M 9AF

### Registrars

The City Partnership (UK) Limited  
Suite 2 Park Valley House  
Park Valley Mills  
Meltham Road  
Huddersfield  
HD4 7BH

### Internal Auditor

Roffe Swayne  
Ashcombe Court  
Godalming  
Surrey  
GU7 1LQ

### Depository

Estera Depository (UK) Limited  
The Innovation Centre  
Northern Ireland Science Park  
Queen's Road  
Belfast  
BT3 9DT

### Website

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

## **Independent Auditor's Report to the Members of Ventus 2 VCT PLC**

### **Opinion**

We have audited the financial statements of Ventus 2 VCT PLC (the 'Company') for the year ended 28 February 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2019 and of its profit 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to principal risks, going concern and viability statement**

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 15 that describes the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 31 in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 31 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of investments (Note 9):</b></p> <p>There is a high level of judgement and estimation uncertainty involved in determining the unquoted investment valuations.</p> <p>The risk is heightened as the Investment Manager is responsible for valuing the investments for the financial statements, and the investment management fee is based upon that calculation.</p>	<p>In respect of the equity investments valued using discounted cash flow models, we performed the following specific procedures:</p> <ul style="list-style-type: none"> <li>• Challenged the appropriateness of the selection and application of key assumptions in the model including the discount factor, inflation, power prices and energy yield life by benchmarking to available industry data or consulting with our internal valuations specialists;</li> <li>• We analysed changes in significant assumptions compared with valuation models audited in previous periods and vouched these to a mixture of independent and specialist internal sources;</li> <li>• Agreed power price forecasts to independent reports;</li> <li>• Used computer assisted auditing techniques (“CAATs”) and spreadsheet analysis tools to assess the integrity of the valuation models and track changes to inputs or structure;</li> <li>• Considered the accuracy of forecasting by comparing previous forecasts to actual results.</li> </ul> <p>For mezzanine loan investments we performed the following:</p> <ul style="list-style-type: none"> <li>• Vouched to loan agreements and verified the terms of the loan;</li> <li>• Considered the carrying value of the loan with regard to the “unit of account” concept.</li> </ul> <p>For each of the key assumptions in the valuation models, we considered the appropriateness of the assumption and whether alternative reasonable assumptions could have been applied. We considered each assumption in isolation as well as in conjunction with other assumptions and the valuation as a whole. Where appropriate, we sensitised the valuations where other reasonable alternative assumptions could have been applied. We also considered the completeness and clarity of disclosures regarding the range of reasonable alternative assumptions in the financial statements.</p>

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

The application of these key considerations gives rise to three levels of materiality, the quantum and purpose of which are tabulated below.

<b>Materiality measure</b>	<b>Purpose</b>	<b>Key considerations and benchmarks</b>	<b>Quantum (£)</b>
<i>Financial statement materiality. (2% of the value of investments)</i>	Assessing whether the financial statements as a whole present a true and fair view.	<ul style="list-style-type: none"> <li>• The value of gross investments</li> <li>• The level of judgement inherent in the valuation</li> <li>• The range of reasonable alternative valuations</li> </ul>	£723,000 (2018: £700,000)
<i>Performance materiality (75% of the financial statement materiality)</i>	Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.	<ul style="list-style-type: none"> <li>• Financial statement materiality</li> <li>• Risk and control environment</li> <li>• History of prior errors (if any)</li> </ul>	£542,000 (2018: £525,000)
<i>Specific materiality – classes of transactions and balances which impact on net realised returns. (10% of revenue return before tax for the year)</i>	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none"> <li>• Level of net revenue returns to shareholders</li> </ul>	£231,000 (2018: £142,000)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £35,000 (2018: £14,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

### **An overview of the scope of our audit**

Our audit approach was developed by obtaining an understanding of the Company's activities, and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of investments which have a high level of estimation uncertainty involved in determining the unquoted investment valuations.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to those laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the SORP and IFRS. We also considered the Company's qualification as a VCT under UK tax legislation.



We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period; and
- considering the effectiveness of the control environment in monitoring compliance with laws and regulations

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 47** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 43** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 42** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Other matters which we are required to address**

Following the recommendation of the audit committee, we were appointed by the directors to audit the financial statements for the year ending 28 February 2010.

In respect to the year ended 28 February 2019, we were reappointed as auditor by the members of the company at the AGM held on 24 July 2018.

The total uninterrupted period of our engagement is 10 years, covering the years ending 28 February 2010 to 28 February 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

**Use of our report**

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 auditor's 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.

Ariel Grosberg (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

UK

24 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## Statement of Comprehensive Income

for the year ended 28 February 2019

	Note	Ordinary Shares			"C" Shares			"D" Shares			Total		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Net unrealised gain/(loss) on investments	9	-	1,573	1,573	-	1,238	1,238	-	373	373	-	3,184	3,184
Income from Investments	2	1,742	-	1,742	977	-	977	117	-	117	2,836	-	2,836
Investment management fees	3	(108)	(323)	(431)	(125)	(374)	(499)	(14)	(43)	(57)	(247)	(740)	(987)
Other expenses	4	(215)	-	(215)	(100)	-	(100)	(15)	-	(15)	(330)	-	(330)
<b>Profit/(loss) before taxation</b>	6	1,419	1,250	2,669	752	864	1,616	88	330	418	2,259	2,444	4,703
Taxation		(11)	11	-	(17)	17	-	(8)	8	-	(36)	36	-
<b>Profit/(loss) and total comprehensive income for the year attributable to equity shareholders</b>		1,408	1,261	2,669	735	881	1,616	80	338	418	2,223	2,480	4,703
<b>Earnings per share</b>													
Basic and diluted earnings per share (p)	8	5.77	5.17	10.94	6.53	7.80	14.33	3.96	17.02	20.98			

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 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" 2014 ("SORP") published by the Association of Investment Companies.

The accompanying notes on pages 64 to 89 form an integral part of these Financial Statements.

## Statement of Comprehensive Income

for the year ended 28 February 2018

	Note	Ordinary Shares			"C" Shares			"D" Shares			Total		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Net unrealised gain/(loss) on investments	9	-	400	400	-	810	810	-	(112)	(112)	-	1,098	1,098
Income	2	802	-	802	1,120	-	1,120	71	-	71	1,993	-	1,993
Investment management fees	3	(118)	(356)	(474)	(140)	(419)	(559)	(16)	(47)	(63)	(274)	(822)	(1,096)
Other expenses	4	(197)	-	(197)	(88)	5	(83)	(15)	-	(15)	(300)	5	(295)
<b>Profit/(loss) before taxation</b>		487	44	531	892	396	1,288	40	(159)	(119)	1,419	281	1,700
Taxation	6	(22)	22	-	(26)	26	-	(8)	8	-	(56)	56	-
<b>Profit/(loss) and total comprehensive income for the year attributable to equity shareholders</b>		465	66	531	866	422	1,288	32	(151)	(119)	1,363	337	1,700
<b>Return per share</b>													
Basic and diluted return per share (p)	8	1.90	0.27	2.18	7.66	3.73	11.40	1.62	(7.60)	(5.98)			

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" 2014 ("SORP") published by the Association of Investment Companies.

The accompanying notes on pages 64 to 89 form an integral part of these Financial Statements.

## Statement of Financial Position

As at 28 February 2019

As at 28 February 2019					As at 28 February 2018				
	Note	Ordinary Shares £000	"C" Shares £000	"D" Shares £000	Total £000	Ordinary Shares £000	"C" Shares £000	"D" Shares £000	Total £000
<b>Non-current assets</b>									
Investments	9	19,727	15,183	2,770	37,680	18,575	14,514	2,397	35,486
		<u>19,727</u>	<u>15,183</u>	<u>2,770</u>	<u>37,680</u>	<u>18,575</u>	<u>14,514</u>	<u>2,397</u>	<u>35,486</u>
<b>Current assets</b>									
Trade and other receivables	10	251	248	197	696	199	210	122	531
Cash and cash equivalents	11	614	482	60	1,156	383	463	32	878
		<u>865</u>	<u>730</u>	<u>257</u>	<u>1,852</u>	<u>582</u>	<u>673</u>	<u>154</u>	<u>1,409</u>
<b>Total assets</b>		<u>20,592</u>	<u>15,913</u>	<u>3,027</u>	<u>39,532</u>	<u>19,157</u>	<u>15,187</u>	<u>2,551</u>	<u>36,895</u>
<b>Current liabilities</b>									
Trade and other payables	12	(69)	(109)	(96)	(274)	(83)	(40)	(38)	(161)
<b>Net current assets</b>		<u>796</u>	<u>621</u>	<u>161</u>	<u>1,578</u>	<u>499</u>	<u>633</u>	<u>116</u>	<u>1,248</u>
<b>Net assets</b>		<u>20,523</u>	<u>15,804</u>	<u>2,931</u>	<u>39,258</u>	<u>19,074</u>	<u>15,147</u>	<u>2,513</u>	<u>36,734</u>
<b>Equity attributable to equity holders</b>									
Share capital	13	6,097	2,832	498	9,427	6,097	2,832	498	9,427
Capital redemption reserve		2,105	-	-	2,105	2,105	-	-	2,105
Share premium		-	-	1,433	1,433	-	-	1,433	1,433
Special reserve		12,543	7,725	-	20,268	12,703	7,725	-	20,428
Capital reserve – realised		(11,480)	(2,716)	(182)	(14,378)	(11,140)	(2,359)	(147)	(13,646)
Capital reserve – unrealised		10,910	7,929	1,040	19,879	9,309	6,691	667	16,667
Revenue reserve		348	34	142	524	-	258	62	320
<b>Total equity</b>		<u>20,523</u>	<u>15,804</u>	<u>2,931</u>	<u>39,258</u>	<u>19,074</u>	<u>15,147</u>	<u>2,513</u>	<u>36,734</u>
<b>Basic and diluted net asset value per share (p)</b>									
	14	<b>84.1</b>	<b>140.1</b>	<b>147.2</b>		<b>78.2</b>	<b>134.2</b>	<b>126.2</b>	

Approved by the Board and authorised for issue on 24 June 2019.

**Alan Moore**  
Chairman

The accompanying notes on pages 64 to 89 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 2019

	Share capital £000	Capital redemption reserve £000	Share premium £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>Ordinary Shares</b>								
<b>At 1 March 2018</b>	6,097	2,105	-	12,703	(11,140)	9,309	-	19,074
Transfer of special reserve to revenue reserve	-	-	-	(160)	-	-	160	-
Transfer of capital reserve realised to capital reserve unrealised	-	-	-	-	(28)	28	-	-
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(312)	1,573	1,408	2,669
Dividends paid in the year	-	-	-	-	-	-	(1,220)	(1,220)
<b>At 28 February 2019</b>	<b>6,097</b>	<b>2,105</b>	<b>-</b>	<b>12,543</b>	<b>(11,480)</b>	<b>10,910</b>	<b>348</b>	<b>20,523</b>
<b>"C" Shares</b>								
<b>At 1 March 2018</b>	2,832	-	-	7,725	(2,359)	6,691	258	15,147
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(357)	1,238	735	1,616
Dividends paid in the year	-	-	-	-	-	-	(959)	(959)
<b>At 28 February 2019</b>	<b>2,832</b>	<b>-</b>	<b>-</b>	<b>7,725</b>	<b>(2,716)</b>	<b>7,929</b>	<b>34</b>	<b>15,804</b>
<b>"D" Shares</b>								
<b>At 1 March 2018</b>	498	-	1,433	-	(147)	667	62	2,513
(Loss)/profit and total comprehensive income for the year	-	-	-	-	(35)	373	80	418
<b>At 28 February 2019</b>	<b>498</b>	<b>-</b>	<b>1,433</b>	<b>-</b>	<b>(182)</b>	<b>1,040</b>	<b>142</b>	<b>2,931</b>
<b>Total</b>								
<b>At 1 March 2018</b>	9,427	2,105	1,433	20,428	(13,646)	16,667	320	36,734
Transfer of special reserve to revenue reserve	-	-	-	(160)	-	-	160	-
Transfer of capital reserve realised to capital reserve unrealised	-	-	-	-	(28)	28	-	-
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(704)	3,184	2,223	4,703
Dividends paid in the year	-	-	-	-	-	-	(2,179)	(2,179)
<b>At 28 February 2019</b>	<b>9,427</b>	<b>2,105</b>	<b>1,433</b>	<b>20,268</b>	<b>(14,378)</b>	<b>19,879</b>	<b>524</b>	<b>39,258</b>

All amounts presented in the Statement of Changes in Equity are attributable to equity holders. The revenue reserve, special reserve and realised capital reserve are distributable reserves. The special reserve may be used to pay dividends as and if it is considered by the Board to be in the interests of the shareholders.

The accompanying notes on pages 64 to 89 form an integral part of these Financial Statements.

**Statement of Changes in Equity**

for the year ended 28 February 2018

	Share capital £000	Capital redemption reserve £000	Share premium £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>Ordinary Shares</b>								
<b>At 1 March 2017</b>	6,097	2,105	-	13,458	(10,806)	8,909	-	19,763
Transfer of special reserve to revenue reserve	-	-	-	(755)	-	-	755	-
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(334)	400	465	531
Dividends paid in the year	-	-	-	-	-	-	(1,220)	(1,220)
<b>At 28 February 2018</b>	6,097	2,105	-	12,703	(11,140)	9,309	-	19,074
<b>"C" Shares</b>								
<b>At 1 March 2017</b>	2,832	-	-	7,725	(1,971)	5,881	295	14,762
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(388)	810	866	1,288
Dividends paid in the year	-	-	-	-	-	-	(903)	(903)
<b>At 28 February 2018</b>	2,832	-	-	7,725	(2,359)	6,691	258	15,147
<b>"D" Shares</b>								
<b>At 1 March 2017</b>	498	-	1,433	-	(108)	779	30	2,632
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(39)	(112)	32	(119)
<b>At 28 February 2018</b>	498	-	1,433	-	(147)	667	62	2,513
<b>Total</b>								
<b>At 1 March 2017</b>	9,427	2,105	1,433	21,183	(12,885)	15,569	325	37,157
Transfer of special reserve to revenue reserve	-	-	-	(755)	-	-	755	-
Profit/(loss) and total comprehensive income for the year	-	-	-	-	(761)	1,098	1,363	1,700
Dividends paid in the year	-	-	-	-	-	-	(2,123)	(2,123)
<b>At 28 February 2018</b>	9,427	2,105	1,433	20,428	(13,646)	16,667	320	36,734

The accompanying notes on pages 64 to 89 form an integral part of these Financial Statements.



## Statement of Cash Flows

for the year ended 28 February 2019

	Year ended 28 February 2019				Year ended 28 February 2018			
	Ordinary Shares £000	"C" Shares £000	"D" Shares £000	Total £000	Ordinary Shares £000	"C" Shares £000	"D" Shares £000	Total £000
<b>Cash flows from operating activities</b>								
Investment income received	1,707	937	43	2,687	965	1,251	65	2,281
Deposit interest received	-	-	-	-	1	-	-	1
Investment management fees paid	(431)	(438)	-	(869)	(474)	(559)	(32)	(1,065)
Other cash payments	(246)	(90)	(15)	(351)	(189)	(92)	(15)	(296)
<b>Net cash inflow from operating activities</b>	<b>1,030</b>	<b>409</b>	<b>28</b>	<b>1,467</b>	<b>303</b>	<b>600</b>	<b>18</b>	<b>921</b>
<b>Cash flows from investing activities</b>								
Proceeds from investments	421	569	-	990	423	541	-	964
<b>Net cash inflow from investing activities</b>	<b>421</b>	<b>569</b>	<b>-</b>	<b>990</b>	<b>423</b>	<b>541</b>	<b>-</b>	<b>964</b>
<b>Cash flows from financing activities</b>								
Dividends paid	(1,220)	(959)	-	(2,179)	(1,220)	(903)	-	(2,123)
<b>Net cash outflow from financing activities</b>	<b>(1,220)</b>	<b>(959)</b>	<b>-</b>	<b>(2,179)</b>	<b>(1,220)</b>	<b>(903)</b>	<b>-</b>	<b>(2,123)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>231</b>	<b>19</b>	<b>28</b>	<b>278</b>	<b>(494)</b>	<b>238</b>	<b>18</b>	<b>(238)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>383</b>	<b>463</b>	<b>32</b>	<b>878</b>	<b>877</b>	<b>225</b>	<b>14</b>	<b>1,116</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>614</b>	<b>482</b>	<b>60</b>	<b>1,156</b>	<b>383</b>	<b>463</b>	<b>32</b>	<b>878</b>

The accompanying notes on pages 64 to 89 form an integral part of these Financial Statements.

## Notes to the Financial Statements

for the year ended 28 February 2019

### 1. Accounting policies

#### Accounting convention

The Financial Statements 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 reporting 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" 2014 ("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 Financial Statements have been prepared on a going concern basis. The accounting policies adopted are consistent with those of the previous financial year.

At the date of authorisation of these financial statements, IFRS 9 "Financial instruments", effective for accounting periods beginning on or after 1 January 2018, was adopted by the group on 1 March 2018. An assessment has been performed and the introduction of IFRS 9 is not expected to have material impact on the reported results and financial position of the Company investments will continue to be measured at fair value through profit and loss and there will be no material impact from the new impairment model. The changes to IFRS 9 will first be reflected in the half yearly report and there is no anticipation for restating comparative figures.

Also, at the date of these financial statements, IFRS 15 "Revenue from contracts with customers" was issued and became effective for accounting periods beginning on or after the 1 January 2018, was adopted by the group on 1 March 2018. IFRS 16 "Leases" was issued but will not become effective until accounting periods beginning on or after 1 January 2019. The Company does not hold revenue contracts or leases, therefore the introduction of IFRS 15 and 16 is not expected to have material impact on the reported results and the financial position of the Company.

None of the amendments to standards that are effective from the dates above had a significant effect on the financial statements.

#### Income

Interest income on investments is stated on an accruals basis, by reference to the principal outstanding and at the effective interest rates applicable. Interest receivable on cash and non-equity investments is accrued to the end of the year. No tax is withheld at source on interest income.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established, which is 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. Investment costs have been allocated to capital which represents the expenditure associated with the Company's investments.

Expenses are allocated between the ordinary, "C" and "D" share funds on the basis of the number of shares in issue during the period, except expenses which are directly attributable to a particular share fund.

## **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 periods 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 VCT, 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 statement of financial position 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 statement of financial position 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. Deferred tax assets and liabilities are not discounted.

## **Financial Instruments**

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company has become a party to the contractual provisions of each instrument.

### *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 value, 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 and equity based derivatives are valued in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018), using the most appropriate valuation methodology as determined by the Board. Where there has been a recent arm's length transaction between knowledgeable, willing parties, the "cost less impairment" methodology is used to determine the value of the investment. In the absence of a recent market transaction, unquoted investee companies with renewable energy generating plant constituting a substantial portion of their assets and which have proved stable operational performance are valued using the "discounted future cash flows from the underlying business" methodology, excluding interest accrued in the accounts to date, unless uncertainties exist which would make the "cost less impairment" methodology, reviewed for impairment, more appropriate. Generally, renewable energy generating plant will be considered to be operating when it has been taken-over by the investee company, although specific circumstances could cause a plant to be considered operating satisfactorily earlier than formal take-over by the investee company. Notwithstanding the above, the Board may determine that an alternative methodology should be used where this more appropriately reflects the fair value of an investment.

When an investee company has gone into receivership or liquidation, or where any loss in value below cost is considered to be permanent, 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 Joint Ventures" and IFRS 11 "Joint Arrangements" and upon initial recognition, will measure its investments

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in Associates and Joint Ventures at fair value, with subsequent changes to fair value recognised in the income statement in the period of change.

### *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 flows 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 original 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 and reserves**

### *Share capital*

Equity instruments issued by the Company are recorded at the nominal amount.

### *Special reserve*

The special reserves were created by approval of the High Court to cancel the Company's share premium accounts in respect of the shares issued. The special reserves may be used to fund buy-backs of shares and pay dividends 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 insofar as they are not considered to be permanent.

### *Share premium*

This reserve includes amounts subscribed for share capital in excess of nominal value of the shares, net of direct issue costs.

### *Capital Redemption Reserve*

This reserve includes amounts transferred from the share capital on cancellation of issued shares.

### *Revenue reserve*

This reserve includes all other net gains and losses not recognised elsewhere which are available for distribution to shareholders.

### **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. The estimates and assumptions adopted are those which the Board considers to be appropriate at the reporting date. Estimates and assumptions will change from time to time depending on prevailing circumstances. 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 assets which are designated as “fair value through profit or loss”. The impact of changes in the key estimates and assumptions adopted are discussed in the Investment Manager’s Report on page 27 and 28 and page 76 of the annual report.

The key assumptions that have a significant impact on fair value in the discounted cash flow valuations are the discount factor used, inflation rate, the price at which the power and associated benefits can be sold, the amount of electricity the investee companies’ generating assets are expected to produce, the length of the operating life of the asset and operating costs. The discount factors applied to the cash flows are regularly reviewed by the Investment Committee of the Investment Manager to ensure it’s set at an appropriate level. 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 a factor of both wholesale electricity prices and government subsidies. The selling price is often fixed in the medium term under power purchase agreements. For periods outside the terms of these agreements the assumed future prices are estimated using external third party forecasts which take the form of specialist consultancy reports. Specifically commissioned external consultant reports are also used to estimate the expected electrical output from the investee company’s generating assets taking into account their type and location. All of these key assumptions are reviewed regularly by the Investment Committee of the Investment Manager and the Board.

### **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.

## 2. Income

### Year ended 28 February 2019

	<i>Year ended 28 February 2019</i>			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
<b>Income from investments</b>				
Loan stock interest	382	297	74	753
Dividend income	1,360	680	43	2,083
	1,742	977	117	2,836
<b>Other income</b>				
Bank deposit interest	-	-	-	-
	1,742	977	117	2,836

### Year ended 28 February 2018

	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
<b>Income from investments</b>				
Loan stock interest	434	363	71	868
Dividend income	367	757	-	1,124
	801	1,120	71	1,992
<b>Other income</b>				
Bank deposit interest	1	-	-	1
	802	1,120	71	1,993

## 3. Investment management fees

	<i>Year ended 28 February 2019</i>			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
Investment management fees	431	499	57	987

	<i>Year ended 28 February 2018</i>			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
Investment management fees	474	559	63	1,096

The Investment Manager was entitled to an annual fee equal to 2.5% of the Company's NAV until 1 November 2017 when the annual management fee reduced from 2.5% to 2.25%. The annual fee will reduce further to 2.125% from 1 November 2020 and to 2% from 1 November 2021 onwards. 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, investment costs and irrecoverable VAT), 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.

During the year ended 28 February 2019, the investment management fees paid included a performance-related incentive fee of £99,000 in respect of the "C" share fund (28 February 2018: £201,000).

A performance-related incentive fee of £61,000 from the "C" share fund has been accrued in respect of the year ended 28 February 2019. The Investment Manager will be entitled to a further £113,000 from the "C" share fund subject to the payment of the final dividend receiving approval from the shareholders at the forthcoming AGM. This future fee has not been accrued at the 28 February 2019 as it is contingent on the approval of the final dividend.

#### 4. Other expenses

	Year ended 28 February 2019			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
<i>Revenue expenses:</i>				
Directors' remuneration (Note 5)	52	24	4	80
Fees payable to the Company's Auditor for:				
- Audit of the Company's Annual Financial Statements	20	9	1	30
- Other services relating to taxation	-	-	-	-
Legal and professional fees	-	-	-	-
Other revenue expenses	143	67	10	215
	215	100	15	330
<i>Capital expenses:</i>				
Investment costs	-	-	-	-
	215	100	15	330

	Year ended 28 February 2018			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
<i>Revenue expenses:</i>				
Directors' remuneration (Note 5)	52	25	3	80
Fees payable to the Company's Auditor for:				
- Audit of the Company's Annual Financial Statements	18	8	1	27
- Audit related services pursuant to legislation	4	2	-	6
- Other services relating to taxation	3	1	-	4
Other revenue expenses	120	52	11	183
	197	88	15	300
<i>Capital expenses:</i>				
Investment costs	-	(5)	-	(5)
	197	83	15	295

## 5. Directors' remuneration

	Year ended 28 February 2019			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
A Moore	20	9	1	30
P Thomas	16	8	1	25
C Wood	16	8	1	25
Aggregate emoluments	52	25	3	80

	Year ended 28 February 2018			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
A Moore	20	9	1	30
P Thomas	16	8	1	25
C Wood	16	8	1	25
Aggregate emoluments	52	25	3	80

Further details regarding Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 35 to 41.

The Company had no employees other than the Directors.



## 6. Taxation

	Year ended 28 February 2019			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
<b>(a) Tax charge/ (credit) for the year</b>				
Current UK corporation tax:				
Charged to revenue reserve	(11)	(17)	(8)	(36)
Credited to capital reserve	11	17	8	36
	-	-	-	-

### (b) Factors affecting the tax charge/ (credit) for the year

Profit before taxation	2,669	1,678	418	4,765
Tax credit calculated on profit before taxation at the applicable rate of 19% (2018: 19.06%)	507	319	79	905
Effect of:				-
UK dividends not subject to tax	(258)	(129)	(8)	(395)
Capital gains not subject to tax	(299)	(235)	(71)	(605)
Tax losses not recognised	50	45	-	95
	-	-	-	-

	Year ended 28 February 2018			
	Ordinary Shares	"C" Shares	"D" Shares	Total
	£000	£000	£000	£000
<b>(a) Tax charge/ (credit) for the year</b>				
Current UK corporation tax:				
Charged to revenue reserve	(22)	(26)	(8)	(56)
Credited to capital reserve	22	26	8	56
	-	-	-	-

### (b) Factors affecting the tax charge/ (credit) for the year

Profit/(loss) before taxation	531	1,288	(119)	1,700
Tax credit calculated on profit/(loss) before taxation at the applicable rate of 19.06% (2017: 20%)	101	246	(23)	324
Effect of:				
UK dividends not subject to tax	(70)	(144)	-	(214)
Capital (gains)/ losses not subject to tax	(76)	(155)	21	(210)
Non-deductible expenses	-	(1)	-	(1)
Tax losses not recognised	45	54	2	101
	-	-	-	-

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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 Income Tax Act and the Directors' intention to maintain that status. The Company intends to continue to meet the conditions required to maintain its status as a VCT for the foreseeable future.

The tax rate is scheduled to decrease to 17% from 1 April 2020 so it may be more appropriate to disclose unrecognised deferred tax assets at this rate:

	<i>As at 28 February 2019</i>			
	<b>Ordinary Shares</b>	<b>"C" Shares</b>	<b>"D" Shares</b>	<b>Total</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Unused tax losses	157	114	6	277

	<i>As at 28 February 2018</i>			
	<b>Ordinary Shares</b>	<b>"C" Shares</b>	<b>"D" Shares</b>	<b>Total</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Unused tax losses	107	69	7	183

## 7. Dividends

<b>Ordinary Shares</b>	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
<b>Amounts recognised as distributions to ordinary shareholders in the year:</b>		
Previous year's final dividend of 2.50p per ordinary share (2018: 2.50p)	610	610
Current year's interim dividend of 2.50p per ordinary share (2018: 2.50p)	610	610
	<u>1,220</u>	<u>1,220</u>

Subject to approval of the final dividend, the total dividend in respect of the financial year is set out below:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Interim dividend for the year ended 28 February 2019 of 2.50p per ordinary share (2018: 2.50p)	610	610
Proposed final dividend for the year ended 28 February 2019 of 3.50p per ordinary share (2018: 2.50p)	854	610
	<u>1,464</u>	<u>1,220</u>

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<b>"C" Shares</b>	<b>2019 £000</b>	<b>2018 £000</b>
<b>Amounts recognised as distributions to "C" shareholders in the year:</b>		
Previous year's final dividend of 4.50p per "C" share (2018: 4.50p)	508	508
Current year's interim dividend of 4.00p per "C" share (2018: 3.50p)	451	395
	<u>959</u>	<u>903</u>

Subject to approval of the final dividend, the total dividend in respect of the financial year is set out below:

	<b>2019 £000</b>	<b>2018 £000</b>
Interim dividend for the year ended 28 February 2019 of 4.00p per "C" share (2018: 3.50p)	451	395
Proposed final dividend for the year ended 28 February 2019 of 5.00p per "C" share (2018: 4.50p)	564	508
	<u>1,015</u>	<u>903</u>

<b>"D" Shares</b>	<b>2019 £000</b>	<b>2018 £000</b>
<b>Amounts recognised as distributions to "D" shareholders in the year:</b>		
Previous year's final dividend of 0.00p per "D" share (2018: 0.00p)	-	-
Current year's interim dividend of 0.00p per "D" share (2018: 0.00p)	-	-
	<u>-</u>	<u>-</u>

The total dividend in respect of the financial year is set out below:

	<b>2019 £000</b>	<b>2018 £000</b>
Interim dividend for the year ended 28 February 2019 of 0.00p per "D" share (2018: 0.00p)	-	-
Proposed final dividend for the year ended 28 February 2019 of 2.50p per "D" share (2018: 0.00p)	50	-
	<u>50</u>	<u>-</u>

**8. Basic and diluted earnings per share**

<b>For the year ended 28 February 2019</b>		<b>Ordinary Shares</b>	<b>"C" Shares</b>	<b>"D" Shares</b>
Revenue earnings for the year	<i>p per share*</i>	5.77	6.53	3.96
<i>Based on:</i>				
Revenue earnings for the year	<i>£'000</i>	1,408	735	80
Weighted average number of shares in issue	<i>number of shares</i>	24,392,655	11,283,207	1,990,767
Capital gain for the year	<i>p per share*</i>	5.17	7.80	17.02
<i>Based on:</i>				
Capital gain for the year	<i>£'000</i>	1,261	881	338
Weighted average number of shares in issue	<i>number of shares</i>	24,392,655	11,283,207	1,990,767
Net profit for the year	<i>p per share*</i>	10.94	14.33	20.98
<i>Based on:</i>				
Net profit for the year	<i>£'000</i>	2,669	1,616	418
Weighted average number of shares in issue	<i>number of shares</i>	24,392,655	11,283,207	1,990,767
<b>For the year ended 28 February 2018</b>		<b>Ordinary Shares</b>	<b>"C" Shares</b>	<b>"D" Shares</b>
Revenue earnings for the year	<i>p per share*</i>	1.90	7.66	1.62
<i>Based on:</i>				
Revenue earnings for the year	<i>£'000</i>	465	866	32
Weighted average number of shares in issue	<i>number of shares</i>	24,392,655	11,283,207	1,990,767
Capital gain/(loss) for the year	<i>p per share*</i>	0.27	3.73	(7.60)
<i>Based on:</i>				
Capital gain/(loss) for the year	<i>£'000</i>	66	422	(151)
Weighted average number of shares in issue	<i>number of shares</i>	24,392,655	11,283,207	1,990,767
Net profit/(loss) for the year	<i>p per share*</i>	2.17	11.39	(5.98)
<i>Based on:</i>				
Net profit/(loss) for the year	<i>£'000</i>	531	1,288	(119)
Weighted average number of shares in issue	<i>number of shares</i>	24,392,655	11,283,207	1,990,767

\* The value per share may differ on recalculation due to rounding differences.

There is no difference between the basic return per ordinary share and the diluted return per ordinary share, between the basic return per "C" share and the diluted return per "C" share or between the basic return per "D" share and the diluted return per "D" share because no dilutive financial instruments have been issued. The number of shares disclosed above excludes 45,900 "C" shares which are held in treasury.

## 9. Investments

	Ordinary Shares			"C" Shares			"D" Shares			Total		
	Shares	Loan stock	Total	Shares	Loan stock	Total	Shares	Loan stock	Total	Shares	Loan stock	Total
<i>Year ended 28 February 2019</i>	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Opening position</b>												
Opening cost	6,685	3,345	10,030	5,796	2,507	8,303	1,216	514	1,730	13,697	6,366	20,063
Closing realised losses	(442)	(229)	(671)	(464)	(17)	(481)	-	-	-	(906)	(246)	(1,152)
Opening unrealised gains	8,851	365	9,216	6,444	248	6,692	634	33	667	15,929	646	16,575
Opening fair value	15,094	3,481	18,575	11,776	2,738	14,514	1,850	547	2,397	28,720	6,766	35,486
<b>During the year</b>												
Disposal proceeds	-	(421)	(421)	-	(569)	(569)	-	-	-	-	(990)	(990)
Unrealised gains/(losses)	1,661	(88)	1,573	1,318	(80)	1,238	372	1	373	3,351	(167)	3,184
Closing fair value	16,755	2,972	19,727	13,094	2,089	15,183	2,222	548	2,770	32,071	5,609	37,680
<b>Closing position</b>												
Closing cost	6,685	2,924	9,609	5,796	1,938	7,734	1,216	514	1,730	13,697	5,376	19,073
Closing realised losses	(442)	(229)	(671)	(464)	(17)	(481)	-	-	-	(906)	(246)	(1,152)
Closing unrealised gains	10,512	277	10,789	7,762	168	7,930	1,006	34	1,040	19,280	479	19,759
Closing fair value	16,755	2,972	19,727	13,094	2,089	15,183	2,222	548	2,770	32,071	5,609	37,680

	Ordinary Shares			"C" Shares			"D" Shares			Total		
	Shares	Loan stock	Total	Shares	Loan stock	Total	Shares	Loan stock	Total	Shares	Loan stock	Total
<i>Year ended 28 February 2018</i>	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Opening position</b>												
Opening cost	6,894	3,768	10,662	5,796	3,048	8,844	1,216	514	1,730	13,906	7,330	21,236
Closing realised losses	(651)	(229)	(880)	(464)	(17)	(481)	-	-	-	(1,115)	(246)	(1,361)
Opening unrealised gains	8,446	370	8,816	5,588	293	5,881	746	33	779	14,780	696	15,476
Opening fair value	14,689	3,909	18,598	10,920	3,324	14,244	1,962	547	2,509	27,571	7,780	35,351
<b>During the year</b>												
Investment proceeds	-	(423)	(423)	-	(541)	(541)	-	-	-	-	(964)	(964)
Unrealised gains/(losses)	405	(5)	400	856	(45)	811	(112)	-	(112)	1,149	(50)	1,099
Closing fair value	15,094	3,481	18,575	11,776	2,738	14,514	1,850	547	2,397	28,720	6,766	35,486
<b>Closing position</b>												
Closing cost	6,685	3,345	10,030	5,796	2,507	8,303	1,216	514	1,730	13,697	6,366	20,063
Closing realised losses	(442)	(229)	(671)	(464)	(17)	(481)	-	-	-	(906)	(246)	(1,152)
Closing unrealised gains	8,851	365	9,216	6,444	248	6,692	634	33	667	15,929	646	16,575
Closing fair value	15,094	3,481	18,575	11,776	2,738	14,514	1,850	547	2,397	28,720	6,766	35,486

\* The cost of BEL Holdco Limited, £200,000, and BEL Acquisition Limited, £9,000, were derecognised during the year ended 28 February 2018 as these companies were dissolved.

The shares held by the Company are in unquoted UK companies. The Investment Manager's Report on pages 19 to 30 provides details in respect of the Company's shareholding in each investment, loans issued and investments purchased and disposed of during the year. For details of the registered address of each Investee Company please refer to page 20.

Under IFRS 7 and IFRS 13, 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 2019, 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.

To determine the valuations as at 28 February 2019 (and 28 February 2018), the Company has applied a discount rate to the unleveraged cash flows to determine the enterprise value of the investee company and then has subtracted the market value of any senior debt (including any prepayment fees and swap break costs) to calculate the value of the equity and/or mezzanine debt in the investee company.

The Board has considered the key assumptions which may affect the results reported in the Financial Statements and 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 key assumptions that have a significant impact on fair value in the discounted future cash flow valuations are the discount factors used (which range from 6.75% to 10%) the price at which power and associated benefits may be sold, inflation and the level of electricity the investee companies' generating assets are likely to produce (which are taken from specialist consultant reports).

The Board has determined that a reasonable alternative assumption may be made in respect of the discount factors applied. The sensitivity of the value of the portfolio to the application of an increase or decrease in discount factors is set out below.

The investment portfolio has been reviewed for the effect of alternative valuation inputs. The sensitivity of the total value of all investments to a 0.5% increase or decrease in the discount factors has been applied to the valuation models which have been valued using the discounted future cash flows from the underlying business.

The application of the upside alternative discount factor to the investments in the ordinary share fund's portfolio would have resulted in the total value of its investments having been £969,000 or 4.9% higher. The application of the downside alternative discount factor would have resulted in the total value of all investments having been £919,000 or 4.6% lower.

The application of the upside alternative discount factor to the "C" share fund's portfolio would have resulted in the total value of its investments having been £735,000 or 4.8% higher. The application of the downside alternative discount factor would have resulted in the total value of its investments having been £697,000 or 4.6% lower.

The application of the upside alternative discount factor to the "D" share fund's portfolio would have resulted in the total value of its investments having been £263,000 or 9.5% higher. The application of the downside alternative discount factor would have resulted in the total value of its investments having been £248,000 or 8.9% lower.

Further details regarding input sensitivity can found in the Investment Manager's Report on page 27 and 28.

The future price at which power and associated benefits may be sold is estimated using forecasts produced by third party industry experts and the projected energy yield is determined by yield analyses also prepared by third party industry experts. The Directors do not believe there are reasonable alternative assumptions available for these inputs at the current time.

# 10. Trade and other receivables

	<i>Year ended 28 February 2019</i>			
	<b>Ordinary Shares</b>	<b>"C" Shares</b>	<b>"D" Shares</b>	<b>Total</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Current assets</b>				
Accrued interest income	211	244	195	650
Other receivables	34	1	-	35
Prepayments	6	3	2	11
	<u>251</u>	<u>248</u>	<u>197</u>	<u>696</u>

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

	<i>Year ended 28 February 2018</i>			
	<b>Ordinary Shares</b>	<b>"C" Shares</b>	<b>"D" Shares</b>	<b>Total</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Current assets</b>				
Accrued interest income	175	203	121	499
Other receivables	12	1	-	13
Prepayments	12	6	1	19
	<u>199</u>	<u>210</u>	<u>122</u>	<u>531</u>

**11. Cash and cash equivalents**

	Ordinary Shares £000	"C" Shares £000	"D" Shares £000	Total £000
As at 1 March 2018	383	463	32	878
Net increase	231	19	28	278
As at 28 February 2019	614	482	60	1,156

	Ordinary Shares £000	"C" Shares £000	"D" Shares £000	Total £000
As at 1 March 2017	877	225	14	1,116
Net (decrease)/ increase	(494)	238	18	(238)
As at 28 February 2018	383	463	32	878

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.



**12. Trade and other payables**

	<i>As at 28 February 2019</i>			
	<b>Ordinary Shares £000</b>	<b>"C" Shares £000</b>	<b>"D" Shares £000</b>	<b>Total £000</b>
Trade payables	7	-	88	95
Other payables	12	29	5	46
Accruals	50	80	3	133
	<u>69</u>	<u>109</u>	<u>96</u>	<u>274</u>

	<i>As at 28 February 2018</i>			
	<b>Ordinary Shares £000</b>	<b>"C" Shares £000</b>	<b>"D" Shares £000</b>	<b>Total £000</b>
Trade payables	-	-	31	31
Other payables	11	11	2	24
Accruals	72	29	5	106
	<u>83</u>	<u>40</u>	<u>38</u>	<u>161</u>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

**13. Share capital**

	Ordinary Shares		"C" Shares		"D" Shares		Total	
	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>
<b>Authorised</b>								
<b>At 1 March 2018</b>	50,000,000	12,500	20,000,000	5,000	20,000,000	5,000	90,000,000	22,500
<b>At 28 February 2019</b>	50,000,000	12,500	20,000,000	5,000	20,000,000	5,000	90,000,000	22,500

	Ordinary Shares		"C" Shares		"D" Shares		Total	
	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>
<b>Allotted, called up and fully paid</b>								
<b>At 1 March 2018</b>	24,392,655	6,097	11,329,107	2,832	1,990,767	498	37,712,529	9,427
<b>At 28 February 2019</b>	24,395,655	6,097	11,329,107	2,832	1,990,767	498	37,712,529	9,427

	Ordinary Shares		"C" Shares		"D" Shares		Total	
	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>
<b>Authorised</b>								
<b>At 1 March 2017</b>	50,000,000	12,500	20,000,000	5,000	20,000,000	5,000	90,000,000	22,500
<b>At 28 February 2018</b>	50,000,000	12,500	20,000,000	5,000	20,000,000	5,000	90,000,000	22,500

	Ordinary Shares		"C" Shares		"D" Shares		Total	
	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>	<i>Number of shares of 25p each</i>	<i>£000</i>
<b>Allotted, called up and fully paid</b>								
<b>At 1 March 2017</b>	24,392,655	6,097	11,329,107	2,832	1,990,767	498	37,712,529	9,427
<b>At 28 February 2018</b>	24,392,655	6,097	11,329,107	2,832	1,990,767	498	37,712,529	9,427

At 28 February 2019, the Company had three 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 Directors' Report on page 33. The number of shares disclosed above includes 45,900 "C" shares which are held in treasury.

**14. Basic and diluted NAV per share**

The NAV per ordinary share of 84.1p as at 28 February 2019 (2018: 78.2p) is based on net assets of £20,523,000 (2018: £19,074,000) divided by 24,392,655 ordinary shares in issue at that date (2018: 24,392,655 ordinary shares). The NAV per "C" share of 140.1p as at 28 February 2019 (2018: 134.2p) is based on net assets of £15,804,000 (2018: £15,147,000) divided by 11,283,207 "C" shares in issue at that date (2018: 11,283,207 "C" shares). The NAV per "D" share of 147.2p (2018: 126.2p) as at 28 February 2018 is based on net assets of £2,931,000 (2018: £2,513,000) divided by 1,990,767 "D" shares in issue at that date (2018: 1,990,767 "D" shares).

The number of shares disclosed above excludes 45,900 "C" shares which are held in treasury.

**15. Events subsequent to year end**

The Company has nothing further to report subsequent to the year end.

**16. 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 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 investment risk, interest rate risk, liquidity risk and credit 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 2019*

<b>Ordinary Shares</b>	<i>£000</i>	<i>Interest rate p.a. %</i>	<i>Weighted average interest rate p.a. %</i>	<i>Weighted average period to maturity</i>
<i>At fair value through profit or loss:</i>				
Ordinary shares	16,755	n/a	n/a	n/a
Loan stock	2,972	0% - 13.5%	12.36%	6.8 years
Accrued interest income	211	n/a	n/a	n/a
<i>Financial assets carried at amortised cost:</i>				
Cash	614	0% - 0.38%	0.1%	n/a

<b>"C" Shares</b>		<i>Interest rate p.a.</i>	<i>Weighted average interest rate p.a.</i>	<i>Weighted average period to maturity</i>
	<i>£000</i>	<i>%</i>	<i>%</i>	
<i>At fair value through profit or loss:</i>				
Ordinary shares	13,094	n/a	n/a	n/a
Loan stock	2,089	0% - 13%	12.59%	6.7 years
Accrued interest income	244	n/a	n/a	n/a
<i>Financial assets carried at amortised cost:</i>				
Cash	482	0% - 0.38%	0.0%	n/a
<b>"D" Shares</b>		<i>Interest rate p.a.</i>	<i>Weighted average interest rate p.a.</i>	<i>Weighted average period to maturity</i>
	<i>£000</i>	<i>%</i>	<i>%</i>	
<i>At fair value through profit or loss:</i>				
Ordinary shares	2,222	n/a	n/a	n/a
Loan stock	548	10.50%	10.50%	14.3 years
Accrued interest income	195	n/a	n/a	n/a
<i>Financial assets carried at amortised cost:</i>				
Cash	60	0% - 0.38%	0.1%	n/a
<i>As at 28 February 2018</i>				
<b>Ordinary Shares</b>		<i>Interest rate p.a.</i>	<i>Weighted average interest rate p.a.</i>	<i>Weighted average period to maturity</i>
	<i>£000</i>	<i>%</i>	<i>%</i>	
<i>At fair value through profit or loss:</i>				
Ordinary shares	15,094	n/a	n/a	n/a
Loan stock	3,481	0% - 13.5%	12.34%	7.8 years
Accrued interest income	175	n/a	n/a	n/a
<i>Financial assets carried at amortised cost:</i>				
Cash	383	0% - 0.38%	0.1%	n/a

<b>"C" Shares</b>	<b>£000</b>	<b>Interest rate p.a. %</b>	<b>Weighted average interest rate p.a. %</b>	<b>Weighted average period to maturity</b>
<i>At fair value through profit or loss:</i>				
Ordinary shares	11,776	n/a	n/a	n/a
Loan stock	2,738	0% - 13%	12.69%	7.5 years
Accrued interest income	203	n/a	n/a	n/a
<i>Financial assets carried at amortised cost:</i>				
Cash	463	0% - 0.38%	0.0%	n/a
<b>"D" Shares</b>	<b>£000</b>	<b>Interest rate p.a. %</b>	<b>Weighted average interest rate p.a. %</b>	<b>Weighted average period to maturity</b>
<i>At fair value through profit or loss:</i>				
Ordinary shares	1,850	n/a	n/a	n/a
Loan stock	547	10.50%	10.50%	15.3 years
Accrued interest income	121	n/a	n/a	n/a
<i>Financial assets carried at amortised cost:</i>				
Cash	32	0% - 0.38%	0.1%	n/a

The interest rates determining the weighted average interest rates in the tables above are the contractual rates.

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

Other than certain accrued interest income receivable amounts, the Company's trade and other receivables did not hold a right to interest income. Interest income is accrued on interest income receivable amounts which have been deferred for payment by investee companies.

Interest income earned from loan stock held by the ordinary, "C" share and "D" share funds 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 loan stock remains exposed to fair value interest rate risk when bench-marked against market rates.

The risk from future fluctuations in interest rate movements is mitigated by the Company holding a majority of its investments in instruments which are not exposed to market interest rate changes.

Other receivables, not included in the analysis above, are non-interest bearing.

### Financial liabilities

The Company's financial liabilities and guarantees are non-interest bearing and are detailed in Note 12 and Note 17 to the Financial Statements.

### **Currency exposure**

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

### **Borrowing facilities**

As at 28 February 2019 the Company had no outstanding borrowings (2018: £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 ordinary share fund to a 10% increase or decrease in valuation would be an increase or decrease in the profit before tax of the ordinary share fund of £1,973,000 or 73.91% (2018: £1,858,000 or 349.81%) and an increase or decrease in NAV of the same amount or 9.61% (2018: 9.74%).

The sensitivity of 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 "C" share fund of £1,518,000 or 93.95% (2018: £1,451,000 or 112.69%) and an increase or decrease in NAV of the same amount or 9.61% (2018: 9.58%).

The sensitivity of the "D" share fund to a 10% increase or decrease in valuation would be an increase or decrease in the profit before tax of the "D" share fund of £277,000 or 66.27% (2018: £240,000 or 201.43%) and an increase or decrease in NAV of the same amount or 9.45% (2018: 9.54%).

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 investments, it is not easy to liquidate investments in ordinary shares and loan stock in the short term. The main cash outflows are made for dividends, which are within the control of the Company, and operating expenses which are reasonably predictable. In this respect, the Company may manage its liquidity risk by making prudent forecasts in respect of realising future cash proceeds from its investments and holding sufficient cash to enable it to fund its obligations. The cash equivalents are held on deposit and are therefore readily convertible into cash. The Company's liabilities are all current liabilities and due within one year. There are no material financial liabilities.

### **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, and through cash held on deposit with banks. The Company is also exposed to credit risk through its investments in loan stock.

The Investment Manager evaluates credit risk on loan stock prior to making investments as well as monitoring ongoing exposures. 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 A 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 Company's maximum credit risk is £7.5 million (2018: £8.2 million) of which the ordinary share fund is exposed to £3.8 million (2018: £4.1 million), the "C" share fund is exposed to £2.8 million (2018: £3.4 million) and the "D" share fund is exposed to £0.8 million (2018: £0.7 million).

The tables below set out the amounts receivable by the Company which were past due but not individually impaired as at 28 February 2019 and the extent to which they are past due.

**Amounts past due 28 February 2019:**

<b>Ordinary Shares</b>	<i>Total</i> £000	<i>0 - 6</i> <i>months</i> £000	<i>6 - 12</i> <i>months</i> £000	<i>Over 12</i> <i>months</i> £000
Loan	46	46	-	-
Accrued interest	117	71	27	19
Past due	163	117	27	19

The loan principal which was past due for payment at 28 February 2019 was £46,000 for Greenfield Wind Farm Limited and the loan interest past due was £13,000 for Darroch Power Limited, £16,000 for Upper Falloch Power Limited and £88,000 for Greenfield Wind Farm Limited.

<b>"C" Shares</b>	<i>Total</i> £000	<i>0 - 6</i> <i>months</i> £000	<i>6 - 12</i> <i>months</i> £000	<i>Over 12</i> <i>months</i> £000
Loan	35	35	-	-
Accrued interest	152	33	65	54
Past due	187	68	65	54

The loan principal which was past due for payment at 28 February 2019 was £35,000 for Greenfield Wind Farm Limited. The loan interest which was past due for payment at 28 February 2019 was £66,000 for Greenfield Wind Farm Limited, £39,000 for Darroch Power Limited, and £47,000 for Upper Falloch Limited.

<b>"D" Shares</b>	<i>Total</i> £000	<i>0 - 6</i> <i>months</i> £000	<i>6 - 12</i> <i>months</i> £000	<i>Over 12</i> <i>months</i> £000
Accrued interest	192	38	33	121
Past due	192	38	33	121

The loan interest which was past due for payment at 28 February 2019 was £92,000 for Darroch Power Limited and £100,000 for Upper Falloch Limited.

**Amounts past due 28 February 2018:**

<b>Ordinary Shares</b>	<i>Total</i> £000	<i>0 - 6</i> <i>months</i> £000	<i>6 - 12</i> <i>months</i> £000	<i>Over 12</i> <i>months</i> £000
Loan	12	12	-	-
Accrued interest	54	27	6	21
Past due	66	39	6	21

The loan principal which was past due for payment at 28 February 2018 was £12,000 for Biggleswade Wind Farm Limited and the loan interest past due was £7,000 for Darroch Power Limited, £12,000 for Upper Falloch Power Limited, £16,000 for Biggleswade Wind Farm Limited and £19,000 for Bernard Matthews Green Energy Halesworth Limited.

<b>"C" Shares</b>	<i>Total</i> £000	<i>0 - 6</i> <i>months</i> £000	<i>6 - 12</i> <i>months</i> £000	<i>Over 12</i> <i>months</i> £000
Loan	75	75	-	-
Accrued interest	171	114	16	41
Past due	1,881	1,824	16	41

The loan principal which was past due for payment at 28 February 2018 was £75,000. The loan interest which was past due for payment at 28 February 2018 for was £19,000, Bernard Matthews Green Energy Halesworth Limited, £21,000 for Darroch Power Limited, £98,000 for Biggleswade Wind Farm Limited and £33,000 for Upper Falloch Limited.

<b>"D" Shares</b>	<i>Total</i> £000	<i>0 - 6</i> <i>months</i> £000	<i>6 - 12</i> <i>months</i> £000	<i>Over 12</i> <i>months</i> £000
Accrued interest	121	35	34	52
Past due	121	35	34	52

The loan interest which was past due for payment at 28 February 2018 for Darroch Power Limited was £52,000 and for Upper Falloch Limited was £69,000.



## **17. Contingencies, guarantees and financial commitments**

The fair value of financial guarantees provided by the Company is considered to be £nil.

The Company has entered into the following agreements:-

On 22 October 2008, the Company registered a charge over its shares in Achairn Energy Limited to Alliance & Leicester Commercial Finance plc (now Santander Asset Finance 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 Finance plc (now Santander Asset Finance 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 15 January 2010, the Company registered a charge over its shares in Greenfield Wind Farm Limited to The Co-operative 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.

On 17 May 2011, the Company registered a charge over its shares in Osspower Limited to The Co-operative Bank plc as security for a senior loan facility of £6.5 million raised by Osspower Limited to finance the construction of its first hydro scheme (Allt Fionn Ghlinne). This share charge was cancelled on 22 May 2014 when Osspower Limited repaid the loan. On 22 May 2014, the Company registered a charge over its shares in Osspower Limited to GCP Hydro 1 Limited as security for a senior loan facility of £7 million. The liability of the Company under this charge of shares is limited to the value of the Company's investment in the shares of Osspower Limited.

On 26 July 2011, the Company registered a charge over its shares in White Mill Windfarm Limited to The Co-operative Bank plc as security for a senior loan facility of up to £15.5 million raised by White Mill Windfarm Limited to finance the construction costs of its 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 White Mill Windfarm Limited. The Co-operative Bank plc sold its loan to L1 Renewables Limited and a corresponding charge is now outstanding to L1 Renewables Limited.

On 31 January 2013, the Company registered a charge over its shares in Biggleswade Wind Farm Limited to The Co-operative Bank plc as security for a senior loan facility of up to £22.5 million raised by Biggleswade Wind Farm Limited to finance the construction costs of its 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 Biggleswade Wind Farm Limited. The Co-operative Bank plc sold its loan to L1 Renewables Limited and a corresponding charge is now outstanding to L1 Renewables Limited.

On 20 March 2015, the Company registered a share charge over its shares in Upper Falloch Power Limited to GCP Hydro 1 Limited as security for a senior loan facility of £3.4 million raised by Upper Falloch Power Limited to finance the construction costs of its hydro scheme. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Upper Falloch Power Limited.

On 20 March 2015, the Company registered a share charge over its shares in Darroch Power Limited to GCP Hydro 1 Limited as security for a senior loan facility of £6.5 million raised by Darroch Power Limited to finance the construction costs of its hydro scheme. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Darroch Power Limited.

On 4 July 2017, the Company registered a charge over its shares in Eye Wind Power Limited to Bayerische Landesbank as security for the senior loan facility of £6.1 million. The liability of the Company under this charge of shares is limited to the value of the Company's investment in the shares of Eye Wind Power Limited.

On the 10 April 2019, the Company registered a charge over its shares in Bernard Matthews Green Energy Halesworth Limited to Bayerische Landesbank as security for a senior loan facility of £9 million. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Bernard Matthews Green Energy Halesworth Limited. The charge held by GCP Onshore Wind 1 Limited over the Company's shares in Bernard Matthews Green Energy Halesworth Limited was satisfied on 15 April 2019.

The Company had no other contingencies, financial commitments or guarantees as at 28 February 2019.

## 18. Related party transactions

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. The aggregate balances at the date of the Statement of Financial Position and transactions with these companies during the year are summarised below.

	As at 28 February 2019			
	Ordinary Shares	"C" shares	"D" shares	Total
<b>Balances</b>	£000	£000	£000	£000
Investments - shares	16,755	13,094	2,222	32,071
Investments - loan stock	2,972	2,089	548	5,609
Accrued interest income	211	244	195	649
<b>Transactions</b>	£000	£000	£000	£000
Loan stock interest income	252	297	74	623
Dividend income	839	680	43	1,562

	As at 28 February 2018			
	Ordinary Shares	"C" shares	"D" shares	Total
<b>Balances</b>	£000	£000	£000	£000
Investments - shares	15,094	11,776	1,850	28,720
Investments - loan stock	3,481	2,738	547	6,766
Accrued interest income	175	203	121	499
<b>Transactions</b>	£000	£000	£000	£000
Loan stock interest income	434	363	71	868
Dividend income	367	757	-	1,124

## 19. Controlling party

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

## 20. 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 VCT 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.

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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.