



30 September

2023

Gresham House Renewable Energy VCT2 plc

Report & Accounts for the year ended 30 September 2023



Gresham House
Specialist asset management

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The total generation capacity of renewable energy projects co-owned by Gresham House Renewable Energy VCT1 plc (VCT1) and Gresham House Renewable Energy VCT2 plc (VCT) at the start of the financial year was 34.4MWp, but this reduced to 21.3MWp following the sale of part of the portfolio in April 2023. The renewable energy assets in the portfolio of VCT1 and the VCT (including the sold assets which contributed some generation in the first part of the year), generated 23,372MWhs of electricity over the financial year, sufficient to meet the annual electricity consumption of circa 8,657 homes. The Investment Adviser estimates that the carbon dioxide savings achieved by generating this output from renewable energy sources versus gas-fired power stations, are equivalent to 9,909 tonnes of carbon dioxide emissions saved.

Investment Objectives

Gresham House Renewable Energy VCT2 plc (VCT) is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995. Following the adoption of the new Investment Policy from 13 July 2021 (the New Investment Policy), the VCT's principal objective is to manage the VCT with the intention of realising the sale or monetisation otherwise of all remaining assets in the portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning value to Shareholders in an orderly manner, whilst protecting the tax position of Shareholders hereafter being defined as, Managed Wind Down.

The VCT will pursue its investment objective by effecting an orderly realisation of its assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders. This process might include sales of individual assets or running of the portfolio in accordance with the existing terms of the assets, or a combination of both.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 22 to 37.



For more information visit
<https://greshamhouse.com/real-assets>



Shareholder Information

Share price

The VCT's share prices can be found on various financial websites with the following TIDM/EPIC codes:

| | Ordinary Shares | 'A' Shares |
|-----------------------------------------|---------------------|--------------------|
| TIDM/EPIC codes | GV20 | GV2A |
| Latest share price (22 January 2024) | 62.00p per share | 5.05p per share |

Selling shares

The Board has decided that the VCT will not be buying shares for the foreseeable future as highlighted in the Interim Results, as the VCT wishes to conserve such cash as it generates for the Managed Wind Down of the VCT and the payment of dividends.

Financial calendar

| | |
|---------------|--------------------------------------------------|
| 19 March 2024 | Annual General Meeting |
| June 2024 | Announcement of half yearly financial results |

Dividends

Dividends will be paid by the registrar on behalf of the VCT. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, and did not complete these details on their original application form can, if they have a UK bank account, sign up for this service on Signal Shares (by clicking on 'your dividend options' and following the on screen instructions) or by contacting the Customer Support Centre. Signal Shares is a secure online site where you can manage your shareholding quickly and easily.

Link Group Customer Support Centre can be contacted:

- by phone on UK – 0371 664 0324 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).
- by email – vccts@linkgroup.co.uk

- by post – Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL

Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the VCT's registrar, Link Group, under the signature of the registered holder.

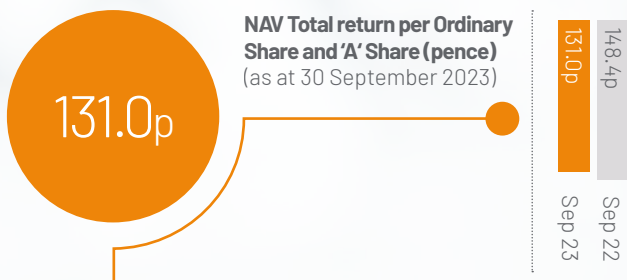
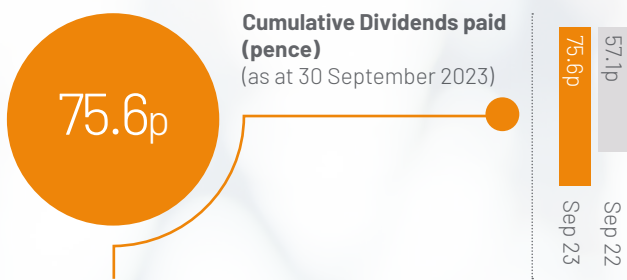
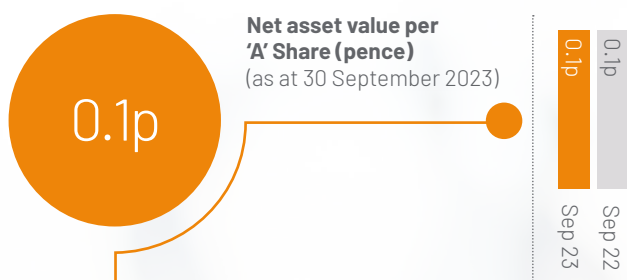
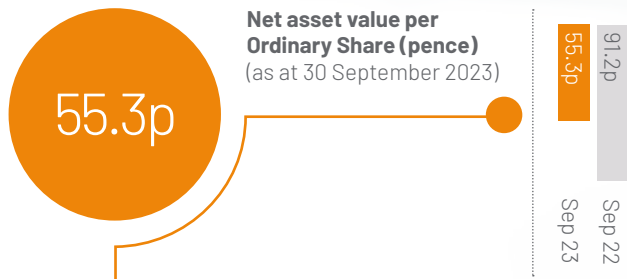
Other information for Shareholders

Up-to-date VCT information (including financial statements, share prices and dividend history) is available on the Investment Adviser's website at:

<https://greshamhouse.com/real-assets>

If you have any queries regarding your shareholding in Gresham House Renewable Energy VCT2 plc, please contact the registrar on the above number or visit Link's website at vccts@linkgroup.co.uk.

Financial Highlights*

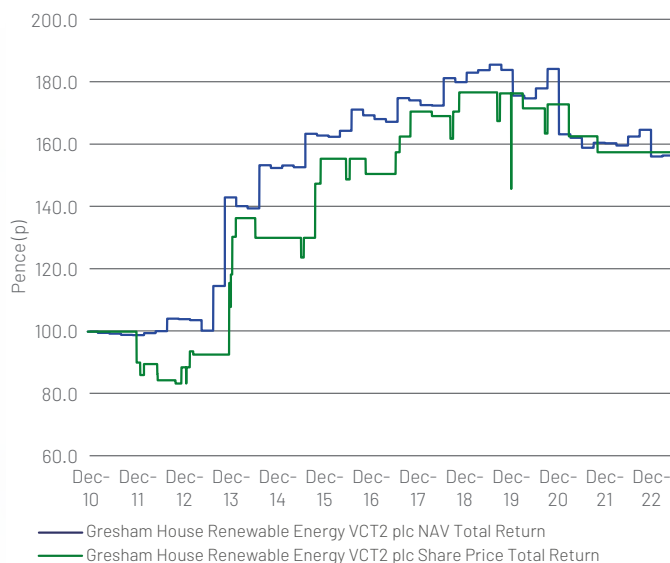


* The above financial highlights are considered to be Alternative Performance Measures, further details on how these are calculated have been included in the Strategic Report under the Key Performance Indicators section.

VCT2 Share Price Total Return

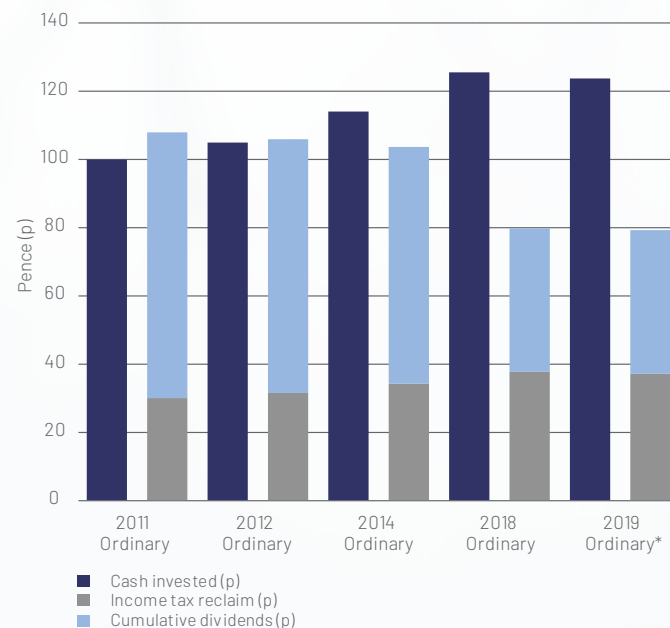
Total Return with dividends reinvested

The graph below represents the VCT's performance over the reporting periods since the VCT's Ordinary Shares and 'A' Shares were first listed on the London Stock Exchange, and shows share price total return (share price plus cumulative dividends paid) and net asset value total return (net asset value plus cumulative dividends paid) on a dividends reinvested basis, as per the AIC method.



Cash Returned to Shareholders by date of investment

The chart below shows the cash returned to Shareholders based on the subscription price and the income tax reclaimed on subscription.



* Includes the interim dividend of 7.5p per Ordinary share paid on 21 December 2023.

Directors

Christian Yates (Chairman) was closely involved in establishing both Gresham House Renewable Energy VCTs in 2010 (formerly Hazel Renewable Energy VCTs) whilst a Partner at Hazel Capital LLP from 2009 to 2012. Having started his career in financial services in 1988 he has worked for a number of investment houses holding senior positions at Bear Stearns Asset Management, Julius Baer, Chase Asset Management and Lazard Asset Management.

He has significant investment experience across many asset classes including private equity, hedge funds, infrastructure and real estate. He remains active, both as an investor and developer, in the field of renewable energy.

He is the co-founder of a UK self-storage business with a focus on repurposing redundant buildings in urban conurbations and is a member of the Board of Echo Energy PLC.

He is also a Board member/trustee of a military charity F4H (Future for Heroes Limited).

Matthew Evans was a founding partner of LGT Vestra in 2007, where he ran the ventures team, focusing on renewables, unlisted commercial property and private equity investments. Matthew founded CH1 Investment Partners LLP, which provides bespoke investment solutions to high net worth, professional and sophisticated investors.

Matthew is a director of several other businesses, including Innova Energy II Ltd and Cygnet Renewables Ltd, and is also a Designated Member of Innova Transmission Funding LLP.

Andrew Donovan is an experienced corporate financier, with over 27 years of M&A and capital-raising transaction experience in the utilities, energy and infrastructure sectors. He has specialised in the renewable energy sector for the past 18 years.

Andrew helped develop a portfolio of UK grid-scale battery storage projects for Capbal (2016-22). Batteries have a crucial role to play in balancing and stabilising the electricity network with the rapid growth of intermittent renewables.

Andrew is also a member of Chartered Accountants Ireland.

All Directors are Non-Executive. Details of the independence of each Director are set out in the Corporate Governance Statement on page 44.

Investment Adviser

Gresham House Asset Management Limited (GHAM or Gresham House) is the Investment Adviser to the VCT and Gresham House Renewable Energy VCT1 plc (VCT1 and together the VCTs). GHAM is owned by Gresham House plc, an AIM quoted (up to

19 December 2023) specialist alternative asset manager providing funds, direct investments and tailored investment solutions, including co-investment across a range of highly differentiated alternative investment strategies. GHAM's expertise

includes strategic public equity and private assets, forestry, renewable energy, housing and infrastructure. Details of the Acquisition of Gresham House plc can be found in the Chairman's Statement on pages 4 to 6.

Chairman's Statement

I am pleased to present the Annual Report of Gresham House Renewable Energy VCT2 plc (VCT) for the year ended 30 September 2023.

Following the results of the continuation vote in July 2021, and therefore the decision to enter a Managed Wind Down (see Investment Objectives on contents page), the Board together with the Investment Adviser has continued, throughout the year under review, to work towards realising the Company's portfolio of assets in a manner that achieves a balance between maximising net value received from the sale of assets and making a timely return of capital.

As noted in the Interim Report, it was pleasing to be able to report that, in April 2023, a sale of two ground-mounted solar sites and approximately 1,600 commercial and residential solar installations to Downing Renewables & Infrastructure Trust plc for a cash consideration of £12.6mn was concluded. Since this date, the Board has continued to seek an acquiror for the remaining assets in the portfolio. As part of this process a new Corporate Finance Adviser was appointed to assist with the sale of the remaining solar assets to reinvigorate the sale proposition amongst potential acquirers in the current market.

The technical performance of the portfolio continues to be fair following maintenance and repowering works carried out in previous years, however given the age of the portfolio, further technical maintenance

has been necessary during the year which has impacted output generation. Total revenue was also affected by poor irradiation over the spring and summer, resulting in a shortfall of 6.7% to budget. Conversely, high inflation (which benefits the inflation-linked FIT tariffs receivable by the portfolio) continued to support cash generation.

At the year end, the Company's NAV per 'pair' of shares (one Ordinary Share and one 'A' Share) was 55.4p compared to 91.3p at 30 September 2022. This reduction is due to the payment of dividends totalling 18.5p per Ordinary Share mainly generated out of the proceeds from the partial sale in April, and also the consequence of a reduction in value of the remaining portfolio. Consistent with the previous year, the valuation of the portfolio at 30 September 2023 takes into account the Electricity Generator Levy (EGL), the EGL is a temporary (until 2028) 45% charge on exceptional receipts generated from the production of wholesale electricity, where exceptional receipts are defined as amounts from wholesale electricity sold at an average price in excess of a benchmark price of £75/MWh over an accounting period. This benchmark price will be adjusted in line with CPI from April 2024. The EGL is likely to be payable by an acquiror of these assets. Shareholders should take note that if, as in previous years, a portfolio value based purely



Christian Yates
Chairman

on the cash flows generated by the assets were to be used, it would result in a value that would be somewhat higher as the Company would not be subject to the EGL. This is because the Company's generation output falls below the threshold for the EGL, and the revenues are within the £10mn allowance.

Despite headline inflation having been high during the financial year, the expectation is that the fall as seen in the last few months of 2023 will continue over the course of 2024. Expectations of these factors are a key consideration in determining a valuation of the Company's assets. In addition, there has been a general marked reduction in pricing in all energy markets leading to lower electricity power prices. At the same time there has been a very material increase since Q3 2022 in the discount rates which buyers will apply to real assets largely driven by higher interest rates, that results in a further reduction in valuations. Another factor to consider as part of portfolio valuation is that the Company's assets have a more limited market compared with newer solar assets which are generally much larger in scale as, given their age they can be challenging to manage whilst also taking into consideration the complex financing arrangements which any buyer must take over.

Investment portfolio

At the year end, the VCT held a portfolio of eleven investments, which were valued at £18.0mn. There have been no follow-on acquisitions. As part of the Managed Wind Down, five investments were disposed of during the financial year.

The portfolio is analysed (by value) between the different types of assets as follows:

| | |
|-----------------------------------------|-------|
| Ground mounted solar | 85.7% |
| Small wind including Tumblewind Limited | 14.3% |
| Non-renewable assets | 0.0% |

The Board has reviewed the investment valuations at the year end and notes that the valuation of the remaining renewables portfolio has decreased by £5.46mn or 23.3%. As indicated earlier, the underlying portfolio has been impacted by the general fall in electricity prices.

The portfolio is still benefiting from having negotiated several PPAs at higher power prices which have been locked into the portfolio and will generate stronger returns over the next year. On the other hand, the discount rates applied are now higher in line with equity investors' requirements compared to other investment opportunities. Further, the UK Government's levy on revenue from the sale of electricity, the EGL, has resulted in the marginal rate of taxation on electricity revenues above £75/MWh being 70% consisting of 25% corporation tax plus 45% EGL.

As referred to previously, there has been an ongoing issue in relation to the connection of the South Marston solar farm to its off taker. This arose from the decision of the off taker (Honda) to cease business at the site South Marston supplies and to sell the site to a third party. It is taking considerable time and effort to resolve the issue. Whilst the new owner of the site, a provider of logistic facilities, says they want to use the power from South Marston they cannot commit until they have full planning permission (provisionally granted but awaiting signature of the Section 106 arrangement which validates the planning permissions) and customers on site. In order to resolve the uncertainty around this situation, a new grid connection offer has been accepted and existing agreements with

Honda that will be novated to the new buyer are being improved to give South Marston better protection. This should remove this impediment to the potential sale of the asset and the others within the same loan structure. For more details see page 10.

In order to maintain VCT status, the Company needs to ensure that it maintains certain percentages of qualifying investments within its portfolio. The Board anticipates that the Company will fall below these percentages as the asset realisation process continues. Therefore, to avoid a breach of VCT status, the Board has been advised that the Company may in due course need to start the process of a members' voluntary liquidation which would involve delisting of the Company's shares.

The Board continues to monitor those ratios and to plan to ensure that the Company is not at risk of breach.

Venture Capital investments

The VCT also still holds two investments that are not in renewable energy. However, as reported in the Interim Report, these companies entered administration during the year with no recovery of any value expected.

Further detail on the investment portfolio is provided in the Investment Adviser's Report.

Net asset value and results

At 30 September 2023, the Net Asset Value (NAV) per Ordinary Share stood at 55.3p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 55.4p per 'pair' of shares. The movement in the NAV per share during the year is detailed in the table below:

| | Pence per 'pair' of shares |
|---------------------------------------------------|----------------------------|
| NAV as at 1 October 2022 | 91.3 |
| Less dividend payments during the year | (18.5) |
| Valuation increase on assets sold during the year | 3.1 |
| Valuation decrease on assets still held | (21.8) |
| Income less expenses | 1.3 |
| NAV as at 30 September 2023 | 55.4 |

The NAV Total Return (NAV plus cumulative dividends) has decreased by 11.7% in the last year and at the year end stands at 131.0p excluding the initial 30% VCT tax relief, compared to the cost to investors in the initial fundraising of £1.00 or 70.0p net of income tax relief.

The loss on ordinary activities after taxation for the year was £4.6mn (2022: £0.5mn profit), comprising a revenue profit of £411,000 (2022: £81,000) and a capital loss of £5.0mn (2022: capital profit of £444,000) as shown in the Income Statement.

Dividends

On 21 December 2022, the Board declared a dividend in respect of the year ended 30 September 2022 of 2.0p per Ordinary Share. This dividend was paid on 27 January 2023 to Shareholders on the register at 6 January 2023.

As a result of the partial sale of assets, on 28 July 2023 a dividend of 16.5p per Ordinary Share was paid to Shareholders on the register of members on 7 July 2023.

As outlined in the Interim Report, the Company successfully obtained Court approval to cancel the Company's share premium reserve. This process has the impact of increasing the Company's distributable reserves allowing distributions to be lawfully made. This approval, and subsequent filing of relevant accounts allowed the resumption of dividend payments once again.

After the year end, in addition to dividend payments made during the financial year, the Board was pleased to declare a 7.5p per Ordinary Share interim dividend. The 7.5p interim dividend related to income generation from the portfolio, but part also related to the distribution of the remaining proceeds arising from the part sale of assets in April 2023. This dividend has been paid on 21 December 2023 to Shareholders on the register on 1 December 2023. No amounts were payable to 'A' Shares during the year or after the year end.

Including this most recent 7.5p dividend, the total dividends paid to date for a combined holding of one Ordinary Share and one 'A' Share amounts to 83.1p. At 30 September 2023, dividends of 75.6p per 'pair' of shares were paid (2022: 57.1p).

Chairman's Statement (continued)

2023 Annual General Meeting (AGM)

The VCT's twelfth AGM was held on 27 April 2023 at 11:30 a.m. and all resolutions were passed by way of a poll.

2024 Annual General Meeting (AGM)

The VCT's thirteenth AGM will be held at The Scalpel, 52 Lime Street, London EC3M 7AF on 19 March 2024 at 12.00 p.m.

Share Buybacks

As noted in previous Reports, the Board has decided that the VCT will not be buying in shares for the foreseeable future.

Acquisition of Gresham House plc, statement regarding Investment Adviser

Further to the announcement on 17 July 2023 about the acquisition of Gresham House plc by Searchlight Capital Partners L.P., the acquisition has now completed, and Gresham House plc delisted from the London Stock Exchange on 20 December 2023, to become a privately owned company. Gresham House Asset Management Limited,

the Company's Investment Adviser, is wholly owned by Gresham House plc. The acquisition is expected to have minimal impact on the Company and business is continuing as usual. For further information please visit the website link: <https://greshamhouse.com/about/>.

Outlook

As noted in previous reports, the Board has not been able to progress the sale of the Company's remaining assets as quickly as Shareholders may have expected due to challenging market conditions over the past 18 months and issues on certain assets (notably South Marston) which needed resolving. However it is pleased to report significant progress has been made during the year resulting in material distribution to Shareholders. The Board continues to ensure that every effort is being made to maximise Shareholder returns. Following a change in Corporate Finance Adviser, the Board is optimistic that realisations in respect of the remaining portfolio can be made in 2024.

In the meantime, as evidenced by the most recent dividend payment after the year end, the strong cash flows generated by the remaining portfolio are generating returns for the Company. Despite this, costs throughout the remaining portfolio continue to rise and, with only the Investment Advisers fees linked to the NAV, the Company's costs largely remain at the pre-sale of assets level. So the right course of action remains to find an appropriate and willing purchaser who can achieve economies of scale with the assets the Company is seeking to sell.

Once again, I would like to thank Shareholders for their patience and continued interest and support.

Christian Yates
Chairman

29 January 2024

Investment Adviser's Report

Portfolio Highlights

Gresham House Renewable Energy VCT2 plc (VCT) remains invested in the renewable energy projects that the VCT and Gresham House Renewable Energy VCT1 plc (VCT1) have co-owned for a period of between nine to twelve years, depending on the asset. The total generation capacity of assets co-owned by the VCT at the start of the year was 34.4MWp, but this reduced to 21.3MWp following the sale of part of the portfolio during the period. The VCT also owns two venture capital investments. However, these companies entered administration during the year with no recovery expected (see Venture Capital Investments paragraph on page 11).

In April 2023, the sales process of some of the solar projects that were owned jointly with VCT1 was concluded with two ground mounted solar sites and approximately 1,600 commercial and residential solar installations (collectively known as Surya) being sold to Downing Renewables & Infrastructure Trust Plc. A total cash consideration by the VCTs of £9.7mn, £4.87mn per VCT, was received in the way of sale proceeds. In addition, a cash consideration in the way of sale proceeds of £2.9mn was received on SPV level. The remaining portfolio capacity at the end of the full year (30 September 2023) was 21.3MWp made up of 20.3MWp from six ground mounted solar FIT projects and 1MWp of micro-wind projects spread across approximately 200 sites.

Work is now underway to sell the remainder of the solar portfolio, with the appointment of Jones Lang LaSalle (JLL) as the new Corporate Finance Adviser who have launched a refreshed sale process to divest the remaining solar assets.

The Investment Adviser continues to manage the assets and deliver the best possible yield from them, whilst also supporting the Boards of the VCTs and JLL in advancing the new sale process.

The Investment Adviser has undertaken a valuation exercise (as of the full year to 30 September 2023) for the purpose of determining the Net Asset Value (NAV) and has provided the Directors with several valuation scenarios based on a range of key assumptions. It is the VCT Directors that have the responsibility of valuing these assets. The valuation presented in this annual report

necessarily reflects the Directors' view of the fair value of the assets which incorporates potential costs such as the EGL (detailed in the Chairman's Statement on page 4) that an acquirer is likely to incur through holding the assets, as well as their view on the key assumptions that determine future operational and financial performance. Where possible the Directors have checked their assumptions with independent advisers, e.g. discount rates with the JLL and energy yield assessments with the Technical Advisers.

During the year the total revenue from renewable energy generation was £14.7mn (2022: £13.1mn) and of this, £10.0mn was from government incentives and inflation-linked contracts. The total revenue was 6.7% behind budget due to a combination of factors including lower than budgeted irradiation, power prices and output due to some technical issues.

The vast majority of the assets held by the VCT produce solar power. The solar portfolio is older than over 90% of the total installed solar capacity in the UK, but positively this means that the VCT's solar assets have higher government-backed incentives than most other solar installations, which benefits valuations.

The downside of the age of the VCT's solar assets is the additional maintenance required to

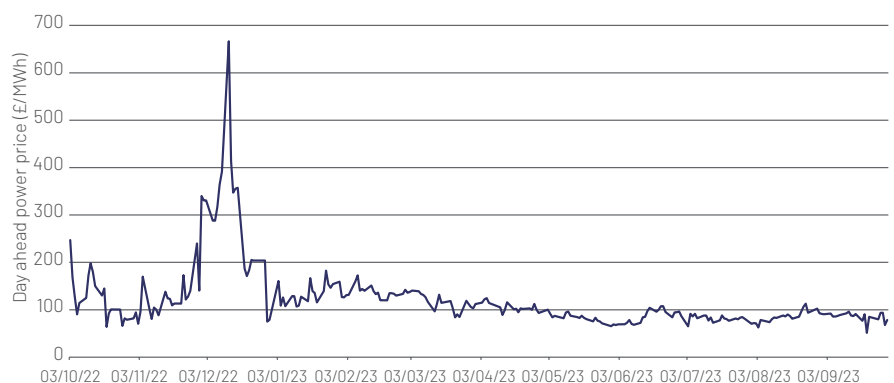
keep them operating effectively. Maintenance programmes to repair or replace certain components across the three worst performing assets have been successful in improving performance. Performance generally remains good, with increased output and reliability. UK based technical staff are readily available for ongoing repairs and maintenance has also helped improve performance. Successful warranty claims in the previous financial year at Beechgrove Farm and South Marston led to additional remedial works that also improved performance, particularly at Beechgrove Farm. Lake Farm has suffered from faults due to deterioration of some of its modules for which a warranty claim is being explored.

In terms of output, there was reduced solar irradiation during the year which resulted in annual output being 2% below budget and 6.2% below budget for the period March 2023 to August 2023. This poor spring and summer performance significantly impacted total performance as these months are usually the months of highest output. This, combined with some technical issues (described in more detail later) resulted in reduced generation. These issues have either now been addressed or continue to be addressed through warranty claims and repair works.

In terms of the current macroeconomic environment, the effects on the portfolio are summarised below:

- power price volatility was high during winter 2022/2023 following the invasion of Ukraine earlier in 2022, which drove up gas and oil prices which fed through to higher electricity prices. The volatility has then reduced substantially over the course of 2023 as the energy crisis abated as can be seen by the graph below.

Mitie Power Prices – 1 October 2022 to 30 September 2023



Investment Adviser's Report (continued)

Power prices at certain sites benefited from being fixed during the period when prices spiked, whereas other sites came off their fixed price contracts during periods of lower power prices. Overall it can be seen that prices from the start of the calendar year have been around £100/MWh which is roughly double the historic long-term norm of £50/MWh, which bodes well for the future cash flows over the period of the fixed price contracts from the VCT's assets.

The Investment Adviser took the opportunity during the financial year (where possible) to fix power prices under the PPAs at elevated levels for those sites which were not already on fixed power price contracts. All but one site have fixed power prices for the whole of Winter 2023

(October 2023 to March 2024), with the one site (Parsonage) fixed until December 2023. In addition, all but Parsonage are fixed for Summer 2024 (April 2024 to September 2024) with Beechgrove fixed to July 2024. A further two sites are also fixed for Winter 2024 and Summer 2025, again at very attractive prices and at a multiple of their previous levels. Fixing the power prices under the PPAs provides a good degree of security over future revenues, subject to output being on budget.

→ with a high degree of the portfolio's revenue being inflation linked, higher and more sustained inflation increases the profitability of the assets and therefore their values. Inflation is starting to reduce but during the period has remained high.

The impact of high inflation is offset partially by the operating costs and the debt also being inflation-linked. Near-term and long-term inflation expectations have softened in recent months.

→ interest rates have also increased significantly during the period as the Bank of England raised interest rates to try to curb inflation. Base Rates have increased from near zero to 5.25%. This not only makes debt more expensive but also raises discount rates as equity investors require higher risk adjusted returns from asset backed investments compared to other instruments such as bonds and gilts. This has had an impact on the VCT's valuation and also on the purchase price potential buyers are willing to pay for the assets.

Portfolio Composition

Portfolio Composition by Asset Type and Impact on VCT2 Net Asset Value (NAV)

| Asset Type | kWp | 30 September 2023 | | 30 September 2022 | |
|--------------------------------------------------------------|---------------|-------------------|----------------------|-----------------------------------------------------------|----------------------|
| | | VCT2 Value ('000) | % of Portfolio value | VCT2 Value ('000) | % of Portfolio value |
| Ground mounted solar (FiT)* | 20,292 | £15,395 | 85.7% | £20,745 | 74.1% |
| Ground mounted solar (ROC)** SOLD | 0 | £0 | 0% | £3,262 | 11.7% |
| Total ground mounted solar | 20,292 | £15,395 | 85.7% | £24,007 | 85.8% |
| Rooftop solar (FiT)* SOLD | 0 | £0 | 0% | £2,425 | 8.7% |
| Total solar | 20,292 | £15,395 | 85.7% | £26,432 | 94.5% |
| Tumblewind Limited: post Sale Priory Farm Solar Farm Limited | 180 | £1,557 | 8.7% | 30 September 2022: Included in ground mounted solar (ROC) | |
| Wind assets (FiT)* | 850 | £1,011 | 5.6% | £1,156 | 4.1% |
| Total renewable energy generating assets | 21,322 | £17,963 | 100% | £27,588 | 98.6% |
| Venture Capital investments | N.A. | £0 | 0% | £392 | 1.4% |
| TOTAL | 21,322 | £17,963 | 100.0% | £27,980 | 100.0% |

* Feed in Tariff (FiT)

** Renewables Obligation Certificate (ROC)

The above table shows the details of the assets held as at 30 September 2023 and the assets held as at the prior year end 30 September 2022. The ground mounted solar ROC assets and the rooftop solar FiT assets were sold during the year (April 2023), hence do not appear in the latest valuation.

The renewable energy assets in the portfolio of the VCT and VCT1 (including the sold assets which contributed some generation in the first part of the year), generated 23,372MWhs of electricity over the financial year, sufficient to meet the annual electricity consumption of c.8,657 homes. The Investment Adviser estimates that the carbon dioxide savings achieved by generating this output from renewable energy sources versus gas-fired power stations, are equivalent to 9,909 tonnes of carbon dioxide emissions saved.

Portfolio Summary

Portfolio revenues for the full year 1 October 2022 to 30 September 2023 and prior year (1 October 2021 to 30 September 2022):

The performance against budget is shown below:

| Asset type | 1 October 2022 – 30 September 2023 | | | 1 October 2021 – 30 September 2022 | | |
|----------------------------|------------------------------------|--------------------|-------------------------|------------------------------------|--------------------|-------------------------|
| | Budgeted revenue (£) | Actual revenue (£) | Revenue performance (%) | Budgeted revenue (£) | Actual revenue (£) | Revenue performance (%) |
| Ground mounted solar (FiT) | 13,868,813 | 13,018,388 | 93.9 | 9,510,159 | 9,950,021 | 104.6 |
| Ground mounted solar (ROC) | 1,127,616* | 1,108,103* | 98.3 | 1,406,636 | 1,673,400 | 119.0 |
| Roof mounted solar | 391,028* | 313,484* | 80.2 | 1,248,280 | 1,191,092 | 95.4 |
| Wind assets | 417,653 | 303,517 | 72.7 | 375,675 | 278,776 | 74.2 |
| TOTAL | 15,805,110 | 14,743,492 | 93.3 | 12,540,750 | 13,093,289 | 104.4 |

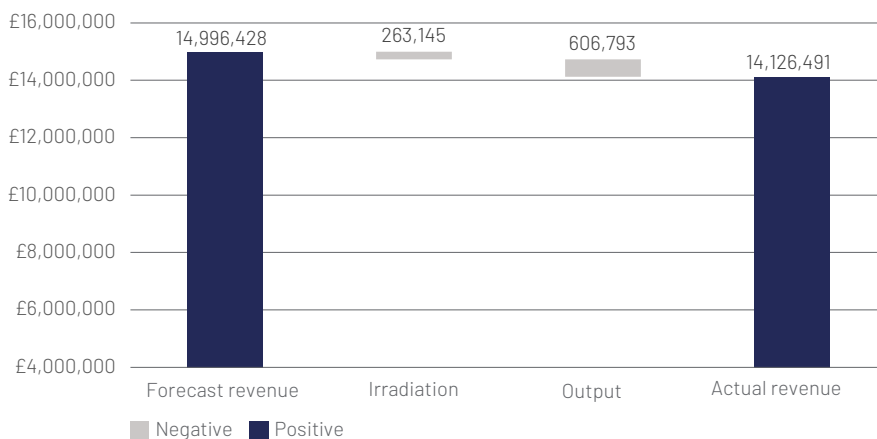
* part year from 1 October 2022 to 31 March 2023

The revenue is affected by:

- renewable energy resources (solar irradiation or wind speed);
- the performance of the assets in converting the sun and wind into revenue; and
- the revenue paid per unit of energy generated and sold.

The ground-mounted solar farms benefitted from high power prices and high inflation-linked increases to subsidies, but technical problems and poor climatic conditions offset these increases, such that actual revenue was below budget. The chart below provides a breakdown for the ground mounted solar assets only as these provide c.96% of the revenue:

Ground mounted solar portfolio revenue analysis 1 October 2022 to 30 September 2023:



The replacement of faulty or failing equipment, (panels, inverters, transformers) that previously caused the reduction in output, plus the successful warranty claims against Jinko Solar (who supplied Beechgrove and South Marston) continue to bear fruit with improved performance. However, Lake Farm is suffering from its solar panels degrading further, so the Investment Adviser is exploring a warranty claim against the solar panel manufacturer (Canadian Solar).

In addition, Priory Farm continued to suffer from regular short duration outages that required manual intervention from the Operations & Maintenance (O&M) contractor, who continued to be slow in responding. A new O&M contractor was appointed, but the under-performance of the previous O&M contractor impacted on the overall portfolio performance.

Renewable energy resources

During the year the assets suffered from lower solar irradiance than budgeted, with solar irradiation being 2% behind for the year and most notably 6.2% behind budget during the summer period, March 2023 to August 2023. This significantly impacted overall performance as these summer months are the highest output months.

Investment Adviser's Report (continued)

Technical performance

The table below shows the technical performance for each of the groups of assets during this and prior financial year:

| Asset Type | 1 October 2022 – 30 September 2023 | | | 1 October 2021 – 30 September 2022 |
|-----------------------------|------------------------------------|---------------------------|---------------------------------|------------------------------------------|
| | Budgeted output (kWh) | Actual output (kWh) | Technical performance (%) | Actual output (kWh) |
| Ground mounted solar (FiT) | 20,576,224 | 19,417,739 | 94.37 | 20,392,254 |
| Ground mounted solar (ROC)* | 2,400,500 | 2,323,870 | 96.81 | 8,316,605 |
| Roof mounted solar* | 994,811 | 871,598 | 87.61 | 3,574,175 |
| Wind assets | 1,045,301 | 759,642 | 72.67 | 1,045,301 |
| TOTAL | 25,016,836 | 23,372,849 | 93.43 | 33,328,335 |

* part year from 1 October 2022 to 26 April 2023

The ground mount solar ROC figure is considerably down on prior year's performance as is the rooftop performance as those assets were sold part way through the year and before the sunnier months.

Micro wind performance:

The micro wind portfolio performed around 27% lower than budget, continuing the poor performance experienced in recent years. Micro wind accounts for only 4.8% of the portfolio in terms of capacity, following the sale of the ROC and rooftop projects.

The entire portfolio is comprised of two hundred R9000 wind turbines, which have the support of an experienced O&M contractor with access to spare parts and maintenance crews.

The Investment Adviser has approached a number of potential buyers for the micro wind portfolio with a view to selling these assets outside of the JLL sales process, as JLL have advised that the immateriality of these small, multi-location assets is such that they may reduce the price bidders are willing to pay for the VCT's complete portfolio.

Sold solar asset's (ground mounted ROC and rooftop FiT) performance:

Between the start of the year in October 2022 and the April 2023 sale, the ground mounted solar (ROC) assets also performed behind budget. Both sites suffered from reduced irradiation at times during the period as well as a drop in the performance of the O&M contractor. This contractor was replaced in March 2023, just ahead of the sale.

In the period up to their sale, generation of the rooftop solar portfolio was 12.4% lower than budget. Irradiation cannot be measured at roof mounted solar installations as it is not cost effective to install pyranometers, but it is fair to assume that the irradiation at these sites was low, in line with the irradiation levels at the ground mounted sites. The Investment Adviser continued to work with the O&M contractors and landlords to get access to the rooftop installations that were underperforming and have these repairs completed in a cost-effective manner. The portfolio's performance was negatively affected in particular by the installations on school rooftops. These experienced technical issues but the O&M contractor's efforts to repair them was hampered by the schools restricting access to the sites to the school holidays.

All in all, despite some of the performance problems mentioned above, as detailed in the Interim Report and the Chairman's Statement, these assets were sold in April 2023 at an uplift to the value at 30 September 2022.

South Marston update

South Marston (4.97MW FiT) has historically sold all its power to the Honda production plant adjacent to the solar site at Swindon. Honda closed down this facility in July 2021 when production stopped and now Honda has agreed to sell the site to a commercial real estate developer called Panattoni. The sale of the freehold land is subject to Panattoni obtaining planning consent from Swindon Borough Council (SBC) to the re-development of the land into multipurpose units, which

will be developed over a period of the next 7 years. SBC have approved the application and subject to the Section 106 agreement being signed (see page 5), this planning consent should become valid in early 2024.

The Investment Adviser is working with Honda and Panattoni and various advisers to ensure the continuity of supply of power from the solar farm, plus ensure the existing contractual arrangements and protections are preserved with the new owners. In addition, South Marston applied for and accepted a new grid connection offer (as an insurance policy) such that the solar farm could export directly to the grid, if necessary.

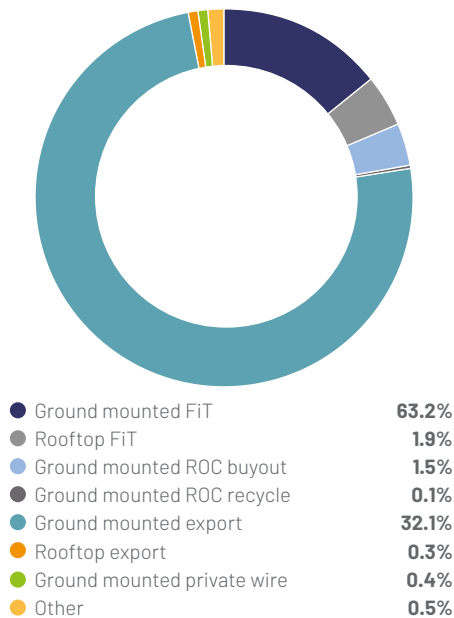
Panattoni is keen to make the solar power available to its future tenants when they move onto the site and has maintained in its planning submission all the existing infrastructure including the switchgear through which South Marston connects to the electricity grid. Both Honda and Panattoni have been supportive of South Marston during this period of uncertainty, agreeing to some new switching arrangements to allow South Marston to temporarily export directly to the electricity network, whilst consumption on site is limited. The Investment Adviser continues to work with both parties to improve South Marston's contractual rights which might be needed to satisfy any potential buyer of the VCT's assets and expects to shortly sign an amended Cable Easement agreement which gives South Marston the rights it needs. Once these are agreed, the separate grid connection offer will be cancelled.

Revenue per kilowatt hour of renewable energy generated:

The UK Government has used several mechanisms to encourage investment into renewable energy generation, including the FiT and ROC support mechanisms.

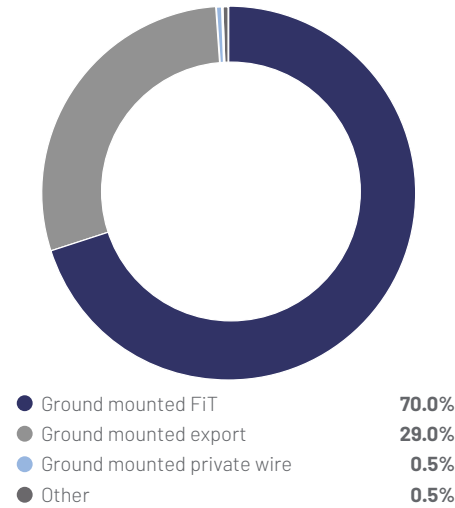
The VCT's renewable assets benefit from these schemes which provide revenues predominantly linked to the Retail Price Index (RPI). As the solar asset class has matured and both the costs and perceived risks of building new renewable energy generating capacity have fallen, so have the value of the incentives offered for new installations. For example, an asset that generates electricity from solar power that was commissioned and accredited for the FiT before the end of July 2011 currently receives over 48p for every kilowatt hour (kWh) of electricity it produced (with the added extra of a floor price support to ensure it may also sell this power at a reasonable price). The incentives for new capacity have fallen consistently since the assets owned by the VCT were commissioned, and new solar installations built today receive no such incentives and must rely on selling power at market prices for their income.

Solar portfolio, revenue split for the full year 2022/2023



Revenue split for 2022/23 post sale of rooftop and ground mounted ROC assets:

Ground mounted FiT solar portfolio, revenue split for the year 2022/2023



Of total revenues generated in the year, c.67% was earned from government backed incentives for generating renewable electricity.

The high proportion of income that is fixed by the FiT scheme is RPI linked and not exposed to wholesale power prices and is a significant driver of value in this portfolio. This enables the portfolio to be insulated from any significant reductions in the wholesale price of electricity whilst allowing it to benefit from increases such as those experienced earlier in the year.

As fixed price contracts for the export of power expired during the period, new PPA contracts were secured or updated with new prices valid for 1-2 years which allowed the ground mounted solar portfolio to benefit from these new higher wholesale prices.

Total revenues (power price and subsidies) per MWh generated by the solar assets were £631/ MWh for the year ended 30 September 2023.

Operating costs

The majority of the cost base is fixed and/ or contracted under long-term agreements and includes rent, business rates, and regular O&M costs.

Many of these costs have also risen in line with inflation.

The main variable cost item each year is the repair and maintenance cost. Repair and maintenance expenditure involving solar panels, the key component of a solar project, is covered by cash held in the maintenance reserve account. At the end of the financial year a reserve totalling £693k was in place for the remaining ground mounted solar assets.

Venture Capital investments

As reported in the Interim Report, the Investment Adviser is very disappointed to report that bio-bean and Rezatec, the two venture capital investments the VCT held, both went into administration shortly after the end of the half year and, as a result, their value was marked down to zero. No recovery is expected. See below two paragraphs extracted from the VCT's Interim Report:

bio-bean had high operational leverage. It had used the proceeds of the VCT's and other financial investors' investments to upgrade its plant so that its margins could benefit from economies of scale that would come from a growing supply of waste coffee grounds. The pandemic affected deliveries and its ability to cut costs and further funding rounds were not enough to save the company.

The VCT's other potential growth investment was in Rezatec, an integrator of satellite based geospatial data for use in monitoring agriculture, infrastructure and forestry assets. Rezatec's management managed to achieve steady growth but far below the rate envisaged in the business plan. A trade sale route was pursued last year but this process failed to generate interest and the Directors of the company were forced to take it into administration.

Portfolio valuation

The Investment Adviser is supporting the sale of the remaining VCT's renewable assets and notes that a binding offer to purchase the assets will be the best indication of value. However, consistent with prior year's approach the NAV of the renewable portfolio will be derived from the future projected cash flows generated by the assets, plus the cash held by the companies in the portfolio and the cash held by the VCT. This discounted cash flow valuation of the overall portfolio also includes the nil value of the venture capital investments in bio-bean and Rezatec.

Investment Adviser's Report (continued)

The future discounted cash flow projections for renewable assets are impacted by:

- **Renewable resources.** This year's solar irradiation performance has been assessed and factored into the assumptions on irradiation going forward which has not been changed.
- **Technical performance.** The repairs at Lake Farm, Kingston Farm and Beechgrove Farm largely resolved their historic performance issues. Ayshford Court, South Marston and Priory Farm suffered technical issues that have been addressed. The O&M contractor for Ayshford Court, Priory Farm, Wychwood and Parsonage has been replaced and this is expected to lead to better and more timely maintenance of these assets.
- **Power prices.** Power price forecasts have fallen but remain relatively high. The Investment Adviser was able to capitalise on high power prices by entering into several new PPAs in recent months that have locked in high prices for the foreseeable future. The latest long-term generation-weighted forecasts provided by a leading market consultant have been used to value the assets, post any fixed power price contracts that are in place.
- **New taxes.** The UK Government responded to the cost-of-living crisis, caused in part by high energy bills for households and businesses, by introducing the EGL that imposes a 45% charge on exceptional receipts generated from the production of wholesale electricity where exceptional receipts will be defined as wholesale electricity sold at an average price in excess of £75MWh over an accounting period. This does not cover revenues earned from government subsidies such as ROCs and FITs. The EGL will only apply to exceptional receipts exceeding £10mn in an accounting period. There is also a de minimis threshold of 50,000 (MWhs) of annual generation at portfolio level below which the EGL is not charged. The VCT is in the fortunate position that its portfolio falls below this

level. However, almost all potential buyers would not be exempt from the EGL and would therefore have to account for its impact in their offer prices. The EGL will be in effect from 1 January 2023 until 31 March 2028, and will apply to pro-rated profits for accounting periods between those dates. The levy will be administered via the Corporation Tax system and paid by the responsible company in a group of companies.

- **Asset life.** The assets are valued based on the existing terms of the subsidies, the leases and the planning permissions, without assuming life extensions, as this is a prudent approach. As the assets mature, asset owners would typically approach landowners and local planning authorities with a view to negotiating life extensions, unless the landowners have the right to the assets at that point.
- **Costs.** Up-to-date costs for the assets are included, reflecting all commercial negotiations, expectations for lower maintenance costs after the older assets are repowered and the need to provision for the costs of repairs to equipment such as panels, inverters, switchgear and transformers that may be needed in the future. The asset management costs going forward have been doubled from those charged by the Investment Adviser, following feedback from the recent sales process.
- **Corporation tax.** The actual corporation tax paid will impact on the cash available to Shareholders, but is assumed to remain at the current 25% level.
- **Inflation.** With most of the revenues being linked to RPI, any increase in inflation projections increases the overall profitability, and therefore valuation of the assets. This is countered, to some degree, by debt service for the debt facilities also being indexed to inflation with an increase in inflation resulting in higher interest charges. It is particularly challenging to forecast the future direction of inflation.

Central Banks around the world have raised interest rates in a bid to quell inflation. Financial markets are pricing inflation in excess of 3% even in the medium to long-term. The Investment Adviser has used various sources for its projections for the short term and a prudent long run forecast of 3% has been used in the calculation of the NAV.

- **Discount rates.** The free cash generated by the assets needs to be estimated and valued. The Investment Adviser notes that these future cash flows are supported by a high proportion of government backed and index linked revenues and in the current market, such stable cash flows are valuable. The discount rates used in the valuation reflect the Investment Adviser's experience in the market and evidence from other transactions, as well as feedback from other advisers or market participants. Over the last 12 months discount rates have increased significantly, as equity investors compare risk adjusted returns from infrastructure investments and real assets such as solar parks to returns from so called risk free investments such as gilts and bonds.

Overall, post adjustment for reverse loans, a value of £14.3mn for the assets remaining in the portfolio at year end was delivered as a result of the various changes in market conditions and assumptions used.

Outlook

The Investment Adviser's continued focus is to ensure that the assets operate at or above budget whilst it supports the Directors' efforts to maximise exit value for Shareholders.

Addressing the contractual status of the grid connection arrangement at South Marston with the new landowners remains a key priority.

The repairs of the underperforming assets that were completed appear, from this year's generation data to have been successful, as have warranty claims for the Beechgrove ground mounted solar asset and these have provided greater visibility and reliability of revenues.

A new O&M contractor has been engaged for four of the ground-mounted solar assets and this is expected to improve reliability for those assets. The generation outlook for the portfolio has improved as a result.

The Investment Adviser remains vigilant for spotting any signs of degradation early so that the impact on availability can be managed and reduced.

The high inflation outlook, whilst of concern from the point of view of the wider UK and global economies, is positive for the owners of subsidised UK renewable assets. Although most costs also rise in line with inflation, as does the cost of servicing the debt facilities, the net benefit of increased inflation is positive since it increases the inflation linked revenues more than it increases the costs.

All ground mounted solar assets had fixed price PPAs during the financial year, which gave some certainty to revenue. The Investment Adviser is pleased to have secured new fixed price PPAs for one to two years to further de-risk near term future cash flows from these assets.

The combined effect of inflation and power prices locked in at high levels should translate into attractive, stable revenue and cash flow over the next two years.

The VCT is fortunate that the EGL introduced by the UK Government with effect from 1 January 2023 does not apply to the VCT, as the total generation of its portfolio falls below the de minimis threshold of 50GWh per year. However, most likely buyers of the VCT's assets already have renewable energy portfolios and would not therefore be able to avoid paying the EGL as a result of the de minimis threshold. Accordingly, a fair value has been determined with the assets valued for the purposes of the NAV as if the EGL would need to be paid.

The outlook for renewable energy in the UK and the rest of the world remains positive. In particular, the fallout from Russia's invasion of Ukraine with high energy prices and concerns about security of supply is expected to add additional impetus to the deployment of renewable energy. COP28 concluded recently with an historic agreement that marks a significant step towards tackling climate change by calling on all nations to transition away from fossil fuels which is encouraging for further renewable energy deployment.

For the portfolio as at 30 September 2023, that has had successful upgrades implemented on many of its assets and which has locked in attractive long-term power prices, the outlook remains positive. The Investment Adviser will work with the newly appointed Corporate Finance Adviser to try to ensure this translates into a successful sale in 2024.

Gresham House Asset Management Limited

29 January 2024

Review of Investments

Portfolio of investments

The following investments were held at 30 September 2023:

| Qualifying and part-qualifying investments | Operating sites | Sector | Cost £'000 | Valuation £'000 | Valuation movement in year £'000 | % of portfolio |
|--------------------------------------------|---------------------------|--------------|---------------|--------------------|----------------------------------------|-------------------|
| Lunar 2 Limited* | South Marston, Beechgrove | Ground solar | 1,330 | 11,101 | (4,170) | 61.8% |
| Lunar 1 Limited* | Kingston Farm, Lake Farm | Ground solar | 124 | 1,925 | (478) | 10.7% |
| Tumblewind Limited* | Tumblewind | Small wind | 1,188 | 1,557 | 36 | 8.7% |
| New Energy Era Limited | Wychwood Solar Farm | Ground solar | 884 | 1,320 | (515) | 7.3% |
| Vicarage Solar Limited | Parsonage Farm | Ground solar | 871 | 1,049 | (187) | 5.8% |
| HRE Willow Limited | HRE Willow | Small wind | 875 | 622 | (87) | 3.5% |
| Minsmere Power Limited | Minsmere | Small wind | 975 | 280 | (31) | 1.6% |
| Small Wind Generation Limited | Small Wind Generation | Small wind | 975 | 109 | (27) | 0.6% |
| bio-bean Limited** | Cambridgeshire | Clean energy | 695 | 0 | 0 | 0.0% |
| Rezatec Limited** | United Kingdom | Clean energy | 1,000 | 0 | 0 | 0.0% |
| Lunar 3 Limited* | | Ground solar | 1 | 0 | 0 | 0.0% |
| | | | 8,918 | 17,963 | (5,459) | 100% |
| Cash at bank and in hand | | | | 4 | | 0.0% |
| Total investments | | | | 17,967 | | 100.0% |

* Partially-qualifying investment

** bio-bean Limited and Rezatec Limited investments were fully impaired during the financial year. The valuation movements in bio-bean Limited (£325,000) and Rezatec Limited (£67,000) have been recognised as a realised loss.

All venture capital investments are incorporated in England and Wales.

Gresham House Renewable Energy VCT1 plc, of which Gresham House is the Investment Adviser, holds the same investments as above.

Investment movements for the year ended 30 September 2023

Disposals

| | Cost at 31 March 2023 £'000 | Valuation at 31 March 2023 £'000 | Redemption of loan notes £'000 | Sale proceeds £'000 | Gross realised gain/(loss) £'000 |
|-------------------------------------------------------|--------------------------------------|-------------------------------------------|--------------------------------------|------------------------|-------------------------------------------|
| VCT Qualifying and part-qualifying investments | | | | | |
| Ayshford Solar (Holding) Limited | 827 | 1,923 | - | 1,923 | 1,096 |
| Gloucester Wind Limited | 1,000 | 941 | 300 | 941 | 241 |
| Hewas Solar Limited | 1,000 | 919 | 131 | 919 | 50 |
| St Columb Solar Limited | 650 | 653 | 60 | 653 | 63 |
| Penhale Solar Limited | 825 | 434 | 180 | 434 | (211) |
| Total | 4,302 | 4,870 | 671 | 4,870 | 1,239 |

The sale included solar assets held within Tumblewind Limited however the VCT still retains Small Wind assets within Tumblewind Limited.

The transaction costs associated with the sale of the assets amounted to £416,000 per VCT. The net realised gain per VCT for the financial year amounts to £823,000.

The basis of valuation for the largest investments is set out below on pages 16 to 20.

Review of Investments (continued)

Further details of the remaining investments (by value):

Lunar 2 Limited



Lunar 2 Limited is a holding company of FiT remunerated ground mounted solar farms of 5MW (Wiltshire), 4MW (near Hawkchurch) and 0.6MW (Ilminster, Somerset).

| | |
|----------------------------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £1,330,000 |
| Cost at 30/09/22: | £1,330,000 |
| Date of first investment: | Dec 2013 |
| Valuation at 30/09/23: | £11,101,000 |
| Valuation at 30/09/22: | £15,271,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £1,330,000 |
| Proportion of equity held: | 50% |
| Summary financial information from statutory accounts (non-consolidated): | |
| | 31 March 2023 |
| Turnover: | * |
| Operating profit/(loss): | * |
| Net assets: | £1,643,000 |

* This information is not publicly available

Lunar 1 Limited



Lunar 1 Limited is a holding company of FiT remunerated ground mounted solar farms of two 5MW (Wiltshire) and one 0.7MW (Oxfordshire).

| | |
|---------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £125,000 |
| Cost at 30/09/22: | £125,000 |
| Date of first investment: | Dec 2013 |
| Valuation at 30/09/23: | £1,925,000 |
| Valuation at 30/09/22: | £2,403,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £125,000 |
| Proportion of equity held: | 5% |
| Summary financial information from statutory accounts: | |
| | 31 March 2023 |
| Turnover: | £nil |
| Operating loss: | £(7,000) |
| Net assets: | £(515,000) |

Tumblewind Limited



Tumblewind Limited owns a portfolio of FiT remunerated wind turbines on largely farmer owned sites located throughout East Anglia. The total capacity of the wind assets owned by Tumblewind Limited is 180kW. Tumblewind sold Priory Farm Solar Farm Limited, which owns a ROC remunerated solar farm of 3.2MW near Lowestoft, in April 2023.

| | |
|---------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £1,188,000 |
| Cost at 30/09/22: | £1,188,000 |
| Date of first investment: | Nov 2011 |
| Valuation at 30/09/23: | £1,557,000 |
| Valuation at 30/09/22: | £1,521,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £79 |
| Loan stock: | £398,000 |
| Proportion of equity held: | 50% |
| Proportion of loan stock held: | 68% |
| Summary financial information from statutory accounts: | 31 March 2023 |
| Turnover: | £52,000 |
| Operating profit: | £12,000 |
| Net assets: | £919,000 |

New Energy Era Limited



New Energy Era Limited owns a FiT remunerated solar farm of 0.7MW near Shipton-under-Wychwood, Oxfordshire.

| | |
|---------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £884,000 |
| Cost at 30/09/22: | £884,000 |
| Date of first investment: | Nov 2011 |
| Valuation at 30/09/23: | £1,320,000 |
| Valuation at 30/09/22: | £1,835,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £884,000 |
| Proportion of equity held: | 45% |
| Summary financial information from statutory accounts: | 31 March 2023 |
| Turnover: | £362,000 |
| Operating profit: | £225,000 |
| Net assets: | £2,082,000 |

Review of Investments (continued)

Vicarage Solar Limited

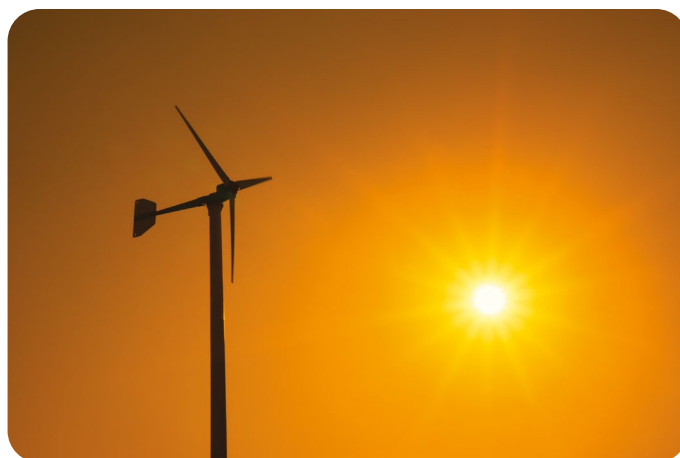


Vicarage Solar Limited is the holding company of a FiT remunerated solar farm of 0.7MW near Ilminster, Somerset.

| | |
|----------------------------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £871,000 |
| Cost at 30/09/22: | £871,000 |
| Date of first investment: | Mar 2012 |
| Valuation at 30/09/23: | £1,049,000 |
| Valuation at 30/09/22: | £1,236,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £871,000 |
| Proportion of equity held: | 45% |
| Summary financial information from statutory accounts (non-consolidated): | 31 March 2023 |
| Turnover: | * |
| Operating profit/(loss): | * |
| Net assets: | £1,944,000 |

* This information is not publicly available

HRE Willow Limited



HRE Willow Limited owns a portfolio of FiT remunerated wind turbines on largely farmer-owned sites located throughout East Anglia. The total capacity of the wind assets owned by HRE Willow Limited is 430kW.

| | |
|---------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £875,000 |
| Cost at 30/09/22: | £875,000 |
| Date of first investment: | Jun 2011 |
| Valuation at 30/09/23: | £622,000 |
| Valuation at 30/09/22: | £709,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £875,000 |
| Proportion of equity held: | 44% |
| Summary financial information from statutory accounts: | 31 March 2023 |
| Turnover: | £133,000 |
| Operating profit: | £32,000 |
| Net assets: | £1,237,000 |

Minsmere Power Limited



Minsmere Power Limited owns a portfolio of FiT remunerated wind turbines on largely farmer owned sites located throughout East Anglia. The total capacity of the wind assets owned by Minsmere Power Limited is 230kW.

| | |
|---------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £975,000 |
| Cost at 30/09/22: | £975,000 |
| Date of first investment: | Nov 2011 |
| Valuation at 30/09/23: | £281,000 |
| Valuation at 30/09/22: | £311,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £400,000 |
| Proportion of equity held: | 50% |
| Summary financial information from statutory accounts: | 31 March 2023 |
| Turnover: | £68,000 |
| Operating profit: | £15,000 |
| Net assets: | £93,000 |

Small Wind Generation Limited



Small Wind Generation Limited owns a portfolio of FiT remunerated wind turbines on largely farmer owned sites located throughout East Anglia. The total capacity of the wind assets owned by Small Wind Generation Limited is 190kW.

| | |
|---------------------------------------------------------------|----------------------------------|
| Cost at 30/09/23: | £168,000 |
| Cost at 30/09/22: | £168,000 |
| Date of first investment: | Nov 2011 |
| Valuation at 30/09/23: | £109,000 |
| Valuation at 30/09/22: | £136,000 |
| Valuation method: | Discounted cash flows (business) |
| Investment comprises: | |
| Ordinary Shares: | £1,680,000 |
| Proportion of equity held: | 50% |
| Summary financial information from statutory accounts: | 31 March 2023 |
| Turnover: | £50,000 |
| Operating loss: | £17,000 |
| Net assets: | £(418,000) |

Review of Investments (continued)

Lunar 3 Limited



Lunar 3 Limited was incorporated at end of 2013 as part of the refinancing of the ground mounted solar assets owned by Lunar 1 Limited and Lunar 2 Limited. Lunar 3 Limited is a dormant company and does not own any assets.

| | |
|---------------------------------------------------------------|----------------------|
| Cost at 30/09/23: | £100 |
| Cost at 30/09/22: | £100 |
| Date of first investment: | Dec 2013 |
| Valuation at 30/09/23: | £0 |
| Valuation at 30/09/22: | £0 |
| Valuation method: | n/a |
| Investment comprises: | |
| Ordinary Shares: | £200 |
| Proportion of equity held: | 50% |
| Summary financial information from statutory accounts: | |
| | 31 March 2023 |
| Turnover: | * |
| Operating profit/(loss): | * |
| Net assets: | £200 |

* This information is not publicly available

Explanatory notes

The summary financial information has been sourced from the statutory accounts of the underlying investee companies. The net asset/liability figures presented therefore do not approximate a valuation.

The proportion of equity held in each investment also represents the level of voting rights held by the VCT in respect of the investment.

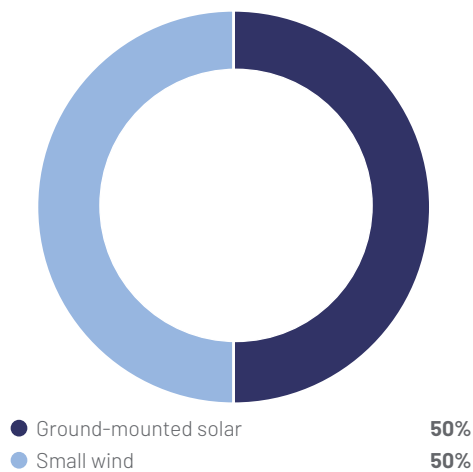
Summary of loan stock interest income

| | Year ended 30 September 2023 £'000 | Year ended 30 September 2022 £'000 |
|-------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Loan stock interest income in the period | | |
| bio-bean Limited | - | - |
| Tumblewind Limited | 15 | 15 |
| Minsmere Power Limited | 11 | 11 |
| Small Wind Generation Limited | 11 | 11 |
| | 37 | 37 |

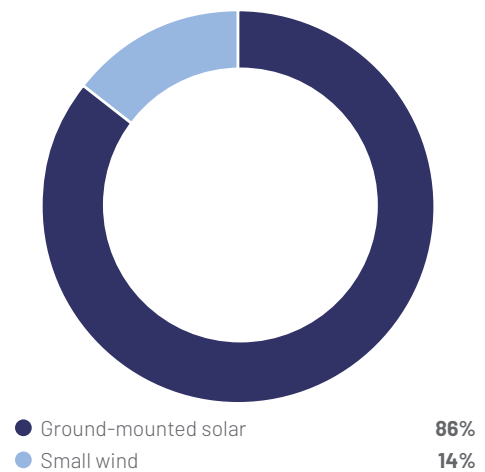
Analysis of investments by commercial sector

The split of the investment portfolio by sector (by cost and by value at 30 September 2023) is as follows:

Spread of investment by sector (cost)



Spread of investment by sector (value)



Strategic Report

The Directors present the Strategic Report for the year ended 30 September 2023. The Board has prepared this report in accordance with the Companies Act 2006.

Business model

The VCT acts as an investment company, investing in a portfolio of businesses within the renewable and clean energy sectors and operating as a VCT to ensure that its Shareholders can benefit from the tax reliefs available.

Business review and developments

The VCT's business review and developments during the year, including updates on the Managed Wind Down process for the VCT and the ongoing sale of the portfolio, are set out in the Chairman's Statement, Investment Adviser's Report, and the Review of Investments.

During the year to 30 September 2023, realisations on sale of investments totalled £823,000. The renewable investments held decreased in value by £5.4mn. As a result of bio-bean and Rezatec entering administration in April 2023 and May 2023 respectively, the non-renewable investments were fully impaired in the half-yearly financial statements decreasing their value by £392,000.

Income over expenditure for the year resulted in a net loss, after accounting for capital expenses, of £4.6mn (2022: £525,000 profit).

Net assets at the year-end were £14.5mn (2022: £23.9mn). A dividend for the year to 30 September 2022 of 2.0p per Ordinary Share was announced on 21 December 2022 and was paid on 27 January 2023. A further interim dividend of 16.5p per Ordinary Share, was announced on 28 June 2023 and was paid on 28 July 2023. This dividend reflected the distribution of proceeds arising from the completion of sale of certain solar assets in April 2023. A further interim dividend of 7.5p per Ordinary Share has been declared and was paid on 21 December 2023. The 7.5p interim dividend related to income generation from the portfolio, but also arose from the distribution of the remaining proceeds from the sale of some of the assets in April 2023.

The Directors initially obtained provisional approval for the VCT to act as a Venture Capital Trust from HM Revenue & Customs. The Directors consider that the VCT has continued to conduct its affairs in a manner such that it complies with Part 6 of the Income Tax Act 2007.

Investment advisory and administration fees

Gresham House Asset Management Limited (Gresham House) provides investment advisory services to the VCT, at a fee equivalent to 1.15% of net assets. The agreement is for a minimum term of two years, effective from 7 November 2017, with a nine month notice period on either side thereafter.

The Board has reviewed the services to be provided by Gresham House and has concluded that it is satisfied with the strategy, approach and procedures which are to be implemented in providing investment advisory services to the VCT. The Board is also of the opinion that the allocation of the investment advisory fee between capital and revenue of the VCT, as described in Note 4 to the financial statements, is still appropriate.

JTC (UK) Limited (JTC) acts as Administrator and Company Secretary. JTC provides administration and accounting services to the VCT for a fee of £40,000 (plus VAT, if applicable) per annum. It also provides company secretarial services for a fee of £40,000 (plus VAT, if applicable) per annum. The agreement shall continue in force until determined by either party, with a six month notice period on either side.

Trail commission

Historically the VCT had an agreement to pay trail commission annually to Hazel Capital LLP, in connection with the funds raised under the Offers for subscription. This was calculated at 0.4% of the net assets of the VCT at each year end. Out of these funds Hazel Capital LLP was liable to pay trail commission to financial intermediaries. The trail commission was payable to Hazel Capital LLP until the earlier of (i) the sixth anniversary of the closing of the Offers and (ii) the Investment Advisory Agreement being terminated.

Upon the appointment of Gresham House as Investment Adviser on 7 November 2017, the agreement with Hazel Capital LLP was reissued and the new Investment Adviser agreed to pay further trail commission to Haibun Partners LLP (Haibun) and CH1 Investment Partners LLP (CH1), of which Matthew Evans is a Designated Member, with an agreement in place effective 11 July 2019. The trail commission payable is equal to 0.15% of the net asset value of the shares issued by the VCT and its sister company, VCT2, to Haibun and CH1 clients under each of the 2010, 2012 and 2014 Offers. This trail commission is payable each year provided that applicable Shareholders remain clients of Haibun and CH1, or until Gresham House ceases to act as Investment Adviser to the VCTs. Payment of trail commission under this agreement is not deemed to be a related party transaction and is therefore not disclosed in Note 21 to the financial statements.

The amounts payable to Haibun and CH1 by Gresham House, in aggregate across both the VCT and VCT1, are as follows:

| | Year ended 30 September 2023 | | |
|--------------|------------------------------|---------------|---------------|
| | Haibun £ | CH1 £ | Total £ |
| 2010 Offer | 10,397 | 13,704 | 24,101 |
| 2012 Offer | 1,473 | 957 | 2,430 |
| 2014 Offer | 571 | 1,150 | 1,721 |
| Total | 12,441 | 15,811 | 28,252 |

Investment policy

General

At the General Meeting held on 13 July 2021, 99.59% of the Shareholders resolved to approve the New Investment Policy of the Company to reflect a realisation strategy and the Company ceasing to make any new investments. The new Investment Policy replaced the previous Investment Policy in its entirety.

The Directors believed that being prescriptive as regards the timeframe for realising the Company's investments could prove detrimental to the value achieved on realisation. Therefore, it was the Board's view that the strategy for the realisation of the Company's investments would need to be flexible and may need to be altered to reflect changes in the circumstances of a particular investment or in the prevailing market conditions.

Once all, or substantially all, of the Company's investments have been realised and an initial distribution in respect thereof made, the Company will, at an appropriate time, seek Shareholders' approval for it to be placed into members' voluntary liquidation.

Since inception to 13 July 2021

Up to 13 July 2021, the VCT's objectives were to maximise tax free capital gains and income to Shareholders from dividends and capital distributions by investing the VCT's funds in:

- a portfolio of clean technology and environmentally sustainable investments, primarily being in the UK and the EU, that have attractive income and growth characteristics, with investments in existing asset-backed renewable generation projects as the core of the portfolio; and
- a range of non-qualifying investments, comprised from a selection of cash deposits, fixed income funds, securities and secured loans and which will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated). In addition, as the portfolio of VCT qualifying investments will involve smaller start-up companies, non-qualifying loans could be made to these companies to negate the need to borrow from banks and, therefore, undermine the companies' security within the conditions imposed on all VCTs under current and future VCT legislation applicable to the VCT.

13 July 2021 to 30 September 2023

Following shareholder approval at the General Meeting on 13 July 2021, the New Investment Policy of the VCT is that the Company will be managed with the intention of realising all remaining assets in the Portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to Shareholders in an orderly manner, whilst protecting the tax position of Shareholders.

The Company will pursue its investment objective by effecting an orderly realisation of its assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders. This process might include sales of individual assets or running off the portfolio in accordance with the existing terms of the assets, or a combination of both. Pursuant to its investment objective, the Company successfully completed the sale of a portion of its solar assets in April 2023.

The Company will cease to make any new investments or to undertake capital expenditure except where, in the opinion of both the Board and the Investment Adviser (or, where relevant, the Investment Adviser's successors):

- the investment is a follow-on investment made in connection with an existing asset in order to comply with the Company's pre-existing obligations; or
- failure to make the follow-on investment may result in a breach of contract or applicable law or regulation by the Company; or
- the investment is considered necessary to protect or enhance the value of any existing investments or to facilitate orderly disposals; or
- any cash received by the Company as part of the realisation process prior to its distribution to Shareholders will be held by the Company as cash on deposit and/or as cash equivalents.

Investment strategy

Investee companies generally reflect the following criteria:

- a well-defined business plan and ability to demonstrate strong demand for its products and services;

- products or services which are cash generative;
- objectives of management and Shareholders which are similarly aligned;
- adequate capital resources or access to further resources to achieve the targets set out in its business plan;
- high calibre management teams;
- companies where the Investment Adviser believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term; and
- a focus on small and long-term renewable energy projects that utilise proven technology.

The new Investment Policy was adopted at the General Meeting held on 13 July 2021 to reflect a realisation strategy and the Company ceasing to make any new investments.

Asset allocation

Throughout the year under review and to date, the Company continued to hold 80% of its funds in VCT qualifying investments in order to retain its status as an approved Venture Capital Trust. At 30 September 2023, the VCT had a significant margin over the 80% qualifying holdings requirement as a result of a 12 month disregard in respect of disposals and resultant dividend payments. This margin will narrow in the course of the current financial year and is being monitored closely to ensure compliance is maintained.

It is expected that the VCT shall hold at least eight investments to provide diversification and risk protection. During the Managed Wind Down the number of investments will continue to decrease following the sale of the VCT's assets, with the Company intending to dispose of its remaining investments prior to the appointment of liquidators. In relation to the VCT, no single investment (including most loans to investee companies) will represent more than 15% of the aggregate net asset value of its fund save where such investment is in an investee company which has acquired or is to acquire, whether directly or indirectly, securities in the following companies: AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

Risk Diversification

During the year, the structure of the VCT's funds, and its investment strategies, have been designed to reduce risk as much as possible.

The main risk management features include:

- portfolio of investee companies – the VCT seeks to invest in at least eight different companies, thereby reducing the potential impact of poor performance by any individual investment. During the Managed Wind Down the number of investments will continue to decrease following the sale of the VCT's assets;
- monitoring of investee companies – the Investment Adviser will closely monitor the performance of all the investments made by the VCT in order to identify any issues and to enable necessary corrective action to be taken; and
- the VCT will ensure that it has sufficient influence over the management of the business of the investee companies, in particular, through rights contained in the relevant investment agreements and other shareholder/constitutional documents.

The VCT has followed the above risk diversification strategy with regard to the Lunar 1 Limited and Lunar 2 Limited investments in AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

Gearing

It is not intended that the VCT will borrow (other than from investee companies). However, it will have the ability to borrow up to 15% of its net asset value* save that this limit shall not apply to any loan monies used to facilitate the acquisition by the VCT, whether directly or indirectly, of any shares or securities in the operational asset/holding companies.**

The VCT has ensured that Lunar 1 Limited and Lunar 2 Limited have borrowed no more than 90% of their respective net asset values to facilitate the acquisition, whether directly or indirectly, of any shares or securities in the following: AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

The long-term creditors shown on the Balance Sheet represent amounts owed to investee companies, which the Board expect to be

repaid in the future by way of dividends from, or the sale of, these companies.

As at 30 September 2023, the VCT had the ability to borrow £4.5mn in accordance with the articles, and had actual borrowings of £nil.

The VCT has no intention to borrow any funding in the foreseeable future.

Listing rules

In accordance with the Listing Rules:

- (i) the VCT may not invest more than 10%, in aggregate, of the value of the total assets of the VCT at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;
- (ii) the VCT must not conduct any trading activity which is significant in the context of the VCT; and
- (iii) the VCT must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act.

The Listing Rules have been complied with for the year ended 30 September 2023.

Directors and senior management

The VCT has three Non-Executive Directors, all males. The VCT has no employees.

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the VCT's success in meeting its objectives. The Board has identified the VCT's key performance indicators as NAV Total Return and dividends paid per share, the performance of which during the year are in the table below:

| Key performance indicators per financial year: | Year ended 30 September 2023 | Year ended 30 September 2022 |
|------------------------------------------------|------------------------------|------------------------------|
| Net Asset Value Total Return (% p.a.) | (11.7)% | 1.4% |
| Dividends paid per share (p)* | 24.0p | 2.0p |

* Dividend paid per Ordinary Share year ended 30 September 2023: 16.5p (July 2023) and 7.5p (December 2023). No dividend was paid in respect of the 'A' Shares.

See the Chairman's Statement on page 4 for details on the EGL. On the basis of the scope to which this levy applies, there is no impact on the current or future revenues received by the VCT, however the fair value of the portfolio incorporates the potential additional costs a purchaser may incur.

These are defined as follows:

- **Net Asset Value Total Return:** the sum of NAV per Ordinary Share, NAV per 'A' Share and cumulative dividends paid.
- **Net Asset Value per Ordinary Share:** The closing total net asset position of the VCT as at the reporting date less the total par value of all 'A' Shares in issue at the reporting date divided by the total number of Ordinary Shares in issue at the reporting date.
- **Net Asset Value per 'A' Share:** Par value per 'A' Share.
- **Cumulative dividends paid:** The gross total of all dividends paid for both Ordinary and 'A' Shares from inception up to the reporting date.

The total net asset position of the VCT as at the reporting date is as per the Balance Sheet, while the total number of shares in issue for both Ordinary and 'A' Shares is disclosed in Note 15.

In addition, the Board considers the VCT's performance in relation to other VCTs.

The position of the VCT's NAV Total Return as at 30 September 2023 and a summary of dividends paid per share are as indicated in the table on this page. The VCT's dividend policy is to distribute surplus funds generated by the underlying investments, subject to maintaining an appropriate cash reserve at SPV level to pay up to the VCT as and when required in order to meet anticipated future requirements. The VCT has an objective of paying dividends of 5p per share per annum. As part of the Managed Wind Down, once the majority of the assets have been sold, the intention is to return all sale proceeds to Shareholders through dividend distributions or, if the VCT has since entered voluntary liquidation, via capital distributions.

* Following the 2018 AGM the articles of the VCT were amended such that amounts borrowed from investee companies are now excluded from the calculation of the 15% borrowing restriction.

** AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

Principal risks and uncertainties

Schedule of principal and emerging risks

The other principal and emerging risks faced by the VCT, along with the steps taken to mitigate these risks, are shown in the table below. The risks have not materially changed from the previous year, however changes in the factors impacting the risks attributable are discussed below. These principally apply during the period until the underlying assets are sold during the Managed Wind Down process.

| Principal Risk | Context | Specific risks | Possible impact | Mitigation |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Investment Performance | The VCT holds investments in unquoted UK businesses in the renewable energy sector. | <p>Poor investment decisions or strategy or poor monitoring, management and realisation of investments.</p> <p>Adverse weather conditions, low inflation rates and/or low power prices resulting in below forecast investment returns.</p> | Reduction in the NAV of the VCT and the inability of the VCT to pay dividends. | <p>The Investment Adviser has significant experience in the renewable energy sector. The Investment Adviser also actively manages the portfolio, engaging reputable and experienced Operations and Maintenance (O&M) contractors. The assets have limited exposure to power prices, due to the use of the Feed in Tariff (FiT) regime.</p> <p>The Board regularly reviews the performance of the portfolio, alongside the Board of the sister company.</p> <p>The higher inflation outlook, whilst of concern from the point of view of the wider UK and global economy, is positive for the owners of subsidised UK renewable assets. Although most costs also rise in line with inflation, as does the cost of servicing the debt facility, the net benefit of increased inflation is positive since it increases the inflation linked revenues more than it increases the costs.</p> |
| Loss of VCT status | The VCT must maintain continued compliance with the VCT Regulations, which prescribe a number of tests and conditions. | Breach of any of the rules could result in the loss of VCT status. | The loss of VCT status would result in dividends becoming taxable and new Shareholders losing their initial tax relief. | <p>The VCT Qualification is actively monitored by the Investment Adviser and the Administrator, who liaise with the designated VCT Status Adviser. The VCT Status Adviser also produces twice yearly reports for the Board.</p> <p>The Investment Adviser is aware of the dates of the latest fundraisings, and that the five year minimum holding period finished in October 2023.</p> <p>The Investment Adviser has also prepared detailed forecasts relating to the wind up of the VCTs, which takes this into account.</p> |
| Legislative | <p>In recent years, the changes to VCT Regulations have narrowed the breadth of permitted investments.</p> <p>VCTs were established to encourage private individuals to invest in early stage companies that are considered to be risky and have limited funding options. The state provides these investors with tax relief.</p> | A change in government policy could result in a cessation of tax reliefs or reduction of the amount of tax relief available to investors which would make them less attractive to investors. | The loss of VCT status would result in dividends becoming taxable and new Shareholders losing their initial tax relief. | <p>Both the Investment Adviser and the Administrator closely monitor developments and attend AIC conferences.</p> <p>The VCT Status Adviser also has significant experience in this field and works closely with HMRC.</p> <p>Further commentary on VCT Status is provided on page 30.</p> <p>The Investment Adviser engages with HMT and industry representative bodies to demonstrate the cost benefit of VCTs to the economy in terms of employment generation and taxation revenue.</p> |

Strategic Report (continued)

| Principal Risk | Context | Specific risks | Possible impact | Mitigation |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Regulatory and compliance | As a listed entity, the VCT is subject to the UK Listing Rules and related regulations. | Any breaches of relevant regulations could result in suspension of trading in the VCT's shares or financial penalties. | Reduction in the NAV of the VCT due to financial penalties and a suspension of trading in its shares, also leading to loss of VCT status. | The VCT Secretary and Administrator have a long history of acting for VCTs. The Board, Investment Adviser and Administrator also employ the services of reputable lawyers, auditors and other advisers to ensure continued compliance with its regulatory obligations. |
| Operational – VCT level | The VCT relies on the Investment Adviser, Administrator and other third parties to provide many of its services at the VCT level. | Inferior provision of these services thereby leading to inadequate systems and controls or inefficient management of the VCT's assets and its reporting requirements. Service providers, predominantly the Registrar, hold Shareholders' personal data and there is a risk of an external shock (natural disaster or terrorist attack) or a cyber attack on a provider. | Errors in Shareholder records, incorrect mailings, misuse of data, non-compliance with key legislation, loss of assets, breach of legal duties and inadequate financial reporting. | The VCT, the Investment Adviser and the Administrator engage experienced and reputable service providers, the performance of which is reviewed on an annual basis. The Directors and the Investment Adviser regularly review the service providers, including their internal controls and the procedures and policies they have in place for preventing cyber attacks. |
| Operational – Portfolio level | At the portfolio level, the VCT uses third party O&M contractors managing the various sites. | Inferior provision of these services, thereby leading to inadequate systems and controls or inefficient management of the VCT's assets. Maintenance and repairs not carried out in a timely manner. | Poor investment performance due to assets being offline and non-revenue generating. | The VCT, the Investment Adviser and the Administrator engage experienced and reputable service providers, the performance of which is reviewed on an ongoing basis. At the portfolio level, technical reviews and studies are conducted on the assets as appropriate. Repair and reconfiguration work is carried out and O&M procedures are revised to reduce dependence on overseas contractors and specialists. |
| Economic, political and other external factors | The VCT's investments are heavily exposed to the Feed in Tariff (FIT) regime. Events such as the Russian Federation's invasion of Ukraine, conflict in the Middle East, economic recession, increasing interest rates and inflation. | Retrospective changes to the regimes. Changes in energy prices and inflation. An increase in inflation results in higher interest charges for the debt facility. | A significant negative impact on performance in respect of regime changes, low inflation and energy prices reduces portfolio revenue. | The Investment Adviser and Board members closely monitor policy and geopolitical developments. However, the UK Government has a general policy of not introducing retrospective legislation. The Investment Adviser and Board regularly review the valuation model and its inputs. Higher energy prices and inflation can improve portfolio performance as returns are directly linked to both factors. |

| Principal Risk | Context | Specific risks | Possible impact | Mitigation |
|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (Retroactive) changes to Energy Market regulation and policies | The VCT operates within the UK Energy market which is governed by UK regulation and could be subject to change | The current or future UK Government may decide that subsidies provided to renewable energy generation assets in the form of feed-in-tariffs (FITs) pose too big a burden on electricity consumers and reduce or even eliminate them retroactively. Similarly, other measures that achieve a similar effect such as special taxes, a cap on applicable inflation rates, limits on generated kWhs that earn FITs. | A significant negative impact of the renewable energy generation asset's revenue reducing the cash availability of the VCT. The EGL was introduced from 1 January 2023 and legislated for in Part 5 of Finance Act (Number 2) 2023. The levy is legislated to remain in force until 31 March 2028. | <p>The Investment Adviser continuously monitors the regulatory landscape in the UK. If an action that retroactively targets these subsidies it would join forces with other owners of these assets and vigorously challenge such retroactive law changes in the courts. All of the sites owned by the VCTs are fully-accredited which means that there is no risk of an individual asset losing its subsidy.</p> <p>Risk lowered as the government introduced the EGL from 1 January 2023 to tax exceptional profits, so they are unlikely to introduce any more changes in the next five years as the EGL deals with this. The EGL does not impact the VCT's portfolio given its smaller size, but any potential acquirer may subsequently incur this levy.</p> |

| Emerging Risk | Context | Specific risks | Possible impact | Mitigation |
|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Climate change and ESG | Failure to address ESG related factors and potential climate change can have impacts on the portfolio performance and therefore on SPVs revenue and VCT's cash availability. | Reduction of portfolio performance due to climate change. | Reduction in portfolio revenue. | <p>ESG and climate change impacts are considered by the Investment Adviser and the Board in respect of new investments. Updates on proposed new legislation are monitored by the Board and Investment Adviser.</p> <p>The climate change risk applies during the period until the underlying assets are sold during the Managed Wind Down process. The climate change risk on a short term basis is considered low.</p> |

Since inception to 13 July 2021

The principal financial risks faced by the VCT, which include interest rate, market price, investment valuation, credit and liquidity risks, are summarised within Note 18 to the financial statements.

Note 18 includes an analysis of the sensitivity of valuation of the portfolio to changes in each of the key inputs to the valuation model.

Other principal risks faced by the VCT have been assessed by the Board and grouped into the key categories outlined below:

- underperformance;
- loss of VCT status;
- VCT Regulations;
- regulatory and compliance;
- operational;
- Economic, political and other external factors; and
- Government intervention in the renewables market.

Strategic Report (continued)

13 July 2021 to 30 September 2023

In approving a new Investment Policy for the Company, a number of risks which are material and currently known to the Company have been disclosed. Additional risks and uncertainties not currently known to the Company, or that the Company deems immaterial, may also have an adverse effect on the Company.

The main risks identified as part of the new Investment Policy of the Company are:

| Risk identified | Context | Mitigation |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Asset diversification | In a Managed Wind Down, the value of the portfolio will be reduced as investments are realised and concentrated in fewer holdings, and the mix of asset exposure will be affected accordingly. | None identified. |
| Ownership | All of the VCT's main solar assets are owned 50:50 between the VCT and VCT1 and there are no rights attached to such ownership that would allow one company to force the other to sell its share in each asset. | The VCTs will sell their shares in each asset simultaneously, so that no VCT holds more than 50% of the underlying assets. |
| Volatility in NAV and/or share price | The VCT might experience increased volatility in its Net Asset Value and/or its share price as a result of possible changes to the Portfolio structure following the adoption of the new Investment Policy. | None identified. |
| Sale of assets | The VCT's assets may not be realised at their carrying value, and it is possible that the VCT may not be able to realise some assets at any value. The VCT's assets' fair value is linked to estimates and assumptions about a variety of matters, including macroeconomic considerations, which assumptions may prove to be incorrect and which are subject to change. A material change of governmental, economic, fiscal, monetary or political policy, may result in a reduction in the value of the VCT's assets on sale. | The Board has engaged several experts in this field to ensure an appropriate sale price is reached. The Directors will ensure that the sale price reflects the best available offer for the Company's assets taking into account future income generation by the portfolio and the age and condition of the assets. |
| Sale of assets | Sales commissions, liquidation costs, taxes and other costs associated with the realisation of the VCT's assets together with the usual operating costs of the VCT will reduce the cash available for distribution to the Shareholders. | The Investment Adviser prepares detailed cash flow forecasts which are presented to the Board quarterly. The forecasts include the additional costs expected to be incurred during the Managed Wind Down of the VCT. |
| Sale of assets | A sale of the VCT's assets may prove materially more complex than anticipated, and the distribution of proceeds to Shareholders may be delayed by a number of factors, including, without limitation, the ability of a liquidator to make distributions to Shareholders. | The Board has engaged several experts in this field, to ensure against an extended handover period. If an extended handover period occurs then it is the Directors intention to ensure that the sale value obtained will ultimately be in Shareholders interests. |

Viability statement

In accordance with Provisions 33 and 36 of the 2019 AIC Code of Corporate Governance, the Directors have carried out a robust assessment of the emerging and principal risks facing the VCT that would threaten its business model, future performance, solvency or liquidity, and have assessed the prospects of the VCT over a longer period than the 12 months required by the 'Going Concern' provision.

The Board has conducted this review for a period of three years from the balance sheet date as developments are considered to be reasonably foreseeable over this period. The period of review has been shortened since the financial year ending 30 September 2021 due to the commencement of the Managed Wind Down of the VCT. Following the results of the continuation vote at the 2021 AGM and the Shareholders' subsequent approval of the Managed Wind Down of the Company at the 2021 General Meeting, the Board still considers that the VCT remains viable up until the point at which its assets are fully sold, or the voluntary liquidation completed, and as such the Board are satisfied that a three-year viability assessment remains applicable.

In making the viability assessment, the Board has taken the following factors into consideration:

- the nature and liquidity of the remaining VCT's portfolio (long-term, revenue generating fixed assets);
- the sales process currently underway to realise the VCT's remaining renewable assets;
- the potential impact of the Principal Risks and Uncertainties;
- maintaining VCT approval status up to the VCT entering voluntary liquidation;

- operating expenditure; and
- future dividends.

The Board is satisfied that the underlying assets held by the SPVs have been built to a sufficient quality and there are no current indications that the assets will degrade substantially over the period. It is also considered highly unlikely that the renewable portfolio would suffer from such poor irradiation and severe degradation that it would be unable to generate income over the period. The improvement in power prices and the benefit of higher inflation on the portfolio performance has improved the prospects for returns materially. Asset life, along with the other inputs to the valuation model, are discussed further in Note 2.

The Board also noted that the SPVs have very good debt cover and that there are sufficient cash reserves at the SPV level, available to be paid up to the VCT through dividends, reverse loans or the repayment of existing shareholder loans, to cover debt and running & sale of assets costs over the review period.

The Board has assessed the VCT's ability to cover its annual running costs under several stress scenarios evaluating the impact of receiving up to 20% less funds from the SPV level and the impact of increasing the VCT and SPV level running costs by up to 20%. The Board noted that under none of these scenarios was the VCT unable to cover its costs.

The Directors believe that the VCT is well placed to manage its business risks successfully. Based on the results, the Board confirms that, taking into account the VCT's current position and subject to the principal risks faced by the business, the VCT will be able to meet its liabilities as they fall due for a period of at least three years from the balance sheet date, notwithstanding that the VCT is

currently undergoing a Managed Wind Down and may be wound up in this timeframe.

Directors' remuneration

It is a requirement under the Companies Act 2006 for Shareholders to vote on the Directors' remuneration every three years, or sooner if the VCT wants to make changes to the policy. The Directors' remuneration policy for the three-year period from 27 April 2023 is set out on page 41.

Annual running costs cap

The annual running costs for the year are capped at 3.0% of net assets; any excess will either be paid by the Investment Adviser or refunded by way of a reduction of the Investment Adviser's fees. Annual Running Costs for the year to 30 September 2023 were 2.8% (2022: 2.3%) and therefore less than 3.0% of net assets.

Performance Incentive

The structure of the 'A' Shares, whereby Management owns one third of the 'A' Shares in issue (known as the "Management 'A' Shares"), acts as a Performance Incentive mechanism. The allocation to the 'A' Shares of any revenue and/or capital dividends declared by the VCT, will be increased if, at the end of each year, the hurdle is met, which is illustrated below:

- i) Shareholders who invested under the offer for subscription receive dividends in excess of 5.0p per Ordinary Share in any one financial period; and
- ii) one Ordinary Share and one 'A' Share has a combined net asset value of at least 100.0p.

The Performance Incentive is calculated each year and is not based on cumulative dividends paid.

Strategic Report (continued)

A summary of how proceeds are allocated between Shareholders and Management, before and after the hurdle is met, and as dividends per Ordinary Share increase is as follows:

| Hurdle criteria: | | | |
|------------------------------------|--------|-------|-------|
| Annual dividend per Ordinary Share | 0-5p | 5-10p | >10p |
| Combined NAV Hurdle | N/A | >100p | >100p |
| Allocation: | | | |
| Shareholders | 99.97% | 80% | 70% |
| Management | 0.03% | 20% | 30% |

As the NAV as at 30 September 2023 was below 100p, the NAV hurdle for the year was not met and no dividend in respect of the 'A' Shares was paid during the year, therefore there was no Performance Incentive paid.

Pursuant to historic financial intermediary arrangements with Hazel Capital LLP and, upon the appointment of Gresham House as Investment Adviser, CHI, of which Matthew Evans is a Designated Member, and Haibun, receive approximately 8.0% of the Performance Incentive payments made to Management in respect of the 'Management 'A' Shares' by the VCT and its sister company VCT1.

VCT status

The VCT has reappointed Philip Hare & Associates LLP (Philip Hare) to advise it on compliance with VCT requirements, including evaluation of investment opportunities as appropriate and regular review of the portfolio. Although Philip Hare works closely with the Investment Adviser, they report directly to the Board.

Compliance with the VCT regulations for the year under review is summarised as follows:

| | Position at the year ended 30 September 2023 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| 1. To ensure that the VCT's income in the period has been derived wholly or mainly (70% plus) from shares or securities; | 99.6% |
| 2. To ensure that the VCT has not retained more than 15% of its income from shares and securities; - see note below | 39.2%* |
| 3. To ensure that the VCT has not made a prohibited payment to Shareholders derived from an issue of shares since 6 April 2014; | 0.0% |
| 4. To ensure that at least 80% by value of the VCT's investments has been represented throughout the period by shares or securities comprised in qualifying holdings of the VCT; | 100.0% |
| 5. To ensure that at least 70% by value of the VCT's qualifying holdings has been represented throughout the period by holdings of eligible shares (disregarding investments made prior to 6 April 2018 from funds raised before 6 April 2011); | 94.9% |
| 6. To ensure that, of funds raised on or after 1 October 2018, at least 30% has been invested in qualifying holdings by the anniversary of the end of the accounting period in which the shares were issued. | Complied |
| 7. To ensure that no holding in any company has at any time in the period represented more than 15% by value of the VCT's investments at the time of investment; | Complied |
| 8. To ensure that the VCT's ordinary capital has throughout the period been listed on a regulated market; | Complied |
| 9. To ensure that the VCT has not made an investment in a company which causes it to receive more than the permitted investment from State Aid sources; | Complied |
| 10. To ensure that since 17 November 2015, the VCT has not made an investment in a company which exceeds the maximum permitted age requirement; | Complied |
| 11. To ensure that since 17 November 2015, funds invested by the VCT in another company have not been used to make a prohibited acquisition; and | Complied |
| 12. To ensure that since 6 April 2016, the VCT has not made a prohibited non-qualifying investment. | Complied |

* As the VCT has negative revenue reserves, the Company's VCT status adviser has confirmed that this requirement is deemed to have been met for VCT compliance purposes.

The Directors, with the help of the Investment Adviser, actively monitor and ensure the investee companies have less than £5mn state backed financing in a 12-month period listed in order to remain compliant with the VCT regulations.

Share Buybacks

The Board has decided that the VCT will not be buying in shares for the foreseeable future as highlighted in the Interim Results, as the VCT needs to conserve such cash as it generates for the Managed Wind Down of the VCT and the payment of dividends.

Future prospects

The Board's assessment of the outlook and future strategy of the VCT are set out in the Chairman's Statement and Investment Adviser's Report.





Sustainable Investing

The Sustainable Investing report forms part of the Strategic Report.

The VCT seeks to conduct its affairs responsibly and Gresham House, the Investment Adviser, is encouraged to consider environmental, social and community issues, where appropriate, and the Board will continue to monitor the Investment Adviser's progress in these areas.

The Board is conscious of its potential impact on the environment as well as its social and corporate governance responsibilities. The Investment Adviser has presented its Environmental, Social and Governance (ESG) strategy to the Board.

The VCT, whilst not having an explicit sustainable investment objective, demonstrates clear promotion of environmental characteristics by investing in technologies that contribute to climate change mitigation by supporting a decarbonisation of the energy system in the UK and a net zero economy underpinned by cheap clean electricity.

Sustainable Investing at Gresham House

The Investment Adviser is committed to sustainable investment as an integral part of its business strategy. In 2021, Gresham

House further enhanced its approach to sustainability by publishing its first Corporate Sustainability Strategy (CSS) which supports its GH25 ambition to "become a leader in the sustainable investment, including Environmental, Social and Governance (ESG)". The CSS details objectives and actions to ensure its progresses against its ambition to be a leader in sustainable investment and that ESG factors and stewardship responsibilities continue to be integrated into the management of each asset division. More information on Gresham House's sustainability approach and CSS can be found in its Sustainable Investment Report: <https://greshamhouse.com/sustainable-investment-report/>.

Policies and processes

Gresham House publishes a Sustainable Investing Policy along with asset specific policies, including the New Energy Sustainable Investment Policy, which covers Gresham House's sustainable investment commitments, how the investment processes meet these commitments and the application of the Sustainable Investment Framework.

The Sustainable Investment Team assesses adherence to the commitments in the Sustainable Investment Policies on an annual basis and provides updates on the findings of these assessments to the Sustainability Executive Committee and Board Sustainability Committee.

Sustainability Executive Committee

The Investment Adviser's Sustainability Executive Committee (Sustainability ExCo) was established in 2021. The Sustainability ExCo is chaired by the Director of Sustainable Investment and comprises heads of divisions and representation from across the business including Group Management Committee representatives, a Gresham House Ireland representative, investment division heads and heads of operational teams. The ExCo sets and oversees the Gresham House Corporate Sustainability Strategy and ensures priority areas of sustainability related risks and opportunities are proactively identified and debated.

New Energy Sustainable Investment Committee

In 2022, the New Energy division evolved its structures with regards to the ownership and development of Sustainable Investment objectives and actions for the division by creating a New Energy Sustainable Investment Committee (NESIC). The purpose of the New Energy Sustainability Committee's purpose is to provide leadership, strategic direction and implement processes to enhance the integration of sustainability across the New Energy division, supporting the achievement of fund-specific objectives and the CSS.

The core objectives of the NESIC include:

- to become the experts in sustainability within the New Energy division and apply their knowledge to their areas of business.

- to be advocates for sustainable investment and innovation for the division.
- to set and oversee the New Energy sustainability objectives and targets at fund and divisional level, aligned to Gresham House Corporate Sustainability Strategy.
- to ensure key sustainability related risks and opportunities are proactively identified and managed by the division.
- to ensure that New Energy SI-related tools, processes, frameworks and data remain relevant and meet commitments made in the New Energy Sustainable Investment Policy to ensure the division is able to evidence SI contribution and progress to external parties.

New Energy Sustainability Objectives

The NESIC developed and agreed a set of sustainability objectives for the division applicable to all assets under management. The objectives were determined by identifying the ESG topics deemed most material to the assets. They were also selected to align with the core topics and objectives in the Investment Adviser's 2025 Corporate Sustainability Strategy.

The objectives will focus future sustainability-related activities for the division to 2025 and are detailed below. The funds will provide updates against the objectives in future reporting.

Sustainable Investing (continued)

Table 1: New Energy Sustainability Objectives

| Topic | 2025 Objective |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| G: Commitment to Sustainability | Meet all relevant regulatory sustainability requirements. |
| G: Risk and Compliance | Become a leader in the measurement and disclosure of ESG risks and outcomes. Have a comprehensive set of ESG KPIs to support investment and asset management decisions and regularly report these to stakeholders. |
| G: Marketplace Responsibility | Have market-leading Sustainable Investment policies and processes and ensure all investment activities meet commitments at a high-quality level. |
| G: Governance & Ethics | Engage with key counterparties to increase capacity of renewable energy or battery storage and the contribution of these assets to a low carbon economy. |
| E: Climate Change & Pollution | Demonstrate the role of New Energy in the energy transition and understand the carbon footprint of the full lifecycle of assets. |
| E: Natural Capital | Fully understand natural capital impacts and dependencies and aim to demonstrate enhancement of biodiversity for all sites. |
| S: Supply Chain Management | Determine best-in-class suppliers to work with long-term, and encourage more responsible supplier practices, reducing supply chain sustainability risks. |
| E: Waste Management | Incorporate full lifecycle analysis into investment and supplier decision making (product design, construction, operation and end-of-life use) to reduce negative environmental and social impacts of assets. Develop a market-leading approach to end-of-life use. |

Risk and Compliance: Embedding ESG factors

As the assets within the VCTs are all well-established, the assessment of ESG is applied as part of our asset management activities. All Operations & Maintenance providers are required to report on various ESG factors, including Health & Safety and Environmental risks or incidents. Any significant incidents must be reported to us within 24 hours. Furthermore, they are also expected to be proactive and to make recommendations for improvements.

The team continues to work to expand the ESG key performance indicators (KPIs) measured, reported, and monitored by the New Energy division for all assets under management, including the VCTs. This reflects increased investor and regulatory demand for ESG data and the Investment Adviser's ambitions to enhance ESG data and transparency. It is anticipated that the expanded ESG data will be used by investment teams and asset management teams to increase their understanding of the operational ESG performance of assets under management and to identify any material ESG risks. It is expected that the asset management team will aim to improve ESG metrics over time, as feasible within the context of the existing fund mandate.

In 2023, this project has been led by the Construction and Asset Management team who have incorporated the request for ESG data into ongoing EPC and supplier contracts and receives or will receive – dependent on the availability – data on a quarterly basis. It is anticipated that fund-level data will be available for reporting purposes from the end of 2023.

Supply Chain Management

The Investment Adviser has had a Supply Chain Policy in place since 2020. The Supply Chain Policy covers material ESG topics and places obligations on suppliers (including contractors) to ensure their own compliance, as well as the compliance of their subcontractors, with the Policy. It also requires suppliers to monitor and report any non-compliance to the Investment Adviser.

Since July 2021, all new supplier contracts have been updated to include clauses specifically mandating suppliers to declare that they have not been involved in any practices linked to modern slavery and that they will permit on-site audits at any time should we have reason to suspect instances of slavery and human trafficking. Any VCT suppliers with contracts due for renewal will be obliged to update clauses relating to modern slavery within their contract terms.

Operators of Gresham House managed renewables projects were asked to complete a modern slavery questionnaire to assess modern slavery related risk to the New Energy division's renewables assets in 2021 and an updated version of this questionnaire was sent in Q1 2023 to determine any material changes regarding the risk profile associated with this topic. There is an ongoing workstream to enhance Gresham House's approach to modern slavery and identify proposed engagement actions for consideration as part of the next steps of this workstream into 2024.

Gresham House recognizes that challenges relating to modern slavery in the solar module supply chain are a system issue that can be hard to influence as a relatively small player in the renewables industry. Therefore, Gresham House became a member of the Solar Energy UK Responsible Sourcing Steering Group in Q2 2023. The Investment Adviser believes this is a key mechanism through which it can better understand risks relating to modern slavery in the supply chain and encourage regulatory and long-term solutions for a more diversified, modern slavery free supply chain.

Climate Change & Pollution

Based on the 23,372,848kWh renewable electricity generated by the VCT wind and solar assets, it is estimated that the fund avoided 9,909 tonnes of CO₂¹ and powered c.8,657 homes² during the reporting period.

As a UK quoted company, the VCT is required to report on its Greenhouse Gas (GHG) Emissions. Emissions can be broken down into three categories by the Greenhouse Gas Protocol:

- Scope 1: all direct emissions from the activities of the VCT or under its control.
- Scope 2: indirect emissions from electricity purchased and used by the VCT.
- Scope 3: all other indirect emissions from activities of the VCT, occurring from sources that it does not use or control.

The VCT does not itself produce any Scope 1 or Scope 2 carbon emissions as it does not itself directly or indirectly create carbon emissions by generating or purchasing electricity for its own use. The reporting of Scope 1 and 2 carbon emissions for the fund as 0 tCO₂e is in line with industry standards and guidance by an external consultant that supported the Investment Adviser in the carbon footprint measurement for all Gresham House financed emissions. The Investment Adviser continues to consider how best to monitor and measure the Scope 3 emissions relevant to the VCT.

Natural Capital

The Investment Adviser continues to manage all assets in line with the biodiversity commitments and habitat management plans instigated as part of project development and approvals.

Director's Duties

Directors must consider the long-term consequences of any decision they make. They must also consider the interests of the various stakeholders of the VCT, the impact the VCT has on the environment and community and operate in a manner which maintains the VCT's reputation for having high standards of business conduct and fair treatment between Shareholders.

Fulfilling this duty naturally supports the VCT in its Investment Objective to maximise tax-free capital gains and income to Shareholders and helps ensure that all decisions are made in a responsible and sustainable way. In accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, and the AIC Code, the information overleaf explains how the Directors have individually and collectively discharged their duties under section 172 of the Companies Act 2006.

¹ Assuming an "all non-renewable fuels" emissions statistic of 424tCO₂/GWh of electricity supplied, BEIS statistics July 2023, Digest of UK Energy Statistics, Table 5.14 ("Estimated carbon dioxide emissions from electricity supplied"). "Carbon avoided" calculated using Renewable UK methodology: Carbon reduction is calculated by multiplying the total amount of electricity generated by solar and wind per year by the number of tonnes of carbon which fossil fuels would have produced to generate the same amount of electricity.

² Assuming an average annual electricity usage per household of 2.7MWh, as quoted by OFGEM October 2023. "Homes powered" calculated using Renewable UK methodology: MWh divided by average annual domestic electricity consumption. Household power consumption dropped in 2023 due to high power prices.

Section 172

The Section 172 statement forms part of the Strategic Report.

The Directors consider that in conducting the business of the VCT over the course of the year they have complied with Section 172(1) of the Companies Act 2006 (the Act) by fulfilling their duty to promote the success of the VCT and to act in the way they consider, in good faith, would be most likely to promote the success of the VCT for the benefit of its members as a whole, whilst also considering the broad range of stakeholders who interact with and are impacted by the VCT's business, especially with regard to major decisions.

Role of the Board

The Board, which comprised of three Non-Executive Directors during the financial year with a broad range of skills and experience, retains responsibility for taking all decisions relating to the VCT's principal objectives, corporate governance and strategy, and for monitoring the performance of the VCT's service providers.

The Board aims to ensure that the VCT operates in a transparent culture where all parties are able to contribute to the decisions made and challenge where necessary with the overall aim of achieving the expectations of Shareholders and other stakeholders alike.

In discharging their Section 172 duties the Directors have regard to the likely consequences of any decisions during the Managed Wind Down process; the need to foster the VCT's business relationships with suppliers, customers and others; the impact of the VCT's operations on the community and environment; the desirability of the VCT maintaining a reputation for high standards of business conduct and the need to act fairly as between members of the VCT.

The Board works very closely with the Investment Adviser and Company Secretary to ensure there is visibility and openness in how the affairs of the VCT are being conducted. The VCT co-owns all its assets with Gresham House Renewable Energy VCT1 plc (VCT1).

The VCT is an investment vehicle, externally managed, has no employees, and is overseen by a Non-Executive board of Directors. As such the Board considers its stakeholders to be the Shareholders, the service providers, including the Investment Adviser, and regulatory bodies.

Following the adoption of the new Investment Policy from 13 July 2021, the VCT's principal objective is to manage the Company with the intention of realising all remaining assets in the portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning to Shareholders in an orderly manner.

Key Stakeholders Shareholders

The Board engages with the VCT's Shareholders in a variety of ways, including annual and half-yearly reports and accounts, an AGM and information provided on the Investment Adviser's website as well as ad hoc communications with Shareholders.

The Registrar is available to help Shareholders to manage their Shareholding.

The VCT welcomes and encourages attendance and participation from Shareholders at the AGM and values any feedback and questions it may receive from Shareholders ahead of and during the AGM.

The Board communicates with its Shareholders through the publication of Annual and Half-Year reports which are available on the VCT's website (<https://greshamhouse.com/real-assets/new-energy-sustainable-infrastructure/>) and sent to Shareholders.

The Board is also happy to respond to any written queries made by Shareholders during the course of the period, or to meet with major Shareholders if so requested. In addition to the formal business of the AGM, representatives of the Investment Adviser and the Board are available to answer any questions a Shareholder may have. During the period the Board engaged with Shareholders on several matters, including the update on the sale of solar assets and the cancellation of the Company's share premium account and capital redemption reserve. Details of this is included in the Chairman's Statement.

Investment Adviser

The Board has delegated authority for day-to-day management of the VCT to the Investment Adviser. The Board then engages with the Investment Adviser in setting, approving and overseeing the execution of the business strategy and related policies. The Investment Adviser attends Valuation Forums, Board meetings and Audit Committee meetings to update the Directors on the performance of the portfolio. At every quarterly Board meeting a review of financial and operational performance, as well as legal and regulatory compliance, is undertaken. Since the General Meeting held on 13 July 2021, the Managed Wind Down of the Company has been reviewed at each quarterly Board meeting and at ad hoc board meetings being held as and when required.

The Board also reviews other areas over the course of the financial year including the VCT's business strategy; key risks; stakeholder-related matters; diversity and inclusion; environmental matters; corporate responsibility and governance, compliance and legal matters.

The Investment Adviser's performance is critical for the VCT to successfully deliver its investment strategy and meet its objectives.

Service Providers

The VCT has a limited pool of service providers which include the Investment Adviser, the Administrator, the Registrar, the Legal Advisers, the Auditor, the Tax Adviser and the VCT Status Advisers.

These service providers are fundamental to ensuring that as a business the VCT meets the high standards of conduct that the Board sets. The Board meets at least annually to review the performance of the key service providers and receives reports from them at Board and Committee meetings.

The Board has regular contact with the two main service providers (the Investment Adviser and Administrator) through quarterly board meetings, with the Chairman and Audit Chairman meeting these providers more regularly. The Audit Committee also reviews the controls of the VCT's service providers on an

annual basis to ensure that they are performing their responsibilities in line with Board expectations and providing value for money.

Regulators/Government

The Board regularly considers how it meets regulatory and statutory obligations and follows voluntary and best-practice guidance, including how any governance decisions it makes impact its stakeholders both in the shorter and in the longer-term.

The VCT engages an external adviser to report half-yearly on its compliance with the VCT rules and a Company Secretary report is tabled quarterly at board meetings.

ESG

Details on ESG are included in the Sustainable Investing section on pages 32 to 35.

Key Board decisions and specific examples of Stakeholder consideration during the year

The Board is fully engaged in both oversight and the general strategic direction of the VCT. During the year, the Board's main strategic discussions focused around the below items.

Managed Wind Down process

Following the General Meeting held on 13 July 2021, the Shareholders resolved to approve the Managed Wind Down of the Company and associated amendments to the Company's Investment Policy. Under the Managed Wind Down process, the Company has continued to be managed with the intention of realising all assets in its Portfolio in a prudent manner consistent with the principles of good investment management and with a view achieving fair value for the Company's assets and subsequently returning cash to Shareholders in an orderly manner.

To that effect, the Board's strategic discussions have centred on the sale of the full portfolio of solar assets. Particular oversight and direction from the Board has been provided with regard to the successful completion of the sale of a portion of the Company's solar assets in April 2023 and the resolution of the ongoing grid connection issue at the site in South Marston.

Time has also been spent by the Board in considering the impact of the portfolio sale on compliance with the 80% qualifying holdings requirement that applies to the Company as a VCT. With part of the assets having being sold and the sale of the remaining assets ongoing, the Board with the Investment Adviser and other service providers have commenced the planning of the Company's eventual voluntary liquidation. The Board has approached potential liquidators with a view to an appointment to oversee the process.

Throughout the year, the Board has also considered how to maximise dividend returns to Shareholders whilst taking into account the Company's expected cash requirements and the potential impact of the sale of investment assets in accordance with Shareholder wishes. After obtaining Shareholder approval at the Annual General Meeting held on 27 April 2023, the Company commenced a court-led process to cancel the Company's share premium account and capital redemption reserve. The successful conclusion of this process, along with the receipt of proceeds of sale arising from the disposal of the solar assets, allowed the Company to declare an interim dividend of 16.5p per Ordinary share in June 2023.

The Board takes seriously its responsibilities to uphold the highest standards of corporate governance and is open to constructive dialogue with Shareholders and shareholder bodies.

By order of the Board

Christian Yates
Chairman

29 January 2024

Report of the Directors

The Directors present the thirteenth Annual Report and Accounts of the VCT for the year ended 30 September 2023.

The Corporate Governance Report on pages 44 to 46 forms part of this report.

Share capital

At the year end, the VCT had in issue 26,133,036 Ordinary Shares and 39,463,845 'A' Shares. There are no other share classes in issue.

All shares have voting rights; each Ordinary Share has 1,000 votes and each 'A' Share has one vote. Where there is a resolution in respect of a variation of the rights of 'A' Shareholders or a Takeover Offer, the voting rights of the 'A' Shares rank pari-passu with those of Ordinary Shares.

Pursuant to the articles and subject to a special resolution, the VCT is able to make market purchases of its own shares, up to a maximum number of shares equivalent to a set percentage of the total number of each class of issued shares from time to time. No such resolution was passed at the Company's 2023 Annual General Meeting.

Substantial interests

As at 30 September 2023, and the date of this report, the VCT had not been notified of any beneficial interest exceeding 3% of the issued share capital.

Results and dividends

| Year ended 30 September 2023 | £'000 | Pence per Ord Share | Pence per 'A' Share |
|------------------------------------|---------|---------------------------|---------------------------|
| Loss for the year | (4,560) | (17.4) | - |
| Dividend paid 27 January 2023 | 523 | 2.0 | - |
| Dividend paid 28 July 2023 | 4,312 | 16.5 | - |

Directors

The Directors of the VCT during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2023 and at the date of this report are detailed on page 42 of the Remuneration Report.

Biographical details of the Directors, all of whom are Non-Executive, can be found on page 3.

It is the Board's policy that Directors do not have service contracts, but each Director is provided with a letter of appointment. The Directors' letters of appointment, are terminable on three months' notice by either side. They are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming AGM.

The Articles of Association require that each Director retires by rotation every three years and being eligible, offer themselves for re-election. Accordingly, Matthew Evans stood for re-election in 2023 and Christian Yates and Andrew Donovan will stand for re-election in 2024.

The Directors' appointment dates and the date of their last election are shown below:

| Director | Date of original appointment | Most recent date of re-election |
|-----------------------------------|------------------------------|---------------------------------|
| Christian Yates (Chairman) | 28/09/2010 | 22/03/2021 |
| Matthew Evans | 31/01/2017 | 27/04/2023 |
| Andrew Donovan | 07/12/2020 | 22/03/2021 |

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Company and the sector in which it operates to enable it to provide effective strategic leadership and proper guidance of the Company.

The Board confirms that, following the evaluation exercise set out in the Corporate Governance Statement on page 45, the performance of the Directors is, and continues to be, effective and demonstrates commitment to the role.

Each Director is required to devote such time to the affairs of the VCT as the Board reasonably requires.

Annual General Meeting

The VCT's thirteenth Annual General Meeting ("AGM") will be held at The Scalpel, 18th Floor, 52 Lime Street, London EC3M 7AF at 12:00 pm on 19 March 2024. The Notice of the Annual General Meeting and Form of Proxy will be circulated separately following the publication of this Annual Report.

Any change of format will be notified via the Company's website and Regulatory Information Service.

Auditor

The Independent Auditor's Report can be found on pages 47 to 51. At the 2023 AGM, the Shareholders approved the re-appointment of BDO LLP as the auditor. Separate resolutions will be proposed at the 2024 AGM to re-appoint BDO LLP and to authorise the Directors to determine their remuneration.

Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102). 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 VCT and of the profit or loss of the VCT for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the VCT will continue in business. As explained in Note 1 to the financial statements, as last year, following the continuation vote on 13 July 2021, the directors do not believe the going concern basis to be appropriate and, in consequence, these financial statements have not been prepared on that basis.

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

Report of the Directors (continued)

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the VCT's position and performance, business model and strategy.

Directors' Statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 3, confirms that, to the best of each person's knowledge:

- the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice and the 2014 Statement of Recommended Practice (updated in April 2021), 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' give a true and fair view of the assets, liabilities, financial position and profit or loss of the VCT; and
- that the management report, comprising the Chairman's Statement, Investment Adviser's Report, Review of Investments, Strategic Report, and Report of the Directors includes a fair review of the development and performance of the business and the position of the VCT together with a description of the principal risks and uncertainties that it faces.

Insurance cover

Directors' and Officers' liability insurance cover is held by the VCT in respect of the Directors.

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 website of the Investment Adviser (<https://greshamhouse.com/real-assets/new-energy-sustainable-infrastructure/>) 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 Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

Corporate governance

The VCT's Corporate Governance statement and compliance with, and departures from the 2019 AIC Code of Corporate Governance which has been endorsed by the Financial Reporting Council (www.frc.org.uk) is shown on page 46.

Other matters

The likely future developments in the business of the Company including the Managed Wind Down are set out in the Chairman's Statement (pages 4 to 6) and in the Investment Adviser's Report (pages 7 to 13).

Information in respect of risk management and risk diversification has been disclosed within the Strategic Report on page 24.

Information in respect of greenhouse emissions which is normally disclosed within the Report of the Directors has been disclosed within the Strategic Report on page 35.

During the year, the VCT did not have any employees (2022: nil) and therefore there is no comparison data available for the change in Directors' remuneration to average change in employee remuneration.

Events after the end of the reporting period

Following the year end the VCT paid an interim dividend, of 7.5p per Ordinary Share. This dividend was paid on 21 December 2023 to holders of Ordinary Shares on the register at 1 December 2023. No dividend was declared in respect of the 'A' Shares.

Statement as to disclosure of information to the auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that 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.

For and on behalf of the Board

Christian Yates
Chairman

29 January 2024

Directors' Remuneration Report

Annual statement of the Remuneration Committee

The Remuneration Committee consists of each of the VCT Directors. The Remuneration Committee assists the Board to fulfil its responsibility to Shareholders to ensure that the remuneration policy and practices of the VCT reward the Directors' fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements. The Remuneration Committee meets as and when required to review the levels of Directors' remuneration. The Committee is also responsible for considering the need to appoint external remuneration consultants.

During the year, in recognition of increased oversight responsibilities in relation to the completion of the sale of certain solar assets in April 2023, the Remuneration Committee approved an additional special payment of £7,500 to the Chairman. This additional payment was paid on 16 May 2023. The Chairman did not vote upon his own additional special payment.

Following a review of the remuneration during the financial year 2022/2023 by the Remuneration Committee, the Board approved a 6% increase in the Directors' remuneration. These increases took effect from 1 October 2023. The changes to the Directors' remuneration are outlined in this report.

Details of the specific levels of remuneration to each Director as well as the fee increases are outlined in the report.

Report on Remuneration Policy

Below is the VCT's remuneration policy. This policy applies from 27 April 2023. Shareholders must vote on the remuneration policy every three years, or sooner, if the VCT wants to make changes to the policy. The policy was last approved by Shareholders at the 2023 AGM and, if the Managed Wind Down of the Company was still to be completed, will be presented to Shareholders for approval at the 2026 AGM.

There are currently no planned changes to the remuneration policy.

The VCT's policy on Directors' remuneration is to seek to remunerate Board members at a level appropriate for the time commitment required and degree of responsibility involved and to ensure that such remuneration is in line with general market rates. Non-Executive Directors will not be entitled to any performance related pay or incentive.

Directors' remuneration is also subject to the VCT's Articles of Association which provide that:

- (i) the aggregate fees will not exceed £100,000 per annum (excluding any Performance Incentive fees to which the Directors may be entitled from time to time); and
- (ii) the Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

Agreement for services

Information in respect of the Directors' agreements has been disclosed within the Report of the Directors on page 38.

Performance incentive

The structure of 'A' Shares, whereby Management (being staff of the Investment Adviser) owns one third of the 'A' Shares in issue (known as the "Management 'A' Shares"), enables a payment, by way of a distribution of income, of the Performance Incentive to the Management Team. The performance incentive structure of 'A' Shares is detailed on pages 29 and 30 of the Strategic Report.

The NAV hurdle was not met for the financial year end 30 September 2023 and no dividend was paid in respect of the 'A' Shares during the year, therefore there was no Performance Incentive.

Annual Report on Remuneration

The Board has prepared this report in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) and the Companies Act 2006.

Under the requirements of Section 497 of the Companies Act 2006, the VCT's Auditor is required to audit certain disclosures contained within this report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 47 to 51.

Directors' remuneration (audited)

Directors' remuneration for the VCT for the year under review is shown in the table below.

The basic annual fees of the Directors during the year were £27,825 for the Chairman, £25,200 for the Audit Committee Chairman and £22,575 for the other Non-Executive Director. In addition, as reported above, an additional special payment was made to the Chairman in May 2023 for increased oversight responsibilities in relation to the completion of sale of certain solar assets held by the VCT in April 2023.

Directors' Remuneration Report (continued)

Effective 30 September 2022, Giles Clark resigned from the Board of the VCT in order to join the Board of VCT1. Effective 1 October 2023, an increase of 6% will be applied to director fees. This increase is within the limit set by the Remuneration Policy. Both changes are shown in the table below:

| | Current Annual Fee £ | Year ended 30 September 2023 fee £ | Additional Special Payment for the year end 30 September 2023 £ | Total Year ended 30 September 2023 fee £ | Year ended 30 September 2022 fee £ | Additional Special Payment for the year end 30 September 2022 £ | Total Year ended 30 September 2022 fee £ |
|-----------------|-------------------------|------------------------------------------|--------------------------------------------------------------------|------------------------------------------------|------------------------------------------|--------------------------------------------------------------------|------------------------------------------------|
| Christian Yates | 29,494 | 27,825 | 7,500 | 35,325 | 26,500 | N/A | 26,500 |
| Matthew Evans | 23,930 | 22,575 | N/A | 22,575 | 21,500 | N/A | 21,500 |
| Andrew Donovan | 26,712 | 25,200 | N/A | 25,200 | 24,000 | 406 | 24,406 |
| Giles Clark | N/A | N/A | N/A | N/A | 21,500 | 630 | 22,130 |
| Totals | 80,136 | 75,600 | 7,500 | 83,100 | 93,500 | 1,036 | 94,536 |

No other emoluments, pension contributions or life assurance contributions were paid by the VCT to, or on behalf of, any Director. The VCT does not have any share options in place.

Annual percentage change in Directors' remuneration

The following table sets out the annual percentage change in Director's fees for the year up to 30 September 2023:

| | % change for the year to 30 September 2023 | % change for the year to 30 September 2022 | % change for the year to 30 September 2021 | % change for the year to 30 September 2020 |
|-----------------|--------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------------|
| Christian Yates | 5 | 0 | 6 | 0 |
| Matthew Evans | 5 | 0 | 7.5 | 0 |
| Andrew Donovan | 5 | 0 | N/A | N/A |
| Giles Clark | N/A | 0 | 6.7 | 0 |

Directors' Shareholding (Audited)

The Directors of the VCT during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2023 and at the date of this report were as follows:

| Directors | | At the date of this report | At 30 September 2023 | At 30 September 2022 |
|-----------------|-----|----------------------------|----------------------|----------------------|
| Christian Yates | Ord | 27,789 | 27,789 | 27,789 |
| | 'A' | 2,624,185 | 2,624,185 | 2,624,185 |
| Matthew Evans | Ord | - | - | - |
| | 'A' | - | - | - |
| Andrew Donovan | Ord | - | - | - |
| | 'A' | - | - | - |

Statement of voting at AGM

Remuneration report

At the AGM on 27 April 2023, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

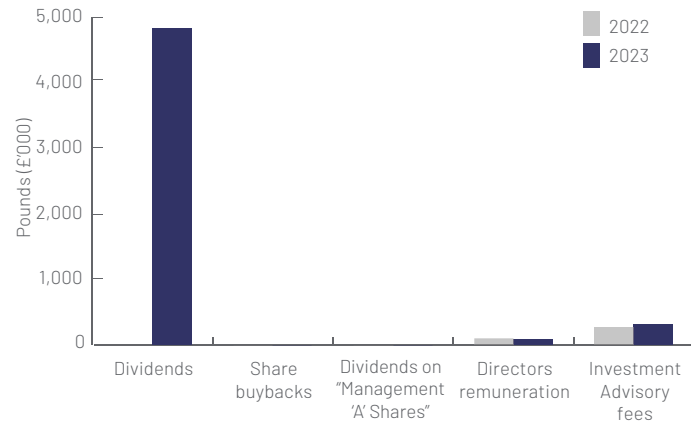
| | |
|-----------|-----------|
| In favour | 99.85% |
| Against | 0.15% |
| Withheld | nil votes |

Remuneration policy

At the 2023 AGM, when the remuneration policy was last put to a Shareholder vote, 99.85% voted for the resolution, showing significant shareholder support.

Relative importance of spend on pay

The difference in actual spend between 30 September 2023 and 30 September 2022 on Directors' remuneration in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the chart below.

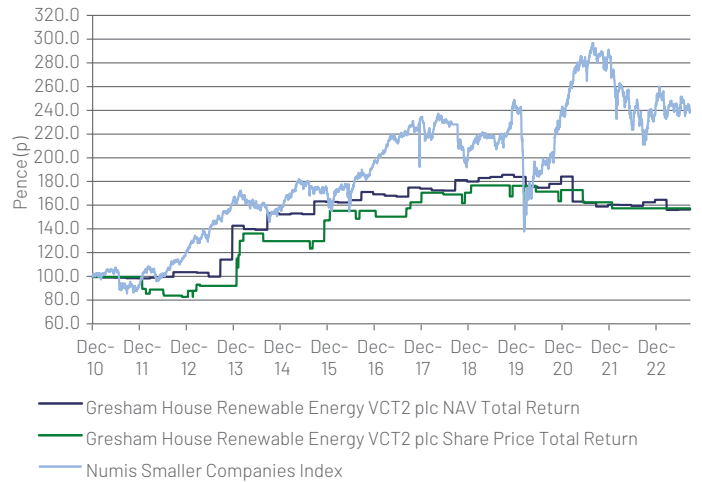


2023/2024 Remuneration

The remuneration levels for the forthcoming year for the Directors of the VCT are shown in the above table on page 42.

Performance graph

The graph below represents the VCT's performance over the reporting periods since the VCT's Ordinary Shares and 'A' Shares were first listed on the London Stock Exchange, and shows share price total return and net asset value total return performance on a dividends reinvested basis. All returns are rebased to 100 at 10 January 2011, being the date the VCT's shares were listed.



The Numis Smaller Companies Index has been chosen as a comparison as it is a publicly available broad equity index which focuses on smaller companies and is therefore more relevant than most other publicly available indices.

Matthew Evans
Remuneration Committee Chairman

29 January 2024

Corporate Governance

The Board of Gresham House Renewable Energy VCT2 plc has considered the Principles and Provisions of the 2019 AIC Code of Corporate Governance (the AIC Code). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to Gresham House Renewable Energy VCT2 plc.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to Shareholders.

Compliance with the Principles and Provisions of the AIC Code by the VCT is detailed on page 46.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Board

The VCT has a Board comprising three Non-Executive Directors, chaired by Christian Yates. Andrew Donovan is independent from the Investment Adviser. Matthew Evans is not considered independent as he is a Designated Member of CH1 Investment Partners LLP, which receives trail commission from the Investment Adviser. Christian Yates was independent on appointment, however, he is no longer considered independent as he has been on the Board for over nine years. The VCT has not appointed a Senior Independent Director. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 3.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Investment Adviser; making decisions concerning the acquisition or disposal of investments; and reviewing, annually, the terms of engagement of all third party advisers (including the Investment Adviser and Administrator).

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the VCT's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary facilitates the Board's access to full information on the VCT's assets and liabilities and other relevant information requested by the Chairman, in advance of each Board meeting.

The Board has decided that the VCT will not be buying shares for the foreseeable future as the VCT wishes to conserve such cash as it generates for the Managed Wind Down of the VCT and the potential payment of dividends.

The capital structure of the VCT is disclosed in Note 19 to the financial statements.

During the period under review, all the Directors of the VCT were Non-Executive and served on each committee of the Board. Andrew Donovan is the Chairman of the Audit Committee and Matthew Evans is the Chairman of the Remuneration and Nomination Committees. The Audit Committee normally meets four times yearly, and the Remuneration and Nomination Committees meet as required. The Board has delegated a number of areas of responsibility to its committees and each committee has defined terms of reference and duties.

Audit Committee

The Audit Committee is responsible for reviewing the half-year and annual accounts before they are presented to the Board, the terms of appointment of the Auditor, together with their remuneration, as well as a full review of the effectiveness of the VCT's internal control and risk management systems.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Adviser, for presentation within the half-year and annual accounts.

The Committee also takes into consideration comments on matters regarding valuation, revenue recognition and disclosures arising from the Report to the Audit Committee as part of the finalisation process for the annual accounts.

The Committee is also responsible for reviewing the going concern assessment and viability statement including consideration of all reasonably available information about the future financial prospects of the VCT, the possible outcomes of events and changes in conditions and realistic possible responses to such events and conditions.

The Audit Committee met four times during the year. The Committee reviewed the internal financial controls and concluded that they were appropriate.

As the VCT has no staff, other than the Directors, there are no procedures in place in respect of whistle blowing. The Audit Committee understands that the Investment Adviser and Administrator have whistle blowing procedures in place.

External Auditor

The Audit Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit and confirms their status on independence.

The Committee also confirms that the main areas of risk for the period under review are the carrying value of investments and, in anticipation of the Company's need to enter voluntary liquidation once the majority of the assets have been sold, liquidity and solvency risks.

The Committee, after taking into consideration the proposed liquidation of the Company in addition to comments from the Investment Adviser and Administrator, regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend to the Board either the re-appointment or removal of the Auditor.

Under the Competition and Markets Authority regulations and subject to transitional provisions, there is a requirement that an audit tender process be carried out every ten years and mandatory rotation at least every twenty years. The VCT undertook an audit tender in respect of the audit required for the year ended 30 September 2021 and, following a competitive tender process in early 2021, BDO was re-appointed.

Board and Committee Meetings

The following table sets out the Directors' attendance at the Board and Committee meetings during the year:

| | Quarterly Board meetings attended | Adhoc Board meetings attended | Audit Committee meetings attended | Nomination Committee meetings attended | Remuneration Committee meetings attended |
|-----------------|-----------------------------------|-------------------------------|-----------------------------------|----------------------------------------|------------------------------------------|
| | (4 held) | (13 held) | (4 held) | (1 held) | (1 held) |
| Christian Yates | 4 | 11 | 4 | 1 | 1 |
| Matthew Evans | 4 | 12 | 4 | 1 | 1 |
| Andrew Donovan | 4 | 13 | 4 | 1 | 1 |

In addition, the Directors attended a number of ad hoc board meetings, mainly to discuss the Managed Wind Down of the VCT and the sale of certain solar assets held by the Company that completed in April 2023.

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. The Committee is also responsible for considering the need to appoint external remuneration consultants.

Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 42.

Recognising the increased oversight responsibilities during the financial year 2022/2023 in relation to the sale of certain solar assets of the Company, the Remuneration Committee resolved to approve an additional special payment of £7,500 to the Chairman. Details of this additional fee can be found on page 41.

Financial Reporting

The Directors' responsibilities statement for preparing the accounts is set out in the Report of the Directors on page 39 and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 47.

Nomination Committee

The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Committee meets as and when appropriate. Before any appointment is made by the Board, the Committee shall evaluate the balance of skills, knowledge and experience, and consider candidates on merit, against objective criteria, and with due regard for the benefits of diversity on the Board. Diversity includes and makes good use of differences

in knowledge and understanding of relevant diverse geographies, peoples and their backgrounds including race or ethnic origin, sexual orientation, gender, age, disability or religion.

During the period, the Committee carried out a rigorous internal board evaluation during which it assessed the effectiveness of the Board and its committees. The Committee found that the Board was functioning well and that all Directors contributed to the discussions at meetings. A number of topics were raised and discussed and overall the Board and its committees were found to be performing satisfactorily.

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the period, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Adviser and the Board are available to answer any questions a Shareholder may have. The notice of the thirteenth AGM and proxy form will be circulated separately following the publication of this Annual Report.

The terms of reference of the Committees and the conditions of appointment of Non-Executive Directors are available to Shareholders on request.

Internal Control

The Directors are fully informed of the internal control framework established by the

Investment Adviser and the Administrator to provide reasonable assurance on the effectiveness of internal financial control.

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and they review the effectiveness of the internal controls, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the year.

The Board also reviews the perceived risks faced by the VCT in line with relevant guidance on an annual basis and implements additional controls as appropriate.

The Board also considered the requirement for an internal audit function and considered that this was not necessary as the internal controls and risk management in place were adequate and effective.

Although the Board is ultimately responsible for safeguarding the assets of the VCT, the Board has delegated, through written agreements, the day-to-day operation of the VCT (including the Financial Reporting Process) to the following advisers:

Investment Adviser

Gresham House Asset Management Limited

Administrator and Company Secretary

JTC (UK) Limited

Anti-bribery policy

In order to ensure compliance with the UK Bribery Act 2010, the Directors confirm that the VCT has zero tolerance towards bribery and a commitment to carry out business openly, honestly and fairly.

Going concern

In assessing the VCT as a going concern, the Directors have considered the forecasts which reflect the proposed strategy for portfolio investments and the results of the continuation votes at the AGM and General Meeting held on 22 March 2021 and 13 July 2021 respectively. At the meeting on 13 July 2021, the proposed special resolution was approved by Shareholders, resulting in the VCTs entering a Managed Wind Down and a new investment policy replacing the existing investment policy. The Board agreed to realise the VCTs' investments in a manner that achieves balance between maximising the net value received from those investments and making timely returns to Shareholders.

Corporate Governance (continued)

Given a formal decision has been made to wind the VCT up, the financial statements have been prepared on a basis other than going concern. The Board notes that the VCT has sufficient liquidity to pay its liabilities as and when they fall due, during the Managed Wind Down, and that the VCT has adequate resources to continue in business until the formal liquidation and wind-up commences.

Share capital

The VCT has two classes of share capital: Ordinary Shares and 'A' Shares. The rights and obligations attached to those shares, including the power of the VCT to buy back shares and details of any significant shareholdings, are set out on page 38 of the Report of the Directors.

Compliance statement

The Listing Rules require the Board to report on compliance with the AIC Code provisions throughout the accounting period. With the exception of the limited items outlined below, the VCT has complied throughout the accounting year ended 30 September 2023 with the provisions set out in Section 5 to 9 of the AIC Code.

- a) The VCT has no major Shareholders so Shareholders are not given the opportunity to meet any new Non-Executive Directors at a specific meeting other than the AGM. (5.2.3)
- b) Due to the size of the Board and the nature of the VCT's business, a senior independent director has not been appointed. (6.2.14)
- c) Due to the size of the Board and the nature of the VCT's business, the Board considers it appropriate for the entire Board to fulfil the role of the nomination and remuneration committees. (7.2.22, 9.2.37)

- d) Due to the size of the VCT, the Board thought it would be unnecessarily burdensome to establish a separate management engagement committee to review the performance of the Investment Adviser. (6.2.17, 7.2.26)
- e) Due to the size of the Board and the nature of the VCT's business, the Board considers it appropriate for the entire Board, including the Chairman, to fulfil the role of the audit committee. (8.2.29)
- f) The Directors are not subject to annual re-election but must be re-elected every three years. A Director may retire at any Annual Meeting following the Annual General Meeting at which he last retired and was re-elected provided that he must retire from office at or before the third Annual General Meeting following the Annual General Meeting at which he last retired and was re-elected. (7.2.23)

By order of the Board

JTC (UK) Limited Company Secretary

Company number: 0430176

Registered office:
The Scalpel, 18th Floor
52 Lime Street
London EC3M 7AF

29 January 2024

Independent Auditor's Report

Independent auditor's report to the members of Gresham House Renewable Energy VCT2 Plc

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 2023 and of the Company's Loss for the year then ended;
- the Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Gresham House Renewable Energy VCT 2 Plc (the 'Company') for the year ended 30 September 2023 which comprise the Income statement, the Balance sheet, the Statement of Changes in Equity, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice)*.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section

of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by Directors to audit the financial statements for the year ended 30 September 2011 and subsequent financial periods. We were re-appointed by Shareholders at the AGM held on 27 April 2023 to audit the financial statements for the year ending 30 September 2023. The period of total uninterrupted engagement including retenders and reappointments is 13 years, covering the years ended 30 September 2011 to 30 September 2023. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to Note 1 to the financial statements which explains that a formal decision was made at the General Meeting on 13 July 2021 to wind up the company and therefore the Directors do not consider the company to be a going concern. Accordingly, the financial statements have been prepared on a basis other than that of going concern as described in Note 1. Our opinion is not modified in respect of this matter.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting. As explained in Note 1, the Directors have concluded that the company is not a Going Concern and accordingly the accounts have been prepared on a basis other than Going Concern.

Overview

| Key audit matter | 2023 2022 | |
|------------------|------------------------------------------------------------------------------|---|
| | Valuation of unquoted investments | X |
| Materiality | £285,000 (2022: £471,000) based on 2% of Net Assets (2022: 2% of Net Assets) | |

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Independent Auditor's Report (continued)

Key audit matters

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

| Key Audit Matter | How the scope of our audit addressed the key audit matter |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Valuation of unquoted investments</p> <p>100% of the underlying investment portfolio is represented by unquoted equity and loan stock. Further, information disclosed in Note 10 to the financial statements.</p> <p>These investments have been classified within level 3 as they are not traded and contain certain unobservable inputs and there is a high level of estimation uncertainty involved in determining the unquoted equity and loan investments.</p> <p>The valuation of investments is a highly subjective 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.</p> <p>For these reasons we considered the valuation of unquoted investments to be a key audit matter.</p> <p>See Note 10 and Note 18 and the accounting policy on page 56.</p> | <p>Valuation based on discounted cash flow (DCF)</p> <p>In respect of the unquoted equity investments valued using discounted cash flow models ("DCF"), we performed the following specific procedures:</p> <ul style="list-style-type: none"> → considered the appropriateness of overall fair value and valuation movement in the period; → considered alternate valuation reference point and relevant information such as non-binding offer; → used spreadsheet analysis tools to assess the integrity of the valuation models and track changes to inputs or structure; → agreed power price forecasts to independent reports and contracts if any; → we analysed changes in significant assumptions compared with assumptions used in previous periods audits and vouched these changes to independent evidence including available industry data; → considered whether the valuation methodology was the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and FRS 102 Sections 11 and 12; → reviewed and challenged the appropriateness of the selection and application of key assumptions in the model including the discount factor, inflation, asset life, and power price applied by benchmarking to available industry data and consulting with our internal valuations specialists → agreed cash and other net assets to bank statements and investee company management accounts → considered the accuracy of forecasting by comparing previous forecasts to actual results. → considered the economic environment in which the investment operates to identify factors that could impact the investment valuation. <p>Key observations:</p> <p>Based on the procedures performed we were satisfied that the estimates and judgements made in the valuation of the portfolio was acceptable.</p> |

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | Company Financial Statements | |
|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| | 2023 (£) | 2022 (£) |
| Materiality | £285,000 | £471,000 |
| Basis for determining materiality | 2% of the value of net assets | 2% of the value of net assets |
| Rationale for the benchmark applied | In setting materiality, we have had regard to the nature and disposition of the investment portfolio. Given that the VCT's portfolio is comprised of unquoted investments which would typically have a wider spread of reasonable alternative possible valuations, we have applied a percentage of net assets. | |
| Performance materiality | £214,000 | £353,000 |
| Basis for determining performance materiality | 75% of Materiality | |
| Rationale for the percentage applied for performance materiality | The level of performance materiality applied was set after having considered a number of factors including the Risk assessment of control environment and consideration of the number of historical errors identified. | |

Specific materiality

We also determined that for items impacting revenue return, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £21,000 (2022: £24,000) based on 2% of income (2022: 2% of income after gain/loss on investments). We further applied a performance materiality level of 75% (2022: 75%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £14,000 (2022: £10,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Independent Auditor's Report (continued)

| | |
|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Going concern and longer-term viability | <ul style="list-style-type: none"> → the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 39; and → the Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 29. |
| Other Code provisions | <ul style="list-style-type: none"> → Directors' statement on fair, balanced and understandable set out on page 40; → Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 29; → the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 45; and → the section describing the work of the audit committee set out on page 44. |

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs(UK) to report on certain opinions and matters as described below.

| | |
|----------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strategic report and Directors' report | <p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> → the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and → the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.</p> |
| Directors' remuneration | <p>In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.</p> |
| Matters on which we are required to report by exception | <p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> → adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or → the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or → certain disclosures of Directors' remuneration specified by law are not made; or → we have not received all the information and explanations we require for our audit. |

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters

related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that

an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations: Based on:

- our understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates;
- discussion with management and those charged with governance; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations;

We considered the significant laws and regulations to include (but not limited to) compliance with the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") and the applicable financial reporting framework. We also considered the Company's qualification as a VCT under UK tax legislation.

Our procedures in respect of the above included:

- agreement of the financial statement disclosures to underlying supporting documentation;
- obtaining the VCT compliance reports (prepared by management's expert) during the year and as at year end and reviewing their calculations to check that the Company was meeting its requirements to retain VCT status;
- involvement of internal tax expert in the audit;
- reviewing minutes of board meetings and legal correspondence and legal & professional fee invoices throughout the period for instances of non-compliance with laws and regulations.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiry with management and those charged with governance (including Audit Committee) regarding any known or suspected instances of fraud;
- obtaining an understanding of the Company's policies and procedures relating to:
 - a) detecting and responding to the risks of fraud; and
 - b) internal controls established to mitigate risks related to fraud.
- review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the valuation of unquoted investments and management override of controls.

Our tests included, but were not limited to:

- the procedures set out in the Key Audit Matters section above;
- review of estimates and judgments applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias;
- to mitigate the risk of management override of controls, we reviewed and considered the appropriateness of year-end Journals made in the preparation of the financial statements on the basis of supporting documents and understanding of the business; and
- review of unadjusted audit differences, for indications of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Kelly Sheppard

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor London, UK

Date: 29 January 2024

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

Income Statement

For the year ended 30 September 2023

| | Note | Year ended 30 September 2023 | | | Year ended 30 September 2022 | | |
|-------------------------------------------------------------------------|------|------------------------------|------------------|----------------|------------------------------|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Income | 3 | 1,055 | - | 1,055 | 712 | - | 712 |
| (Loss)/gain on investments | 10 | - | (4,892) | (4,892) | - | 512 | 512 |
| | | 1,055 | (4,892) | (3,837) | 712 | 512 | 1,224 |
| Investment advisory fees | 4 | (235) | (79) | (314) | (202) | (67) | (269) |
| Other expenses | 5 | (409) | - | (409) | (430) | - | (430) |
| | | (644) | (79) | (723) | (632) | (67) | (699) |
| (Loss)/profit on ordinary activities before tax | | 411 | (4,971) | (4,560) | 80 | 445 | 525 |
| Tax on total comprehensive income/(loss) and ordinary activities | 7 | - | - | - | - | - | - |
| (Loss)/profit for the year and total comprehensive (loss)/income | | 411 | (4,971) | (4,560) | 80 | 445 | 525 |
| Basic and diluted earnings/(loss) per share: | | | | | | | |
| Ordinary Share | 9 | 1.6p | (19.0p) | (17.4p) | 0.3p | 1.7p | 2.0p |
| 'A' Share | 9 | - | - | - | - | - | - |

All Revenue and Capital items in the above statement derive from continuing operations. As part of the Managed Wind Down, five investments were disposed of during the financial year. The total column within the Income Statement represents the Statement of Total Comprehensive Income of the VCT prepared in accordance with Financial Reporting Standards ("FRS 102"). The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 (updated in July 2022) by the Association of Investment Companies ("AIC SORP").

Other than revaluation movements arising on investments held at fair value through the profit or loss, there were no differences between the return/loss as stated above and at historical cost.

The accompanying Notes form an integral part of these financial statements.

Balance Sheet

As at 30 September 2023

| | Note | 2023 | | 2022 | |
|----------------------------------------------------------------|------|---------|---------|---------|---------|
| | | £'000 | £'000 | £'000 | £'000 |
| Current assets | | | | | |
| Investments | 10 | 17,963 | | 27,980 | |
| Costs incurred on sale of VCT's assets | 11 | 252 | | 480 | |
| Debtors | 12 | 80 | | 124 | |
| Cash at bank and in hand | | 4 | | 1 | |
| | | 18,299 | | 28,585 | |
| Creditors | 13 | (1,926) | | (2,542) | |
| Net current assets | | | 16,373 | | 26,043 |
| Creditors: amounts falling due after more than one year | 14 | (1,887) | | (2,162) | |
| Net assets | | | 14,486 | | 23,881 |
| Capital and reserves | | | | | |
| Called up Ordinary Share capital | 15 | | 29 | | 29 |
| Called up 'A' Share capital | 15 | | 42 | | 42 |
| Share premium account | 16 | | - | | 9,734 |
| Treasury Shares | 16 | | (3,403) | | (3,403) |
| Special reserve | 16 | | 9,713 | | 4,813 |
| Revaluation reserve | 16 | | 11,546 | | 16,869 |
| Capital redemption reserve | 16 | | - | | 1 |
| Capital reserve - realised | 16 | | (3,265) | | (3,617) |
| Revenue reserve | 16 | | (176) | | (587) |
| Total Shareholders' funds | | | 14,486 | | 23,881 |
| Basic and diluted net asset value per share | | | | | |
| Ordinary Share | 17 | | 55.3p | | 91.2p |
| 'A' Share | 17 | | 0.1p | | 0.1p |

The financial statements of Gresham House Renewable Energy VCT2 plc on pages 52 to 70 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

Christian Yates
Chairman

Company number: 07378395

Date: 29 January 2024

The accompanying Notes form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 September 2023

| | Called up share capital £'000 | Share Premium Account £'000 | Treasury Shares £'000 | Funds held in respect of Shares not yet allotted £'000 | Special reserve £'000 | Revaluation reserve £'000 | Capital redemption reserve £'000 | Capital reserve realised £'000 | Revenue reserve £'000 | Total £'000 |
|--------------------------------------------------------------------|----------------------------------------|--------------------------------------|-----------------------------|--------------------------------------------------------------------------|-----------------------------|---------------------------------|-------------------------------------------|-----------------------------------------|-----------------------------|----------------|
| At 30 September 2021* | 71 | 9,734 | (3,403) | - | 4,813 | 15,054 | 1 | (2,247) | (667) | 23,356 |
| Total comprehensive income | - | - | - | - | - | 1,815 | - | (1,370) | 80 | 525 |
| At 30 September 2022 | 71 | 9,734 | (3,403) | - | 4,813 | 16,869 | 1 | (3,617) | (587) | 23,881 |
| Total comprehensive loss | - | - | - | - | - | (5,323) | - | 352 | 411 | (4,560) |
| Cancellation of Share premium and Capital redemption reserve | - | (9,734) | - | - | 9,735 | - | (1) | - | - | - |
| Dividend paid | - | - | - | - | (4,835) | - | - | - | - | (4,835) |
| At 30 September 2023 | 71 | - | (3,403) | - | 9,713 | 11,546 | - | (3,265) | (176) | 14,486 |

* Previous transfer from revaluation reserve relates to historic losses on Small Wind

The accompanying Notes form an integral part of these financial statements.

Cash Flow Statement

For the year ended 30 September 2023

| | Note | Year ended 30 September 2023 £'000 | Year ended 30 September 2022 £'000 |
|--------------------------------------------------------------|------|---------------------------------------------|---------------------------------------------|
| Cash flows from operating activities | | | |
| (Loss)/profit for the year | | (4,560) | 525 |
| Loss/(gain) arising on the revaluation of investments | 10 | 4,892 | (512) |
| Dividend income | | (998) | (659) |
| Interest income | | (53) | (54) |
| Interest income - written off | | - | 79 |
| Decrease/(increase) in debtors | | - | (2) |
| (Decrease)/increase in creditors | | (130) | 83 |
| Net cash outflow from operating activities | | (849) | (540) |
| Cash flows from investing activities | | | |
| Net proceeds from sale of investments | 10 | 4,453 | - |
| Purchase of investments | 10 | - | (68) |
| Cost incurred as part of the sale of VCT's assets | 11 | (124) | (109) |
| Interest received | | 97 | 29 |
| Dividend income received | | 998 | 659 |
| Net cash inflow from investing activities | | 5,424 | 511 |
| Net cash inflow/(outflow) before financing activities | | 4,575 | (29) |
| Cash flows from financing activities | | | |
| Dividends paid | | (4,835) | - |
| Proceeds from loans | | 263 | - |
| Net cash outflow from financing activities | | (4,572) | - |
| Net increase/(decrease) in cash | | 3 | (29) |
| Cash and cash equivalents at start of year | | 1 | 30 |
| Cash and cash equivalents at end of year | | 4 | 1 |
| Cash and cash equivalents comprise | | | |
| Cash at bank and in hand | | 4 | 1 |
| Total cash and cash equivalents | | 4 | 1 |

The accompanying Notes form an integral part of these financial statements.

Notes to the Accounts

For the year ended 30 September 2023

1. General Information

Gresham House Renewable Energy VCT2 plc (VCT) is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995 and is domiciled in the United Kingdom and incorporated in England and Wales (Company No. 07378395). The Company's principal activity is that of a VCT which invests in renewable energy investments. The registered office of the Company is The Scalpel 18th floor, 52 Lime Street, London, EC3M 7AF. Its share capital is denominated in Pound Sterling (GBP) and consists of Ordinary Shares and 'A' Shares.

At the General Meeting on 13 July 2021 a formal decision was made to wind the VCT up, therefore the VCT financial statements have since been prepared on a non-going concern basis. As a result, the investments held at fair value through profit or loss were transferred from fixed assets to current assets in the 30 September 2021 annual financial statements. No further adjustments were made in the VCT's financial statements relating to the non-going concern basis.

Following the adoption of the New Investment Policy from 13 July 2021 (the "New Investment Policy"), the VCT's principal objective is to manage the VCT with the intention of realising the sale or monetisation otherwise of all remaining assets in the portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning value to Shareholders in an orderly manner, whilst protecting the tax position of Shareholders.

The VCT will pursue its investment objective by effecting an orderly realisation of its assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders. This process might include sales of individual assets or running of the portfolio in accordance with the existing scope of the assets, or a combination of both.

Investments held at fair value through profit or loss are held as current assets.

2. Accounting policies

Basis of accounting

The VCT has prepared its financial statements under FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the Association of Investment Companies ("AIC") in November 2014 and revised in July 2022 ("SORP") as well as the Companies Act 2006.

The VCT implements new Financial Reporting Standards (FRS) issued by the Financial Reporting Council when they become effective. No new FRS were implemented during the year.

The financial statements are presented in Sterling (£).

Presentation of income statement

In order to better reflect the activities of a Venture Capital Trust and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The net revenue is the measure the Directors believe appropriate in assessing the VCT's compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

Investments

All investments are designated as "fair value through profit or loss" assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, in accordance with the VCT's documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEV") together with FRS 102 sections 11 and 12.

For unquoted investments and subsequent to acquisition, fair value is established by using the IPEV guidelines. The valuation methodologies for unquoted entities used by the IPEV to ascertain the fair value of an investment are as follows:

- multiples;
- net assets;
- discounted cash flows or earnings (of underlying business);
- discounted cash flows (from the investment); and
- industry valuation benchmarks.

2. Accounting policies (continued)

Of the valuation methodologies above, the multiples and discounted cash flow approaches are applied to the VCT's investments. Effective 1 January 2019, the IPEV guidelines to establish fair value were updated whereby the cost or price of a recent investment are no longer considered valid valuation methodologies for establishing the fair value of an investment. The VCT along with its Investment Adviser may, under orderly market conditions, deem the cost or recent price paid for an investment as an appropriate fair value for an investment at the time of acquisition but subsequent to recognition must reconsider the assigned fair value based on up-to-date market conditions and performance of the underlying investee company in order to assign a fair value in line with the IPEV guidelines.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

Gains and losses arising from changes in fair value are included in the Income Statement for the year as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership or liquidation, or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

The investee companies held by the VCT are treated as a portfolio of investments and are therefore measured at fair value in accordance with section 9 of FRS 102. The results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP and FRS 102 sections 14 and 15 that does not require portfolio investments, where the interest held is greater than 20%, to be accounted for using the equity method of accounting.

Income

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

Interest income is accrued on a time apportionment basis, by reference to the principal sum outstanding and at the effective interest rate applicable and only where there is reasonable certainty of collection in the foreseeable future.

Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Income Statement, all expenses have been presented as revenue items except as follows:

- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment; and
- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The VCT has adopted a policy of charging 75% of the investment advisory fees to the revenue account and 25% to the capital account to reflect the Board's estimated split of investment returns which will be achieved by the VCT over its lifetime.

Taxation

The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate, using the VCT's effective rate of tax for the accounting period.

Due to the VCT's status as a Venture Capital Trust and the continued intention to meet the conditions required to comply with Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the VCT's investments which arises.

Deferred taxation, which is not discounted, is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts.

Other debtors, other creditors and loan notes

Other debtors (including accrued income), other creditors and loan notes (other than those held as part of the investment portfolio as set out in Note 10) are included within the accounts at amortised cost.

Notes to the Accounts (continued)

3. Income

| | Year ended 30 September 2023 £'000 | Year ended 30 September 2022 £'000 |
|---------------------|---------------------------------------------|---------------------------------------------|
| Income | | |
| Bank interest | 4 | - |
| Dividend Income | 998 | 659 |
| Loan stock interest | 53 | 53 |
| | 1,055 | 712 |

4. Investment advisory fees

The investment advisory fees for the year ended 30 September 2023, which were charged quarterly to the VCT, were based on 1.15% of the net assets as at the previous quarter end. In addition, management fees of £44,000 relating to additional costs incurred by the Investment Adviser during the financial year were approved by the Board.

| | Year ended 30 September 2023 | | | Year ended 30 September 2022* | | |
|--------------------------|------------------------------|------------------|----------------|-------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment advisory fees | 235 | 79 | 314 | 202 | 67 | 269 |

5. Other expenses

| | Year ended 30 September 2023 | | | Year ended 30 September 2022 | | |
|----------------------------------|------------------------------|------------------|----------------|------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Administration services | 96 | - | 96 | 96 | - | 96 |
| Directors' remuneration | 81 | - | 81 | 103 | - | 103 |
| Social security costs | 3 | - | 3 | 3 | - | 3 |
| Auditor's remuneration for audit | 59 | - | 59 | 48 | - | 48 |
| Interest written off | - | - | - | 79 | - | 79 |
| Other | 170 | - | 170 | 101 | - | 101 |
| | 409 | - | 409 | 430 | - | 430 |

The annual running costs of the VCT for the year are subject to a cap of 3% of the net assets of the VCT. During the year ended 30 September 2023, the annual running costs came to 2.8% of net assets (2022: 2.3%), therefore this cap has not been breached.

6. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 41.

The VCT had no employees during the year. Costs in respect of the Directors are referred to in Note 5 above. No other emoluments or pension contributions were paid by the VCT to, or on behalf of, any Director.

7. Tax on ordinary activities

| | Year ended 30 September 2023 £'000 | Year ended 30 September 2022 £'000 |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| (a) Tax charge for the year | | |
| UK corporation tax at 22% (2022: 19%) | - | - |
| Charge for the year | - | - |
| (b) Factors affecting tax charge for the year | | |
| (Loss)/profit on ordinary activities before taxation | (4,560) | 525 |
| (Tax credit)/tax calculated on loss on ordinary activities before taxation at the applicable rate of 22% (2022: 19%) | (1,003) | 100 |
| Effects of: | | |
| UK dividend income | (220) | (125) |
| Losses/(gains) on investments | 1,076 | (97) |
| Excess management expenses on which deferred tax not recognised. | 147 | 122 |
| Total tax charge | - | - |

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £4.9mn (2022: £4.5mn). The associated deferred tax asset of £1.2mn (2022: £1.1mn) has not been recognised due to the fact that it is unlikely that the excess management fees will be set off against future taxable profits in the foreseeable future. The corporation tax rate of 25% is effective from 1 April 2023. A blended rate of 22% has been applied for the year ended 30 September 2023.

8. Dividends

| | Year ended 30 September 2023 | | | Year ended 30 September 2022 | | |
|-------------------------------|------------------------------|------------------|----------------|------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Paid | | | | | | |
| 2022 Interim Ordinary – 2p | - | 523 | 523 | - | - | - |
| 2023 Interim Ordinary – 16.5p | - | 4,312 | 4,312 | - | - | - |
| | - | 4,835 | 4,835 | - | - | - |

The Interim 2022 dividend was paid on 27 January 2023 to Shareholders on the register as at 6 January 2023. The Interim 2023 dividend was paid on 28 July 2023 to Shareholders on the register as at 7 July 2023.

9. Basic and diluted earnings per share

| | | Weighted average number of shares in issue | Revenue | | Capital (loss)/ profit | | Net (loss)/ profit | |
|-------------------|-----------------|-----------------------------------------------------|-----------------|--------------------|------------------------------|--------------------|--------------------------|--------------------|
| | | | profit £'000 | Pence per share | profit £'000 | Pence per share | profit £'000 | Pence per share |
| 30 September 2023 | Ordinary Shares | 26,133,036 | 411 | 1.6 | (4,971) | (19.0) | (4,560) | (17.4) |
| | 'A' Shares | 39,463,845 | - | - | - | - | - | - |
| 30 September 2022 | Ordinary Shares | 26,133,036 | 80 | 0.3 | 445 | 1.7 | 525 | 2.0 |
| | 'A' Shares | 39,463,845 | - | - | - | - | - | - |

As the VCT has not issued any convertible securities or share options, there is no dilutive effect on earnings per Ordinary Share or 'A' Share. The earnings per share disclosed therefore represents both the basic and diluted return per Ordinary Share or 'A' Share.

Notes to the Accounts (continued)

10. Investments

| | 2023 Unquoted investments £'000 | 2022 Unquoted investments £'000 |
|---------------------------------------------------------------------|------------------------------------------|------------------------------------------|
| Opening cost at start of the year | 13,220 | 13,152 |
| Permanent impairment in cost of investments as at 30 September 2022 | (1,303) | - |
| Unrealised gains at start of the year | 16,063 | 14,248 |
| Opening fair value at start of the year | 27,980 | 27,400 |
| Movement in the year: | | |
| Purchased at cost | - | 68 |
| Disposals at cost | (4,302) | - |
| Permanent impairment in cost of investments | (392) | (1,303) |
| Unrealised (losses)/gains in the income statement | (5,323) | 1,815 |
| Closing fair value at year end | 17,963 | 27,980 |
| Closing cost at year end | 8,918 | 13,220 |
| Permanent impairment in cost of investments as at 30 September 2023 | (1,695) | (1,303) |
| Unrealised gains at year end | 10,740 | 16,063 |
| Closing fair value at year end | 17,963 | 27,980 |

In April 2023, five VCT portfolio investments were sold by the VCT for proceeds of £4.9mn. These proceeds generated a realised gain in the period of £152,000 (after transaction costs of £416,000). As part of the transaction, loans payable by the VCT totalling £671,000 were forgiven. This increased the realised gain on the sold assets to £823,000. This gain, reduced by realised losses attributable to other non-renewable assets of £392,000, as well as unrealised losses in the period on the remaining portfolio of £5.3mn, equals losses on investments' of £4.9mn per the Income Statement.

The VCT has categorised its financial instruments using the fair value hierarchy as follows:

- Level 1 Reflects financial instruments quoted in an active market;
- Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and
- Level 3 Reflects financial instruments that use valuation techniques that are not based on observable market data (unquoted equity investments and loan note investments).

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | 2023 £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | 2022 £'000 |
|---------------------|------------------|------------------|------------------|---------------|------------------|------------------|------------------|---------------|
| Unquoted loan notes | - | - | 668 | 668 | - | - | 960 | 960 |
| Unquoted equity | - | - | 17,295 | 17,295 | - | - | 27,020 | 27,020 |
| | - | - | 17,963 | 17,963 | - | - | 27,980 | 27,980 |

During the years ended 30 September 2023 and 30 September 2022 there were no transfers between levels.

10. Investments (continued)

A reconciliation of fair value for Level 3 financial instruments held at the year-end is shown below:

| | Unquoted loan notes £'000 | Unquoted equity £'000 | Total £'000 |
|-------------------------------------------|---------------------------------|-----------------------------|----------------|
| Balance at 30 September 2022 | 960 | 27,020 | 27,980 |
| <i>Movements in the income statement</i> | | | |
| Unrealised losses in the income statement | - | (5,323) | (5,323) |
| Impairment realised during the period | (67) | (325) | (392) |
| | 893 | 21,372 | 22,265 |
| Redemption of loan notes/Cost of disposal | (225) | (4,077) | (4,302) |
| Balance at 30 September 2023 | 668 | 17,295 | 17,963 |

FRS 102 sections 11 and 12 require disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative assumptions where this would result in a significant change in the fair value of the Level 3 investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the VCT's investments.

Investments which are reaching maturity or have an established level of maintainable earnings are valued on a discounted cash flow basis. This was also the case in the prior year.

The Board and the Investment Adviser believe that the valuation as at 30 September 2023 reflects the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be within the range set out in Note 18.

11. Cost incurred on sale of VCT's assets

Since the beginning of the Managed Wind Down in 2021, the VCT capitalised the professional fees in relation to the sale of assets. The costs are directly attributable to the sales process and have been recognised as part of the asset value. The costs incurred on the VCT's assets sold in April 2023 have been expensed.

| | 2023 £'000 | 2022 £'000 |
|---------------------------------------|---------------|---------------|
| Cost incurred on sale of VCT's assets | 252 | 480 |
| | 252 | 480 |

12. Debtors

| | 2023 £'000 | 2022 £'000 |
|--------------------------------|---------------|---------------|
| Prepayments and accrued income | 80 | 124 |
| | 80 | 124 |

Notes to the Accounts (continued)

13. Creditors: amounts falling due within one year

| | 2023 £'000 | 2022 £'000 |
|------------------------------|---------------|---------------|
| Other loans | 1,802 | 1,935 |
| Taxation and social security | 3 | 3 |
| Accruals and deferred income | 98 | 371 |
| Creditors | 23 | 233 |
| | 1,926 | 2,542 |

The balance of other loans is made up of amounts borrowed from the underlying portfolio companies. All loans are interest free. Other loans falling due within one year are repayable as follows:

| Investee company | Drawdown date | Repayment date | 2023 £'000 | 2022 £'000 |
|------------------------------------------|------------------|----------------|---------------|---------------|
| Hewas Solar Limited | 7 September 2015 | ^ | - | 65 |
| | 30 April 2016 | ^ | - | 66 |
| | | | - | 131 |
| St Columb Solar Limited | 30 April 2016 | ^ | - | 20 |
| | 2 February 2018 | ^ | - | 40 |
| | | | - | 60 |
| Lunar 2 Limited | 12 February 2018 | ^ | 768 | 768 |
| | | | 768 | 959 |
| Minsmere Power Limited | 22 December 2020 | ^^ | 25 | 25 |
| | 30 June 2021 | ^^ | 27 | 27 |
| | 6 June 2022 | ^^ | 13 | 13 |
| | | | 65 | 65 |
| Penhale Solar Limited | 22 December 2020 | ^^ | - | 105 |
| Gloucester Wind Limited | 22 December 2020 | ^^ | - | 100 |
| HRE Willow Limited | 22 December 2020 | ^^ | 228 | 228 |
| | 16 March 2021 | ^^ | 64 | 64 |
| | 6 June 2022 | ^^ | 44 | 44 |
| | | | 336 | 336 |
| Lunar 2 Limited | 23 December 2020 | ^^ | 370 | 370 |
| | 8 February 2023 | ^^ | 134 | - |
| | 27 February 2023 | ^^ | 89 | - |
| | 31 March 2023 | ^^ | 40 | - |
| | | | 633 | 370 |
| | | | 1,034 | 976 |
| Amounts repayable within one year | | | 1,802 | 1,935 |

^ The lender may demand full repayment of all amounts outstanding at any time after five years and one day from the date of the initial drawdown of the loan. The loans are interest free.

^^ The VCT and the indicated SPVs (the "lender") entered into loan agreements whereby the lender, at any time, without having to provide any reason, by one or several demands require immediate repayment of all or any part of the loan and all or any accrued interest thereon. The loans are interest free.

14. Creditors: amounts falling due after more than one year

| | 2023 £'000 | 2022 £'000 |
|-------------|-----------------------------|-----------------------------|
| Other loans | 1,887 | 2,162 |
| | 1,887 | 2,162 |

The balance of other loans is made up of amounts borrowed from the underlying portfolio companies. The classification of the loans shown below is by reference to the contractual agreement repayment date. Subject to any sale of assets as part of the Managed Wind Down, these loans will be repaid at the date of such transaction. All loans are interest free.

Creditors falling due after more than one year are repayable as follows:

| Investee company | Repayment date | 2023 £'000 | 2022 £'000 |
|---------------------------------------------------|-----------------------|-----------------------------|-----------------------------|
| Lunar 2 Limited | 18 December 2024 | 1,481 | 1,481 |
| | 14 January 2025 | 356 | 356 |
| | | 1,837 | 1,837 |
| Gloucester Wind Limited* | 14 January 2025 | - | 200 |
| Penhale Solar Limited* | 14 January 2025 | - | 75 |
| Minsmere Power Limited | 14 January 2025 | 50 | 50 |
| Amounts repayable after more than one year | | 1,887 | 2,162 |

* Investments sold in April 2023

15. Called up share capital

| | 2023 £'000 | 2022 £'000 |
|------------------------------------------------------------|-----------------------------|-----------------------------|
| Allotted, called up and fully-paid: | | |
| 26,133,036 (2022: 26,133,036) Ordinary Shares of 0.1p each | 29 | 29 |
| 39,463,845 (2022: 39,463,845) 'A' Shares of 0.1p each | 42 | 42 |
| | 71 | 71 |

The VCT's capital is managed in accordance with its investment policy as shown in the Strategic Report on page 23, in pursuit of its principal investment objectives. There has been no significant change in the objectives, policies or processes for managing capital from the previous period.

The VCT has the authority to buy back shares as described in the Report of the Directors. During the year ended 30 September 2023 the VCT did not repurchase any Ordinary Shares or 'A' Shares.

Notes to the Accounts (continued)

15. Called up share capital (continued)

During the year ended 30 September 2023 the VCT issued no Ordinary Shares and or 'A' Shares.

The holders of Ordinary Shares and 'A' Shares shall have rights as regards to dividends and any other distributions or a return of capital (otherwise than on a market purchase by the VCT of any of its shares) which shall be applied on the following basis:

- 1) unless and until Ordinary Shareholders receive a dividend of at least 5.0p per Ordinary Share, and one Ordinary Share and one 'A' Share has a combined net asset value of 100p (the Hurdle), distributions will be made as to 99.9% to Ordinary Shares and 0.1% to 'A' Shares;
- 2) after (and to the extent that) the Hurdle has been met, and subject to point 3 below, the balance of such amounts shall be applied as to 40% to Ordinary Shares and 60% to 'A' Shares; and
- 3) any amount of a dividend which, but for the entitlement of 'A' Shares pursuant to point 2 above, would have been in excess of 10p per Ordinary Share in any year shall be applied as to 10% to Ordinary Shares and 90% to 'A' Shares.

If, on the date on which a dividend is to be declared on the Ordinary Shares, the amount of any dividend which would have been payable to the 'A' Shares (the 'A' Dividend Amount'), together with any previous amounts which were not paid as a result of this clause (the 'A' Share Entitlement'), would together:

- a) in aggregate be less than £5,000; or
- b) be less than an amount being equivalent to 0.25p per 'A' Share.

then the 'A' Dividend amount shall not be declared and paid, but shall be aggregated with any 'A' Share Entitlement and retained by the VCT until either threshold is reached. No interest shall accrue on any 'A' Share Entitlement.

The VCT does not have any externally imposed capital requirements.

16. Reserves

| | 2023 £'000 | 2022 £'000 |
|----------------------------|---------------|---------------|
| Share premium account | - | 9,734 |
| Treasury Shares | (3,403) | (3,403) |
| Special reserve | 9,713 | 4,813 |
| Revaluation reserve | 11,546 | 16,869 |
| Capital redemption reserve | - | 1 |
| Capital reserve - realised | (3,265) | (3,617) |
| Revenue reserve | (176) | (587) |
| | 14,415 | 23,810 |

The Special reserve is available to the VCT to enable the purchase of its own shares in the market. Following a successful application to the High Court and lodgement of the Company's statement of capital with the Registrar of Companies, the Company was permitted to cancel its Share premium account as well as its Capital redemption reserve. This was effected on 25 May 2023 by a transfer of the balance of £9.7mn from the Share premium account and £1,000 from its Capital redemption reserve, to the Special reserve. The Special reserve, Capital reserve - realised and Revenue reserve are all distributable reserves from which dividends could be paid. At 30 September 2023, distributable reserves were £6.3mn (2022: £609,000).

Share premium account

This reserve accounts for the difference between the prices at which shares are issued and the nominal value of the shares, less issue costs and transfers to the other distributable reserves.

Treasury Shares

This reserve represents the aggregate consideration paid for the Shares repurchased by the VCT.

16. Reserves (continued)**Revaluation reserve**

Increases and decreases in the valuation of investments held at the year end against cost are included in this reserve.

Capital redemption reserve

This reserve accounts for amounts by which the issued share capital is diminished through the repurchase and cancellation of the VCT's own shares.

Capital reserve – realised

The following are disclosed in this reserve:

- gains and losses compared to cost on the realisation of investments; and
- expenses, together with the related taxation effect, charged in accordance with the above accounting policies.

Revenue reserve

This reserve accounts for movements from the revenue column of the Income Statement and other non-capital realised movements.

17. Basic and diluted net asset value per share

| | 2023 | | 2022 | | 2023 | | 2022 | |
|-----------------|-----------------|------------|--------------------|--------|--------------------|--------|--------------------|-------|
| | Shares in issue | | Net asset value | | Net asset value | | Net asset value | |
| | | | Pence per share | £'000 | Pence per share | £'000 | Pence per share | £'000 |
| Ordinary Shares | 26,133,036 | 26,133,036 | 55.3p | 14,447 | 91.2p | 23,842 | | |
| 'A' Shares | 39,463,845 | 39,463,845 | 0.1p | 39 | 0.1p | 39 | | |
| Total | | | 55.4p | 14,486 | 91.3p | 23,881 | | |

The Directors allocate the assets and liabilities of the VCT between the Ordinary Shares and 'A' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights as described in Note 15.

As the VCT has not issued any convertible shares or share options, there is no dilutive effect on net asset value per Ordinary Share or per 'A' Share. The net asset value per share disclosed therefore represents both the basic and diluted net asset value per Ordinary Share and per 'A' Share.

18. Financial instruments

The VCT held the following categories of financial instruments at 30 September 2023:

| | 2023 Cost £'000 | 2023 Value £'000 | 2022 Cost £'000 | 2022 Value £'000 |
|---------------------------------------------|-----------------------|------------------------|-----------------------|------------------------|
| Assets at fair value through profit or loss | 8,918 | 17,963 | 13,220 | 27,980 |
| Other financial liabilities | (43) | (43) | (492) | (492) |
| Cash at bank | 4 | 4 | 1 | 1 |
| Other loans | (3,689) | (3,689) | (4,097) | (4,097) |
| Total | 5,190 | 14,235 | 8,632 | 23,392 |

The VCT's financial instruments comprise investments held at fair value through profit or loss, being equity and loan stock investments in unquoted companies, capitalised costs in relation to sale of VCT's assets (Note 11), loans and receivables consisting of short term debtors, cash deposits and financial liabilities being creditors arising from its operations. Other financial liabilities and assets include operational debtors and prepaid expenses and short term creditors which are measured at amortised cost. The main purpose of these financial instruments is to generate cash flow and revenue and capital appreciation for the VCT's operations. The VCT has no gearing or other financial liabilities apart from short and long-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in Note 2. The composition of the investments is set out in Note 10.

Notes to the Accounts (continued)

18. Financial instruments (continued)

The VCT's investment activities expose the VCT to a number of risks associated with financial instruments and the sectors in which the VCT invests. The principal financial risks arising from the VCT's operations are:

- Market risks;
- Credit risk; and
- Liquidity risk.

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the VCT was expected to be exposed to over the year and there have also been no significant changes to the policies for managing those risks during the year.

The risk management policies used by the VCT in respect of the principal financial risks and a review of the financial instruments held at the year end are provided below:

Market risks

As a Venture Capital Trust, the VCT is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy and since 12 July 2021, with reference to the revised investment policy. The management of these investment risks is a fundamental part of investment activities undertaken by the Investment Adviser and overseen by the Board. The Adviser monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information and attendance at investee company board meetings. This enables the Adviser to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various operating sites across several asset classes, however following the partial sale of assets in April 2023, the portfolio diversification has subsequently reduced.

The key investment risks to which the VCT is exposed are:

- investment price risk; and
- interest rate risk.

Investment price risk

The VCT's investments which comprise of both equity and debt financial instruments in unquoted investments are concentrated in renewable energy projects with predetermined expected returns. Consequently, the investment price risk arises from uncertainty about the future prices and valuations of financial instruments held in accordance with the VCT's investment objectives which can be influenced by many macro factors such as changes in interest rates, electricity power prices and movements in inflation. It represents the potential loss that the VCT might suffer through changes in the fair value of unquoted investments that it holds.

At 30 September 2023, the unquoted portfolio post part sale of assets in April 2023 was valued at £18.0mn (2022: £28.0mn). The key inputs to the valuation model are discount rates, inflation, irradiation, degradation, power prices and asset life. The Board has undertaken a sensitivity analysis into the effects of fluctuations in these inputs.

18. Financial instruments (continued)

The analysis below is provided to illustrate the sensitivity of the fair value of investments to an individual input, while all other variables remain constant. The Board considers these changes in inputs to be within reasonable expected ranges. This is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range. The possible effects are quantified below:

| Input | Base case | Change in input | Change in fair value of investments £'000 | Change in NAV per share pence |
|---------------|-------------------------------|-----------------|----------------------------------------------|----------------------------------|
| Discount rate | 9.0% - 14.0% | +0.5% | (42) | (0.2) |
| | | -0.5% | 742 | 2.8 |
| Inflation | 3.0% - 4.5% | +1.0% | 926 | 3.5 |
| | | -1.0% | (851) | (3.3) |
| Irradiation | 785 - 1,270kWh/m ² | +1.0% | 202 | 0.8 |
| | | -1.0% | (197) | (0.8) |
| Degradation | 0.3% - 0.4% | +0.1% | (183) | (0.7) |
| | | -0.1% | 189 | 0.7 |
| Power prices | £30 - £211/MWh | +10.0% | 357 | 1.4 |
| | | -10.0% | (359) | (1.4) |

Asset life

The Board has also considered the potential impact of changes to the anticipated lives of assets in the portfolio. Just over eighty five percent of the VCT's value is in assets refinanced by debt, and under the debt facility agreement, a maintenance reserve is in place for renewing key equipment such as solar panels as and when required. Furthermore, the underlying assets have 25 years leases, in line with the asset life assumption at the time of signing, which cannot be terminated early, and any extensions to the leases would require further planning permission. Accordingly, the asset life assumption is that the asset lives are equal to the length of the relevant leases and the Board does not consider it appropriate to disclose a sensitivity analysis in respect of asset life.

Interest rate risk

The VCT accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The VCT receives interest on its cash deposits at a rate agreed with its bankers. Where investments in loan stock attract interest, this is predominately charged at fixed rates. A summary of the interest rate profile of the VCT's investments is shown below.

There are three categories in respect of interest which are attributable to the financial instruments held by the VCT as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments and preference shares;
- "Floating rate" assets predominantly bear interest at rates linked to The Bank of England base rate or Sterling Overnight Index Average (SONIA) and comprise cash at bank; and
- "No interest rate" assets do not attract interest and comprise equity investments, certain loan note investments, loans and receivables.

| | Average interest rate | Average period until maturity | 2023 £'000 | 2022 £'000 |
|------------------|-----------------------|-------------------------------|---------------|---------------|
| Fixed rate | 8% | 2,286 days | 668 | 668 |
| Floating rate | 0% | | 4 | 1 |
| No interest rate | | | 18,046 | 22,723 |
| | | | 18,718 | 23,392 |

The VCT monitors the level of income received from fixed and floating rate assets and, if appropriate, may make adjustments to the allocation between the categories, in particular, should this be required to ensure compliance with the VCT regulations.

Notes to the Accounts (continued)

18. Financial instruments (continued)

It is estimated that an increase of 1% in interest rates would have increased profit before tax for the year by £10 (2022: £10). As at 30 September 2023 the Bank of England (BoE) base rate was 5.25%, the base rate increased from 5.00% to 5.25% on 3 August 2023, the base rate was 2.25% at the beginning of the financial year. Any potential change in the base rate, at the current level, would have an immaterial impact on the net assets and total return of the VCT.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the VCT made under that instrument. The VCT is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits and debtors. Credit risk relating to loan stock in investee companies is considered to be part of market risk as the performance of the underlying SPVs impacts the carrying values.

The VCT's financial assets that are exposed to credit risk are summarised as follows:

| | 2023 £'000 | 2022 £'000 |
|-------------------------------------------|---------------|---------------|
| Investments in loan stocks | 668 | 960 |
| Cash and cash equivalents | 4 | 1 |
| Interest, dividends and other receivables | 71 | 115 |
| | 743 | 1,076 |

The Investment Adviser manages credit risk in respect of loan stock with a similar approach as described under "Market risks". Similarly, the management of credit risk associated with interest, dividends and other receivables is covered within the investment advisory procedures. The level of security is a key means of managing credit risk. Additionally, the risk is mitigated by the security of the assets in the underlying investee companies.

Cash is held by the Royal Bank of Scotland plc which is an investment grade rated financial institution. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the year that are directly attributable to changes in credit risk. Any balances that are past due are disclosed further under liquidity risk.

Liquidity risk

Liquidity risk is the risk that the VCT encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required.

The VCT's creditors at year end were £123,000 (2022: £607,000) of which £Nil related to the Costs incurred on sale of VCT's assets and has both short-term and long-term loans from investee companies (see Note 13 and Note 14 for an analysis of the repayment terms), which are expected to be repaid by future dividends from, or the sale of these companies, being £3.7mn (2022: £4.1mn). The Board therefore believes that the VCT's exposure to liquidity risk is low. The SPVs hold sufficient levels of funds as cash to pay up in order to meet the VCT expenses and other cash outflows as they arise. For these reasons the Board believes that the VCT's exposure to liquidity risk is minimal.

The VCT's liquidity risk is managed by the Investment Adviser in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

18. Financial instruments (continued)

The following table analyses the VCT's loan payables by contractual maturity date:

| | Due in less than 1 year £'000 | Due between 1 year and 5 years £'000 | Due after 5 years £'000 | Total £'000 |
|-------------------------------------|----------------------------------------|-----------------------------------------------|-------------------------------|----------------|
| As at 30 September 2023 | | | | |
| Loans payable to investee companies | 1,802 | 1,887 | - | 3,689 |
| | 1,802 | 1,887 | - | 3,689 |
| As at 30 September 2022 | | | | |
| Loans payable to investee companies | 1,935 | 2,162 | - | 4,097 |
| | 1,935 | 2,162 | - | 4,097 |

Although the VCT's investments are not held to meet the VCT's liquidity requirements, the table below shows an analysis of the assets, highlighting the length of time that it could take the VCT to realise its assets if it were required to do so.

The carrying value of loan stock investments held at fair value through the profit and loss account at 30 September 2023 as analysed by the expected maturity date is as follows:

| | Not later than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 3 years £'000 | Between 3 and 5 years £'000 | More than 5 years £'000 | Total £'000 |
|--------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------------------------|----------------|
| As at 30 September 2023 | | | | | | |
| Fully performing loan stock | 668 | - | - | - | - | - |
| Past due loan stock | - | - | - | - | - | - |
| | 668 | - | - | - | - | - |
| As at 30 September 2022 | | | | | | |
| Fully performing loan stock | 960 | - | - | - | - | 960 |
| Past due loan stock | - | - | - | - | - | - |
| | 960 | - | - | - | - | 960 |

19. Capital management

The VCT's objectives when managing capital are to safeguard the VCT's ability to provide returns for Shareholders and to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the VCT has an amount of capital, at least 80% (as measured under the tax legislation; and for the VCT, effective 1 October 2019) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The VCT accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the VCT may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity.

As the Investment Policy implies, the Board would consider levels of gearing. As at 30 September 2023, the VCT had loans from investee companies of £3,689,000 (2022: £4,097,000). It regards the net assets of the VCT as the VCT's capital, as the level of liabilities are small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

Notes to the Accounts (continued)

20. Contingencies, guarantees and financial commitments

At 30 September 2023, the VCT had no contingencies, guarantees or financial commitments. Subsequent to the year end at the date of this report, the VCT has entered into financial commitments in respect of the Managed Wind Down process amounting to an estimated £500,000. However, this amount may be less if any of the agreements are terminated early.

21. Controlling party and related party transactions

In the opinion of the Directors there is no immediate or ultimate controlling party. For total Directors' remuneration during the year, please refer to Note 5 as well as the Directors' Remuneration Report on pages 41 to 43.

22. Significant interests

Following the sale of part of the VCTs assets in April 2023, the details of all shareholdings in the remaining companies where the VCT's holding, as at 30 September 2023, represents more than 20% of the nominal value of any class of shares issued by the portfolio company are disclosed in the Review of Investments on pages 14 to 21.

23. Net debt reconciliation

| | 1 October 2022 £'000 | Non - cash flows £'000 | Cash flows £'000 | 30 September 2023 £'000 |
|--------------------------|----------------------------|------------------------------|---------------------|-------------------------------|
| Cash at bank and in hand | 1 | - | 3 | 4 |
| Other loans | 4,097 | (671) | 263 | 3,689 |

Non cash flows consists of loans forgiven as disclosed in Note 10.

24. Events after the end of the reporting period

On 22 November 2023, the Board declared an interim dividend of 7.5p per Ordinary Share. The dividend was paid on 21 December 2023 to holders of Ordinary Shares on the register as at the close of business on 1 December 2023. No dividend was declared in respect of the 'A' Shares.

No further significant events have occurred between the statement of financial position date and the date when the financial statements have been approved, which would require adjustments to, or disclosure in the financial statements.

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07378395

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Andrew Donovan

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