

# Ventus 2 VCT plc

## Annual Report & Financial Statements

for the year ended 28 February 2014



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

## I am pleased to present the Annual Report and Financial Statements of Ventus 2 VCT plc (the "Company") for the year ended 28 February 2014.

During the year, the Company made good progress in meeting its investment and dividend objectives. A substantial proportion of the ordinary share fund's portfolio is invested in companies holding fully-operational renewable energy assets. The ordinary share fund paid dividends totalling 3.50p per ordinary share in line with the intentions of the Board as set out in last year's annual report. The total shareholder return of the ordinary share fund increased by 4.40p per ordinary share. Total shareholder return is the net asset value plus cumulative dividends paid to date.

Similarly, a substantial proportion of the "C" share fund's portfolio is invested in companies holding fully-operational renewable energy assets. The "C" share fund paid dividends of 4.30p per "C" share during the year which exceeded the Board's intentions as set out in the previous year's annual report. The total shareholder return of the "C" share fund increased by 19.70p per "C" share during the year, mainly as a result of a significant increase in the value of Biggleswade Wind Farm Limited which completed construction of its wind farm in December 2013.

In addition to the wind farm at Biggleswade being completed, a further three wind farms at Eye, Weston and Pickenham completed construction after the year end. The Company can look forward to distributions from these investments now that their assets are operating and generating revenue.

As both the ordinary share fund and "C" share fund are substantially invested in companies holding fully-operational assets, the Company is not exposed to the somewhat uncertain political environment for unconstructed onshore wind projects.

Since the year end, there have been two significant events affecting the Company. Firstly, on 5 April 2014, the Company allotted 1,613,328 new "D" shares raising net proceeds of £1.57 million.

Secondly, in the 2014 Budget on 19 March 2014, the Chancellor of the Exchequer unexpectedly announced that, with effect from Royal Assent to the Finance Bill 2014 which is expected in mid-July 2014, new investments in companies benefitting from Renewable Obligation Certificates will no longer be qualifying investments for the purposes of the Venture Capital Trust ("VCT") scheme. Existing investments of the Company, as well as investments made before Royal Assent to the Finance Bill 2014, will not be affected.

The Company's existing funds, including the net proceeds of the "D" share offer, will be invested in companies which comply with VCT regulations on qualifying holdings before the Finance Bill 2014 is enacted, where appropriate.

Hydro electricity generating facilities which benefit from the Feed-in Tariff remain qualifying under the VCT scheme. This provides potential investment opportunities for the Company in hydroelectric plants beyond the date of Royal Assent. Osspower Limited has recently refinanced and restructured so that a further three hydroelectric projects could be built with finance from the Ventus Funds.

The Directors believe that a realistic target range for ordinary share dividends in the medium term is 4p to 6p per share per annum. For the "C" shares, the Directors believe a realistic target range in the medium term is 6p to 8p per "C" share per annum. It should be stressed that these are intentions only, and no forecasts are intended or should be inferred.

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

The net asset value of the ordinary share fund was £17,697,000 at 28 February 2014 or 72.6p per ordinary share (2013: £17,517,000 or 71.7p per ordinary share).

The value of investments held by the ordinary share fund at 28 February 2014 was £16,339,000 compared to £15,831,000 at 28 February 2013.

The income generated in the ordinary share fund during the year ended 28 February 2014 totalled £937,000, of which £568,000 was derived from loan stock, £323,000 from dividends and £46,000 was from other investment income. This compares to total income of £1,363,000 for the year ended 28 February 2013. The primary reason for the decrease in income is due to the loan of £1,800,000 to Broadview Energy Limited having been repaid in the previous year, therefore, by comparison, reducing the interest income earned in the year ended 28 February 2014.

The Company proposes to declare a final dividend of 1.75p per ordinary share to be paid on 6 August 2014 to all ordinary shareholders on the register as at the close of business on 11 July 2014. The Company paid an interim dividend of 1.75p per ordinary share on 15 January 2014. Therefore the total annual dividend will be 3.50p per ordinary share.

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

The net asset value of the "C" share fund was £13,833,000 at 28 February 2014 or 122.1p per "C" share (2013: £12,093,000 or 106.7p per "C" share).

The value of investments held by the "C" share fund at 28 February 2014 was £12,941,000 compared to £10,743,000 at 28 February 2013.

The total income of the "C" share fund for the year ended 28 February 2014 was £764,000, of which £433,000 was loan stock interest, £330,000 was from dividends and £1,000 was bank deposit interest. This compares with income generated by the "C" share fund of £439,000 in the year ended 28 February 2013. The increase in income is mainly attributable to the dividends which were paid by investee companies which own wind farms that had become operational in the prior financial year.

The Company proposes to declare a final dividend of 2.50p per "C" share to be paid on 6 August 2014 to all "C" shareholders on the register as at the close of business on 11 July 2014. The Company paid an interim dividend of 2.50p per "C" share on 15 January 2014. Therefore the total annual dividend will be 5.00p per "C" share.

## Investments

The Company's Investment Manager, Temporis Capital LLP, continues to be actively engaged in managing the portfolio to maximise the total return to shareholders.

As at 28 February 2014, the ordinary share fund of the Company held investments in 17 companies (2013: 18 companies) with a total value of £16.4 million (2013: £15.8 million). The "C" share fund held investments in 10 companies (2013: 9 companies) with a value of £12.9 million (2013: £10.7 million).

The Investment Manager's Report provides details of the investments held as at 28 February 2014 and as at the date of this report. All investments are structured so as to be treated as qualifying holdings for the purposes of VCT regulations, unless otherwise stated.

## Share Buy-backs

The Board believes that it is beneficial to the Company for it to continue to have the flexibility to purchase its own shares in the market. However, the Board considers it in the best interest of all shareholders if the Directors use their authority to make share buy-backs judiciously. During the year, the Company repurchased 30,000 ordinary shares at a price of 56.5p per ordinary share.

## Shareholder Communications

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

## Alan Moore

Chairman

29 May 2014

The Strategic Report has been prepared in accordance with the requirements of Section 414 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.

## Objectives

The Company's objective is to achieve attractive long term investment returns to shareholders by maximising both dividend yield and capital growth from a portfolio of investments in companies developing renewable energy projects with installed capacities of 2 to 20 megawatts, although larger projects may also be considered.

## The Company and its business model

The Company is a public limited company, incorporated in England and 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 Company received approval as a VCT from HMRC for the year ended 28 February 2013. 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% by value of its investments (as defined in the legislation) in qualifying holdings, of which at least 30% (70% for funds raised after 5 April 2011) must comprise eligible ordinary shares.

Temporis Capital LLP was appointed as Investment Manager of the Company on 12 September 2011. The Company's Investment Manager continues to be actively engaged in managing the portfolio.

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 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. Further detail on other service providers is outlined on page 30.

## Investment policy

To achieve the Company's objectives, the Company's strategy is to focus on investing in companies developing renewable energy projects with installed capacities of 2 to 20 megawatts, although larger projects may also be considered. Given the target investment size, investments will generally be in companies developing projects initiated by specialist small-scale developers and smaller projects which are not attractive to large development companies and utilities.

In accordance with the strategic objectives set by the Board, the Investment Manager has continued to focus the Company's activities on wind 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 of the Company, more recent investments are, on average, structured with lighter leverage than earlier investments. Further information can be found in the Investment Manager's Report on page 6.

The Investment Manager's Report provides a detailed analysis of the portfolio held by each of the ordinary and "C" 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.

With effect from Royal Assent to the Finance Bill 2014, new investments in companies benefiting from Renewable Obligation Certificates will be excluded from the VCT scheme which is discussed in the Market Outlook section of the Investment Manager's Report.

## 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 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 ("KPIs"), 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:

### Key performance indicators of the Company

#### Results and dividends

For the year ended 28 February 2014	Ordinary Shares		"C" Shares		Total £000
	£000	Pence per share <sup>1</sup>	£000	Pence per share <sup>1</sup>	
Revenue profit attributable to equity shareholders	542	2.22	527	4.65	1,069
Capital gain attributable to equity shareholders	510	2.09	1,699	15.00	2,209
Net gain attributable to equity shareholders	1,052	4.31	2,226	19.65	3,278
Dividends paid during the year	(855)	(3.50)	(487)	(4.30)	(1,342)
Total movement in equity shareholders' funds	197	0.81	1,739	15.35	1,936
		%		%	%
On going charges ratio <sup>2</sup>		3.61%		2.91%	3.30%

As at 28 February 2014	Ordinary Shares		"C" Shares		Total £000
	£000	Pence per share	£000	Pence per share	
Net asset value <sup>3</sup>	17,697	72.6	13,833	122.1	31,530
Total shareholder return <sup>4</sup>	21,092	91.1	14,682	129.6	35,774

<sup>1</sup> The "per share" value is determined in respect of the weighted average number of shares in issue during the period, except in respect of the dividends paid in the period, which is determined on the basis of 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 period (excluding investment costs) as a percentage of the net asset value of the Company at the period end.  
The total annual running costs cap is set out in Note 3 to the financial statements.

<sup>3</sup> The "per share" value is determined in respect of the number of shares in issue at the period end, except in respect of the dividends paid, which is determined on the basis of the number of shares eligible to receive dividends at the time the dividends were paid.

<sup>4</sup> The total shareholder return represents the net asset value at period 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 material 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 and each new investment with appropriately qualified advisers and, typically, by obtaining pre-approval from HMRC for each qualifying investment.*

- > 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 internal auditor, 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.

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*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 Company also has a substantial proportion of its investments in companies with assets in Scotland, and is therefore exposed to the risk of changes which may result if Scotland becomes independent. Changes in legislation may render future investment opportunities unviable and in the unlikely event that regulations are applied retrospectively, the impact may be detrimental to the value of the portfolio.

*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 developing renewable projects. However, the Directors believe that any future reductions in renewable energy tariffs should not impact any existing investments in companies operating renewable energy assets, as the UK Government has a consistent history of grandfathering financial support mechanisms for existing projects and has a long term commitment to the renewable energy sector, which the Board would expect an independent Scottish government to replicate.*

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

Temporis Capital LLP, the Investment Manager of the Company, also provides management and other administrative services to the Company. Temporis Capital LLP also provided similar services to Ventus VCT plc during the financial year. The principal terms of the investment management agreement are set out in note 3 of the Financial Statements.

The Directors evaluated the performance of the Investment Manager and agreed the continuing appointment of Temporis Capital LLP, on the terms agreed, is in the interests of the shareholders. Further discussion of the Investment Manager performance is within the Corporate Governance Statement.

### **Company Secretary**

The City Partnership (UK) Limited has been appointed to provide company secretarial services to the Company as set out in the company secretarial services agreement. For these services the Company Secretary receives an annual fee of £16,774 plus VAT. The company secretarial services are terminable by either party giving not less than six months' notice in writing.

### **VCT monitoring status**

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

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 has 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

29 May 2014

# 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 objective of providing predictable dividends to shareholders.

## Ordinary share portfolio

A summary of the ordinary share fund's investment valuations as at 28 February 2014 and gains and losses during the year ended 28 February 2014 is given below.

		Investment value			Investment cost			Gain/ (loss) in the year to 28 February 2014 £000	Investment value Total as at 28 February 2013 £000	Investment cost Total as at 28 February 2013 £000	
		Voting rights as at 28 February 2014 %	Shares as at 28 February 2014 £000	Loans as at 28 February 2014 £000	Total as at 28 February 2014 £000	Shares as at 28 February 2014 £000	Loans as at 28 February 2014 £000				Total as at 28 February 2014 £000
<b>Operational wind</b>											
Achairn Energy Limited *	Q	40.40%	2,453	1,415	3,868	1,226	1,289	2,515	117	3,752	2,515
A7 Lochhead Limited *	Q	20.00%	835	121	956	569	121	690	101	855	690
Greenfield Wind Farm Limited *	PQ	16.65%	1,612	1,414	3,026	666	1,307	1,973	232	2,819	1,998
Biggleswade Wind Farm Limited *	Q	3.50%	326	286	612	86	264	350	262	350	350
<b>Wind under construction</b>											
Eye Wind Power Limited *	Q	50.00%	1,597	203	1,800	1,479	203	1,682	-	2,152	2,034
Bernard Matthews Green Energy Weston Limited *	Q	50.00%	538	-	538	500	-	500	-	538	500
Bernard Matthews Green Energy Pickenham Limited *	Q	50.00%	536	-	536	500	-	500	-	536	500
Bernard Matthews Green Energy Halesworth Limited *		50.00%	116	300	416	51	300	351	65	-	-
<b>Operational companies in the wind sector</b>											
BEL Holdco Limited ** *		1.91%	410	-	410	200	-	200	-	410	200
Firefly Energy Limited *	Q	50.00%	-	82	82	200	104	304	12	102	336
<b>Operational landfill gas</b>											
Renewable Power Systems (Dargan Road) Limited	Q	50.00%	612	1,260	1,872	780	1,120	1,900	(119)	1,991	1,900
<b>Operational small hydro</b>											
Osspower Limited		50.00%	2,170	53	2,223	300	55	355	158	2,065	355
<b>Realised investments</b>											
Redimo LFG Limited *	Q	50.00%	-	-	-	1,000	-	1,000	-	-	1,000
PBM Power Limited		25.00%	-	-	-	574	-	574	-	-	574
Sandsfield Heat & Power Limited	Q	44.90%	-	-	-	1,796	1,000	2,796	-	-	2,796
The Small Hydro Company Limited		22.50%	-	-	-	115	-	115	-	-	649
Spurlens Rig Wind Limited *		N/a	-	-	-	-	-	-	-	-	209
Olgrinmore Limited *		N/a	-	-	-	-	-	-	-	-	68
Redeven Energy Limited *		50.00%	-	-	-	-	130	130	(28)	261	363
<b>Total</b>			11,205	5,134	16,339	10,042	5,893	15,935	800	15,831	17,037

Q Investment complies with VCT regulations on qualifying holdings.

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

\* A company in which Ventus VCT plc has also invested (or in which Ventus VCT plc had invested prior to the investment being realised). The Company and Ventus VCT plc are managed by Temporis Capital LLP.

\*\* During the year, the Company exchanged its holding in Broadview Energy Limited for an identical holding in BEL Holdco Limited, a company which holds 100% of the ordinary shares of Broadview Energy Limited.



A discussion of each investment follows:

## OPERATIONAL WIND

Each of the following investee companies owns and operates a single wind farm:

	Wind farm capacity (megawatts)	Operational since	Location
Achairn Energy Limited	6.0	May 2009	Caithness, Scotland
A7 Lochhead Limited	6.0	June 2009	Lanarkshire, Scotland
Greenfield Wind Farm Limited	12.3	March 2011	Lanarkshire, Scotland
Biggleswade Wind Farm Limited	20.0	December 2013	Bedfordshire

The Company's investments in the above companies are valued using discounted cash flow models. The aggregate value of the above six companies increased by 8.8% during the year ended 28 February 2014. This was due to the net effect of a variety of factors, including a decrease in the underlying project debt in each company, a decrease in the estimate of future electricity prices and refinements of discount rates to reflect market conditions and levels of project debt in each company. Biggleswade Wind Farm Limited (which was previously valued at cost) was revalued on a discounted cash flow basis in line with the Company's valuation policy for investments in companies with operating renewable energy assets.

During the year ended 28 February 2014, the aggregate electricity output of the above four companies was above budget and each company experienced satisfactory availability. Set out below is a brief summary of the performance of the investee companies' operating wind farms.

### *Achairn Energy Limited*

The electricity production of Achairn Energy Limited during the year ended 28 February 2014 was 99% of budget. The Company received dividends and mezzanine interest cash payments totalling £269,000 from Achairn Energy Limited in the year ended 28 February 2014, representing a 10.7% cash yield on the cost of investment. In addition to mezzanine interest income, the Company recognised a valuation gain of £117,000 on its investment in Achairn Energy Limited in the year ended 28 February 2014.

### *A7 Lochhead Limited*

The electricity production of A7 Lochhead Limited during the year ended 28 February 2014 was 113% of budget. The Company received dividends and mezzanine interest cash payments totalling £65,000 from A7 Lochhead Limited in the year ended 28 February 2014, representing a 9.4% cash yield on the cost of investment. In addition to dividend and mezzanine interest income, the Company recognised a valuation gain of £101,000 on its investment in A7 Lochhead Limited in the year ended 28 February 2014.

### *Greenfield Wind Farm Limited*

The electricity production of Greenfield Wind Farm Limited during the year ended 28 February 2014 was 106% of budget. The Company's ordinary share fund received dividends and mezzanine interest cash payments totalling £220,000 from Greenfield Wind Farm Limited in the year ended 28 February 2014, representing an 11.1% cash yield on the average cost of the investment. Greenfield Wind Farm Limited also repaid £25,000 of mezzanine loan principal to the Company's ordinary share fund during the year. In addition to dividend and mezzanine interest income, the Company's ordinary share fund recognised a valuation gain of £232,000 on its investment in Greenfield Wind Farm Limited in the year ended 28 February 2014.

The Company's "C" share fund also holds an investment in Greenfield Wind Farm Limited as discussed below.

### *Biggleswade Wind Farm Limited*

Biggleswade wind farm became fully operational in December 2013. The wind farm was completed ahead of schedule and on budget. The electricity production of Biggleswade Wind Farm Limited during its first full three months of operation was 104% of budget. The Company received no cash income from Biggleswade Wind Farm Limited in the year ended 28 February 2014. The Company's ordinary share fund recognised a valuation gain of £262,000 on its investment in Biggleswade Wind Farm Limited in the year ended 28 February 2014 because the investment, having been held at cost as at 28 February 2013, has been revalued on a discounted cash flow basis in line with the Company's accounting policy.

The Company's "C" share fund also holds an investment in Biggleswade Wind Farm Limited as discussed below.

## WIND UNDER CONSTRUCTION AS AT 28 FEBRUARY 2014

### *Eye Wind Power Limited*

Eye Wind Power Limited has recently completed the construction of a 6.8 megawatt wind farm on Eye Airfield near Eye, Suffolk. The wind farm operates two Senvion (formerly REpower) 3.4M turbines. The Eye Airfield wind farm was completed on budget and became fully operational in April 2014.

During the year ended 28 February 2014, the capital of Eye Wind Power Limited was restructured, with the Company's ordinary share fund converting £847,000 of its mezzanine loans to ordinary shares and with Eye Wind Power Limited buying back £352,000 of ordinary shares held by the Company. The equity ownership in Eye Wind Power Limited of the Company's ordinary share fund remains at 50%.

The Company's "C" share fund also holds an investment in Eye Wind Power Limited as discussed below.

## *Bernard Matthews Green Energy Weston Limited*

Bernard Matthews Green Energy Weston Limited, in partnership with Weston Airfield Investments Limited (in which the Company's "C" share fund holds an investment, as discussed below), has recently completed the construction of a 4 megawatt wind farm at the Weston Airfield, 15 kilometres northwest of Norwich, Norfolk. The wind farm operates two Vestas V-100 turbines. The Weston Airfield wind farm was completed on budget and became fully operational in April 2014.

## *Bernard Matthews Green Energy Pickenham Limited*

Bernard Matthews Green Energy Pickenham Limited, in partnership with North Pickenham Energy Limited (in which the Company's "C" share fund holds an investment, as discussed below), has recently completed the construction of a 4 megawatt wind farm at the North Pickenham Airfield, 35 kilometres west of Norwich, Norfolk. The wind farm operates two Vestas V-100 turbines. The North Pickenham Airfield wind farm was completed on budget and became fully operational in April 2014.

## *Bernard Matthews Green Energy Halesworth Limited*

Bernard Matthews Green Energy Halesworth Limited is constructing a 10.25 megawatt wind farm at the Upper Holton Airfield near Halesworth, Suffolk. The wind farm will operate five Servion (formerly REpower) MM82 2.05 megawatt turbines. The wind farm is scheduled to be operational in March 2015. During the year, the Company's ordinary share fund invested £351,000 in Bernard Matthews Green Energy Halesworth Limited. The investment in Bernard Matthews Green Energy Halesworth Limited is held at £416,000, which represents the total cost of the investment incurred both in the investee company and through Redeven Energy Limited, which was the development company.

The Company's "C" share fund also holds an investment in Bernard Matthews Green Energy Halesworth Limited as discussed below.

## **OPERATIONAL COMPANIES IN THE WIND SECTOR**

### *BEL Holdco Limited (100% owner of Broadview Energy Limited)*

In January 2014, the Company exchanged its holding in Broadview Energy Limited for an identical holding in BEL Holdco Limited, a company which holds 100% of the ordinary shares of Broadview Energy Limited. Broadview Energy Limited is an independent renewable energy company that develops, constructs and operates wind farms throughout the UK. In addition to substantial cash reserves, Broadview has a development portfolio comprised of one project of three turbines (6 megawatts) in construction, four projects in the planning process totalling 16 turbines (32 to 48 megawatts), one project in pre-planning and several other projects at earlier stages of the development process.

The exchange of shares in Broadview Energy Limited into shares of BEL Holdco Limited was the first step in a restructuring of Broadview Energy Limited pursuant to which the Company expects to receive tax-free cash distributions of £300,000 prior to the end of 2014.

The Company's valuation of ordinary shares in BEL Holdco Limited as at 28 February 2014 is supported by the cash in the company and the Investment Manager's estimate of the market value of the company's wind farm under construction, its consented wind energy projects and its development pipeline. The valuation of BEL Holdco Limited as at 28 February 2014 is the same as the valuation of Broadview Energy Limited as at 28 February 2013.

### *Firefly Energy Limited*

Firefly Energy Limited is the parent company of a group of trading subsidiaries that have entered into long term power purchase agreements with customers for 41.7 megawatts of generating capacity across five wind farm developments. The five wind farm projects are fully operational and generating revenues. Each of the five power purchase agreements expires on 31 March 2016. Firefly Energy Limited earns a margin on the five long-term power purchase agreements. Firefly Energy Limited repaid £23,000 of mezzanine loan principal to the Company during the year. The

Company recognised a valuation gain of £12,000 on its investment in Firefly Energy Limited in the year ended 28 February 2014 resulting from the reclassification of an early repayment premium to loan principal and the reduction of the assumed future administration costs of the company.

The Company has a loan investment in Firefly Energy Limited which had a principal amount outstanding as at 28 February 2014 of £104,000. The loan is valued in the Company's accounts based on the discounted projected future cash flows from the five power purchase agreements on which the company earns a spread, net of projected administration costs. As at 28 February 2014, the value of the loan was £82,000. The loan, as valued, is projected to be paid off by the end of 2016. The Company also holds 50% of the ordinary shares of Firefly Energy Limited (cost of £200,000) which was written down to nil value in a prior year.

## **OPERATIONAL LANDFILL GAS**

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

Renewable Power Systems (Dargan Road) Limited operates a landfill gas electricity generation site in Northern Ireland. The site performed in line with expectations during the year ended 28 February 2014 and disposed of the second of its five generators as the volume of gas at the site reduced. The disposal of the generator resulted in significant cash inflow for the investee company. The Company received dividends and loan interest payments totalling £271,000 from Renewable Power Systems (Dargan Road) Limited in the year ended 28 February 2014, representing a 14.3% cash yield on the cost of the investment.

The investment in Renewable Power Systems (Dargan Road) Limited is valued by applying a discount rate to the dividends and mezzanine debt interest and principal it is projected to pay to the Company over time. As Renewable Power Systems (Dargan Road) Limited has no senior debt and as its projected revenue streams are finite, the Company's valuation of Renewable Power Systems (Dargan Road) Limited will generally decrease each year. The value of the Company's investment in Renewable Power Systems (Dargan Road) Limited decreased by £119,000 in the year ended 28 February 2014.

## OPERATIONAL SMALL HYDRO

### *Osspower Limited*

The Company holds 50% of the ordinary shares of Osspower Limited, which owns and operates a 1.99 megawatt hydroelectric project at Allt Fionn Ghlinne in Scotland. The electricity production of Osspower Limited during the year ended 28 February 2014 was 113% of budget. The Company did not receive dividends or interest income from Osspower Limited in the year ended 28 February 2014. The value of the Company's investment in Osspower Limited increased by £158,000 during the year ended 28 February 2014, due to a decrease in the underlying project debt in the company, a build up of cash in the company and an adjustment of the valuation discount rate to reflect market conditions for valuing hydroelectric assets.

Osspower Limited has consent for a further three small hydro projects on the same estate as the Allt Fionn Ghlinne project. The Investment Manager has been working with the board of Osspower Limited to develop a strategy for financing the construction of those three projects.

On 22 May 2014, Osspower Limited repaid its £5,990,000 senior loan with The Co-operative Bank plc which at the same time discharged its security over the assets of Osspower Limited. Immediately after repayment, Osspower Limited refinanced with a £7 million loan from Gravis Capital Partners ("GCP"), solely secured over the Allt Fionn hydroelectric project.

The refinancing has had the additional benefit of releasing the Coop Bank's security over Osspower Limited's three unconstructed projects which otherwise could not be achieved on acceptable terms. As part of this security release three new companies have been incorporated with shareholders mirroring that of Osspower Limited and certain assets and rights of the three unconstructed projects were transferred to them from Osspower Limited. These three companies are ring-fenced from Osspower Limited and the GCP financing.

The three new companies are now in position to evaluate the next stage of development including construction. On conclusion of this next step, Osspower Limited should be in a position to start to recover the development costs of the three unconstructed projects amounting to £1,870,000 from the new companies. These companies have been established to own, construct and operate these projects. The Ventus Funds have investment rights in each of these new companies.

On 23 May 2014, Osspower Limited repaid its shareholder loan of £55,000 and paid accrued interest of £26,000 to the Company. Osspower Limited also paid £90,000 in arrangement fees to the Company in respect of a loan which had been provided by the Company's "C" share fund. The arrangement fees had been recognised as income in a previous financial period and were outstanding for payment as at 28 February 2014. As at 28 February 2014, the Company held its investment in Osspower Limited at a value of £2,223,000 which did not take into account the potential development value of the three unconstructed projects.

## REALISED INVESTMENTS

### *Redimo LFG Limited*

Redimo LFG Limited operates four landfill gas electricity generation sites in the north of England. Redimo LFG Limited is not paying dividends to the Company, and there is no possibility that the Company will recover any part of its investment in Redimo LFG Limited. The investment was written off and treated as a realised loss in a prior year.

### *PBM Power Limited and Sandsfield Heat & Power Limited*

PBM Power Limited and Sandsfield Heat & Power Limited are companies that constructed waste wood biomass power plants which experienced severe operating difficulties. Both investments were written off and treated as realised losses in a prior year. PBM Power Limited entered into liquidation on 15 October 2013. Sandsfield Heat & Power Limited is currently in administration and is expected to go into liquidation in due course.

### *The Small Hydro Company Limited*

The Small Hydro Company Limited developed five low-head run-of-river small hydroelectric projects in England which were ultimately not economic to build out. The investment was written off and treated as a realised loss in a prior year. The Small Hydro Company Limited entered into members' voluntary liquidation on 17 March 2014.

### *Spurlens Rig Wind Limited*

Spurlens Rig Wind Limited was the developer of a six-turbine site in the Scottish Borders which was unsuccessful in planning. The investment was written off and treated as a realised loss in a prior year. Spurlens Rig Wind Limited was dissolved on 4 June 2013.

### *Olgrinmore Limited*

Olgrinmore Limited was the developer of a two-turbine site in Caithness which was unsuccessful in planning. The investment was written off and treated as a realised loss in a prior year. Olgrinmore Limited was dissolved on 9 August 2013.

### *Redeven Energy Limited*

Redeven Energy Limited is a wind farm development company through which the Company, jointly with Ventus VCT plc, held investment rights in three successfully-consented wind farm developments at three sites in East Anglia: Weston Airfield, North Pickenham Airfield and Upper Holton Airfield. The development rights in these wind farms have been transferred to the relevant project companies into which the Company and Ventus VCT plc have invested further funds, leaving Redeven Energy Limited with no remaining significant assets or liabilities as at 28 February 2014. The project companies that have built out or are building out the three wind farms are owned by the Company and by Ventus VCT plc and are described elsewhere in this report.

# INVESTMENT MANAGER'S REPORT

Continued

## “C” share portfolio

A summary of the “C” share fund's investment valuations as at 28 February 2014 and gains and losses during the year ended 28 February 2014 is given below.

	Voting rights as at 28 February 2014 %	Investment value			Investment cost			Gain/ (loss) in the year to 28 February 2014 £000	Investment value Total as at 28 February 2013 £000	Investment cost Total as at 28 February 2013 £000
		Shares as at 28 February 2014 £000	Loans as at 28 February 2014 £000	Total as at 28 February 2014 £000	Shares as at 28 February 2014 £000	Loans as at 28 February 2014 £000	Total as at 28 February 2014 £000			
<b>Operational wind</b>										
Greenfield Wind Farm Limited *	PQ 12.50%	1,210	1,061	2,271	500	980	1,480	175	2,116	1,500
White Mill Windfarm Limited *	PQ 25.00%	2,565	345	2,910	1,000	318	1,318	361	2,612	1,381
AD Wind Farmers Limited *	Q 50.00%	1,169	-	1,169	1,000	-	1,000	(58)	1,227	1,000
Biggleswade Wind Farm Limited *	Q 21.50%	2,003	1,757	3,760	527	1,623	2,150	1,610	2,150	2,150
<b>Wind under construction</b>										
Eye Wind Power Limited *	Q 0.00%	-	500	500	-	500	500	-	400	400
Weston Airfield Investments Limited *	Q 50.00%	1,000	-	1,000	1,000	-	1,000	-	1,000	1,000
North Pickenham Energy Limited *	Q 50.00%	1,000	-	1,000	1,000	-	1,000	-	1,000	1,000
Bernard Matthews Green Energy Halesworth Limited *	0.00%	-	301	301	-	301	301	-	-	-
<b>Development and pre-planning</b>										
Blawearie Wind Limited *	50.00%	30	-	30	30	-	30	-	20	20
<b>Realised investments</b>										
Iceni Renewables Limited *	50.00%	-	-	-	400	18	418	(218)	218	418
<b>Total</b>		<b>8,977</b>	<b>3,964</b>	<b>12,941</b>	<b>5,457</b>	<b>3,740</b>	<b>9,197</b>	<b>1,870</b>	<b>10,743</b>	<b>8,869</b>

Q Investment complies with VCT regulations on qualifying holdings.

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

\* A company in which Ventus VCT plc has also invested (or in which Ventus VCT plc had invested prior to the investment being realised). The Company and Ventus VCT plc are managed by Temporis Capital LLP.

A discussion of each investment follows:

### OPERATIONAL WIND

Each of the following investee companies owns and operates a single wind farm (or, in the case of AD Wind Farmers Limited, owns an interest in a limited liability partnership that owns and operates a single wind farm):

	Wind farm capacity (megawatts)	Operational since	Location
Greenfield Wind Farm Limited	12.3	March 2011	Lanarkshire, Scotland
White Mill Windfarm Limited	14.35	August 2012	Cambridgeshire
AD Wind Farmers Limited	10.2	December 2012	Argyll and Bute, Scotland
Biggleswade Wind Farm Limited	20.0	December 2013	Bedfordshire

The Company's investments in the above companies are valued using discounted cash flow models. The values of Greenfield Wind Farm Limited and White Mill Wind Farm Limited increased by 7.3% and 11.4%, respectively, due primarily to a decrease in the underlying project debt in each company and refinements of discount rates to reflect market conditions. The value of AD Wind Farmers Limited decreased by 4.7% due to the amortising nature of the investment, as discussed below. The value of Biggleswade Wind Farm Limited increased substantially as a result of the investment (which was previously valued at cost) being valued on a cash flow basis in line with the Company's valuation policy for investments in companies with operating renewable energy assets.

During the year ended 28 February 2014, the electricity output of each of the above four companies was above budget and each company experienced satisfactory availability. Set out below is a brief summary of the performance of the investee companies' operating wind farms. All the companies operating wind farms experienced good availability during the year ended 28 February 2014.

#### *Greenfield Wind Farm Limited*

The electricity production of Greenfield Wind Farm Limited during the year ended 28 February 2014 was 106% of budget. The Company's "C" share fund received dividends and mezzanine interest cash payments totalling £165,000 from Greenfield Wind Farm Limited in the year ended 28 February 2014, representing an 11.1% cash yield on the cost of the investment. Greenfield Wind Farm Limited also repaid £20,000 of

mezzanine loan principal to the Company's "C" share fund during the year. In addition to dividend and mezzanine interest, the Company's "C" share fund recognised a valuation gain of £175,000 on its investment in Greenfield Wind Farm Limited in the year ended 28 February 2014.

The Company's ordinary share fund also holds as investment in Greenfield Wind Farm Limited as discussed above.

#### *White Mill Windfarm Limited*

The electricity production of White Mill Windfarm Limited during the year ended 28 February 2014 was 104% of budget. The Company received dividends and mezzanine interest cash payments totalling £227,000 from White Mill Windfarm Limited in the year ended 28 February 2014, representing a 17.2% cash yield on the cost of investment. White Mill Windfarm Limited also repaid £63,000 of mezzanine loan principal to the Company during the year. In addition to dividend and mezzanine interest income, the Company recognised a valuation gain of £361,000 on its investment in White Mill Windfarm Limited in the year ended 28 February 2014.

#### *AD Wind Farmers Limited*

AD Wind Farmers Limited is an investor in Allt Dearg Wind Farmers LLP. The electricity production of Allt Dearg Wind Farmers LLP during the year ended 28 February 2014 was 117% of budget. The Company received dividends totalling £115,000 from AD Wind Farmers Limited in the year ended 28 February 2014, representing a 11.5% cash yield on the cost of the investment.

The investment in AD Wind Farmers Limited is valued by applying a discount rate to the dividends it is projected to pay to the Company over time. As AD Wind Farmers Limited is unleveraged and as its profit participation in Allt Dearg Wind Farmers LLP has a fixed term, the Company's valuation of AD Wind Farmers Limited will generally decrease each year as the remaining term of the Company's profit participation decreases. The value of the Company's investment in AD Wind Farmers Limited decreased by £58,000 in the year ended 28 February 2014.

#### *Biggleswade Wind Farm Limited*

Biggleswade wind farm became fully operational in December 2013. The wind farm was completed ahead of schedule and on budget. The electricity production of Biggleswade Wind Farm Limited during its first full three months of operation was 104% of budget. The Company received no cash income from Biggleswade Wind Farm Limited in the year ended 28 February 2014. The Company's "C" share fund recognised a valuation gain of £1,610,000 on its investment in Biggleswade Wind Farm Limited in the year ended 28 February 2014 because the investment, having been held at cost as at 28 February 2013, has been revalued on a discounted cash flow basis in line with the Company's accounting policy.

The Company's ordinary share fund also holds an investment in Biggleswade Wind Farm Limited as discussed above.

## WIND UNDER CONSTRUCTION

### *Eye Wind Power Limited*

Eye Wind Power Limited has recently completed the construction of a 6.8 megawatt wind farm on Eye Airfield near Eye, Suffolk. The wind farm operates two Senvion (formerly REpower) 3.4M turbines. The Eye Airfield wind farm was completed on budget and became fully operational in April 2014.

During the year ended 28 February 2014, the Company's "C" share fund invested a further £100,000 in Eye Wind Power Limited, taking the cost of the investment for the Company's "C" share fund to £500,000.

The Company's ordinary share fund also holds as investment in Eye Wind Power Limited as discussed above.

### *Weston Airfield Investments Limited*

Weston Airfield Investments Limited, in partnership with Bernard Matthews Green Energy Weston Limited (in which the Company's ordinary share fund holds an investment, as discussed above), has recently completed the construction of a 4 megawatt wind farm at the Weston Airfield, 15 kilometres northwest of Norwich, Norfolk. The wind farm operates two Vestas V-100 turbines. The Weston Airfield wind farm was completed on budget and became fully operational in April 2014.

### *North Pickenham Energy Limited*

North Pickenham Energy Limited, in partnership with Bernard Matthews Green Energy Pickenham Limited (in which the Company's ordinary share fund holds an investment, as discussed above), has recently completed the construction of a 4 megawatt wind farm at the North Pickenham Airfield, 35 kilometres west of Norwich, Norfolk. The wind farm operates two Vestas V-100 turbines. The North Pickenham Airfield wind farm was completed on budget and became fully operational in April 2014.

### *Bernard Matthews Green Energy Halesworth Limited*

Bernard Matthews Green Energy Halesworth Limited is constructing a 10.25 megawatt wind farm at the Upper Holton Airfield near Halesworth, Suffolk. The wind farm will operate five Senvion (formerly REpower) MM82 2.05 megawatt turbines. The wind farm is scheduled to be operational in March 2015.

During the year ended 28 February 2014, the Company's "C" share fund invested £301,000 in Bernard Matthews Green Energy Halesworth Limited.

The Company's ordinary share fund also holds an investment in Bernard Matthews Green Energy Halesworth Limited as discussed above.

## DEVELOPMENT AND PRE-PLANNING

### *Blawearie Wind Limited*

Blawearie Wind Limited is developing a wind farm in the Scottish Borders. The project is in the pre-planning phase. During the year ended 28 February 2014, the Company invested a further £10,000 in Blawearie Wind Limited, taking the cost of the investment for the Company's "C" share fund to £30,000.

## REALISED INVESTMENT

### *Iceni Renewables Limited*

Iceni Renewables Limited is a company established to develop two potential wind farms in Scotland. The first project, Craigannet (up to six turbines), was submitted for planning in January 2012, appealed for non-determination in August 2012 and then refused by the Scottish Government in November 2012. The second site, Merkins (up to ten turbines), was submitted for planning in January 2012 and turned down by West Dunbartonshire Council in October 2013. The Investment Manager believes there is no prospect of Iceni Renewables Limited obtaining value from either site. As such, the Company's investment in Iceni Renewables Limited has been written down to nil value and is considered to be a realised loss.

## Top 10 Investments

The details of the top ten investments, by value, held by each of the ordinary share fund and the "C" share fund at 28 February 2014 are set out in the tables below:

### Ordinary Share Fund

Company	Value £000	Cost £000	Share- holding %	Voting rights %	Income recognised by the Company during the year £000	Basis of Value	Proportion of share fund portfolio by value %	Date of latest accounts	Net assets £000	Turnover £000	Profit/ (loss) £000
Achair Energy Limited	3,868	2,515	40.40%	40.40%	255	DCF	23.7%	30/11/2012	1,197	1,330	17
Greenfield Wind Farm Limited	3,026	1,973	16.65%	16.65%	173	DCF	18.5%	31/12/2012	1,962	-	(23)
Osspower Limited	2,223	355	50.00%	50.00%	6	DCF	13.6%	31/03/2013	653	858	109
Renewable Power Systems (Dargan Road) Limited	1,872	1,900	50.00%	50.00%	476	DCF	11.5%	31/07/2013	628	1,175	183
Eye Wind Power Limited	1,800	1,682	50.00%	50.00%	-	PRI	11.0%	28/02/2013	1,453	-	(10)
A7 Lochhead Limited	956	690	20.00%	20.00%	88	DCF	5.9%	31/03/2013	1,601	1,330	102
Biggleswade Wind Farm Limited	612	350	3.50%	3.50%	4	DCF	3.7%	30/06/2013	1,202	-	(23)
Bernard Matthews Green Energy Weston Limited	538	500	50.00%	50.00%	-	PRI	3.3%	31/03/2013	999	-	(1)
Bernard Matthews Green Energy Pickenham Limited	536	500	50.00%	50.00%	-	PRI	3.3%	31/03/2013	999	-	(1)
Bernard Matthews Green Energy Halesworth Limited	416	351	50.00%	50.00%	-	PRI	2.5%	30/06/2013	1	-	-

### "C" Share Fund

Company	Value £000	Cost £000	Share- holding %	Voting rights %	Income recognised by the Company during the year £000	Basis of Value	Proportion of share fund portfolio by value %	Date of latest accounts	Net assets £000	Turnover £000	Profit/ (loss) £000
Biggleswade Wind Farm Limited	3,760	2,150	21.50%	21.50%	211	DCF	29.1%	30/06/2013	1,202	-	(23)
White Mill Windfarm Limited	2,910	1,318	25.00%	25.00%	227	DCF	22.5%	31/12/2012	2,673	1,681	681
Greenfield Wind Farm Limited	2,271	1,480	12.50%	12.50%	165	DCF	17.5%	31/12/2012	1,962	-	(23)
AD Wind Farmers Limited	1,169	1,000	50.00%	50.00%	115	DCF	9.0%	30/09/2013	2,074	96	74
Weston Airfield Investments Limited	1,000	1,000	50.00%	50.00%	-	PRI	7.7%	31/03/2013	2,005	-	5
North Pickenham Energy Limited	1,000	1,000	50.00%	50.00%	-	PRI	7.7%	31/03/2013	2,005	-	5
Eye Wind Power Limited	500	500	0.00%	0.00%	46	PRI	3.9%	28/02/2013	1,453	-	(10)
Bernard Matthews Green Energy Halesworth Limited	301	301	0.00%	0.00%	-	PRI	2.3%	30/06/2013	1	-	-
Blawearie Wind Limited	30	30	50.00%	50.00%	-	PRI	0.2%	30/04/2013	27	-	(13)

### Basis of valuation

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

**NAV** The Investment Manager's estimate of the value of the net assets of the investee company

**PRI** Price of recent investment reviewed for impairment

The ordinary share fund and the "C" share fund have shareholdings in Greenfield Wind Farm Limited of 16.65% and 12.5% 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 3.5% and 21.5% respectively, therefore the Company's aggregate shareholding is 25.0%.

## 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 key assumptions that have a significant impact on discounted cash flow valuations for these assets are the discount 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 and operating costs.

The fair value of the Company's investments in project companies which have not passed an initial satisfactory operational period, or are engaged in seeking planning permission, are determined to be the price of investment subject to a periodic impairment review.

The Company's valuation of its holding in BEL Holdco Limited is discussed above.

## Investment Policy

The Company is focused on investing in companies developing renewable energy projects with installed capacities of up to 20 megawatts, although investments in companies developing larger projects may also be considered. Given the target investment size, investments will generally be in companies developing projects initiated by specialist small-scale developers and smaller projects which are not attractive to large development companies and utilities.

## Asset Allocation

The Investment Manager seeks to allocate the Company's investments in equity securities and loan stock of companies owning renewable energy projects, primarily wind energy and hydroelectric. Up to 10% of net proceeds raised from share offers may be allocated to companies developing early stage renewable energy projects prior to planning permissions being obtained.

The Company together with Ventus VCT plc has an allocation agreement in place with the Investment Manager. The allocation agreement prescribes the allocation of investments between the two companies and their share funds in accordance with the ratio of available funds in each share fund, subject to adjustment in consideration of maintaining the VCT status of both companies, concentration risk, expected timing of realisations and projected dividend profiles.

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 and purchasing its shares in the market. 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.

The Company typically owns 25% to 50% of the equity share capital of each investee company and a portion of its investment in each investee company may be in the form of loan stock.

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

## Risk Diversification

The geographical focus of the Company's portfolio is the UK and the majority of investments made to date are in the wind sector. Funds are invested with a range of small-scale independent developers so project risk is not concentrated on only a few developers. The portfolio contains projects at different stages of the asset lifecycle, ranging from pre-planning to construction and then into operation.

Investments are made via subscriptions for new share capital, acquiring existing 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 fund the construction costs of each project through senior debt which is non-recourse to the Company. The Investment Manager is involved in assisting investee companies in negotiating the terms of this finance to ensure competitive terms are 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. 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 six 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.

iii) Investments in pre-planning projects

In accordance with the Company's investment policy, a maximum of 10% of the net funds raised from share offers may be invested in companies developing pre-planning projects.

### VCT Regulations

In the Budget announcement on 19 March 2014, the Government announced a number of changes in tax law affecting the VCT industry. These included:

- > a prohibition on enhanced share buybacks and other returns of capital for VCTs;
- > measures to prevent investors claiming upfront income tax relief for a subscription of shares in a VCT where the investor disposes

of shares in the same VCT within a six month period (before or after the subscription); and

- > the exclusion from the VCT scheme of new investments in companies in the renewable energy space benefitting from Renewable Obligation Certificates ("ROCs") and Renewable Heat Incentives.

The measures relating to enhanced share buybacks, returns of capital and claiming of tax relief for subscription of shares within six months of disposing of shares were expected and will have no impact on the Company or its shareholders. However, the exclusion from the VCT scheme of new investments in companies benefitting from ROCs will impact the Company's ability in the future to make new investments in companies owning and operating wind farms. Such investments will no longer be qualifying investments for VCT purposes if they are made after Royal Assent of the Finance Bill, which is expected in July 2014.

The measures in the Budget do not affect any of the Company's existing investments or any further investments made prior to July 2014.

The new measures will leave as qualifying investments companies holding hydro-electric projects which benefit from the Feed-in Tariff. However, the Government has announced that there will be a consultation on the use of VCTs and other venture capital schemes in relation to "low-risk activities", so further restrictions on investments of VCTs are possible.

In the coming months, the Company's Directors, along with the Investment Manager, will be developing long-term plans in light of the new regulations. However, in the short to medium-term, the new regulations should have no impact on the Company's investments.

### Market Outlook

The Department of Energy and Climate Change ("DECC") estimates that, over the next 30 years electricity demand in the UK will increase by between 30% and 60% from current levels and that electricity generation capacity may need to be doubled to deal with peak demand levels. This projected increase in generation capacity is

set in the context of the Government's objective to almost completely decarbonise electricity supply by 2050, which will require significant changes in the mix of generation sources and in the electricity grid. In the near to medium term, DECC estimates that, due to plant closures and the need to replace and upgrade the UK's electricity infrastructure, the UK electricity sector will need around £110 billion of capital investment in the period to 2020.

In order to attract the investment needed to replace ageing energy infrastructure and meet the projected future increases in electricity demand with low-carbon generation, the Government is carrying out a comprehensive reform of the UK electricity market. This initiative, called Electricity Market Reform ("EMR"), is the centre-piece of the governing coalition's energy policy. The measures in EMR, which represent a fundamental transformation of the UK electricity market, are meant to encourage the development of a balanced portfolio of renewable, gas and nuclear generation capacity and to ensure that these technologies can compete in the market-place. The Energy Act 2013, which implements EMR, received Royal Assent on 18 December 2013. In the past year, the Government has made considerable progress on the implementation of EMR.

EMR is built around three pillars: (i) sustainability and decarbonisation, (ii) security of supply and (iii) affordability. The affordability question is a major issue, and a key feature of EMR is the Levy Control Framework which will serve as a cap on the amount of subsidy that will be available to newly-commissioned renewable energy generation plant.

Under EMR, the Renewables Obligation ("RO") is planned to be phased out and replaced by Contracts for Difference ("CfD") for all renewable energy generation capacity brought on line after 31 March 2017. Up until 31 March 2017, renewable energy generators will have a choice between the RO regime and the CfD regime, but no new generation will be accredited for Renewable Obligation Certificates ("ROCs") after 31 March 2017. A renewable energy project is entitled to earn ROCs for 20 years, so the RO regime will not end completely until 31 March

2037. The Company's current investments and any further investments made before Royal Assent of the Finance Bill in July 2014 will continue to be qualifying investments under the current VCT rules.

A referendum will be held in September 2014 on the independence of Scotland, where a significant portion of the Company's investments are based. The Scottish Government strongly supports renewable energy and the current UK renewable energy policies, however the independence of Scotland could lead to new renewable energy policies or legislation and to a division of the UK electricity market.

The level of banding for new onshore wind projects (including the wind farms recently completed or under construction by investee companies of the Company) is currently 0.9 ROCs per megawatt hour. In June 2013, the Government published its response to a consultation on renewable energy generation costs and stated that it did not intend to review the ROC banding for onshore wind, thereby affirming the level of 0.9 ROCs for new onshore wind projects. This was a positive development for the UK onshore wind industry. Although the level of ROCs for onshore wind is important for the industry, the level of ROCs for future wind farms does not impact on any existing wind farms operated by the Company's investee companies.

Wholesale electricity prices have been reasonably stable during the past year. The Company has relatively little exposure to short-term wholesale electricity prices, as its investee companies generally sell their electricity output pursuant to power purchase agreements with wholesale electricity prices that are fixed over the medium term. The Investment Manager uses wholesale price forecasts provided by expert third-party consultants in the models which are used to value the Company's investments. While wholesale electricity prices are forecast to increase, the forecasted wholesale prices have

been revised downwards over the last year. The changes to the UK's Carbon Price Support, which were announced in the recent Budget and which will have a further downward impact on forecasted wholesale prices, will have an immaterial impact on the value of the Company's investment portfolio.

Wind turbine prices (primarily denominated in Euros) have been relatively stable during the past year. The UK market for turbines is reasonably balanced at the present time, with no significant shortages or oversupply situations.

The banking market for renewable energy projects remains challenging. There is limited availability of senior bank debt for renewable energy projects of up to 20 megawatts, which is the typical size range for investee companies of the Company. Lending margins and arrangement fees remain high by historical standards, and banks are unwilling to lend over the same term as they did in the past. Although the reduced availability and increased cost of senior bank debt have made it more difficult to finance renewable energy projects, this has created an opportunity for the Company to invest greater amounts of equity in companies with lower leverage. Investments in portfolio companies with lower leverage should reduce the volatility in dividends from those companies compared to the dividends from portfolio companies with higher leverage. The Investment Manager has also worked successfully with investee companies to access non-bank sources of senior debt to finance projects.

It should be noted that existing investments of the Company are not impacted by the current lending environment for renewable energy projects.

## **Temporis Capital LLP**

Investment Manager

29 May 2014

## The Directors present their Annual Report and the audited Financial Statements for the year ended 28 February 2014.

### Dividends

The Company paid an interim dividend of 1.75p per ordinary share on 15 January 2014 to all ordinary shareholders on the register as at the close of business on 13 December 2013. The Directors recommend a final dividend of 1.75p per ordinary share to be paid on 6 August 2014 to ordinary shareholders on the register on 11 July 2014. The total dividend for the year is therefore 3.50p per ordinary share.

The Company paid an interim dividend of 2.50p per "C" share on 15 January 2014 to all "C" shareholders on the register as at the close of business on 13 December 2013. The Directors recommend a final dividend of 2.50p per "C" share to be paid on 6 August 2014 to all "C" shareholders on the register as at the close of business on 11 July 2014. The total dividend for the year is therefore 5.00p per "C" share. Note 7 of the Financial Statements gives details of the 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 Company's major cash outflows are within the Company's control (namely investment additions and 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. The Board, having reviewed the Company's cash flow forecast for the next 18 months, has a reasonable expectation that the Company is able to continue in operational existence for a period of at least 12 months from the date of this report. The Directors have concluded that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

The liquidity risks and details of the Company's policy for managing its financial risks are shown in note 16. The Company's investment activities

are described in the Investment Manager's Report and its performance is reviewed in the Directors' Report.

### Directors

The Directors of the Company during the year under review were Alan Moore, Paul Thomas and Colin Wood. Biographical information on the Directors is shown on page 28. The terms of the Directors' appointment and replacement are set out in the Corporate Governance Statement. All the Directors are non-executives and all are independent, except Paul Thomas who is Chairman of the Investment Committee of the Investment Manager.

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

### Share capital

#### Authorised share capital

At 28 February 2014, the Company had authorised share capital of £22,500,000 in total which was represented by 50 million ordinary shares of 25p each, 20 million "C" shares of 25p each and 20 million "D" shares being 56%, 22% and 22% of the Company's authorised share capital respectively.

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

As at 28 February 2014, the Company had allotted, called and fully paid up shares in two share funds, of which 24,392,655 shares were ordinary shares of 25p each (having repurchased 30,000 ordinary shares during the year) and 11,329,107 were "C" shares of 25p

each. These shares represented 68% and 32% of the Company's issued share capital respectively.

### Authority to allot

At the general meeting held on 18 December 2013 the Directors were authorised to allot relevant securities (within the meaning of section 551 of the Companies Act 2006) up to a maximum aggregate nominal amount of £5,000,000. This authority expires on the conclusion of the AGM of the Company to be held in 2015.

### Disapplication of pre-emption rights

At the general meeting held on 18 December 2013 the Directors were authorised to allot equity securities for cash (further to the authority referred to above) without first offering such securities to existing shareholders in proportion to their shareholdings – such power being limited to the allotment of securities only in certain, defined circumstances. This authority expires on the conclusion of the AGM of the Company to be held in 2015.

### Authority to repurchase shares

At the AGM held on 22 July 2013 the Company renewed its authority to repurchase up to 14.99% of its own issued ordinary share capital and up to 14.99% of its own issued "C" share capital. Renewal of this authority will be voted on at the AGM to be held on 29 July 2014. At the general meeting held on 18 December 2013 the Company was authorised to repurchase up to 10% of the "D" shares in issue following the offer for "D" shares. This authority expires on the conclusion of the AGM of the Company to be held in 2015.

### 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 to 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 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 by Companies House in the UK or by writing to the Company Secretary.

### Share premium account cancellation

A special resolution was passed at the general meeting held on 18 December 2013 which allowed the Company to request a court order to cancel the share premium of the "D" shares to create a distributable special reserve. However, it is now anticipated that a change in legislation will preclude the Company from taking this action in respect of shares issued on or after 6 April 2014 without adversely affecting its VCT status.

### "D" share offer

On 19 November 2013, the Company published a Circular in respect of a joint offer with Ventus VCT plc to issue up to 10,000,000 "D" shares of 25p in each company. On 5 April 2014, the Company allotted 1,613,328 "D" shares. The offer will remain open until 30 May 2014 or otherwise at the Director's discretion.

Following the allotment described above, the issued share capital of the Company is 24,392,655 ordinary shares, 11,329,107 "C" shares and 1,613,328 "D" shares.

### CREST

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

### Substantial interests

As at 28 February 2014 and the date of this report the Company was not aware of any shareholders that held beneficial interests and voting rights exceeding 3% of the issued share capital.

### Financial instruments

The Company's financial instruments comprise investments in unquoted companies, cash and 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. The proposed changes to VCT legislation and the government's support for the renewable energy market, which were announced in the Budget in March 2014, are discussed in the Market Outlook section of the Investment Manager's Report.

### 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.

### Accountability and Audit

The statement of Directors' responsibilities is set out on page 29 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.

Details of the non-audit services provided to the Company by the Auditor, are set out in note 4 of the Financial Statements.

### Annual General Meeting

Enclosed with this Annual Report and Financial Statements is the Notice of Annual General Meeting of the Company (or any adjournment thereof) to be convened for 29 July 2014 at 12.30pm (the "Notice"). A copy of the Notice is set out at the end of this report. A Form of Proxy for use in connection with the AGM has been issued with this report.

The business of the meeting is outlined below:

### Resolution 1 – Annual Report and Financial Statements

The Directors are required to present to the AGM the Annual Report and Financial Statements for the financial year ended 28 February 2014.

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**Resolution 2 – To Declare a Final Dividend**

The final dividend cannot exceed the amount recommended by the Directors and can only be paid after the members at a general meeting have approved it. The Directors recommend a final dividend of 1.75p per ordinary share to the holders of ordinary shares and 2.50p per “C” share to the holders of “C” shares, payable on 6 August 2014 to those shareholders registered at the close of business on 11 July 2014, which will bring the total dividend for the year to 3.50p per ordinary share and 5.00p per “C” share.

**Resolution 3 – Directors’ Remuneration Policy**

This resolution proposes the approval of the Directors’ Remuneration Policy as set out on page 20.

**Resolution 4 – Directors’ Remuneration Report**

Under The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013, the Company is required to produce a Directors’ Remuneration Report for each relevant financial year and to seek shareholder approval for that report at the AGM.

**Resolution 5 – Re-election of Director**

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

**Resolution 6 – Re-election of Director**

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

**Resolution 7 – Re-appointment of Auditor**

This resolution proposes that BDO LLP be re-appointed as Auditor of the Company.

**Resolution 8 – Remuneration of the Auditor**

This resolution proposes that the Directors be authorised to set the Auditor’s remuneration.

**Resolution 9 – Purchase of shares by the Company**

This resolution, which will be proposed as a special resolution, will, if passed, authorise the Company to purchase in the market up to 3,656,459 ordinary shares and 1,698,233 “C” shares, representing 14.99% of the current issued share capital of each class, at a minimum price of 25p per share, exclusive of any expenses, for not more than an amount equal to the higher of (a) 105% of the average of the middle market prices shown in the quotations for a share in The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003. This authority will be effective until the earlier of the date of the AGM of the Company to be held in 2015 and the date which is 18 months after the date on which this resolution is passed (unless the authority is previously revoked, varied or extended by the Company in general meeting). The Board believes that it is beneficial to the Company for it to continue to have the flexibility to purchase in the market its own shares. However, the Board considers it in the best interests of all shareholders if the Directors use their authority to make share buy-backs judiciously. This resolution seeks authority from the shareholders for the Company to be authorised to do so when considered appropriate by the Directors. This resolution would renew the authority granted to the Directors at the last AGM of the Company. The minimum and maximum prices to be paid for the shares are stated in the Notice. Repurchases of shares will be made at the discretion of the Board and will only be made in the market at prices below the prevailing net asset value (“NAV”) per share as and when market conditions are appropriate. Any shares which are repurchased in this way may be cancelled or held as treasury shares, which may

then be cancelled or sold for cash, as determined by the Board. The Directors consider that this authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to the underlying NAV enhances the NAV of the remaining shares. The Directors are aware that the secondary market for the shares of VCT companies can be illiquid and that shares may trade at a discount to their NAV. The Company has established special reserves out of which it may fund share buy-backs.

**Action to be taken**

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

**Recommendation**

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

By order of the Board

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

29 May 2014

## 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 beginning 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 2015
Colin Wood	10 January 2006	AGM 2014
Paul Thomas	10 January 2006	AGM 2014

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 2015 £
Alan Moore (Chairman)	30,000
Colin Wood	25,000
Paul Thomas	25,000
<b>Total</b>	<b>80,000</b>

It is intended that the Directors' Remuneration Policy should remain in place until 28 February 2017. However, the Board will consider the level of Directors' fees at least annually. Any changes to be made to Directors' remuneration during this period 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.

## Voting on the Directors' Remuneration Policy Report at the AGM

An ordinary resolution to approve this Directors' Remuneration Policy Report will be proposed at the AGM to be held on 29 July 2014 and will be adopted with effect from that date if approved. The forthcoming AGM is the first AGM at which the Directors' Remuneration Policy Report has been required to be approved by shareholders.

## Directors' Annual Report on Remuneration

During the financial year ended 28 February 2014, having considered:

- > the additional responsibilities and workload placed on them due to regulatory changes;
- > the additional time being spent with internal and external Auditors to ensure proper controls are in place;
- > that there has been no change in fees since the inception of the Company, except in 2010 when the Ventus Funds' boards were reorganised, and individual Directors took a cut in overall fees earned from the Ventus Funds in order to maintain aggregate fees for the Company at the same level;
- > in real, inflation adjusted, terms the Directors have seen a substantial reduction in fees; and
- > given the Board has only three Directors to assume the responsibilities which were previously shared among four

the Board resolved that it was appropriate to increase the Directors' fees with effect from 1 September 2013.

### Directors' fees (audited information)

The following fees were paid to individual Directors in respect of the year ended 28 February 2014. The fees were paid in accordance with the Directors' Remuneration Policy. Comparative figures for the year ended 28 February 2013 are also presented.

	Year ended 28 February 2014 £	Year ended 28 February 2013 £
Alan Moore (Chairman)	27,500	25,000
Colin Wood	22,500	20,000
Paul Thomas	22,500	20,000
Total	72,500	65,000

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 2014 £	Year ended 28 February 2013 £	% Change
Aggregate Directors' remuneration	72,500	65,000	11.5%
Aggregate shareholder dividends paid	1,342,000	1,238,000	8.4%
Aggregate amounts paid to buy back the Company's own shares	16,950	-	n/a

### Directors' Shareholding (audited information)

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

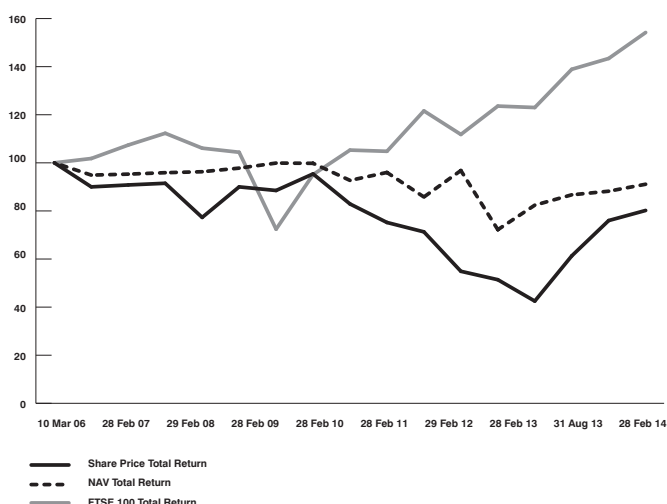
	As at 28 February 2014 £ Ordinary shares	As at 28 February 2014 £ "C" shares	As at 28 February 2013 £ Ordinary shares	As at 28 February 2013 £ "C" shares
Alan Moore (Chairman)	28,579	10,400	15,867	10,400
Colin Wood	10,090	5,200	10,090	5,200
Paul Thomas	10,090	5,200	10,090	5,200

Since 28 February 2014 the following changes in beneficial interests were made, Alan Moore subscribed for 2,525 "D" shares and Paul Thomas subscribed for 5,000 "D" shares at a price of 100p per share under the "D" share offer. There have been no other changes in the beneficial interests of the Directors between 28 February 2014 and the date of this report.

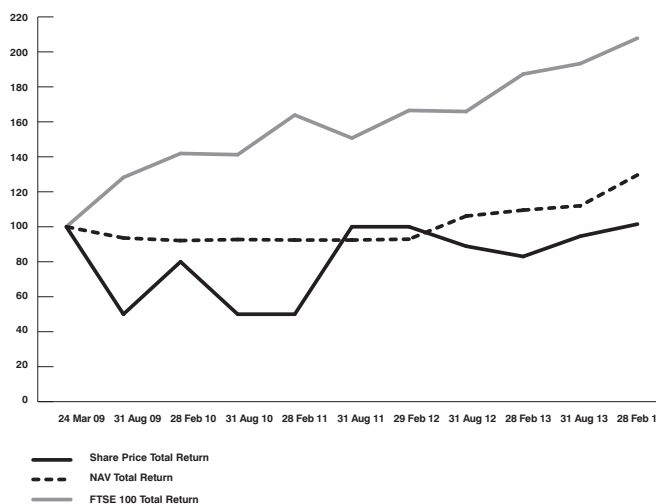
**Company performance**

Due to the positioning of the Company in the market as a specialist VCT investing in companies that will develop, construct and operate small on-shore UK renewable energy projects, the Directors consider that, currently, there is no suitable company or index that can be identified for comparison. However in order to comply with the Directors' Remuneration Report Regulations 2013, the FTSE 100 Index has been used as a comparative.

**Total shareholder return on ordinary shares**



**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 ordinary shares on the date they were listed on the London Stock Exchange (10 March 2006) over the period to 28 February 2014 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. The graph shows there had been an increase in shareholder value during the year in respect of the total shareholder return based on NAV, which is attributable to the profit generated by the share fund's investments and the dividends paid to ordinary shareholders during the year. The graph also demonstrates the discount to NAV of the share price of the ordinary shares as the total shareholder return based on share price is lower than that based on NAV but has reduced over the year.

The Company's Share Price Total Return and NAV Total Return presented in the graph do not include the effect 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 134%. This analysis, also, 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.

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 2014 compared with the total return attributable to £100 invested in companies comprising the FTSE 100 Index over the same period. There was an increase in shareholder value during the year in respect of the total shareholder return based on NAV, which is attributable to the profit generated by the share fund's investments and the dividends paid to "C" shareholders during the year. The graph also demonstrates the discount to NAV of the share price of the ordinary shares as the total shareholder return based on share price is lower than that based on NAV.

The Company's Share Price Total Return and NAV Total Return presented in the graph do not include the effect 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 ordinary share fund would be 145%. This analysis, also, 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.

1 Share Price Total Return is the return attributable to the share price of the 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.  
 2 NAV Total Return is the net asset value of the shares held plus the cumulative dividends paid to those shares over the period in which they were held.



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**Voting on the Directors' Remuneration Report at the AGM**

At the last AGM held on 22 July 2013, the shareholders approved the Directors' Remuneration Report in respect of the year ended 28 February 2013. Votes representing 1,149,058 shares (94.4%) were in favour of the resolution, votes representing 35,902 shares (2.9%) were against, and votes representing 32,886 shares (2.7%) 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

29 May 2014

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, as well as setting out additional principles and recommendations on issues that are of specific relevance to member companies of the AIC.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- > the role of the chief executive
- > executive Directors' remuneration
- > nominations and remunerations committees.

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. The Company has therefore not reported further in respect of these provisions.

The Company does not comply with the AIC Code in its recommendation that the Board appoints a senior independent Director. However, the Board considers that as the Directors are few in number the Company does not require a senior independent Director.

#### Board of Directors

For the year ended 28 February 2014 the Board consisted of three Directors, all of whom are non-executive. The Board ensures that it has the appropriate balance of skills, experience, length of service and knowledge of the Company amongst its Directors. Biographical information on the Directors is shown in the Directors' Information below.

#### Independence

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

Mr Thomas is also the Chairman of the Investment Committee of the Investment Manager and is therefore not considered to be independent. No Directors of the Company are Directors of another company managed by the Investment Manager. The Board believes that each Director, with the exception of Mr Thomas, has demonstrated that he is independent in character and judgement and independent of the Investment Manager and therefore, that Mr Moore and Mr Wood are each considered independent.

#### Directors' responsibilities

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

	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
Alan Moore (Chairman)	7	6	3	3
Paul Thomas	7	7	3	3
Colin Wood	7	6	3	3

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

The AIC Code states that the Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that it has firm direction and control of the Company. The

schedule of matters reserved to it includes the general investment strategy of the Company and the performance of the Company. The terms and conditions of appointment of non-executive Directors are available upon written application to the Company Secretary.

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

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

Directors appointed by the Board to fill a vacancy are required to submit to election at the next AGM. At each AGM of the Company one third of the Directors shall retire from office and being eligible, be proposed for re-election. The Directors to retire will be those who have been longest in office or, in the case of those who were appointed or reappointed on the same day, will be (unless they otherwise agree) determined by lot. The Company may by ordinary resolution remove any Director before his period of office has expired. In addition, as Mr Thomas is the Chairman of the Investment Committee of the Investment Manager, he is subject to re-election under Listing Rule 15.2.13A, and will therefore offer himself for re-election at the AGM and annually thereafter.

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

Upon joining the Board, new Directors will receive a full, formal and tailored induction. As the Company has no major shareholders, it is considered unnecessary to provide shareholders with the opportunity to meet new

non-executive Directors at a specific meeting other than the AGM.

The performance of the Board, Audit Committee and individual Directors has been evaluated through an assessment process led by the Chairman who also considered the independence of the Directors and concluded that he considered all Directors, with the exception of Paul Thomas, for reasons mentioned above, to be independent. The assessment process included consideration of performance monitoring and evaluation, strategy and corporate issues, shareholder value and communications and governance.

#### **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 in view of the small size of the Board. The Committee meets at least three times 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). 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 2014 the Audit Committee discharged its responsibilities by:

- > reviewing all financial statements released by the Company (including the annual and half-yearly report and interim management

statements);

- > reviewing the Company's accounting policies;
- > monitoring the effectiveness of the system of internal controls and risk management;
- > approving the external Auditor's plan and fees;
- > receiving a report from the external Auditor following their detailed audit work, and discussing key issues arising from that work;
- > reviewing its own terms of reference; and
- > reviewing the internal audit plan and the recommendations of the internal auditors.

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; and
- > valuation of investments
- > recoverability of the deferred consideration in respect of Craig Wind Farm Limited
- > 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 Investment Manager, typically, attains pre-approval from HM Revenue & Customs for each qualifying investment. New investments and the Company's VCT status are also reviewed by the Company's tax adviser, PricewaterhouseCoopers 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 every Board meeting; Directors are also consulted about material changes to those valuations between Board meetings.

Recoverability of the deferred consideration in respect of Craig Wind Farm Limited – the Audit Committee is satisfied that the deferred consideration in respect of the sale of Craig Wind Farm is recoverable and the Company has adequate security over the amount receivable.

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 they have 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 has confirmed that it is independent of the Company and has complied with professional accounting standards. BDO

LLP and prior to their merger PKF (UK) LLP has held office as Auditor for five years and in accordance with professional guidelines the engagement partner is rotated after at most five years and the current partner took responsibility for the audit of the Company in the current financial year.

The appointment of BDO LLP as the Company's Auditor was approved by shareholders at the AGM held on 22 July 2013. Following the review as noted above the Audit Committee is satisfied with the performance of BDO LLP and recommends the services of BDO LLP to the shareholders in view of both that performance and the firm's extensive experience in auditing VCTs. A resolution to re-appoint BDO LLP as Auditor to the Company will be proposed at the forthcoming AGM.

The Audit Committee reviews the nature and extent of non-audit services provided by the Company's external Auditor and ensures that the Auditor's independence and objectivity is safeguarded. During the year under review, the Company's external Auditor provided tax compliance services, iXBRL tagging services and a review of the Half-Yearly Report, details of which can be found in Note 4 to the Financial Statements. The Board believes that the appointment of the Auditor to supply these services was in the interest of the Company due to their knowledge of the Company and the VCT sector. The Auditor was, therefore, in a position to provide a greater efficiency of service compared to other potential providers of these services. The Board is satisfied that the fees charged and work undertaken did not affect the Auditor's objectivity as the proportion of their fees earned from the Company for other services was relatively small in relation to the audit fees. Also, the tax services were provided by a separate team and did not involve undertaking any internal review or management role nor did these services create any self-review conflict over the preparation of the information reported in the accounts.

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

To date, no Nomination or Remuneration Committees have been established. The establishment of a Nomination Committee is not considered necessary as the appointment of

new Directors and recommendations for the re-election of Directors are matters considered by the Board. Where a VCT has no executive Directors, the UK Corporate Governance 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.

The Board has considered the recommendations of the Code concerning gender diversity and welcomes initiatives aimed at increasing diversity generally. The Board believe, however, that all appointments should be made on merit rather than positive discrimination. The policy of the Board is that maintaining an appropriate balance round the board table through a diverse mix of skills, experience, knowledge and background is of paramount importance.

Any search for new candidates is conducted, and appointments made, on merit, against objective selection criteria having due regard, amongst other things, to the benefits of diversity on the Board, including gender. When recommending new appointments to the Board the Directors draw on their extensive business experience and range of contacts to identify suitable candidates, the use of formal advertisements and external consultants is not considered cost effective given the Company's size.

#### **Internal control**

In accordance with the AIC Code, the Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which accords with the Turnbull guidance. The Board acknowledges that it is responsible for the Company's system of internal control and financial reporting. Internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Board has delegated, contractually to third parties, the 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.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place for the period under review and up to the date of approval of the accounts. This process is regularly reviewed by the Board.

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 has agreed a three year rolling internal audit plan in consultation with the Investment Manager and the Directors based on risks and control objectives identified jointly. Roffe Swayne tests the satisfactory operation of internal controls for the Company and reports to the Audit Committee twice yearly. The controls on which Roffe Swayne is focusing are portfolio management, asset management, execution of investment and divestment decisions and back office operations. Roffe Swayne has reported to the Audit Committee that key controls tested in the current year are predominantly effectively and efficiently designed and operate to mitigate the risk 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, interim management statements and associated announcements. The Audit Committee regularly reviews management accounts information to make comparisons to budget. The Audit Committee also regularly reviews the internal controls adopted and implements appropriate policies to deal with operational risks. The

findings of the external 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 Capital LLP as the Investment Manager, on the terms agreed, is in the interests of the shareholders. The Directors are satisfied that the Investment Manager will continue to manage the Company's investment programme in a way which will enable the Company to achieve its objectives.

### **Listing Rules disclosures: DTR 7.2.6**

At the date of this report, the Company has three classes of shares, ordinary, "C" 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 above.

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

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

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

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

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

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

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

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

The powers of the Company's Directors in relation to the Company issuing or buying back

its own shares are set out in the Director's Report.

### **Relations with shareholders**

The Company communicates with shareholders and solicits their views where it is appropriate to do so. All shareholders are welcome at the AGM, which provides a forum for shareholders to ask questions of the Directors and to discuss with them issues affecting the Company. The Board is also happy 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, Thistle House, 21 Thistle Street, Edinburgh, EH2 1DF.

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

A separate resolution is proposed at the AGM on each substantially separate issue. The Registrar collates the proxy votes, and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the 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.

For and on behalf of the Board

**Alan Moore**  
Chairman

29 May 2014

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 wide experience of investment in both smaller growing companies and larger quoted companies. Information about the current Directors is set out here.

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

Alan Moore has more than 40 years' experience in the UK electricity industry, beginning his career with the Central Electricity Generating Board. From 1998 to 2004, he was the Managing Director of National Wind Power (now RWE Innogy), at the time one of the largest developers and owners of renewable power assets in the UK. Until 2010, for eight years he was Co-Chairman of the UK Government's Renewables Advisory Board. He is a past Chairman of the British Wind Energy Association (now called RenewableUK). He is also a non-executive Director of Partnerships for Renewables Limited. He was appointed an Adjunct Professor at Imperial College, London, in 2012. In 2013 he was appointed non-executive Director of 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 Private Investor Capital Limited, the London-based independent private equity firm that invests in transactions of up to £5 million in growing, unquoted UK businesses. He has 30 years of private equity experience, including 19 years with ECI Partners LLP, the London based midmarket buy-out house, where he was Managing Director until retiring in 2003. During his time with ECI, the firm made over 100 equity investments in transactions ranging in size from £500,000 to £25 million, deploying capital of more than £200 million. Previously, he was with Price Waterhouse for 6 years, latterly in corporate finance. He is a physics graduate and a Chartered Accountant. He is Chairman of the Ventus Funds' Investment Committee of the 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 an economics graduate and from 1993 to 1998, he was Senior Economic Adviser and Head of the Economics and Statistics Unit at the Scottish Office Industry Department, where he was responsible for providing economic advice on a range of issues including energy markets and the environment. He was a Director of The Century Building Society in Edinburgh until it merged with the Scottish Building Society on 1 February 2013. He has been a member of the Board since January 2006.

# 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, Director's report and Director's 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 DTR4

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 28.

For and on behalf of the Board

**Alan Moore**

Director

29 May 2014

## DIRECTORS AND ADVISERS

### Directors

Alan Moore OBE  
Paul Thomas  
Colin Wood

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### Investment Manager and Registered Office

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

### Company Secretary

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

### Principal Banker

Barclays Bank plc  
1 Churchill Place  
London  
E14 5HP

### Auditor

BDO LLP  
55 Baker Street  
London  
W1U 7EU

### VCT Taxation Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

### Solicitors

Howard Kennedy LLP  
19 Cavendish Square  
London  
W1A 2AW

### Broker

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

### Registrars

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



# INDEPENDENT AUDITOR'S REPORT

to the members of Ventus 2 VCT plc

We have audited the financial statements of Ventus 2 VCT plc (the "Company") for the year ended 28 February 2014 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Opinion on financial statements

In our opinion the Financial Statements:

- > give a true and fair view of the state of the Company's affairs as at 28 February 2014 and of its profit for the year then ended;
- > the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Our assessment of risks of material misstatement and our audit approach to these risks

We identified the following risks that we believe have had the greatest impact on our audit strategy and scope:

### > The assessment of the carrying value of investments

This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the Company, derived using those valuations. We challenged the assumptions inherent in the valuation of unquoted investments, and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements. The valuations of

operational investments are based on discounted cash flow models and our audit procedures included, amongst others, comparing assumptions on forecast wind generation and electricity prices to independent reports, reviewing cost assumptions based on actual costs incurred and assessing the discount factors applied to data seen on transactions elsewhere in the market. Where alternative assumptions could reasonably be applied, we developed our own point estimates and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.

Where other valuation approaches were adopted, in addition to challenging the appropriateness of the valuation techniques adopted by reference to both the circumstances of the investee company and the International Private Equity and Venture Capital Valuation guidelines.

### > Revenue recognition

Revenue consists of dividends receivable from investee companies and interest earned on loans to investee companies and other financial assets. Revenue recognition is considered to be a significant risk as it is one of the key drivers of dividend returns to investors. We considered the controls relating to revenue recognition and undertook testing of interest income by comparing actual income to expectations generated using the interest rates in the loan instruments. We also tested dividends receivable to cash received, as well as to supporting documentation and management accounts of the investee companies and, where appropriate, independent confirmation from the investee companies. We challenged the treatment of accrued loan interest as realised income and considered the classification of income between revenue and capital.

### > Recoverability of deferred consideration

The Company measures deferred consideration arising from the sale of investments at amortised cost and the recoverability of this asset is largely dependent on events outside of the control of the Company. We challenged the assumptions made in considering the deferred consideration to be recoverable by reviewing independent evidence to support the financing situation of the counterparty and considered the adequacy of disclosures in the financial statements.

The Audit Committee's consideration of these judgements is set out on page 25.

## Purpose of this 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.

## Respective responsibilities of Directors and Auditor

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as 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. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined materiality for the financial statements as a whole to be £585,000. In determining this, we based our assessment on a level of 2% of invested assets which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be approximately 75% of materiality, namely £440,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our materiality of £585,000 for the financial statements as a whole.

International Standards on Auditing (UK & Ireland) also allow the Auditor to set a lower materiality for particular classes of transaction, 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. In this context, we set a lower level of materiality to apply to those

classes of transactions and balances which impact on the costs and the net revenue returns of the Company. We determined materiality for this area to be £120,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £6,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

In our opinion:

- > the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- > the information given in the strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the information given in the Corporate Governance Statement set out on pages 24 to 27 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- > materially inconsistent with the information in the audited financial statements; or
- > apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- > is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the

Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

- > adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- > the Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- > certain disclosures of Directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit; or
- > a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- > the Directors' statement, set out on page 17, in relation to going concern; and
- > the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

## Rhodri Whitlock

(senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom  
29 May 2014

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 2014

	Note	Ordinary Shares			"C" Shares			Total		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Realised loss on investments	9	-	(203)	(203)	-	(281)	(281)	-	(484)	(484)
Net unrealised gain on investments	9	-	1,003	1,003	-	2,151	2,151	-	3,154	3,154
Income	2	937	-	937	764	-	764	1,701	-	1,701
Investment management fees	3	(110)	(330)	(440)	(75)	(226)	(301)	(185)	(556)	(741)
Other expenses	4	(218)	(37)	(255)	(102)	-	(102)	(320)	(37)	(357)
<b>Profit before taxation</b>		609	433	1,042	587	1,644	2,231	1,196	2,077	3,273
Taxation	6	(67)	77	10	(60)	55	(5)	(127)	132	5
<b>Profit and total comprehensive income for the year attributable to equity shareholders</b>		542	510	1,052	527	1,699	2,226	1,069	2,209	3,278

## Return per share

Basic and diluted return per share (p)	8	<b>2.22</b>	<b>2.09</b>	<b>4.31</b>	<b>4.65</b>	<b>15.00</b>	<b>19.65</b>			
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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" 2009 ("SORP") published by the Association of Investment Companies.

The accompanying notes on pages 39 to 55 form an integral part of these Financial Statements.

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2013

	Note	Ordinary Shares			"C" Shares			Total		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Realised loss on investments	9	-	(18)	(18)	-	-	-	-	(18)	(18)
Net unrealised gain on investments	9	-	3,275	3,275	-	1,874	1,874	-	5,149	5,149
Income	2	1,363	-	1,363	439	-	439	1,802	-	1,802
Investment management fees	3	(14)	(42)	(56)	(68)	(202)	(270)	(82)	(244)	(326)
Other expenses	4	(242)	(68)	(310)	(98)	-	(98)	(340)	(68)	(408)
<b>Profit before taxation</b>		1,107	3,147	4,254	273	1,672	1,945	1,380	4,819	6,199
Taxation	6	(152)	10	(142)	(65)	48	(17)	(217)	58	(159)
<b>Profit and total comprehensive income for the year attributable to equity shareholders</b>		955	3,157	4,112	208	1,720	1,928	1,163	4,877	6,040

## Return per share

Basic and diluted  
return per share (p)

8	<b>3.91</b>	<b>12.92</b>	<b>16.83</b>	<b>1.83</b>	<b>15.19</b>	<b>17.02</b>
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The Company has only one class of business and derives its income from investments made in the UK.

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

The accompanying notes on pages 39 to 55 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION  
for the year ended 28 February 2014

	Note	As at 28 February 2014			As at 28 February 2013		
		Ordinary Shares £000	"C" Shares £000	Total £000	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Non-current assets</b>							
Investments	9	16,339	12,941	29,280	15,831	10,743	26,574
Trade and other receivables	10	745	-	745	708	113	821
		17,084	12,941	30,025	16,539	10,856	27,395
<b>Current assets</b>							
Trade and other receivables	10	287	419	706	192	30	222
Cash and cash equivalents	11	562	519	1,081	1,637	1,248	2,885
		849	938	1,787	1,829	1,278	3,107
<b>Total assets</b>		17,933	13,879	31,812	18,368	12,134	30,502
<b>Current liabilities</b>							
Trade and other payables	12	(236)	(46)	(282)	(851)	(41)	(892)
<b>Net current assets</b>		613	892	1,505	978	1,237	2,215
<b>Net assets</b>		17,697	13,833	31,530	17,517	12,093	29,610
<b>Equity attributable to equity holders</b>							
Share capital	13	6,097	2,832	8,929	6,105	2,832	8,937
Capital redemption reserve		2,105	-	2,105	2,097	-	2,097
Special reserve		13,575	7,770	21,345	13,592	7,874	21,466
Capital reserve – realised		(10,860)	(1,242)	(12,102)	(10,367)	(591)	(10,958)
Capital reserve – unrealised		6,553	4,225	10,778	5,550	1,874	7,424
Revenue reserve		227	248	475	540	104	644
<b>Total equity</b>		17,697	13,833	31,530	17,517	12,093	29,610
<b>Basic and diluted net asset value per share (p)</b>	14	<b>72.6</b>	<b>122.1</b>		<b>71.7</b>	<b>106.7</b>	

Approved by the Board and authorised for issue on 29 May 2014.

**Alan Moore**  
Chairman

The accompanying notes on pages 39 to 55 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 2014

Ordinary Shares	Share capital £000	Capital redemption reserve £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>At 1 March 2013</b>	6,105	2,097	13,592	(10,367)	5,550	540	17,517
Shares repurchased in the year	(8)	8	(17)	-	-	-	(17)
(Loss)/Profit and total comprehensive income for the year	-	-	-	(493)	1,003	542	1,052
Dividends paid in the year	-	-	-	-	-	(855)	(855)
<b>At 28 February 2014</b>	6,097	2,105	13,575	(10,860)	6,553	227	17,697

"C" Shares	Share capital £000	Capital redemption reserve £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>At 1 March 2013</b>	2,832	-	7,874	(591)	1,874	104	12,093
Transfer of special reserve to revenue reserve	-	-	(104)	-	-	104	-
Transfer of unrealised losses on investment to realised losses on investment	-	-	-	(200)	200	-	-
(Loss)/Profit and total comprehensive income for the year	-	-	-	(452)	2,151	527	2,226
Dividends paid in the year	-	-	-	-	-	(487)	(487)
<b>At 28 February 2014</b>	2,832	-	7,770	(1,242)	4,225	248	13,833

Total	Share capital £000	Capital redemption reserve £000	Special reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000	Total £000
<b>At 1 March 2013</b>	8,937	2,097	21,466	(10,958)	7,424	644	29,610
Shares repurchased in the year	(8)	8	(17)	-	-	-	(17)
Transfer of special reserve to revenue reserve	-	-	(104)	-	-	104	-
Transfer of unrealised losses on investment to realised losses on investment	-	-	-	(200)	200	-	-
(Loss)/Profit and total comprehensive income for the year	-	-	-	(944)	3,154	1,069	3,279
Dividends paid in the year	-	-	-	-	-	(1,342)	(1,342)
<b>At 28 February 2014</b>	8,929	2,105	21,345	(12,102)	10,778	475	31,530

The ordinary share fund revenue reserve includes £55,000 of income which is considered to be unrealised.

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 fund buy-backs of shares and pay dividends as and if it is considered by the Board to be in the interests of the shareholders.

The accompanying notes on pages 39 to 55 form an integral part of these Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2013

	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 2012</b>	6,134	-	-	15,693	(9,373)	1,399	574	14,427
Shares issued in the year	2,068	-	2,857	-	-	-	-	4,925
Issue costs	-	-	(59)	-	-	-	-	(59)
Shares repurchased in the year	(2,097)	2,097	-	(4,899)	-	-	-	(4,899)
Cancellation of share premium account	-	-	(2,798)	2,798	-	-	-	-
Transfers of unrealised losses on investments to realised losses on investments	-	-	-	-	(876)	876	-	-
(Loss)/Profit and total comprehensive income for the year	-	-	-	-	(118)	3,275	955	4,112
Dividends paid in the year	-	-	-	-	-	-	(989)	(989)
<b>At 28 February 2013</b>	6,105	2,097	-	13,592	(10,367)	5,550	540	17,517
<b>"C" Shares</b>								
<b>At 1 March 2012</b>	2,832	-	-	7,874	(437)	-	145	10,414
(Loss)/Profit and total comprehensive income for the year	-	-	-	-	(154)	1,874	208	1,928
Dividends paid in the year	-	-	-	-	-	-	(249)	(249)
<b>At 28 February 2013</b>	2,832	-	-	7,874	(591)	1,874	104	12,093
<b>Total</b>								
<b>At 1 March 2012</b>	8,966	-	-	23,567	(9,810)	1,399	719	24,841
Shares issued in the year	2,068	-	2,857	-	-	-	-	4,925
Issue costs	-	-	(59)	-	-	-	-	(59)
Shares repurchased in the year	(2,097)	2,097	-	(4,899)	-	-	-	(4,899)
Cancellation of share premium account	-	-	(2,798)	2,798	-	-	-	-
Transfers of unrealised losses on investments to realised losses on investments	-	-	-	-	(876)	876	-	-
(Loss)/Profit and total comprehensive income for the year	-	-	-	-	(272)	5,149	1,163	6,040
Dividends paid in the year	-	-	-	-	-	-	(1,238)	(1,238)
<b>At 28 February 2013</b>	8,937	2,097	-	21,466	(10,958)	7,424	644	29,610

The accompanying notes on pages 39 to 55 form an integral part of these Financial Statements.

# STATEMENT OF CASH FLOWS

for the year ended 28 February 2014

	Year ended 28 February 2014			Year ended 28 February 2013		
	Ordinary Shares £000	"C" Shares £000	Total £000	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Cash flows from operating activities</b>						
Investment income received	825	507	1,332	2,392	822	3,214
Deposit interest received	-	1	1	8	10	18
Investment management fees paid	(440)	(301)	(741)	(56)	(270)	(326)
Other cash payments	(258)	(116)	(374)	(330)	(89)	(419)
<b>Net cash generated from operations</b>	127	91	218	2,014	473	2,487
Taxes paid	(42)	(5)	(47)	(191)	25	(166)
<b>Net cash inflow from operating activities</b>	85	86	171	1,823	498	2,321
<b>Cash flows from investing activities</b>						
Purchases of investments	(1,313)	(411)	(1,724)	(2,681)	(2,588)	(5,269)
Proceeds from investments	1,025	83	1,108	3,197	1,902	5,099
<b>Net cash (outflow)/inflow from investing activities</b>	(288)	(328)	(616)	516	(686)	(170)
<b>Cash flows from financing activities</b>						
Ordinary shares issued	-	-	-	26	-	26
Ordinary share issue costs	-	-	-	(20)	-	(20)
Ordinary shares repurchased	(17)	-	(17)	-	-	-
Dividends paid	(855)	(487)	(1,342)	(989)	(249)	(1,238)
Loan financing	-	-	-	(327)	-	(327)
<b>Net cash outflow from financing activities</b>	(872)	(487)	(1,359)	(1,310)	(249)	(1,559)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(1,075)	(729)	(1,804)	1,029	(437)	592
<b>Cash and cash equivalents at the beginning of the year</b>	1,637	1,248	2,885	608	1,685	2,293
<b>Cash and cash equivalents at the end of the year</b>	562	519	1,081	1,637	1,248	2,885

The accompanying notes on pages 39 to 55 form an integral part of these Financial Statements.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2014

## 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 under IFRS.

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

### Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year.

Standards and interpretations have been issued which will be effective for future reporting periods but have not been early adopted in these Financial Statements. These include IFRS 1, IFRS 2, IFRS 3, IFRS 8, IFRS 9, IFRS 10, IFRS 12, IFRS 14, IAS 16, IAS 24, IAS 38 and IAS 40. These changes are not expected to have a material impact on the transactions and balances reported in 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 and "C" 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 on 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, 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 "price of recent investment" 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 "price of recent investment" 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 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.

#### *Deferred consideration*

Deferred consideration is initially recognised at fair value and then designated as a loan and receivable under IAS 39 measured at amortised cost. Any subsequent movement in the value relating to changes in expected cash flows and the recognition of income using the effective interest rate is shown in the Statement of Comprehensive Income. Gains and income derived from deferred consideration are recognised as realised when the outstanding amounts are capable of being settled within a reasonable period of time, there is reasonable certainty that the outstanding amounts will be settled when called upon and there is an expectation that the receivable amounts will be settled. Until such time, the gains and income derived from deferred consideration are recognised as unrealised.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and at bank and other short-term deposits held by the Company with maturities of less than three months. These short-term deposits are classified under cash equivalents as they meet

the definition in IAS 7 "Cash Flow Statements" of a short-term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

#### *Financial liabilities and equity*

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

#### *Trade and other payables*

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

### **Equity and reserves**

#### *Equity instruments*

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

#### *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.

### **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.

The key assumptions that have a significant impact on fair value in the discounted cash flow valuations are the discount factor used, the price at which the power and associated benefits can be sold, the amount of electricity the investee companies' generating assets are expected to produce and operating costs. The discount factor applied to the cash flows is regularly reviewed by the Investment Committee of the Investment Manager to ensure it is set at the appropriate level. 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 term 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

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
<b>Income from investments</b>			
Loan stock interest	568	433	1,001
Dividend income	323	330	653
Other income	46	-	46
	937	763	1,700
<b>Other income</b>			
Bank deposit interest	-	1	1
	937	764	1,701
<b>Year ended 28 February 2013</b>			
<b>Income from investments</b>			
Loan stock interest	685	339	1,024
Dividend income	508	-	508
Other income	162	90	252
	1,355	429	1,784
<b>Other income</b>			
Bank deposit interest	8	10	18
	1,363	439	1,802

During the year ended 28 February 2014, the Company recognised other investment income of £46,000, of which £55,000 (2013:£nil) was from the interest income earned on the deferred consideration due from the sale of Craig Wind Farm. As at 28 February 2013, the Company had recognised early loan repayment penalty income of £9,000 from Firefly Energy Limited. During the year ended 28 February 2014, this was reclassified to loan principal repayment due to a change in the terms of the loan agreement and was net against the other income.

## 3. Investment management fees

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
Investment management fees	440	301	741
<b>Year ended 28 February 2013</b>			
Investment management fees	56	270	326

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

The amount paid to Temporis Capital LLP, during the year in respect of the net assets attributable to the ordinary shareholders was £440,000 (2013: £56,000).

Temporis Capital LLP agreed to waive the investment management fees payable by the Company's ordinary share fund in the amount of £530,000 from 12 September 2011 until the end of the period over which such amount would have otherwise accrued. Therefore the amount paid to Temporis Capital LLP for the year ended 28 February 2013 in respect of the net asset value attributable to ordinary shareholders was £56,000 when it would otherwise have been £383,000 had the investment management fees not been waived. The waived management fees of £327,000 were used to repay the financial liability of that amount as at 28 February 2012.

The amount paid to Temporis Capital LLP, during the year in respect of the net assets attributable to the "C" shareholders was £301,000 (2013: £270,000).

# NOTES TO THE FINANCIAL STATEMENTS

Continued

## 4. Other expenses

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
<i>Revenue expenses:</i>			
Directors' remuneration (note 5)	49	24	73
Fees payable to the Company's Auditor for:			
- <i>Audit of the Company's Annual Financial Statements</i>	20	10	30
- <i>Audit related services pursuant to legislation</i>	4	2	6
- <i>Other services relating to taxation</i>	3	1	4
Legal and professional fees	24	7	31
Other revenue expenses	118	58	176
	218	102	320
<i>Capital expenses:</i>			
Investment costs	37	-	37
	255	102	357

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2013</b>			
<i>Revenue expenses:</i>			
Directors' remuneration (note 5)	45	20	65
Fees payable to the Company's Auditor for:			
- <i>Audit of the Company's Annual Financial Statements</i>	18	8	26
- <i>Other services relating to taxation</i>	2	1	3
- <i>Other services pursuant to legislation</i>	7	3	10
Legal and professional fees	59	10	69
Other revenue expenses	111	56	167
	242	98	340
<i>Capital expenses:</i>			
Investment costs	68	-	68
	310	98	408

Other services relating to taxation were in respect of tax services provided by the Company's Auditor relating to corporation tax compliance and iXBRL tagging services. Audit related services pursuant to legislation provided by the Company's Auditor related to the review of the Half-yearly Report.

## 5. Directors' remuneration

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
A Moore	17	10	27
P Thomas	16	7	23
C Wood	16	7	23
Aggregate emoluments	49	24	73
<b>Year ended 28 February 2013</b>			
A Moore	17	8	25
P Thomas	14	6	20
C Wood	14	6	20
Aggregate emoluments	45	20	65

Further details regarding Directors' remuneration are disclosed in the Directors' Remuneration Report on pages 20 to 23. The Company had no employees other than the Directors.

## 6. Taxation

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
<b>(a) Tax charge/ (credit) for the year</b>			
Current UK corporation tax:			
Charged to revenue reserve	67	60	127
Credited to capital reserve	(67)	(55)	(122)
<b>Deferred tax</b>			
Credited to capital reserve	(10)	-	(10)
	(10)	5	(5)
<b>(b) Factors affecting the tax charge/ (credit) for the year</b>			
Profit before taxation	1,042	2,231	3,273
Tax charge calculated on profit before taxation at the applicable rate of 23.08% (2013: 24%)	240	515	755
Effect of:			
UK dividends not subject to tax	(75)	(76)	(151)
Capital gains not subject to tax	(188)	(434)	(622)
Non-deductible investment costs	13	-	13
	(10)	5	(5)
<b>Year ended 28 February 2013</b>			
<b>(a) Tax charge/ (credit) for the year</b>			
Current UK corporation tax:			
Charged to revenue reserve	152	65	217
Credited to capital reserve	(10)	(48)	(58)
	142	17	159
<b>(b) Factors affecting the tax charge/ (credit) for the year</b>			
Profit before taxation	4,254	1,945	6,199
Tax charge calculated on profit before taxation at the applicable rate of 24%	1,021	467	1,488
Effect of:			
UK dividends not subject to tax	(122)	-	(122)
Capital gains not subject to tax	(782)	(450)	(1,232)
Non-deductible revenue expenses	9	-	9
Non-deductible investment costs	16	-	16
	142	17	159

A deferred tax asset of £10,000 has been recognised in the Ordinary share fund corresponding to a tax loss carried forward at year end. The Directors expect the Company to make sufficient taxable profits in the future against which the tax loss may be offset.

No provision for deferred taxation has been made on potential capital gains due to the Company's current status as a VCT under section 274 of the ITA and the Directors' intention to maintain that status. The Company intends to continue to meet the conditions required to maintain its status as a VCT for the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

Continued

## 7. Dividends

Ordinary shares	2014 £000	2013 £000
<b>Amounts recognised as distributions to ordinary shareholders in the year:</b>		
Previous year's final dividend of 1.75p per ordinary share (2013: 2.30p)	427	562
Current year's interim dividend of 1.75p per ordinary share (2013: 1.75p)	426	427
	855	989

The Directors recommend a final dividend of 1.75p per ordinary share (2013: 1.75p) to be paid on 6 August 2014 to all ordinary shareholders on the register as at the close of business on 11 July 2014. The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in these Financial Statements.

	2014 £000	2013 £000
Interim dividend for the year ended 28 February 2014 of 1.75p per ordinary share (2013: 1.75p)	427	427
Proposed final dividend for the year ended 28 February 2014 of 1.75p per ordinary share (2013: 1.75p)	427	427
	854	854

"C" shares	2014 £000	2013 £000
<b>Amounts recognised as distributions to "C" shareholders in the year:</b>		
Previous year's final dividend of 1.80p per "C" share (2013: 1.00p)	204	113
Current year's interim dividend of 2.50p per "C" share (2013: 1.20p)	283	136
	487	249

The Directors recommend a final dividend of 2.50p per "C" share (2013: 1.80p) to be paid on 6 August 2014 to all "C" shareholders on the register as at the close of business on 11 July 2014. The proposed final dividend is subject to approval by the shareholders at the AGM and has not been included as a liability in these Financial Statements.

	2014 £000	2013 £000
Interim dividend for the year ended 28 February 2014 of 2.50p per "C" share (2013: 1.20p)	283	136
Proposed final dividend for the year ended 28 February 2014 of 2.50p per "C" share (2013: 1.80p)	283	204
	566	340

## 8. Basic and diluted return per share

		Ordinary Shares	"C" Shares
<b>For the year ended 28 February 2014</b>			
Revenue return for the year	<i>p per share</i>	2.22	4.65
<i>Based on:</i>			
Revenue return for the year	£000	542	527
Weighted average number of shares in issue	<i>number of shares</i>	24,418,792	11,329,107
Capital gain for the year	<i>p per share</i>	2.09	15.00
<i>Based on:</i>			
Capital gain for the year	£000	510	1,699
Weighted average number of shares in issue	<i>number of shares</i>	24,418,792	11,329,107
Net profit for the year	<i>p per share</i>	4.31	19.65
<i>Based on:</i>			
Net profit for the year	£000	1,052	2,226
Weighted average number of shares in issue	<i>number of shares</i>	24,418,792	11,329,107
<b>For the year ended 28 February 2013</b>			
Basic revenue return for the year	<i>p per share</i>	3.91	1.83
<i>Based on:</i>			
Basic revenue return for the year	£000	955	208
Weighted average number of shares in issue	<i>number of shares</i>	24,431,654	11,329,107
Capital gain for the year	<i>p per share</i>	12.92	15.19
<i>Based on:</i>			
Capital gain for the year	£000	3,157	1,720
Weighted average number of shares in issue	<i>number of shares</i>	24,431,654	11,329,107
Net profit for the year	<i>p per share</i>	16.83	17.02
<i>Based on:</i>			
Net profit for the year	£000	4,112	1,928
Weighted average number of shares in issue	<i>number of shares</i>	24,431,654	11,329,107

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 9. Investments

Year ended 28 February 2014	Shares £000	Loan stock £000	Ordinary Shares Total £000	Shares £000	Loan stock £000	"C" Shares Total £000	Shares £000	Loan stock £000	Total Total £000
<b>Opening position</b>									
Opening cost	9,773	7,264	17,037	5,447	3,422	8,869	15,220	10,686	25,906
Closing realised losses	(4,329)	(1,740)	(6,069)	-	-	-	(4,329)	(1,740)	(6,069)
Opening unrealised gains	4,543	320	4,863	1,788	86	1,874	6,331	406	6,737
Opening fair value	9,987	5,844	15,831	7,235	3,508	10,743	17,222	9,352	26,574
<b>During the year</b>									
Purchases at cost	50	692	742	10	401	411	60	1,093	1,153
Disposal proceeds	(352)	(682)	(1,034)	-	(83)	(83)	(352)	(765)	(1,117)
Conversion of loan stock to shares	848	(848)	-	-	-	-	848	(848)	-
Realised losses	(182)	(21)	(203)	(264)	(17)	(281)	(446)	(38)	(484)
Unrealised gains	854	149	1,003	1,996	155	2,151	2,850	304	3,154
Closing fair value	11,205	5,134	16,339	8,977	3,964	12,941	20,182	9,098	29,280
<b>Closing position</b>									
Closing cost	10,042	5,893	15,935	5,457	3,740	9,197	15,499	9,633	25,132
Closing realised losses	(4,234)	(1,228)	(5,462)	(464)	(17)	(481)	(4,698)	(1,245)	(5,943)
Closing unrealised gains	5,397	469	5,866	3,984	241	4,225	9,381	710	10,091
Closing fair value	11,205	5,134	16,339	8,977	3,964	12,941	20,182	9,098	29,280

The opening position of the ordinary share fund at 1 March 2013 included cost and realised losses of £810,000 in relation to the investments in Olgrinmore Limited, Spurlens Rig Wind Limited and The Small Hydro Company Limited. During the year ended 28 February 2014, Olgrinmore Limited and Spurlens Rig Wind Limited were struck off the register and The Small Hydro Company Limited was placed into liquidation, therefore the investments have been derecognised.

During the year, £200,000 of unrealised losses in the value of shares held by the "C" share fund were transferred to realised losses.

Year ended 28 February 2013	Shares £000	Loan stock £000	Ordinary Shares Total £000	Shares £000	Loan stock £000	"C" Shares Total £000	Shares £000	Loan stock £000	Total Total £000
<b>Opening position</b>									
Opening cost	10,242	8,272	18,514	4,900	3,283	8,183	15,142	11,555	26,697
Closing realised losses	(5,904)	(1,410)	(7,314)	-	-	-	(5,904)	(1,410)	(7,314)
Opening unrealised gains/(losses)	1,796	(397)	1,399	-	-	-	1,796	(397)	1,399
Opening fair value	6,134	6,465	12,599	4,900	3,283	8,183	11,034	9,748	20,782
<b>During the year</b>									
Purchases at cost	2,072	1,332	3,404	547	2,041	2,588	2,619	3,373	5,992
Reclassification of investment in subsidiary to investment due to loss of control	-	196	196	-	-	-	-	196	196
Disposal proceeds	(1,291)	(2,332)	(3,623)	-	(1,902)	(1,902)	(1,291)	(4,234)	(5,525)
Realised losses	(14)	(6)	(20)	-	-	-	(14)	(6)	(20)
Unrealised gains	3,086	189	3,275	1,788	86	1,874	4,874	275	5,149
Closing fair value	9,987	5,844	15,831	7,235	3,508	10,743	17,222	9,352	26,574
<b>Closing position</b>									
Closing cost	9,773	7,264	17,037	5,447	3,422	8,869	15,220	10,686	25,906
Closing realised losses	(4,329)	(1,740)	(6,069)	-	-	-	(4,329)	(1,740)	(6,069)
Closing unrealised gains	4,543	320	4,863	1,788	86	1,874	6,331	406	6,737
Closing fair value	9,987	5,844	15,831	7,235	3,508	10,743	17,222	9,352	26,574



The shares held by the Company are in unquoted UK companies. The Investment Manager's Report on pages 6 to 16 provides details in respect of the Company's shareholding in each investment, loans issued, investments purchased and disposed of during the year.

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 2014, each of the Company's investments held was valued using inputs which are considered to be Level 3 inputs and a reconciliation of the movements is in the table above.

The 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 9.5% to 11.5%), the price at which power and associated benefits may be sold and the level of electricity the investee companies' generating assets are likely to produce (which are taken from specialist consultant reports).

As at 28 February 2014, the value of the Company's investment in Biggleswade Wind Farm Limited was determined on a discounted cash flow basis, whereas previously the investment was valued on the basis of the price of recent investment. The impact of the change of valuation basis is discussed in the Investment Manager's report.

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, namely the sensitivity of the total value of all investments to a 1% increase or decrease in the discount factors 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 £872,000 or 5.3% higher. The application of the downside alternative discount factor would have resulted in the total value of all investments having been £786,000 or 4.8% 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 £712,000 or 5.5% higher. The application of the downside alternative discount factor would have resulted in the total value of its investments having been £653,000 or 5.0% lower.

The future price at which power and associated benefits may be sold is estimated using forecasts produced by third party industry experts and, in the case of the wind energy assets, the energy yield is determined by wind 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.

The value of BEL Holdco Limited is estimated by the Investment Manager as described in the Investment Manager's report. The impact of applying other reasonable downside assumptions in the analysis would have resulted in the total value of the ordinary share fund's investments being £60,000 or 0.4% lower. The application of alternative upside assumptions results in a considerable hypothetical range of outcomes therefore the analysis is not meaningful.

**10. Trade and other receivables**

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
<b>Non-current assets</b>			
Deferred consideration	742	-	742
Accrued interest income	3	-	3
	745	-	745
<b>Current assets</b>			
Accrued interest income	241	303	544
Other investment income	-	90	90
Other receivables	13	15	28
Deferred tax asset	10	-	10
Prepayments	23	11	34
	287	419	706

The deferred consideration of £742,000 represents the outstanding balance of the consideration arising from the Company's sale of Craig Wind Farm Limited during the year ended 28 February 2013. The Directors expect the Company will receive the outstanding amount in a period of between one and two years, therefore this amount is regarded as a non-current asset. As at 28 February 2014 the Company had receivables of £3,000 (2013: £134,000) which were expected to be paid after more than one year, which represent non-current assets. The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2013</b>			
<b>Non-current assets</b>			
Deferred consideration	687	-	687
Other investment income	-	90	90
Accrued interest income	21	23	44
	708	113	821
<b>Current assets</b>			
Accrued interest income	166	24	190
Other receivables	14	-	14
Corporation tax	-	-	-
Prepayments	12	6	18
	192	30	222

## 11. Cash and cash equivalents

	Ordinary Shares	"C" Shares	Total
	Cash £000	Total £000	Total £000
As at 1 March 2013	1,637	1,248	2,885
Net decrease	(1,075)	(729)	(1,804)
As at 28 February 2014	562	519	1,081

	Ordinary Shares	"C" Shares	Total
	Cash £000	Total £000	Total £000
As at 1 March 2012	608	1,685	2,293
Net increase/(decrease)	1,029	(437)	592
As at 28 February 2013	1,637	1,248	2,885

The ordinary share fund was holding £156,000 on behalf of Bernard Matthews Green Energy Halesworth Limited, one of its investee companies, as at 28 February 2014, the corresponding balance being included within other payables.

As at 28 February 2013, the ordinary share fund was holding £727,000 on behalf of Bernard Matthews Green Energy Weston Limited, one of its investee companies, the corresponding balance being included within other payables, which was repaid during the year.

The decrease in cash and cash equivalents held by the "C" share fund during the year was primarily attributable to the purchase of investments and payment of expenses, offset by investment income and proceeds from investments.

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

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
Corporation tax	-	7	7
Trade payables	8	20	28
Other payables	177	1	178
Accruals	51	18	69
	236	46	282

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2013</b>			
Corporation tax	38	8	46
Trade payables	3	3	6
Other payables	738	15	753
Accruals	72	15	87
	851	41	892

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

# NOTES TO THE FINANCIAL STATEMENTS

Continued

## 13. Share capital

Authorised	Ordinary Shares		"C" Shares		"D" Shares		Total
	Number of shares of 25p each	£000	Number of shares of 25p each	£000	Number of shares of 25p each	£000	
<b>At 1 March 2013</b>	50,000,000	12,500	20,000,000	5,000	-	-	70,000,000
<b>At 28 February 2014</b>	50,000,000	12,500	20,000,000	5,000	20,000,000	5,000	90,000,000

Allotted, called up and fully paid	Ordinary Shares		"C" Shares		"D" Shares		Total
	Number of shares of 25p each	£000	Number of shares of 25p each	£000	Number of shares of 25p each	£000	
<b>At 1 March 2013</b>	24,422,655	6,105	11,329,107	2,832			35,751,762
Purchased and cancelled during the year	(30,000)	(8)	-	-			(30,000)
<b>At 28 February 2014</b>	24,392,655	6,097	11,329,107	2,832			35,721,762

Authorised	Ordinary Shares		"C" Shares		"D" Shares		Total
	Number of shares of 25p each	£000	Number of shares of 25p each	£000	Number of shares of 25p each	£000	
<b>At 1 March 2012</b>	30,000,000	7,500	20,000,000	5,000			50,000,000
Shares authorised during the year	20,000,000	5,000	-	-			20,000,000
<b>At 28 February 2013</b>	50,000,000	12,500	20,000,000	5,000			70,000,000

Allotted, called up and fully paid	Ordinary Shares		"C" Shares		"D" Shares		Total
	Number of shares of 25p each	£000	Number of shares of 25p each	£000	Number of shares of 25p each	£000	
<b>At 1 March 2012</b>	24,537,560	6,134	11,329,107	2,832			35,866,667
Allotted, called up and fully paid during the year	8,274,552	2,068	-	-			8,274,552
Purchased and cancelled during the year	(8,389,457)	(2,097)	-	-			(8,389,457)
<b>At 28 February 2013</b>	24,422,655	6,105	11,329,107	2,832			35,751,762

At 28 February 2014, the Company had two classes of shares which carry no right to fixed income. The Company authorised 20,000,000 "D" shares following a general meeting on 18 December 2013. However, the first allotment of "D" shares took place after the year end. The rights and obligations attaching to the Company's shares are set out in the Directors' Report on pages 17 to 19.

On 13 January 2014, the Company purchased 30,000 Ordinary shares at the price of 56.5p per Ordinary share.

## 14. Basic and diluted net asset value per share

The net asset value per ordinary share of 72.6p as at 28 February 2014 (2013: 71.7p) is based on net assets of £17,697,000 (2013: £17,517,000) divided by 24,392,655 ordinary shares in issue at that date (2013: 24,422,655 ordinary shares). The net asset value per "C" share of 122.1p as at 28 February 2014 (2013: 106.7p) is based on net assets of £13,833,000 (2013: £12,093,000) divided by 11,329,107 "C" shares in issue at that date (2013: 11,329,107 "C" shares).

## 15. Events subsequent to year end

Since the year end the Company has allotted 1,613,328 new "D" shares raising net proceeds of £1.57 million.

The wind farms under construction at Eye Airfield, Weston Airfield and North Pickenham Airfield became operational post year end as discussed in the Investment Manager's report.

On 23 May 2014, following a senior loan refinancing, Osspower Limited repaid its shareholder loan of £55,000 and paid accrued interest of £26,000 to the Company. Osspower Limited also paid £90,000 in arrangement fees to the Company in respect of a loan which had been provided by the Company's "C" share fund. The arrangement fees had been recognised as income in a previous financial period and were outstanding for payment as at 28 February 2014.

## 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 and UK treasury bills are categorised as "fair value through profit or loss" and the other financial instruments are initially recognised at fair value and subsequently at amortised cost. The main purpose of these financial instruments is to generate revenue and capital appreciation.

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

The main risks arising from the Company's financial instruments are 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 2014

Ordinary Shares	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<i>At fair value through profit or loss:</i>				
Ordinary shares	11,205	n/a	n/a	n/a
Loan stock	5,134	0% - 13.5%	11.54%	11.4 years
<i>Loans and receivables:</i>				
Cash	562	0%	0%	n/a
Deferred consideration	742	7.84%	7.84%	1.2 years
Accrued interest income	244	n/a	n/a	n/a
<hr/>				
"C" Shares	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<i>At fair value through profit or loss:</i>				
Ordinary shares	8,977	n/a	n/a	n/a
Loan stock	3,964	0% - 13%	11.56%	10 years
<i>Loans and receivables:</i>				
Cash	519	0%	0%	n/a
Accrued interest income	303	n/a	n/a	n/a

16. Financial instruments and risk management (continued)

As at 28 February 2013

Ordinary Shares	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<i>At fair value through profit or loss:</i>				
Ordinary shares	9,987	n/a	n/a	n/a
Loan stock	5,844	0% - 13.5%	9.99%	9.6 years
<i>Loans and receivables:</i>				
Cash	1,637	0%	0%	n/a
Deferred consideration	687	7.84%	7.84%	1.2 years
Accrued interest income	187	n/a	n/a	n/a
<b>"C" Shares</b>				
	£000	Interest rate p.a. %	Weighted average interest rate p.a. %	Weighted average period to maturity
<i>At fair value through profit or loss:</i>				
Ordinary shares	7,235	n/a	n/a	n/a
Loan stock	3,508	0% - 13%	11.54%	10.8 years
<i>Loans and receivables:</i>				
Cash	1,248	0% - 0.25%	0.02%	n/a
Accrued interest income	47	n/a	n/a	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 both the ordinary share fund and "C" share fund is not subject to movements resulting from market interest rate fluctuations as the rates are fixed. Therefore this income presents a low interest rate risk profile. However, interest earned from 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 should be mitigated by the Company's intention to complete its investment strategy and to hold a majority of its investments in instruments which are not exposed to market interest rate changes.

**Financial liabilities**

The Company has no significant guarantees or financial liabilities other than the accruals and the amount payable to Bernard Matthews Green Energy Halesworth Limited of £156,000 as discussed in Note 11 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 2014 the Company had no outstanding borrowings (2013: £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 £1,634,000 or 156.80% (2013: £1,583,000 or 37.21%) and an increase or decrease in net asset value of the same amount or 9.23% (2013: 9.04%).

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 £1,294,000 or 58.01% (2013: £1,074,000 or 55.22%) and an increase or decrease in net asset value of the same amount or 9.36% (2013: 8.88%).

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 investments and 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 or in UK treasury bills and are therefore readily convertible into cash.

### 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 Company's receivables include £742,000 of deferred consideration from the sale of Craig Wind Farm Limited. The Company holds security over the assets of Craig Wind Farm Limited in respect of the deferred consideration.

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

The Company's maximum credit risk is £11.6 million (2013: £13.3 million) of which the ordinary share fund is exposed to £6.7 million (2013: £8.4 million) and the "C" share fund is exposed to £4.9 million (2013: £4.9 million).

The table below sets out the amounts receivable by the Company which were past due but not individually impaired as at 28 February 2014 and the extent to which they are past due:

<b>Ordinary Shares</b>	<b>Total £000</b>	<b>0 - 6 months £000</b>	<b>6 - 12 months £000</b>	<b>Over 12 months £000</b>
Loan	55	-	-	55
Accrued interest	24	2	3	19
Receivables past due	79	2	3	74

The amounts past due for payment represent interest due on a loan investment with Osspower Limited. In this analysis, the loan principal amount on which the interest has accrued is included as past due. Osspower Limited repaid the loan and paid the accrued interest after the year end.

The tables below set out the amounts receivable by the Company which were past due but not individually impaired as at 28 February 2013 and the extent to which they were past due:

<b>"C" Shares</b>	<b>Total £000</b>	<b>0 - 6 months £000</b>	<b>6 - 12 months £000</b>	<b>Over 12 months £000</b>
Loan	55	-	-	55
Accrued interest	15	1	3	11
Receivables past due	70	1	3	66

**16. Financial instruments and risk management (continued)**

The expected timing of receipt of trade and other receivables is presented below:

Ordinary Shares	Total £000	0 - 6 months £000	6 - 12 months £000	Over 12 months £000
Deferred consideration	742	-	742	-
Accrued interest income	244	241	3	-
Other receivables	10	10	-	-
	996	251	745	-

"C"Shares	Total £000	0 - 6 months £000	6 - 12 months £000	Over 12 months £000
Other investment income	90	90	-	-
Accrued interest income	303	303	-	-
Other receivables	15	15	-	-
	408	408	-	-

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

On 2 April 2008, the Company registered a charge over its shares in Redimo LFG Limited to Alliance & Leicester Commercial Finance plc (now Santander Asset Finance plc) as security for a senior loan facility of £16.9 million raised by Redimo LFG Limited. The charge includes all existing and future shares that the Company owns in Redimo LFG Limited and therefore includes the 2,500 shares the Company acquired on 19 December 2008 and the further 2,000 shares the Company acquired on 18 February 2009 together with the 7,000 shares acquired by the Company from Ventus 3 VCT plc as a result of the Merger of the two companies. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of Redimo LFG Limited including those shares acquired by the Company from Ventus 3 VCT plc as a result of the Merger which took place in May 2010. As at 28 February 2014 the Company's investment was valued at £nil for the reasons described in the Investment Manager's Report.

On 22 October 2008, the Company registered a charge over its shares in Achairn Energy Limited to Alliance & Leicester Commercial 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 including those shares acquired by the Company from Ventus 3 VCT plc as a result of the Merger.

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 including those shares acquired by the Company from Ventus 3 VCT plc as a result of the Merger.

On 28 April 2008, the Company registered a charge over its shares in PBM Power Limited to Alliance & Leicester Commercial Finance plc (now Santander Asset Finance plc) as security for a senior loan facility of £3.8 million raised by PBM Power Limited to finance the construction costs of the biomass generator. The liability of the Company under this charge of shares is limited to the value of the Company's investment in shares of PBM Power Limited including those shares acquired by the Company from Ventus 3 VCT plc as a result of the Merger. As at 28 February 2014 the Company's investment was valued at nil for the reasons described in the Investment Manager's Report. PBM Power Limited was placed into liquidation on 15 October 2013.

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 including those shares acquired by the Company from Ventus 3 VCT plc as a result of the Merger.

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 £6.45 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 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 White Mill Windfarm 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 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 Biggleswade Wind Farm Limited.



On 15 April 2013, the Company registered a charge over its shares in Eye Wind Power Limited to GCP Onshore Wind 1 Limited as security for the senior loan facility of £5 million raised by Eye Wind Power Limited to finance the construction costs of a wind farm. 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 5 August 2013, the Company registered a share charge over its shares in North Pickenham Energy Limited and Bernard Matthews Green Energy Pickenham Limited to GCP Onshore Wind 1 Limited as security for a senior loan facility of £3.1 million raised by Bernard Matthews Wind Farm (North Pickenham) LLP 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 North Pickenham Energy Limited and Bernard Matthews Green Energy Pickenham Limited.

On 5 August 2013, the Company registered a share charge over its shares in Weston Airfield Investments Limited and Bernard Matthews Green Energy Weston Limited to GCP Onshore Wind 1 Limited as security for a senior loan facility of £4.5 million raised by Bernard Matthews Wind Farm (Weston) LLP 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 Weston Airfield Investments Limited and Bernard Matthews Green Energy Weston Limited.

The Company had no other contingencies, financial commitments or guarantees as at 28 February 2014.

## 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 balance sheet date and transactions with these companies during the year are summarised below.

	Ordinary Shares £000	"C" Shares £000	Total £000
<b>Year ended 28 February 2014</b>			
<b>Balances</b>			
Investments - shares	10,796	8,977	19,773
Investments - loan stock	5,134	3,964	9,098
Accrued interest income	244	303	547
<b>Transactions</b>			
Loan stock interest income	384	433	817
Dividend income	222	330	552
<b>Year ended 28 February 2013</b>			
<b>Balances</b>			
Investments - shares	9,577	7,235	16,812
Investments - loan stock	5,844	3,508	9,352
Accrued interest income	187	47	234
<b>Transactions</b>			
Loan stock interest income	530	237	767
Dividend income	491	-	491

## 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.

The Company does not have any externally imposed capital requirements.

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

Notice is hereby given that the AGM of Ventus 2 VCT plc will be held at 12.30pm on Tuesday, 29 July 2014 at the offices of Howard Kennedy LLP, 19 Cavendish Square, London, W1A 2AW for the purpose of considering and, if thought fit, passing the following Resolutions (of which, Resolutions 1 to 8 will be proposed as Ordinary Resolutions and Resolution 9 will be proposed as a Special Resolution):

## Ordinary Business

1. To receive the Company's audited Annual Report and Financial Statements for the year ended 28 February 2014.
2. To declare a final dividend of 1.75p per ordinary share and 2.50p per "C" share in respect of the year ended 28 February 2014
3. To approve the Directors' Remuneration Policy.
4. To approve the Directors' Remuneration Report for the year ended 28 February 2014.
5. To re-elect Mr Paul Thomas as a Director of the Company.
6. To re-elect Mr Colin Wood as a Director of the Company.
7. To appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
8. To authorise the Directors to determine the remuneration of the Auditor.

## Special Resolutions

9. That the Company be and is hereby generally and unconditionally authorised to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of 25p each and "C" shares of 25p each in the capital of the Company provided that:
  - (i) The maximum aggregate number of shares hereby authorised to be purchased is an amount equal to 3,656,459 ordinary shares and 1,698,233 "C" shares, representing 14.99% of the issued share capital of each class;
  - (ii) The minimum price which may be paid for a share is 25p per share;
  - (iii) The maximum price, exclusive of any expenses, which may be paid for a share is an amount equal to the higher of; (a) 105% of the average of the middle market prices shown in the quotations for a share in The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;
  - (iv) The authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the AGM of the Company to be held in 2015 and the date which is 18 months after the date on which this resolution is passed; and
  - (v) The Company may make a contract or contracts to purchase its own shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of its own shares in pursuance of any such contract or contracts as if the authority conferred hereby had not expired.

By order of the Board

**The City Partnership (UK) Limited**  
Secretary  
29 May 2014



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