30 September

2022

Gresham House Renewable Energy VCT2 plc

Report & Accounts for the year ended 30 September 2022

Since 1857
Gresham House
Specialist asset management

The 34.4MWp of renewable energy projects co-owned by Gresham House Renewable Energy VCT 1 plc (VCT 1) and Gresham House Renewable Energy VCT 2 plc (VCT) generated 33,378,218 kilowatt-hours of electricity over the financial year, sufficient to meet the annual electricity consumption of circa 8,442 homes. The Investment Adviser estimates that the carbon dioxide savings achieved by generating this output from solar and wind versus gas-fired power, are equivalent to what circa 19,400 mature trees would remove from the atmosphere.

Overview

Governance

Financial Statements

Investment Objectives

Gresham House Renewable Energy VCT2 plc 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.

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.

The detailed New Investment Policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 22 to 29.

For more information visit
https://greshamhouse.com/real-assets/new-energy-sustainable-infrastructure/

GREEN ECONOMY LONDON STOCK EXCHANGE

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 (27 January 2023)	85.00p 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

21 March 2023	Annual General Meeting
June 2023	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 – vcts@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/new-energy-sustainable-infrastructure/

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 vcts@linkgroup.co.uk.

Financial Highlights*

91.2p

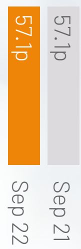
Net asset value per Ordinary Share (pence)
(as at 30 September 2022)

0.1p

Net asset value per 'A' Share (pence)
(as at 30 September 2022)

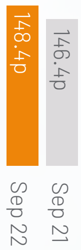
57.1p

Cumulative Dividends paid (pence)
(as at 30 September 2022)



148.4p

NAV Total return per Ordinary Share and 'A' Share (pence)
(as at 30 September 2022)

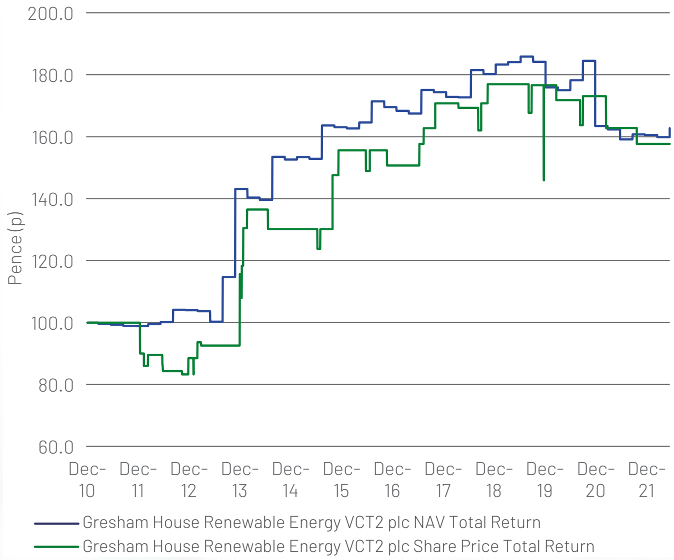


* The above financial highlights are considered to be Alternative Performance Measures, further details on how these are calculated have been included in the Strategic Report under the Key Performance Indicators section.

VCT2 Share Price Total Return

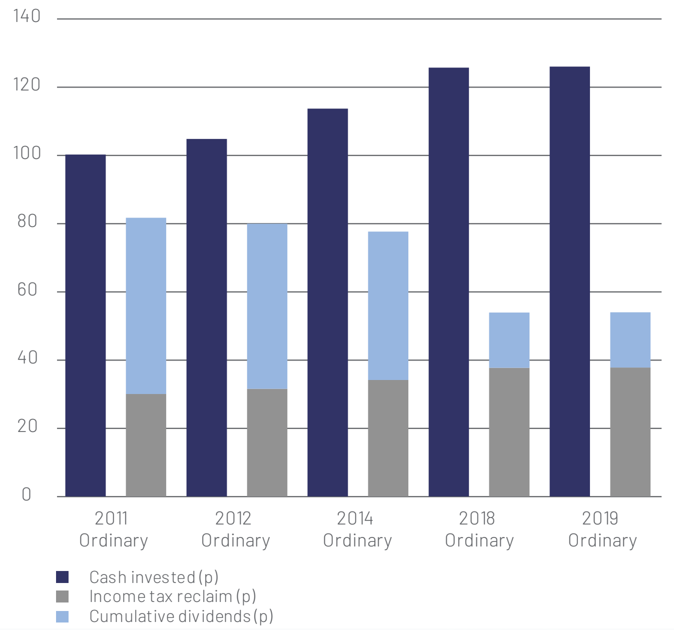
The graph below represents the VCT's performance over the reporting periods since the VCT's Ordinary Shares and 'A' Shares were first listed on the London Stock Exchange, and shows share price total return (share price plus cumulative dividends paid) and net asset value total return (net asset value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

Total Return with dividends reinvested



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.



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 has recently joined the Board of Echo Energy plc.

He is also a Board member/ trustee of a military charity F4H.

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. More recently, Matthew founded CH1 Investment Partners LLP, which provides bespoke investment solutions to high net worth, professional and sophisticated investors.

Matthew is also a director of several other businesses, including Innova Energy.

Andrew Donovan is an experienced corporate financier, with over 26 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 15 years.

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

Andrew is also a member of Chartered Accountants Ireland.

Giles Clark has worked on solar projects across Europe since 2006 and on UK projects since 2010.

In 2006, he co-founded SunRay Renewable Energy, where he was CFO, developing large utility scale solar projects across Southern Europe.

SunRay had built a pipeline of 1.4GWp of projects by the time it was acquired by SunPower Corporation for $277mn in 2010. From 2013 to 2016 Giles was a founding shareholder and Chairman of Solstice Renewables which developed and sold 100 MWp of ground mounted solar farms in the UK.

From 2013 to 2017, Giles was the founder and CEO of Primrose Solar which acquired and built 253 MW of ground mounted solar farms in the UK.

The completed projects were sold in 2016 to Bluefield, Greencoat and Equitix. Giles is also a Director of Altano Energy SLU and of AlSi Consulting Limited. Giles has a BA in PPE from Oxford and an MBA from the London Business School.

Giles resigned from the Board with effect from 30 September 2022.

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 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.

Chairman's Statement

Christian Yates
Chairman

I am pleased to present the Annual Report of Gresham House Renewable Energy VCT2 plc (VCT) for the year ended 30 September 2022.

The Company entered a Managed Wind-Down in the previous financial year having adopted a New Investment Policy which had the objective of realising the Company's investments in a manner that achieves a balance between maximising the net value received from the sale of assets and making a timely return of capital to Shareholders. Having initially entered exclusivity with one interested party early in the financial year it had been anticipated that a sale of most of the assets would be completed by the end of the financial year. However, during the due diligence process several issues were uncovered, many of which related to the age of the assets and that required further remediation. These points, and both market turmoil following the Russian Federation's invasion of Ukraine and instability within the UK Government, resulted in a much more protracted process and required further negotiation with the potential purchaser. Whilst many of the issues identified have been closed off, the Board and the Investment Adviser are continuing to work through the remaining issues and it is hopeful that a conclusion will be reached over the course of 2023.

In terms of the performance of the portfolio, following extensive remedial works carried out at several sites and that commenced in the prior financial year, performance of the entire estate has improved significantly, with performance now being in line with expectations. Despite higher irradiation over the summer months, the significantly more favourable power purchase agreements (PPAs) negotiated and agreed during the year as well as the portfolio's inflation linked subsidies, the NAV per share has remained broadly stable over the year at 91.3p per share (2021: 89.3p per share). This is because whilst the NAV per share reflects the valuation of the portfolio at 30 September 2022, it takes into account the Electricity Generator Levy (EGL), a 45% tax. This was expected to impact the value as at the 30 September although the exact details were not announced by the UK Government until after the year end, and that would likely be payable by the acquirer of these assets as well as the rise in corporation tax to 25%. It is the Board's opinion that it is right to take into consideration the impact of the EGL given the New Investment Policy adopted in July 2021 and delivers a NAV that reflects the fair value of the portfolio's assets. Shareholders should take note that if, as in previous years, a portfolio value based purely on the cashflows generated by the assets were to be used, it would result in a value that would be considerably 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.

Should high inflation be sustained for the longer term and/or the security of gas supply from Russia remain the key factor in European energy markets leading to continued high power prices, it is expected that the value of these assets will remain at a higher level and could increase. However, the assets do have a limited market compared with newer solar assets as given their age they can be challenging to manage, and have complex financing arrangements which any buyer must take over.

At the year-end, Giles Clark resigned and stepped down from the Board. I thank him for his valuable contribution. It is not the intention to replace him given the Managed Wind-Down. Giles Clark was appointed a Director of Gresham House Renewable Energy VCT1 Plc on 30 September 2022.

Investment portfolio

At the year end, the VCT held a portfolio of 16 investments, which were valued at £28.0mn. One-follow on investment was made during the year, investing an additional £67,500 into bio-bean Limited to fund the growth and development of the business. There have been no exits during the year.

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

Ground mounted solar	85.8%
Rooftop solar	8.7%
Small wind	4.1%
Non-renewable assets	1.4%

The Board has reviewed the investment valuations at the year end and notes that the valuation of the portfolio has increased by £0.5mn or 1.9%. As indicated earlier, the underlying portfolio has been positively impacted by the increase in power prices as well as increases in inflation projections as most of the revenue that the solar farms in the Company's portfolio receive is linked to RPI which increases profitability and therefore the valuation of the assets.

Through the renegotiation of several PPAs, significantly higher power prices have been locked into the portfolio which will generate stronger returns over the next two years. On the other hand, the discount rates applied have increased in line with recent rises in the Bank of England base rate. In addition, the UK Government has announced a levy on revenue from the sale of electricity, the EGL, which effectively increases the marginal rate of taxation on electricity revenues above £75 per megawatt-hour to 70%. Whilst the Company is below the de minimis threshold at which the EGL applies, any future buyer of the Company's solar farms is likely to be within the scope of the EGL, as currently proposed, and this would reduce the fair market value at which any disposal would be likely to take place.

As referred to previously a problem has arisen 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 has taken 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 planning permission (not yet granted) and customers on site. In order to resolve the uncertainty around this situation a new grid connection has been negotiated so removing this impediment to the potential sale of the asset and the others within the same loan structure. For more details see page 9.

Venture Capital investments

The VCT also holds two investments that are not in renewable energy. As indicated earlier a follow-on investment of £67,500 was made into bio-bean Limited (bio-bean) in December 2021 to fund the growth and development of the business. However, despite demand being strong, trading performance since this investment has been below expectations due to supply shortages. As a result, the valuation of bio-bean has decreased by £0.4mn or 53.2%, while the valuation of the VCT's investment into Rezatec has also decreased by £1.1mn or 94.4% due to continued underperformance against budget and few new contract wins.

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

Net asset value and results

At 30 September 2022, the Net Asset Value (NAV) per Ordinary Share stood at 91.2p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 91.3p 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 2021	**89.3**
Plus NAV increase	2.0
NAV as at 30 September 2022	**91.3**

The NAV Total Return (NAV plus cumulative dividends) has increased by 1.4% in the last year and at the year end stands at 148.4p 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 profit on ordinary activities after taxation for the year was £0.5mn (2021: £2.7mn loss), comprising a revenue profit of £80,000 (2021: £23,000) and a capital profit of £445,000 (2021: capital loss of £2.7mn) 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. Following the payment of this dividend, total dividends paid to date for a combined holding of one Ordinary Share and one 'A' Share will increase to 59.1p (2021: 57.1p). This level of dividend is lower than has been paid historically in years up to 2020 (no dividend was paid in 2021) but the Company has faced exceptional costs in the past two financial years. These costs have mainly been associated with the need for remediation work on the portfolio of solar assets, which are ageing and hence needed expenditure to replace old equipment to restore their performance levels. The Board is pleased to report that the results of these works have been positive and that indications are that performance levels are satisfactory and in line with expectations. In addition, there have been costs associated with the proposed winding down of the Company and the sale of investment assets in accordance with Shareholders wishes as expressed in the Continuation Vote in March 2021. The improvement in returns for Shareholders discussed in this Report are expected provide additional resources to improve distributions to Shareholders in future should the sale of the assets not be achieved as planned.

To increase the Company's distributable reserves and facilitate future dividend payments, the Directors will seek shareholder approval for a reduction of certain non-distributable reserves at the forthcoming AGM. The implementation of such a reduction of reserves is a Court led process that is likely to take some months. The Board intends to continue the payment of dividends as soon as distributable reserves are increased.

2022 Annual General Meeting (AGM)

The VCT's eleventh AGM was held on 23 March 2022 at 11.30 a.m. and all resolutions were passed by way of a poll.

2023 Annual General Meeting (AGM)

The VCT's twelfth AGM will be held at The Scalpel, 52 Lime Street, London EC3M 7AF on 21 March 2023 at 12.00 pm.

Share Buybacks

As noted in previous Reports, the Board has decided that the VCT will not be buying in Shares for the foreseeable future. The Board will keep this under review as required.

Outlook

As noted earlier, the Board has not been able to progress the sale of the Company's assets as quickly as Shareholders may have expected. It would like to reassure Shareholders that it has been making every effort to ensure that returns are maximised at the point of sale. The Board remains optimistic that significant progress and a conclusion can be reached in 2023.

In the meantime, the improvement in power prices and the rise in inflation has been very beneficial for the Company's assets. The Board therefore believes that the outlook for the portfolio, as a whole, is positive.

Christian Yates
Chairman

30 January 2023

Investment Adviser's Report

Portfolio Highlights

Gresham House Renewable Energy VCT 2 plc (VCT) remains principally invested in the renewable energy projects that the VCT and Gresham House Renewable Energy VCT 1 plc (VCT1) have co-owned for a period of eight to eleven years, depending on the asset, with the value of these projects representing close to 99% of the value of the portfolio. The total generation capacity of assets co-owned by the VCT is 34.4MW. The VCT also has two venture capital investments.

During the year the sale process of the solar energy projects that are owned jointly with VCT 1, was progressed but has not yet concluded. The two VCTs had appointed EY to prepare and run the sales process in the previous financial year. A number of parties carried out initial due diligence on the portfolio in the autumn of 2021, and submitted non-binding offers subject to further due diligence. One potential buyer was granted exclusivity to perform detailed due diligence and negotiations with that party continued throughout the financial year. The significant uncertainties in the short and longer term, caused by a combination of macro and more portfolio-specific circumstances including economic and political turmoil in the UK during the summer and autumn of 2022 at the top of the UK Government, the impact on energy markets of The Russian Federation's invasion of Ukraine, various windfall tax structures or iterations, issues relating to remediation works, and in particular relating to the long-term certainty of the South Marston ground-mounted solar asset's grid connection, all prevented the sale process from being finalised during the financial year.

The Investment Adviser, in the meantime, continued to manage the assets with the objective of deriving the best possible yield from them, whilst also supporting the Board of the VCT and its advisers in advancing the sale process and evaluating the non-binding offers that were received.

The Investment Adviser has undertaken a valuation exercise for the purpose of determining the Net Asset Value and has provided the Directors with several valuation scenarios based on different assumptions for the key variables governing future performance. It is the Directors of the VCT that have the responsibility of valuing these assets. In light of the ongoing sales process, 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 Electricity Generator Levy (EGL)) an acquirer may incur through holding the assets as well as their view on the levels of the assumptions that determine future operational and financial performance.

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

During the year, the total revenue from renewable energy generation was £13.1mn (2021: £10.5mn) and of this, £11.5mn (2021: £9.4mn) was from government incentives and inflation-linked contracts. The total revenue from the renewable assets was 4.4% ahead of budget due to higher irradiation and higher power prices.

The downside of the relatively old age of the VCT's solar assets is the additional maintenance required to keep them operating effectively. Projects to repair or replace certain components across the three worst performing older assets were completed during the previous financial year. Performance since completion of those works has been encouraging, with consistently increased output and reliability at Kingston Farm, Lake Farm and Beechgrove Farm with new, 10-year warranties on some of the key equipment (e.g. new inverters) and UK based technical staff available for ongoing repairs or maintenance. Successful warranty claims at Beechgrove Farm and South Marston led to additional remedial works that also improved performance, particularly at Beechgrove Farm.

In terms of available resources, the year benefited from strong solar irradiation which came in 6.7% ahead of budget. This should have resulted in better generation performance but there were technical issues and downtime caused by remedial works at three of the ground mounted sites (Beechgrove, South Marston and Ayshford Court, as described below) and poorer than expected performance of the roof mounted portfolio. These legacy issues have been addressed through successful warranty claims and repair works.

Whilst all works had to be suspended on residential roof mounted solar installations in the previous financial year as engineers were not permitted to enter homes during Covid lockdowns and restrictions that carried through into the financial year, much of these have now been carried out. Housing Associations, the landlords of the majority of the properties, were more cooperative in their approach in permitting access for the contractors for remedial works.

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

- → Power prices were significantly reduced through the initial months of the pandemic and price fixes were therefore sought in 2020 and early 2021, as soon as Power Purchase Agreement (PPA) providers began offering above the budgeted levels at the time. Fixing the prices under PPAs provided security of revenues. However, the fixed prices meant that the portfolio could not then benefit from the increases in wholesale power prices during the autumn of 2021 and the further increases experienced immediately after the Russian Federation's invasion of Ukraine. However, these PPAs expired during the financial year and all but one were replaced with new PPAs, with a 1-2 year fixed term, with prices at a multiple of the previous levels.
- → With much of the portfolio's revenue being inflation linked, higher and more sustained inflation increased the profitability of the assets and therefore their value, even though most of the cost base and the debt facilities are also inflation-linked.

The VCT also holds newer investments in growth businesses; bio-bean Limited (bio-bean), the world's largest recycler of waste coffee grounds, which produces sustainable, clean fuels as well as advanced biochemicals for use in the food industry; and Rezatec Limited (Rezatec), a climate technology company and software developer. Rezatec applies Artificial Intelligence based algorithms to a range of earth observation data sources (satellite imagery, soil data, weather data, topographic data etc.) to generate an information services platform to help monitor land-based assets in the forestry, agriculture and infrastructure sectors.

Both businesses went through challenging times in the year. Rezatec failed to meet the revenue growth rate in its business plan and to secure institutional funding. This resulted in an emergency funding round subscribed to by some of the existing investors and a drive to bring down the company's cost base. The company's value has therefore been written down by 94.4% to £0.07mn.

bio-bean also failed to meet its revenue targets due to lower than expected deliveries of its feedstock and less demand for its core product due to a warmer than usual winter. Emergency funding had to be secured from some of its existing investors and the company has now engaged an adviser to explore options for a trade sale. It has also been written down in value to £0.3mn, a fall of 53.2%.

Portfolio Composition

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

		30 September 2022		30 September 2021	
Asset Type	**kWp**	**Value ('000)**	**% of Portfolio value**	**Value ('000)**	**% of Portfolio value**
Ground mounted solar (FiT)*	20,325	£20,745	74.1%	£19,341	70.6%
Ground mounted solar (ROC)**	8,699	£3,262	11.7%	£2,472	9.0%
Total ground mounted solar	***29,024***	***£24,007***	***85.8%***	***£21,813***	***79.6%***
Rooftop solar (FiT)	4,297	£2,425	8.7%	£2,602	9.5%
Total solar	***33,321***	***£26,432***	***94.5%***	***£24,415***	***89.1%***
Wind assets (FiT)	1,030	£1,156	4.1%	£1,171	4.3%
Total renewable generating assets	***34,351***	***£27,588***	***98.6%***	***£25,586***	***93.4%***
Venture Capital investments	N.A.	£392	1.4%	£1,814	6.6%
TOTAL	**34,351**	**£27,980**	**100.0%**	**£27,400**	**100.0%**

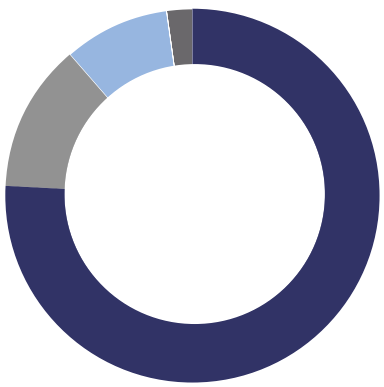
* Feed in Tariff (FiT)
** Renewables Obligation Certificate (ROC)

The 34.4MWp of renewable energy projects in the portfolio of the VCT and VCT 1 generated 33,378,218 kilowatt-hours of electricity over the financial year, sufficient to meet the annual electricity consumption of circa 8,442 homes. The Investment Adviser estimates that the carbon dioxide savings achieved by generating this output from solar and wind versus gas-fired power, are equivalent to what circa 19,400 mature trees would remove from the atmosphere.

Portfolio Summary

Approximately 99% of the portfolio value, and all of the income for the portfolio, is derived from the renewable energy generation assets.

Renewable Energy Revenue by Asset Type



Renewable energy revenue by asset type

The performance against budget is shown below:

Portfolio revenues in the FYE 30 September 2022 by Asset Type (£ Sterling)

Asset type	Budgeted revenue	Actual revenue	Revenue performance
Ground mounted solar (FiT)	9,510,159	9,950,021	104.6%
Ground mounted solar (ROC)	1,406,636	1,673,400	119.0%
Roof mounted solar	1,248,280	1,191,092	95.4%
Wind assets	375,675	278,776	74.2%
TOTAL	**12,540,750**	**13,093,289**	**104.4%**

The revenue is affected by:

→ renewable energy resources (solar irradiation or wind, as relevant);

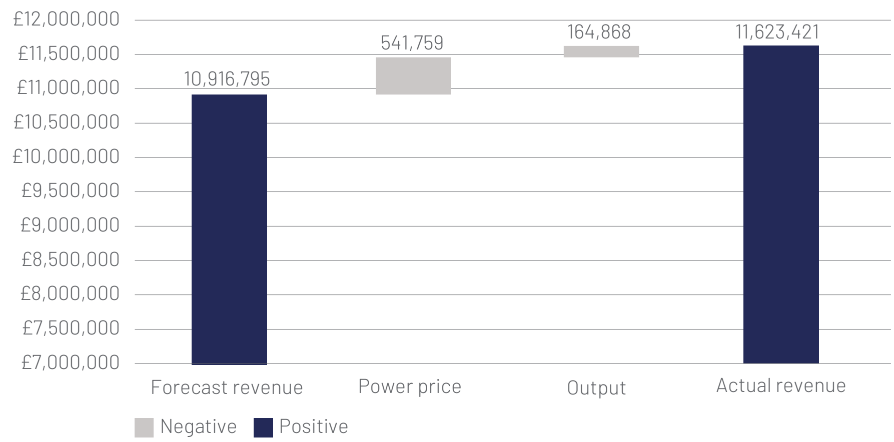
→ the performance of the assets in converting the resources into revenue (i.e. how the assets are performing, any technical issues, etc); and

→ the revenue per unit of energy generated.

These themes will be expanded on below.

It is clear from the table above that the positive variance at the ground-mounted solar farms was most material with actual revenues benefitting from more generation as well as higher power prices. This is detailed in the chart below:

VCT GM Solar Portfolio Revenue Analysis 2021/2022



The old equipment, inverters and transformers that had been causing the reduction in output last year were replaced in the prior financial year. Successful warranty claims against Jinko Solar who supplied the solar modules for Beechgrove and South Marston resulted in remedial works being carried out to the modules and associated cabling over the summer months. The positive results of this significant remedial work became apparent in the ensuing generation numbers.

The slight underperformance at technical level, when adjusted for the high irradiation, was caused by the ROC-remunerated Priory Farm and Ayshford Court assets underperforming due to poor service from the Operations & Maintenance (O&M) contractor that substantially increased response times. The issues at the Ayshford Court asset were addressed in the first half year but the Priory Farm asset suffers from regular short duration outages that require manual intervention. A new O&M contractor is in the process of being appointed.

Overall, 88% of income was inflation linked (either through the FiT, ROC or contracts for the sale of electricity), with the ROC assets having the highest price exposure. Thus, they benefited more from the renewal of the PPAs at higher prices.

These themes will be expanded on below.

Renewable energy resources

The portfolio is heavily weighted to solar (96% by capacity of the renewable assets, and 94% of total portfolio by value).

During the year the assets benefited from better solar resources than budgeted, with solar irradiation being 6.7% ahead for the year.

However, better solar resources do not automatically imply better generation as the performance of solar panels is also adversely affected by heat. The exceptionally hot weather over the summer months, particularly in July 2022, resulted in some deterioration in technical performance.

Technical performance

The table below shows the technical performance, including the impact of the higher irradiation, for each of the groups of assets.

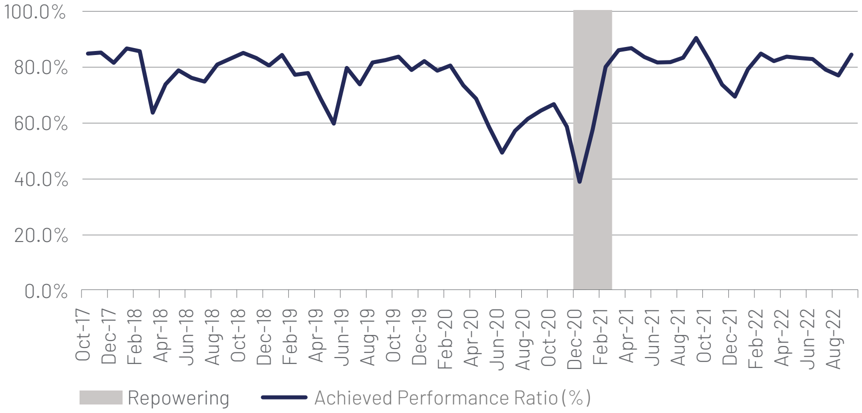
Asset Type	Budgeted output	Actual output	Technical performance	(in the same period last year)
Ground mounted solar (FiT)	20,392,254	20,445,981	100.3%	17,303,047
Ground mounted solar (ROC)	8,316,605	8,675,945	104.3%	8,661,522
Roof mounted solar	3,574,175	3,480,607	97.4%	3,498,469
Wind assets	1,045,301	775,684	74.2%	791,970
TOTAL	**33,328,335**	**33,378,218**	**100.2%**	**30,255,008**

The ground mounted solar (FiT) assets performed ahead of budgets and significantly ahead of the prior financial year.

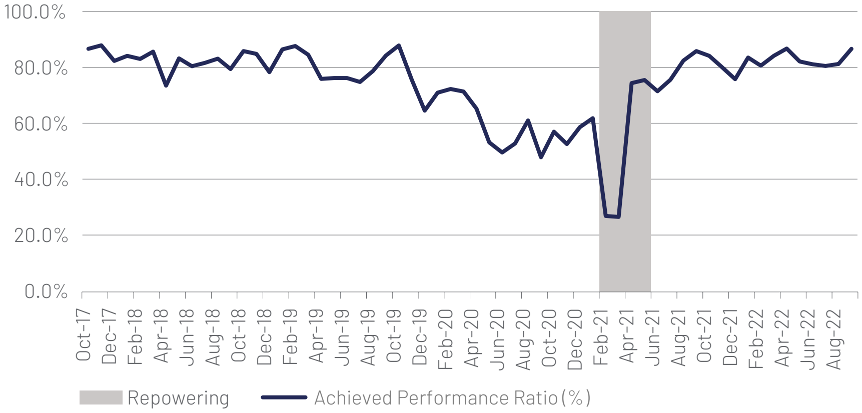
The results of the successful repowering works at Kingston Farm and Lake Farm (each with 4.98MW capacity, FiT assets) were evident with Kingston Farm performing better than budget, even when adjusting for higher irradiation. The figures for Lake Farm were slightly lower than budget when adjusted for irradiation but nevertheless a significant improvement compared to the previous year.

Beechgrove's (3.98MW, FiT) repowering works were completed just before the end of the last financial year, however performance was held back by another issue, namely cracking connectors at the back of its solar panels which in turn were causing isolation faults on the system. Following a root cause analysis, this degradation of the connectors was found to be caused by the high salt content in the air due to the site's proximity to the sea. A successful warranty claim against Jinko Solar, the manufacturer, resulted in the replacement of all original connectors with ones made from an improved polymer, which can withstand the marine environment, over the summer. The ensuing generation data suggests that the issue has been resolved.

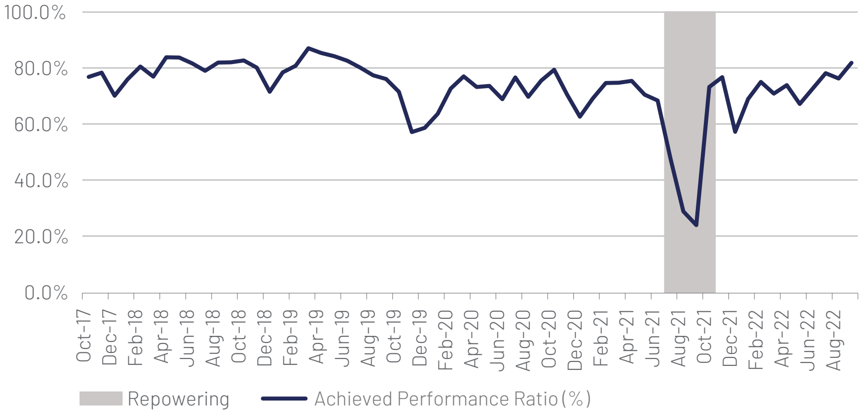
Kingston Farm Performance Ratio (%)



Lake Farm Performance Ratio (%)



Beechgrove Performance Ratio (%)



Overall, the replacement works are expected to have a payback of under five years and the assets benefit from ten-year warranties from Huawei, the inverter manufacturer who has a strong customer service team in the UK.

South Marston (4.97MW FiT) has historically sold all its power to a Honda production plant adjacent to the site at Swindon. Honda closed down this facility and its exit is leading to changes of contractual arrangements for the sale of power to the businesses that will move into the site, and potentially to the multi-part agreement governing the access to and use of the grid connection. The Investment Adviser is working with Honda, the commercial real estate developer that intends to acquire the site from Honda, and various advisers to ensure the continuity of supply of power by the solar farm.

The purchaser of the site is very keen to make the solar power available to its future tenants when they are expected to move onto the site in the second half of 2024 and has maintained in its planning submission for the new development that it will retain the existing infrastructure including the switchgear through which South Marston connects to the electricity grid. Nevertheless, South Marston's contractual rights need to be bolstered to satisfy any buyer of the VCT's assets that there is zero risk of the project losing its ability to export. The Investment Adviser is pursuing multiple avenues to fully de-risk the grid connection. These include accepting a grid connection offer from Southern Electric Power Distribution plc for a brand new and dedicated connection outside the former Honda site, putting in place contingent liability insurance and negotiating with the new purchaser of the site to improve the contractual position. A provision for the cost of the new grid connection has been made in the financial forecast that forms the basis of the valuation in this Report.

The ground mounted solar (ROC) assets also performed ahead of budgets, similar to the previous year. These assets were not repowered and did not suffer long outages needed for remedial works in the prior financial year, making the comparison more straightforward.

Ayshford Court (5.45MW, ROC) also exhibited lower than expected performance in the first half of the financial year. This was caused by a small number of failing solar modules taking down entire strings across several modules. The string-based configuration of many solar plants means that a small number of module failures can take large parts of the plant offline. The solution to this is close monitoring and a rearrangement and redistribution of the solar modules such that the faulty modules are grouped together, thereby minimising the number of impacted modules. These works were carried out in March and April 2022 and have delivered successful results. A warranty claim is also in progress against the manufacturer.

Overall, the benefit of high irradiation was offset by heat effects, planned outages to carry out the works and lower technical performance for some of the assets, but generation was still above budget.

Generation of the rooftop solar portfolio was 2.6% lower than budget and slightly below the same period last year. Irradiation cannot be measured at roof mounted solar installations as it is not cost effective to install pyranometers but one can assume that the irradiation at these sites was in line with the irradiation at the ground mounted assets. The Investment Adviser continues to work with the O&M contractors and landlords to get access to the rooftop installations that are underperforming, in order to effect repairs as soon as possible, and have these repairs completed in a cost-effective manner.

The small wind portfolio performed 25.8% lower than budget, continuing the poor performance experienced in recent years. The Investment Adviser attributes the poor performance to the turbines' ability to capture the resource having been overstated at the time of installation. Small wind accounts for only 3% of the portfolio in terms of capacity.

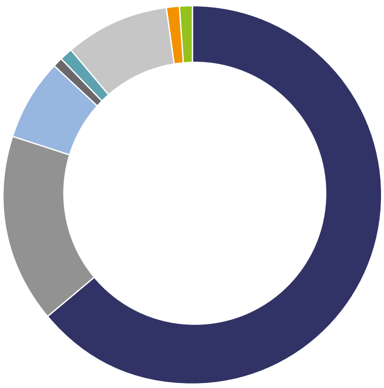
The entire portfolio is composed of R9000 wind turbines, which have generally performed satisfactorily and have the support of an experienced O&M contractor with easy access to spare parts and maintenance crews.

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 40p 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), with inflation taking that above 45p from 1 April 2023. 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.

VCT Solar Portfolio, Revenue split for year 2021/2022



Ground mounted FiT	**64%**
Ground mounted export	**16%**
ROC buyout	**7%**
ROC recycle	**1%**
Private wire	**1%**
Rooftop FiT	**9%**
Rooftop export	**1%**
Other	**1%**

Of total revenues generated in the year, 81.5% was earned from government backed incentives for generating renewable electricity. Included within export revenue above, a further 4% is inflation linked, either through the FiT export floor price for selling electricity or contracts for the sale of electricity, taking the government backed or RPI linked revenues to 85% of the total.

The high proportion of income that is fixed by the government, is RPI linked and is not exposed to wholesale power prices, a significant driver of value in this portfolio. This enabled the portfolio to be largely insulated from the very significant reduction in the wholesale price of electricity experienced during the initial months of the pandemic in 2020. Whilst predictable, government backed revenues reduce the risk, given the low power prices through the first few months of the pandemic, when prices increased the assets entered into fixed price contracts of various lengths to sell power. This further reduced the risk of variability in revenues from wholesale power price fluctuations. This was beneficial when coming out of the pandemic but it also meant that the assets missed out on the increase in wholesale power prices until the fixed price contracts started expiring in April 2022. The PPA contracts were replaced or updated with new prices valid for 1-2 years as they expired during the financial year.

Total (power price sales and subsidies) revenues per kWh generated by the solar assets were 39.4p for the year ended 30 September 2022. These are projected to rise by over 50% to 60.9p in the financial year ending 30 September 2023 and to 64.2p in the financial year ending 30 September 2024.

Operating costs

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

Many of these costs have also risen in line with inflation. A minority of the leases for the ground-mounted solar assets contain clauses that require supplemental rent to be paid to the landlords in the event of revenues exceeding set thresholds, and these thresholds will be exceeded in the new financial year due to high power prices.

The main cost item that shows variability from year-to-year is repair and maintenance costs. Repair and maintenance spend involving solar panels and inverters, the key components of a solar project, is covered by cash held in the maintenance reserves. At the financial year end reserves totalling £1.0mn were in place for all the ground mounted solar assets and for the majority of the roof mounted solar assets, and additional amounts will be deposited in the reserves in the future. These provisions were revised upwards following a technical review that was commissioned early in the financial year looking at historic experience of repairs.

Feedback from the sales process indicated that third parties would charge more in the future for managing the SPVs (to account for the complexity of managing a portfolio of this type and age and which includes leverage and a large number of distributed, roof-mounted solar assets) than the Investment Adviser has historically modelled to date. The Investment Adviser therefore increased the cost assumptions used in the portfolio valuation by 100% at the time of the half year valuation. This increase does not apply to ongoing cashflow that the assets earn until the portfolio is sold.

Venture Capital investments

The VCT holds an investment of £0.7mn (at cost, including the £67,500 additional investment made in the year) in bio-bean, the world's largest recycler of waste coffee grounds. bio-bean sources waste coffee grounds from major retail coffee chains by offering the cheapest and most sustainable avenue for disposing of them. bio-bean then converts these into coffee logs for use in wood burning stoves as well as into pellets for combustion in biomass-fed energy generators. It sells the logs online, through large supermarkets and through home improvement chains. bio-bean also markets and sells dried coffee grounds for use in a diverse set of applications including cosmetics, bioplastics and the automotive industry.

Demand for the coffee logs (the main product) remained strong, albeit with the temporary impact of warmer weather in the second half of last winter. However, bio-bean was not able to benefit as much as was hoped from the surge in the price of gas (and therefore the cost of indoor heating) that took place following the Russian Federation's invasion of Ukraine. Its coffee logs compete mainly against sawdust-derived heat logs rather than gas-fuelled heating. bio-bean was also constrained, especially in the first few months of the financial year by reduced deliveries of waste coffee grounds, its primary feedstock.

The new, higher margin dried coffee grounds is a developing market, with first revenues achieved during the year and a pipeline of business development opportunities that could lead to a significantly improved profit outlook, but have not had a meaningful impact on financial performance so far.

bio-bean required additional funding from its investors in the spring of 2022. The VCT chose not to participate on the basis of bio-bean's vulnerability to weather patterns, its heavy dependence on timely and low-cost feedstock deliveries and its lack of pricing power for coffee logs, even in an exceptional environment where energy and heating became very expensive. bio-bean's board decided to explore an exit for Shareholders through a trade sale, and mandated an advisory firm in September to assist. The Investment Adviser believes a buyer will be found but recognises that there is significant uncertainty in relation to the achievable price. The valuation of the VCT's stake has been marked down by 52% to reflect this uncertainty.

The VCT's other growth investment, Rezatec Limited, also ran into difficulties. Rezatec's management managed to achieve steady growth but far from the rate envisaged in the business plan on the basis that the VCT invested in January 2020. This, coupled with a cost base that was handled with less prudence than the Investment Adviser would have liked, led to Rezatec requiring a significant amount of new investment in the financial year. A process led by KPMG failed to secure the necessary amount and management had to approach the existing investor base for emergency funding.

The VCT decided not to participate as it was not convinced of management's ability to deliver the original business plan and achieve a successful exit. Investors that chose to participate did so on the basis of terms that gave them as much protection as possible in the event of no upturn in performance.

Although, the investment by the VCT had been structured in a way that initially provided an element of protection against slower than expected growth and the dilution that can come with additional funding rounds, this protection had to be in large part surrendered as a condition of the emergency funding round.

The company has now been put up for a trade sale as it is believed that its software, algorithms and customer base could be useful to commercial satellite owners in monetising the value of the large amount of geospatial data they generate.

The value of this investment has therefore been marked down to close to £nil to reflect the Board's belief that a negative outcome is far more likely than a positive outcome for the company.

Regardless of these regrettable developments for the two venture capital investments, it would always have been a challenge to realise these investments in line with the disposal of the other VCT assets. The market for secondary stakes in private, venture capital funded companies is less liquid than the market for renewable energy investments.

Portfolio valuation

Whilst the Investment Adviser is supporting the proposed sale of the VCT's renewable assets and notes that a firm (i.e. binding) offer to purchase the assets will be the best indication of value, consistent with prior years the NAV of the renewable portfolio is imputed from the valuation of future projected cash flows generated by the renewable energy assets, as well as the cash held by the companies in the portfolio and the cash held by the VCT. The NAV of the overall portfolio also includes the now marked down value of the venture capital investments into bio-bean and Rezatec.

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

→ **Renewable resources.** Despite this year enjoying higher solar irradiation than budgeted, the assumptions on irradiation have not been changed.

→ **Technical performance.** As noted above, the repairs at Lake Farm, Kingston Farm and Beechgrove Farm largely resolved their historic performance issues, however expectations for future generation were slightly marked down at the half year point to assume a more prudent position. Ayshford Court, South Marston and Priory Farm suffered technical issues that were addressed. The O&M contractor for Ayshford Court, Priory Farm, Wychwood and Parsonage is in the process of being replaced and this is expected to lead to better and more timely maintenance of these assets.

→ **Power prices.** Power price forecasts that were initially adversely impacted by COVID-19 have now risen to the highest levels in the lifetime of the VCT due to acceleration of demand post the COVID-19 lockdowns and restrictions ending coinciding with the Russian Federation's invasion of Ukraine and the ensuing disruption to European power markets. The Investment Adviser was able to capitalise on these by entering into new PPAs that have locked in high prices for the next one to two years.

  The Investment Adviser also decided to reflect the growing proportion of solar power in the UK energy mix in assumptions for prices the solar assets would earn in the future. Solar power is available throughout daylight hours which do not always cover peak price periods. A solar asset therefore has to sell a greater (compared to a provider of "baseload" power) proportion of its power at times in the day when prices are lower due to demand being lower and power being more plentiful due to all the solar plants generating at the same time. This is known as the solar capture price.

  The latest generation-weighted forecasts provided by a leading market consultant, and current offers for PPAs from purchasers for the power generated are used to value the assets.

  The UK Government responded to the cost-of-living crisis, caused in part by high energy bills for households and businesses, by introducing the Electricity Generator Levy (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 £75 per MWh 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 50GWh 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, including all of the parties who submitted offers during the sales process, 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 taking into account the duration of the subsidies, the leases and the planning permissions, without assuming extensions. It will be appropriate as the end of the lease terms get closer to approach landowners and local planning authorities with a view to negotiating extensions. Although power prices in the future are projected to decline from the current high levels, falling costs of equipment and the fact that most of the investment has already been incurred, would enable additional returns in the longer term from such life extensions.

→ **Costs.** Up-to-date costs for the assets are included, reflecting all commercial negotiations, expectations for lower maintenance costs after the older assets are repaired and the need to provision for the costs of repairs to equipment such as 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 sales process.

- **Corporation tax.** The actual corporation tax paid will impact on the cash available to Shareholders.

- **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 two 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 well in excess of 3% even in the medium to long-term. A more prudent long run forecast of 3% has been used in the calculation of the NAV.

Once the free cash projected to be generated by the assets is calculated, the value of these cash flows has to be estimated. The Investment Adviser notes that these cash flows are supported by a very high proportion of government backed and index linked revenues. In the current financial market, such cash flows are dependable and therefore valuable. With greater certainty of output at the three large ground mounted solar assets that comprise 40% of the installed capacity there is greater visibility on the returns on these assets. The discount rates used reflect the Investment Adviser's experience in the market and evidence of third-party transactions, as well as based on feedback from other independent advisers.

The discount rates used to value the future cash flows have been increased by 1.5% for the solar asset portfolio since the end of the financial year (2021: 5.5% to 5.75%) to reflect the increase in the risk-free rate as a result of the Bank of England raising interest rates. An increase of equal magnitude has been applied to the wind assets.

The value of the investments in bio-bean and Rezatec has been determined using International Private Equity Valuation Guidelines. Due to the highly dilutive emergency funding round and the company's diminished future prospects, Rezatec's valuation was marked down to less than 53% of investment cost to reflect its continued, despite nearing the end of the pandemic, to variability in feedstock supply, as well as weather patterns. The business has improved in many respects including better margins, increased demand for its core product, good traction in a new product, but success is highly dependent on sustained and growing deliveries of feedstock at low prices. Bio bean's valuation has also been marked down to reflect its continued, despite the end of the pandemic, variability in feedstock supply, as well as weather patterns. The business has improved in many respects including better margins, increased demand for its core product, good traction in a new product, but success is highly dependent on sustained and growing deliveries of feedstock at low prices.

Overall, a £1.9mn increase in the value of the renewable generation assets was offset by a £1.4mn reduction in the value of the venture capital investments.

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 and de-risking the low probability (but high potential impact) loss of this grid connection remains a key priority. In recent months, new avenues in the form of an offer from the local Distribution Network Operator for South Marston to connect to the grid at dedicated Point of Connection outside the former Honda site, and contingent liability insurance have emerged. The discussions between the parties involved, on new arrangements once the new owner of the site is in place, have also progressed.

The repairs of the underperforming assets that were completed in the last financial year 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 is about to be formally engaged for four of the eight ground-mounted solar assets and this is expected to improve reliability for those assets. The generation outlook for the portfolio has improved since the beginning of the last financial year.

There is an observable impact of age on many of the assets that have not yet been repowered in the portfolio. The Investment Adviser remains vigilant for the purpose of spotting any signs of degradation early so that the impact on availability can be managed and reduced. Further maintenance provisions have been incorporated into the financial model to cover the risk of higher maintenance expenditure on roof mounted assets.

The higher 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 two debt facilities, the net benefit of increased inflation is strongly positive since it increases the inflation linked revenues more than it increases the costs. The portfolio has been enjoying the benefit of higher inflation from 1 April 2022 when subsidy levels rose, with even higher inflation figures raising tariffs from 1 April 2023.

All but one of the eight ground mounted solar assets came out of their fixed price PPAs during the financial year, which coincided with the spike in power prices following the Russian Federation's invasion of Ukraine. The Investment Adviser entered into new fixed price PPAs for one or two year durations for each of these assets.

The combined effect of inflation and power prices locked in at high levels should translate into significantly improved revenue and cashflow over the next two years. Total revenues per kWh generated by the solar assets are expected to rise to 60.9p in the new financial year and 64.2p in the financial year ending 30 September 2024, from 39.4p in the last financial year ending 30 September 2022. Should generation stay at the same levels as in the financial year, total revenues will increase in the same proportion, with a corresponding impact on cashflow after debt service.

Beyond the one to two year term for the fixed power prices, it becomes very challenging to predict the future course of inflation and power prices, with a wide range of forecasts for medium to long-term inflation. There are plausible future scenarios that could bring the levels of inflation as well as power prices down substantially from current levels, which are already down from the highest levels experienced in recent months.

The VCT is very 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. 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 venture capital investments that accounted for close to 7p of the NAV have been marked down by slightly under 6p, which is a disappointing outcome. Whilst fortunes can turn around, the Investment Adviser is not at this time expecting to recover the original amounts invested.

The last financial year has certainly been notable in terms of the outlook for renewable generation in the UK and the rest of the world. In particular, the Russian Federation's invasion of Ukraine exposed Europe and the UK's vulnerability to energy price shocks and this is expected to add an additional impetus to the deployment of renewable energy. The low power price and low inflation environment changed rapidly allowing renewable asset owners to benefit, before the impact of the EGL, from selling their power at much higher rates, and those with subsidy-backed assets enjoying higher inflation as well. These have been reflected in the renewable generation portfolio's valuation.

For this specific portfolio, that has had successful upgrades implemented on many of its assets, the outlook is very positive it remains to be seen whether this can be translated into a successful sale in 2023.

Gresham House Asset Management Limited

30 January 2023

Review of Investments

Portfolio of investments
The following investments were held at 30 September 2022:

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 mounted solar	1,330	15,271	1,163	54.6%
Lunar 1 Limited*	Kingston Farm, Lake Farm	Ground mounted solar	125	2,403	185	8.6%
New Energy Era Limited	Wychwood Solar Farm	Ground mounted solar	884	1,835	50	6.6%
Ayshford Solar (Holding) Limited*	Ayshford Farm	Ground mounted solar	826	1,740	378	6.2%
Tumblewind Limited*	Priory Farm	Small wind/solar	1,188	1,521	410	5.4%
Vicarage Solar Limited	Parsonage Farm	Ground mounted solar	871	1,236	7	4.4%
Gloucester Wind Limited	Gloucester Wind	Roof solar	1,000	789	(68)	2.8%
Hewas Solar Limited	Hewas Solar	Roof solar	1,000	743	(88)	2.7%
HRE Willow Limited	HRE Willow	Small wind	875	709	9	2.5%
St Columb Solar Limited	St Columb Solar	Roof solar	650	529	(4)	1.9%
Penhale Solar Limited	Penhale Solar	Roof solar	825	365	(16)	1.3%
bio-bean Limited**	Cambridgeshire	Clean energy	695	325	(370)	1.2%
Minsmere Power Limited	Minsmere	Small wind/solar	975	311	(14)	1.1%
Small Wind Generation Limited	Small Wind Generation	Small wind	975	136	(11)	0.5%
Rezatec Limited**	United Kingdom	Clean energy	1,000	67	(1,119)	0.2%
Lunar 3 Limited*		Ground mounted solar	1	0	0	0.0%
			13,220	27,980	512	100.0%
Cash at bank and in hand				1		0.0%
Total investments				**27,981**		**100.0%**

* Part-qualifying investment

** These investments were permanently impaired during the financial year. £370,000 of the valuation movement in bio-bean Limited and £933,000 of the valuation movement in Rezatec Limited 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 Asset Management Limited (GHAM) is the Investment Adviser, holds the same investments as above.

Investment movements for the year ended 30 September 2022

Purchases

	Cost at 30 September 2021 £'000	Valuation at 30 September 2021 £'000	Additions during the year £'000	Valuation at 30 September 2022 £'000	Realised loss £'000
VCT qualifying investments					
bio-bean Limited	628	628	67.5	325	(370)*
Total	**628**	**628**	**67.5**	**325**	**(370)**

* This was recognised as a permanent impairment and as a realised loss in the financial year.

Disposals

No investments were disposed of during the financial year.

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

Further details of the ten largest 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 0.64MW (Ilminster, Somerset).

Cost at 30/09/22:	£1,330,000
Cost at 30/09/21:	£1,330,000
Date of first investment:	Dec 2013
Valuation at 30/09/22:	£15,271,000
Valuation at 30/09/21:	£14,108,000
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 2022**
Turnover:	*
Operating profit/(loss):	*
Net assets:	£2,880,000

*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 30/09/22:	£125,000
Cost at 30/09/21:	£125,000
Date of first investment:	Dec 2013
Valuation at 30/09/22:	£2,403,000
Valuation at 30/09/21:	£2,218,000
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 2022**
Turnover:	£nil
Operating loss:	£(9,000)
Net assets:	£884,000

New Energy Era Limited

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

Cost at 30/09/22:	£884,000
Cost at 30/09/21:	£884,000
Date of first investment:	Nov 2011
Valuation at 30/09/22:	£1,835,000
Valuation at 30/09/21:	£1,785,000
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 2022**
Turnover:	£342,000
Operating profit:	£187,000
Net assets:	£2,234,000

Ayshford Solar (Holding) Limited

Ayshford Solar (Holding) Limited is the holding company of a ROC remunerated ground-mounted solar farm of 5.5MW near Tiverton, Devon.

Cost at 30/09/22:	£826,000
Cost at 30/09/21:	£826,000
Date of first investment:	Mar 2012
Valuation at 30/09/22:	£1,740,000
Valuation at 30/09/21:	£1,362,000
Valuation method:	Discounted cash flows (business)
Investment comprises:	
Ordinary shares:	£827,000
Proportion of equity held:	50%
Summary financial information from statutory accounts (non-consolidated):	**31 March 2022**
Turnover:	£3,000
Operating loss:	£(23,000)
Net assets:	£498,000

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 160kW. Tumblewind also owns Priory Farm Solar Farm Limited, which owns a ROC remunerated solar farm of 3.2MW near Lowestoft.

Cost at 30/09/22:	£1,188,000
Cost at 30/09/21:	£1,188,000
Date of first investment:	Nov 2011
Valuation at 30/09/22:	£1,521,000
Valuation at 30/09/21:	£1,111,000
Valuation method:	Discounted cash flows (business)
Investment comprises:	
Ordinary shares:	£790,000
Loan stock:	£398,000
Proportion of equity held:	50%
Proportion of loan stock held:	68%
Summary financial information from statutory accounts:	**31 March 2022**
Turnover:	£52,000
Operating profit:	£6,000
Net assets:	£856,000

Vicarage Solar Limited

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

Cost at 30/09/22:	£871,000
Cost at 30/09/21:	£871,000
Date of first investment:	Mar 2012
Valuation at 30/09/22:	£1,236,000
Valuation at 30/09/21:	£1,229,000
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 2022**
Turnover:	*
Operating loss:	*
Net assets:	£1,944,000

* This information is not publicly available

Gloucester Wind Limited

Gloucester Wind Limited owns a portfolio of FiT remunerated roof-mounted solar assets located on residential housing stock across the UK. The total capacity of the solar assets owned by Gloucester Wind Limited is 1,121kW.

Cost at 30/09/22:	£1,000,000
Cost at 30/09/21:	£1,000,000
Date of first investment:	Apr 2012
Valuation at 30/09/22:	£789,000
Valuation at 30/09/21:	£857,000
Valuation method:	Discounted cash flows (business)
Investment comprises:	
Ordinary shares:	£800,000
Loan stock:	£200,000
Proportion of equity held:	50%
Proportion of loan stock held:	50%
Summary financial information from statutory accounts:	**31 March 2022**
Turnover:	£217,000
Operating profit:	£6,000
Net assets:	£1,526,000

Hewas Solar Limited

Hewas Solar Limited owns a portfolio of FiT remunerated roof-mounted solar assets located on housing stock owned by two housing associations. The total capacity of the solar assets owned by Hewas Solar Limited is 1,978kW.

Cost at 30/09/22:	£1,000,000
Cost at 30/09/21:	£1,000,000
Date of first investment:	Aug 2011
Valuation at 30/09/22:	£743,000
Valuation at 30/09/21:	£831,000
Valuation method:	Discounted cash flows (business)
Investment comprises:	
Ordinary shares:	£1,000,000
Proportion of equity held:	50%
Summary financial information from statutory accounts:	**31 March 2022**
Turnover:	£637,000
Operating profit:	£181,000
Net assets:	£356,000

HRE Willow Limited

HRE Willow 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 420kW.

Cost at 30/09/22:	£875,000
Cost at 30/09/21:	£875,000
Date of first investment:	Jun 2011
Valuation at 30/09/22:	£709,000
Valuation at 30/09/21:	£700,000
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 2022**
Turnover:	£149,000
Operating profit:	£17,000
Net assets:	£1,205,000

St Columb Solar Limited

St Columb Solar Limited owns a portfolio of FiT remunerated roof-mounted solar assets located on housing stock owned by two housing associations. The total capacity of the solar assets owned by St Columb Solar Limited is 838.5kW.

Cost at 30/09/22:	£650,000
Cost at 30/09/21:	£650,000
Date of first investment:	Sep 2011
Valuation at 30/09/22:	£529,000
Valuation at 30/09/21:	£533,000
Valuation method:	Discounted cash flows (business)
Investment comprises:	
Ordinary shares:	£650,000
Proportion of equity held:	50%
Summary financial information from statutory accounts:	**31 March 2022**
Turnover:	£360,000
Operating profit:	£98,000
Net assets:	£948,000

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 2022 £'000	Year ended 30 September 2021 £'000
Loan stock interest income in the period		
bio-bean Limited	–	15
Tumblewind Limited	32	32
Minsmere Power Limited	11	11
Small Wind Generation Limited	11	11
	53	**69**

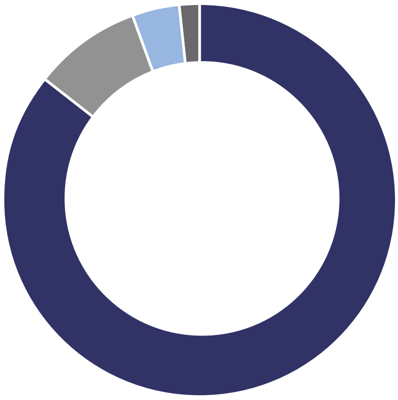
Analysis of investments by commercial sector

The split of the investment portfolio by sector (by cost and by value at 30 September 2022) is as follows:

Spread of investment by sector (cost)

Ground-mounted solar	**39%**
Roof-mounted solar	**27%**
Small wind	**21%**
Non-renewable assets	**13%**

Spread of investment by sector (value)



Ground-mounted solar	**86%**
Roof-mounted solar	**9%**
Small wind	**4%**
Non-renewable assets	**1%**

Strategic Report

The Directors present the Strategic Report for the year ended 30 September 2022. The Board have 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 an update on the wind down process for the VCT, are set out in the Chairman's Statement, Investment Adviser's Report, and the Review of Investments.

During the year to 30 September 2022, the renewable investments held increased in value by £2,001,000 and the non-renewable investments held decreased in value by £1,489,000. Investment realisations totalled £nil.

Income over expenditure for the year resulted in a net profit, after accounting for capital expenses, of £525,000 (2021: £2,679,000 loss).

The total gain for the year was £525,000 (2021: £2,679,000 loss) and net assets at the year-end were £23.9mn (2021: £23.4mn). A dividend of 2 pence per Ordinary Share for the year to 30 September 2022 has been declared and was paid on 27 January 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) with an agreement in place effective from 11 July 2019. 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.

Pursuant to historic financial intermediary arrangements with Hazel Capital LLP, Haibun, of which Stuart Knight (Director of Gresham House Renewable Energy VCT1 plc until his resignation on 30 September 2022) is a Designated Member, and CH1 , of which Matthew Evans is a Designated Member, will continue to receive trail commission from Gresham House. 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, VCT1, to Haibun and CH1 clients under each of the 2010, 2012 and 2014 Offers. The amounts payable to Haibun and CH1 by Gresham House, in aggregate across both the VCT and VCT2, are as follows:

	Year ended 30 September 2022		
	Haibun £	CH1 £	Total £
2010 Offer	17,196	22,635	39,831
2012 Offer	2,435	1,580	4,015
2014 Offer	943	1,900	2,843
Total	**20,574**	**26,115**	**46,689**

Investment policy

General

In the previous financial year, 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 2022

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.

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.

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

Asset allocation

During the year the VCT was required to hold 80% of its funds in VCT qualifying investments. At 30 September 2022, the VCT had a significant margin over the 80% qualifying holdings requirement. The VCT aims to maintain a level of up to 90% and therefore its maximum exposure to qualifying investments will be 90%. The VCT intends to retain the remaining funds in non-qualifying investments to fund the annual running costs of the VCT to reduce the risk profile of the overall portfolio of its fund and to provide investments which can be realised to fund any follow-on investments in the investee companies.

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 decrease following the sale of the VCT's assets. 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 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.

In respect of the VCT's investment in Lunar 1 Limited and Lunar 2 Limited, the VCT has followed the above risk diversification strategy with regard to their 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 2022, 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 2022.

Directors and senior management
Up until 30 September 2022, the VCT had four Non-Executive Directors, comprising four males. On this date, one Director retired. 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 Net Asset Value (NAV) Total Return and dividends per share, the performance of which during the year are in the table below:

	Year ended 30 September 2022	Year ended 30 September 2021
Net Asset Value Total Return	1.4%	(6.7)%
Dividends per share	2.0p	nil p

See Note 24 for details of the introduction of the Electricity Generator Levy. 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 Net Asset Value Total Return as at 30 September 2022 is shown earlier. A Summary of dividends per Share is shown on earlier. The VCTs dividend policy is to distribute surplus funds generated by the underlying investments, subject to maintaining an appropriate cash reserve within the VCTs to meet anticipated future requirements. The VCT has an objective of paying dividends of 5p per share per annum.

* 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. These principally apply during the period until the underlying assets are sold during the 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.	Poor investment decisions or strategy or poor monitoring, management and realisation of investments. Adverse weather conditions, low inflation rates and/or low power prices resulting in below forecast investment returns.	Reduction in the NAV of the VCT and the inability of the VCT to pay dividends.	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) and Renewable Obligation Certificate (ROC) regimes. The Board regularly reviews the performance of the portfolio, alongside the Board of the sister company. 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 two debt facilities, the net benefit of increased inflation is strongly positive since it increases the inflation linked revenues more than it increases the costs.
Loss of VCT status	The VCT must maintain continued compliance with the VCT Regulations, which prescribe a number of tests and conditions. 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.	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.
Legislative	In recent years, the changes to VCT Regulations have narrowed the breadth of permitted investments. 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.	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.	Both the Investment Adviser and the Administrator closely monitor developments and attend AIC conferences. The VCT Status Adviser also has significant experience in this field and works closely with HMRC. Further commentary on VCT Status is provided on page 29. 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.
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.

Principal Risk	Context	Specific risks	Possible impact	Mitigation
Operational – VCT level	The VCT relies on the Investment Adviser, Administration Manager 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 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 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) and Renewable Obligation Certificate (ROC) regimes. Events such as the Russian Federation's invasion of Ukraine, inflation and climate change can also have impacts on portfolio performance.	Retrospective changes to the regimes. Changes in energy prices and inflation. An increase in inflation results in higher interest charges for the two debt facilities.	A significant negative impact on performance in respect of regime changes, low inflation and energy prices can reduce portfolio revenues.	The Investment Adviser and Board members closely monitor policy and geo-political 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.
Change 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) and renewable obligation certificates (ROCs) 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 and ROCs.	A significant negative impact of the renewable energy generation assets revenue reducing the cash availability of the VCT. The Chancellor announced at the Autumn Statement 2022 the introduction of the Electricity Generator Levy (EGL) effective 1 January 2023.	The Investment Adviser continuously monitors the regulatory landscape in the UK. If an action that retroactively targets these subsides 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. The EGL does not impact the VCT's portfolio given its smaller size, but any potential acquirer may subsequently incur this levy.

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.

13 July 2021 to 30 September 2022

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 cashflow 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 from the prior year 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 VCT's portfolio (long-term, revenue generating fixed assets);
- the sales process currently underway to realise the VCT's renewable assets;
- the potential impact of the Principal Risks and Uncertainties;
- maintaining VCT approval status;
- 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 costs over the review period.

The Board have assessed the VCT's ability to cover its annual running costs under several stress scenarios evaluating the impact of receiving lower dividends from the SPV level and the impact of higher VCT and SPV level running costs. 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 continue in operation and 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 25 June 2020 is set out on page 39.

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 2022 were 2.3% (2021: 2.4%) 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 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.

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 2022 was below 100p, the NAV hurdle for the year was not met and no dividend was paid during the year, therefore there was no Performance Incentive paid.

Pursuant to historic financial intermediary arrangements with Hazel Capital LLP, Haibun , of which Stuart Knight (Director of Gresham House Renewable Energy VCT1 plc until his resignation on 30 September 2022) is a Designated Member, and CH1, of which Matthew Evans is a Designated Member, 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 2022
1. To ensure that the VCT's income in the period has been derived wholly or mainly (70% plus) from shares or securities;	100.0%
2. To ensure that the VCT has not retained more than 15% of its income from shares and securities; – see note below	22.4%*
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;	84.9%
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);	93.4%
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 European 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 VCT seeks to conduct its affairs responsibly and the Investment Adviser is encouraged to consider environmental, social and community issues, where appropriate, when making investment decisions and the Board will continue to monitor the 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
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 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.

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 Sustainable Investing Committee (SIC), formed at the start of 2020, evolved in 2021 to become the Sustainability Executive Committee (Sustainability ExCo). The aim of this evolution was to elevate responsibility for sustainability to senior executive level, reflecting the importance and materiality of sustainability to the business. The Sustainability ExCo meets regularly to drive sustainability related deliverables outlined in the CSS, as well as providing a forum to share best practice, ideas and education. The Committee is chaired by the Director of Sustainable Investment and has representation from the Gresham House Group Management Committee (GMC) and heads of divisions including investment divisions, sales, compliance and marketing.

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, framework 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.

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.

There is work underway to expand the ESG key performance indicators (KPIs) measured, reported, and monitored by the New Energy division for all assets under management. This includes the VCTs. This reflects increased investor and regulatory demand for ESG data and the 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. Examples of expanded ESG factors to be measured include biodiversity and supply chain-related data.

Supply Chain Management
The Investment Adviser published its first Supply Chain Policy in 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.

In addition, all 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. An updated version of this questionnaire is due to be sent out after the publication of this report to determine any material changes regarding the risk profile associated with this topic. Responses to the questionnaire will be reviewed and potential engagement topics for suppliers identified.

Climate Change & Pollution
Based on the renewable electricity generated by the VCT wind and solar assets, 33,378MWh, it is estimated that the fund avoided 14,419 tonnes of CO_2[1] and powered circa 8,442 homes[2] 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.

1 Assuming an "all non-renewable fuels" emissions statistic of 440tCO2/GWh of electricity supplied, BEIS statistics. "Carbon avoided" calculated using Renewable UK methodology
2 Assuming an average annual household usage of 3.748 MWh, BEIS December 2021 statistics.

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 tCO_2e is in line with industry standards and guidance by an external consultant that supported the 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 and is working with an external carbon consultant to progress this at time of publication.

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 their 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.

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 four independent Non-Executive Directors during the financial year and, following the Directorate change effective from 30 September 2022, comprised of three independent Non-Executive Directors at the year end, 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; and the desirability of the VCT maintaining a reputation for high standards of business conduct, and 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 an independent 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. 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 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 Board meeting a review of financial and operational performance, as well as legal and regulatory compliance, is undertaken. Since the General Meeting held in the previous financial year 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 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.

Environmental, Social and Governance (ESG)
Details on ESG are included above.

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 during the previous financial year 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 will 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.

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

JTC (UK) Limited
Company Secretary
Company number: 04301763

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

30 January 2023

Report of the Directors

The Directors present the twelfth Annual Report and Accounts of the VCT for the year ended 30 September 2022.

The Corporate Governance Report on pages 42 to 44 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 14.99% of the total number of each class of issued shares from time to time.

Substantial interests
As at 30 September 2022, 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

	£'000	Pence per Ord Share	Pence per 'A' Share
Profit for the year	525	2.0	–
30 Sep 2022 Dividend	523	2.0	–

Directors
The Directors of the VCT during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2022 and at the date of this report are detailed on page 40 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 will stand for re-election in 2023.

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	07/11/2017	25/06/2020
Giles Clark*	31/01/2017	22/03/2021
Andrew Donovan	07/12/2020	22/03/2021

* Giles Clark resigned as a Director on 30 September 2022.

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 process set out in the Corporate Governance Statement on page 42, 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 twelfth Annual General Meeting (AGM) will be held at The Scalpel, 18th Floor, 52 Lime Street, London EC3M 7AF at 12.00 pm on 21 March 2023. The Notice of the Annual General Meeting and Form of Proxy will be circulated with 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 45. At the 2022 AGM, the Shareholders approved the re-appointment of BDO LLP as the auditor. Separate resolutions will be proposed at the 2023 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.

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 44.

Other matters
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 32.

During the year, the VCT did not have any employees (2021: 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 period end the VCT paid a dividend in respect of the year ended 30 September 2022, of 2p per Ordinary Share. This dividend was paid on 27 January 2023 to Shareholders on the register at 6 January 2023.

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

30 January 2023

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 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 financial year 2020/2021, in recognition of the increased oversight responsibilities, the Remuneration Committee approved additional special payments to the Chairman, Audit Chairman and Giles Clark (as the previous Audit Chairman), calculated at 25% of their annual fee. The additional special payments were split into two payment tranches. The first tranche was paid during the 30 September 2021 financial year for the additional oversight responsibilities relating to the 2021 financial year and the second tranche was paid in October 2021 for additional oversight responsibilities relating to the 2022 financial year. Neither the Chairman, the Audit Chairman or Giles Clark voted upon their own additional special payments.

Giles Clark was the Audit Committee chairman until 10 May 2021, stepping away from this position to manage the sales process, and Andrew Donovan was then appointed as the chairman of the Audit Committee with effect from 11 May 2021.

Following a review of the remuneration during the financial year 2021/2022, the Remuneration Committee recommended a 5% increase in the directors' remuneration which was approved by the Board. These increases took effect from 1 October 2022. 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 25 June 2020. Shareholders must vote on the remuneration policy every three years, or sooner, if the VCT want to make changes to the policy. The policy was last approved by Shareholders at the 2020 AGM and will be presented to the Shareholders for approval again at the 2023 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 36.

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 NAV hurdle was not met for the financial year end 30 September 2022 and no dividend was paid 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 the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 45 to 49.

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 £26,500 for the Chairman, £24,000 for the Audit Committee Chairman and £21,500 for the other Non-Executive Directors. In addition, as reported above, an additional special payment was made to the Chairman, Audit Chairman and Giles Clark in October 2021 for additional oversight responsibilities relating to the 2022 financial year.

Effective 1 October 2022, an increase of 5% will be applied to director fees. This increase is within the limit set by the Remuneration Policy and is show in the table below:

	Current Annual Fee £	Year ended 30 September 2022 fee £	Additional Special Payment for the year end 30 September 2022 £	Total Year ended 30 September 2022 fee £	Year ended 30 September 2021 fee £	Additional Special Payment for the year end 30 September 2021 £	Total Year ended 30 September 2021 fee £
Christian Yates	27,825	26,500	N/A	26,500	26,500	5,482	31,982
Matthew Evans	22,575	21,500	N/A	21,500	21,500	N/A	21,500
Andrew Donovan	25,200	24,000	406	24,406	18,533	1,945	20,478
Giles Clark	–	21,500	630	22,130	23,020	3,019	26,039
Totals	**75,600**	**93,500**	**1,036**	**94,536**	**89,553**	**10,446**	**99,999**

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 tables sets out the annual percentage change in Directors' fees for the year up to 30 September 2022:

	% 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	0	6	0
Matthew Evans	0	7.5	0
Andrew Donovan	0	N/A	N/A
Giles Clark	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 2022 and at the date of this report were as follows:

Directors		At the date of this report	At 30 September 2022	At 30 September 2021
Christian Yates	Ord	27,789	27,789	27,789
	'A'	2,624,185	2,624,185	2,624,185
Matthew Evans	Ord	–	–	–
	'A'	–	–	–
Giles Clark*	Ord	–	–	–
	'A'	–	–	–
Andrew Donovan	Ord	–	–	–
	'A'	–	–	–

* On 30 September 2022, Giles Clark resigned from the Board.

Statement of voting at AGM

Remuneration report

At the AGM on 23 March 2022, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

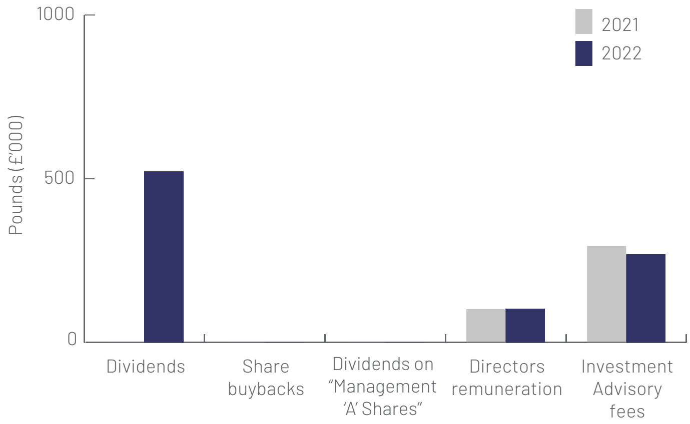
In favour	89.60%
Against	10.40%
Withheld	nil votes

Remuneration policy

At the 2020 AGM, when the remuneration policy was last put to a Shareholder vote, 99.78% voted for the resolution, showing significant shareholder support.

Relative importance of spend on pay

The difference in actual spend between 30 September 2022 and 30 September 2021 on Directors' remuneration in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the chart below.

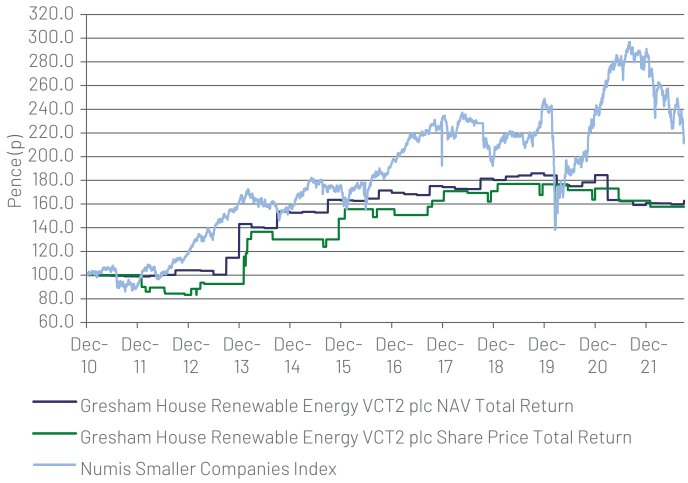


2022/2023 remuneration

The remuneration levels for the forthcoming year for the Directors of the VCT are shown in the above table on page 40.

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

30 January 2023

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 44.

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

At the start of the year, the VCT had a Board comprising four Non-Executive Directors, chaired by Christian Yates. Giles Clark and Andrew Donovan were independent from the Investment Adviser, while Matthew Evans was 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 9 years. The VCT has not appointed a Senior independent Director.

On 30 September 2022, Giles Clark resigned from the Board. 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 provides the Board with 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 was the chairman of the Audit Committee and Matthew Evans is the chairman of the Remuneration and Nomination Committees. The Audit Committee normally meets twice 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 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 confirms that the main area of risk for the period under review is the carrying value of investments.

The Committee, after taking into consideration 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, 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 undertake 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	Audit Committee meetings attended	Nomination Committee meetings attended	Remuneration Committee meetings attended
	(4 held)	(4 held)	(1 held)	(1 held)
Christian Yates	4	4	1	1
Giles Clark	4	4	1	1
Matthew Evans	4	4	1	1
Andrew Donovan	4	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.

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.

During the period, the Committee recommended an increase in board remuneration which was approved by the Board. These increases took effect from 1 October 2022. Details of the specific levels of remuneration to each Director as well as the fee increases are set out in the Directors' Remuneration Report on page 39.

Financial reporting

The Directors' responsibilities statement for preparing the accounts is set out in the Report of the Directors on page 36 and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 45.

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 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 twelfth AGM and proxy form will be circulated with 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.

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 36 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 2022 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 chair, 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

30 January 2023

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 2022 and of the Company's *profit* for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Gresham House Renewable Energy VCT2 Plc (the 'Company') for the year ended 30 September 2022 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 inlcuidng 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 23 March 2022 to audit the financial statements for the year ended 30 September 2022. The period of total uninterrupted engagement including retenders and reappointments is 12 years, covering the years ended 30 September 2011 to 30 September 2022. 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 has been taken by the Directors to wind up the Company and therefore 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 financial statements have been prepared on a basis other than going concern.

Overview

		2022	2021
Key audit matters	Valuation of unquoted investments	X	X
Materiality	£471,000 (2021: £545,000) based on 2% of net assets (2021: 2% of value of investments)		

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.

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. This matters wwas 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 this matter.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit addressed the key audit matter</th></tr>
<tr><td>

Valuation of unquoted investments

100% of the underlying investment portfolio is represented by unquoted equity and loan stock. Further information is disclosed in notes 10 to the financial statements.

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.

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.

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Valuation based on discounted cash flow (DCF)

In respect of the unquoted equity investments valued using discounted cash flow models ("DCF"), we performed the following specific procedures:

- 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, energy yield 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; and
- Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation.

Valuations based on multiples

In respect of other unquoted investments valued on the basis of Multiples, we performed the following procedures:

- Considering whether the valuation methodology is the most appropriate in the circumstances under the IPEV Guidelines;
- Checked the arithmetic accuracy of the multiples-based investment valuations;
- Verifying and benchmarking key inputs and estimates to independent information from our own research;
- Challenging the assumptions inherent to the valuation of unquoted investments and assessing the impact of estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements; and
- Where appropriate, performing sensitivity analysis on the valuation calculations where there is sufficient evidence to suggest reasonable alternative inputs might exist.

For each of the key assumptions in the valuation models, we considered the appropriateness of the assumption and whether alternative reasonable assumptions could have been applied. We considered each assumption in isolation as well as in conjunction with other assumptions and the valuation as a whole. Where appropriate, we sensitised the valuations where other reasonable alternative assumptions could have been applied. We also considered the completeness and clarity of disclosures regarding the range of reasonable alternative outcome on key assumptions iin the financial statements.

Key observations:
Based on the procedures performed we were satisfied that the estimated and judgements made in the valuation of the portfolio was acceptable .

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</table>

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	2022 (£)	2021 (£)
Financial Statement Materiality	471,000	545,000
Basis for determining materiality	2% of the value of net assets	2% of the value of investments
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 2% of net assets (2021: 2% of the investment portfolio). → This was changed from the prior year's benchmark of gross investment value to align with a standardised benchmark across the investment company sector.	
Performance materiality	353,000	409,000
Basis for determining performance materiality	75% of materiality Risk assessment of the 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 £24,000 based on 2% of revenue (2021: NIL). We further applied a performance materiality level of 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 £10k (2021: £11k). 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 Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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.

Going concern and longer-term viability	→ 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 37; and → The Directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on page 37.
Other Code provisions	→ Directors' statement on fair, balanced and understandable set out on page 37; → Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 28; → The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 43; and → The section describing the work of the audit committee set out on page 42

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	In our opinion, based on the work undertaken in the course of the audit: → the information given in the Strategic report and the Directors' report for the financial 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. 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.
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: → adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or → the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or → certain disclosures of Directors' remuneration specified by law are not made; or → we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the 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 or to cease operations, or have no realistic alternative but to do so.

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

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:

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") with consequential amendments and FRS 102. We also considered the Company's qualification as a VCT under UK tax legislation.

Our tests included, but were not limited to:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management and those charged with governance;
- Obtaining the VCT compliance reports 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; and
- Review of minutes of board meetings throughout the period.

We assessed the susceptibility of the financial statements to material misstatement including fraud and considered the key fraud risk areas 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 Matter section above;
- Obtaining independent evidence to support the ownership of investments;
- Recalculating the investment management fees in total;
- Obtaining independent confirmation of bank balances; and
- Testing journals, based on risk assessment criteria as well as an unpredictable sample, and evaluating whether there was evidence of bias by the Investment Manager and Directors that represented a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members 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
United Kingdom

Date: 30 January 2023

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

Income Statement

For the year ended 30 September 2022

		Year ended 30 September 2022			Year ended 30 September 2021		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	3	712	–	712	591	–	591
Gain/(loss) on investments	10	–	512	512	–	(2,628)	(2,628)
		712	512	1,224	591	(2,628)	(2,037)
Investment advisory fees	4	(202)	(67)	(269)	(221)	(74)	(295)
Other expenses	5	(430)	–	(430)	(347)	–	(347)
		(632)	(67)	(699)	(568)	(74)	(642)
Profit/(loss) on ordinary activities before tax		80	445	525	23	(2,702)	(2,679)
Tax on total comprehensive income/(loss) and ordinary activities	7	–	–	–	–	–	–
Profit/(loss) for the year and total comprehensive income/(loss)		80	445	525	23	(2,702)	(2,679)
Basic and diluted earnings/(loss) per share:							
Ordinary Share	9	0.3p	1.7p	2.0p	0.1p	(10.3p)	(10.2p)
'A' Share	9	–	–	–	–	–	–

All Revenue and Capital items in the above statement derive from continuing operations. No operations were discontinued during the 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 April 2021) 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 2022

	Note	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Current assets					
Investments	10	27,980		27,400	
Costs incurred on sale of VCT's assets	11	480		181	
Debtors	12	124		176	
Cash at bank and in hand		1		30	
		28,585		27,787	
Creditors: amounts falling due within one year	13	(2,542)		(1,461)	
Net current assets			26,043		26,326
Creditors: amounts falling due after more than one year	14	(2,162)		(2,970)	
Net assets			23,881		23,356
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		9,734
Treasury Shares	16		(3,403)		(3,403)
Special reserve	16		4,813		4,813
Revaluation reserve	16		16,869		15,054
Capital redemption reserve	16		1		1
Capital reserve – realised	16		(3,617)		(2,247)
Revenue reserve	16		(587)		(667)
Total Shareholders' funds			23,881		23,356
Basic and diluted net asset value per share					
Ordinary Share	17		91.2p		89.2p
'A' Share	17		0.1p		0.1p

The financial statements of Gresham House Renewable Energy VCT2 plc on pages 50 to 68 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: 30 January 2023

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

Statement of Changes in Equity

For the year ended 30 September 2022

	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 2020	71	9,734	(3,403)	–	6,394	16,891	1	(1,433)	(639)	27,616
Total comprehensive loss	–	–	–	–	–	(2,644)	–	(7)	(28)	(2,679)
Transfer of net realised loss to Capital reserve-realised	–	–	–	–	–	807	–	(807)	–	–
Transactions with owners										
Dividend paid	–	–	–	–	(1,581)	–	–	–	–	(1,581)
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

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

Cash Flow Statement

For the year ended 30 September 2022

	Note	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Cash flows from operating activities			
Profit/(loss) for the financial year		525	(2,679)
(Gain)/loss arising on the revaluation of investments	10	(512)	2,628
Dividend income		(659)	(522)
Interest income		(54)	(69)
Interest income – written off		79	–
Increase in debtors		(2)	(2)
Increase in creditors		83	148
Net cash outflow from operating activities		(540)	(496)
Cash flows from investing activities			
Proceeds from sale of investments/loan note redemptions	10	–	139
Purchase of investments	10	(68)	(13)
Cost incurred as part of the sale of VCT's assets	11	(109)	(19)
Interest received		29	184
Dividend income received		659	315
Net cash inflow from investing activities		511	606
Net cash (outflow)/inflow before financing activities		(29)	110
Cash flows from financing activities			
Dividends paid		–	(1,581)
Proceeds from loans		–	1,447
Net cash outflow from financing activities		–	(134)
Net decrease in cash		(29)	(24)
Cash and cash equivalents at start of year		30	54
Cash and cash equivalents at end of year		1	30
Cash and cash equivalents comprise			
Cash at bank and in hand		1	30
Total cash and cash equivalents		1	30

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

Notes to the Accounts

For the year ended 30 September 2022

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 under the Companies Act 2006.

Basis of preparation – financial statements prepared on a basis other than going concern
During the financial year the Shareholders of the VCT resolved to seek to sell the VCT's assets and distribute the proceeds in due course. The VCT has incurred some additional costs since the beginning of the Managed Wind-Down process in July 2021 up to this year end, and post year end, related to the sale of its assets. Should the sale of these assets fall through, the VCT will need to pay abort costs. The Board and Investment Adviser have plans in place to manage this scenario should this occur. At the General Meeting on 13 July 2021 a formal decision was made to wind the VCT up, therefore as last year the Financial Statements have been prepared on a basis other than going concern for the year ended 30 September 2022. No further adjustments are required in respect of this. Liquidation costs cannot currently be reliably estimated but are not considered to be material. Investments held at fair value through profit or loss are held as current assets, there have been no further effects noted.

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 April 2021 (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.

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 Advisor 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.

2. Accounting policies (continued)
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 the long-term.

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.

3. Income

	Year ended 30 September 2022 £'000	Year ended 30 September 2021 £'000
Income from investments		
Loan stock interest	53	69
Dividend income	659	522
	712	591

4. Investment advisory fees

The investment advisory fees for the year ended 30 September 2022, which were charged quarterly to the VCT, were based on 1.15% of the net assets as at the previous quarter end.

	Year ended 30 September 2022			Year ended 30 September 2021*		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment advisory fees	202	67	269	221	74	295

5. Other expenses

	Year ended 30 September 2022			Year ended 30 September 2021		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Administration services	96	–	96	98	–	98
Directors' remuneration	103	–	103	102	–	102
Social security costs	3	–	3	5	–	5
Auditor's remuneration for audit	48	–	48	37	–	37
Non audit services – Agreed upon procedures	–	–	–	3	–	3
Interest written off	79	–	79	–	–	–
Other	101	–	101	102	–	102
	430	–	430	347	–	347

The annual running costs of the VCT for the year are subject to a cap of 3.0% of the net assets of the VCT. During the year ended 30 September 2022, the annual running costs came to 2.3% of net assets (2021: 2.4%), 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 39.

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 2022 £'000	Year ended 30 September 2021 £'000
(a)	**Tax charge for the year**		
	UK corporation tax at 19% (2021: 19%)	–	–
	Charge for the year	–	–
(b)	**Factors affecting tax charge for the year**		
	Profit/(loss) on ordinary activities before taxation	525	(2,679)
	Tax/(tax credit) calculated on loss on ordinary activities before taxation at the applicable rate of 19% (2021: 19%)	100	(509)
	Effects of:		
	UK dividend income	(125)	(99)
	(Gains)/losses on investments	(97)	500
	Excess management expenses on which deferred tax not recognised	122	108
	Total tax charge	–	–

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £4,485,000 (25%) (2021: £4,697,000) (25%). The associated deferred tax asset of £1,121,000 (2021: £1,174,000) 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 prospective corporation tax rate of 25% is due to be effective from 1 April 2023.

8. Dividends

No Dividends were paid during the year (2021: nil). However, a dividend in respect of the year ended 30 September 2022 was declared and was paid to Shareholders on the Register on 6 January 2023, on 27 January 2023.

9. Basic and diluted earnings per share

		Weighted average number of shares in issue	Revenue profit £'000	Pence per share	Capital profit/ (loss) £'000	Pence per share
Year ended 30 September 2022	Ordinary Shares	26,133,036	80	0.3	445	1.7
	'A' Shares	39,463,845	–	–	–	–
Year ended 30 September 2021	Ordinary Shares	26,133,036	23	0.1	(2,702)	(10.3)
	'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.

10. Investments

	2022 Unquoted investments £'000	2021 Unquoted investments £'000
Opening cost at start of the year	13,152	13,700
Unrealised gains at start of the year	14,248	16,893
Opening fair value at start of the year	27,400	30,593
Movement in the year:		
Purchased at cost *	68	228
Disposals proceeds/redemption of loan notes *	–	(793)
Realised (losses)/gains in the income statement	(1,303)	16
Unrealised gains/(losses) in the income statement	1,815	(2,644)
Closing fair value at year end	27,980	27,400
Closing cost at year end	13,220	13,152
Permanent impairment in cost of investments as at 30 September 2022	(1,303)	–
Unrealised gains at year end	16,063	14,248
Closing fair value at year end	27,980	27,400

* The 2021 purchase and disposal of assets includes non-cash transactions.

During the year, the VCT received £nil (2021: £775,000) from the disposal of investments comprising of both equity and loan notes. The cost of these investments at the start of the year was £nil (2021: £775,000). These investments have been revalued and measured at fair value over time, and up until the point of disposal any realised and unrealised gains or losses were included in the fair value of the investments.

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	2022 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2021 £'000
Unquoted loan notes	–	–	960	960	–	–	1,893	1,893
Unquoted equity	–	–	27,020	27,020	–	–	25,507	25,507
	–	–	27,980	27,980	–	–	27,400	27,400

During the years ended 30 September 2022 and 30 September 2021 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 2021	1,893	25,507	27,400
Movements in the income statement:			
Unrealised gains in the income statement	–	1,815	1,815
Realised losses in the income statement	(933)	(370)	(1,303)
	960	26,952	27,912
Additions at cost	–	68	68
Balance at 30 September 2022	960	27,020	27,980

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 2022 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 the previous financial year, the VCT has 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.

	2022 £'000	2021 £'000
Cost incurred on sale of VCT's assets	480	181
	480	181

12. Debtors

	2022 £'000	2021 £'000
Prepayments and accrued income	124	176
	124	176

13. Creditors: amounts falling due within one year

	2022 £'000	2021 £'000
Other loans	1,935	1,071
Taxation and social security	3	3
Accruals and deferred income	371	387
Creditors	233	–
	2,542	1,461

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	Repayment date	2022 £'000	2021 £'000
Hewas Solar Limited	n/a^	131	131
Gloucester Wind Limited	n/a^^	100	100
Penhale Solar Limited	n/a ^^	105	105
Minsmere Power Limited	n/a^^	65	52
HRE Willow Limited	n/a ^^	336	292
St Columb Solar Limited	n/a^	60	21
Lunar 2 Limited	n/a^	768	–
	n/a^^	370	370
		1,138	370
Amounts repayable within one year		1,935	1,071

^ The lender may demand full repayment of all amounts outstanding at any time after 5 years and 1 day from the date of the initial drawdown of the loan. The loans are interest free.

^^ The VCT and the indicated SPV's (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

	2022 £'000	2021 £'000
Other loans	2,162	2,970
	2,162	2,970

The balance of other loans is made up of amounts borrowed from the underlying portfolio companies. An analysis of the maturity dates of each of the loans is shown below. All loans are interest free.

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

Investee company	Repayment date	2022 £'000	2021 £'000
St Columb Solar Limited	2 February 2023	–	40
Lunar 2 Limited	13 February 2023	–	768
	18 December 2024	1,481	1,481
	14 January 2025	356	356
		1,837	2,605
Gloucester Wind Limited	14 January 2025	200	200
Penhale Solar Limited	14 January 2025	75	75
Minsmere Power Limited	14 January 2025	50	50
Amounts repayable after more than one year		**2,162**	**2,970**

15. Called up share capital

	2022 £'000	2021 £'000
Allotted, called up and fully-paid:		
26,133,036 (2021: 26,133,036) Ordinary Shares of 0.1p each	29	29
39,463,845 (2021: 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, in pursuit of its principal investment objectives as stated on page 3. 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 2022 the VCT did not repurchase any Ordinary Shares or any 'A' Shares.

15. Called up share capital (continued)
During the year ended 30 September 2022 the VCT issued no Ordinary Shares and no '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

	2022 £'000	**2021 £'000**
Share premium account	9,734	9,734
Treasury shares	(3,403)	(3,403)
Special reserve	4,813	4,813
Revaluation reserve	16,869	15,054
Capital redemption reserve	1	1
Capital reserve – realised	(3,617)	(2,247)
Revenue reserve	(587)	(667)
	23,810	23,285

The Special reserve is available to the VCT to enable the purchase of its own shares in the market. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves from which dividends could be paid. At 30 September 2022, distributable reserves were £609,000 (2021: £1,899,000).

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

	2022	2021	2022		2021	
	Shares in issue		Net asset value		Net asset value	
			Pence per share	£'000	Pence per share	£'000
Ordinary Shares	26,133,036	26,133,036	91.2	23,842	89.2	23,317
'A' Shares	39,463,845	39,463,845	0.1	39	0.1	39

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 2022:

	2022 Cost £'000	2022 Value £'000	2021 Cost £'000	2021 Value £'000
Assets at fair value through profit or loss	13,220	27,980	13,152	27,400
Other financial (liabilities)/assets	(492)	(492)	(221)	(221)
Cash at bank	1	1	30	30
Other loans	(4,097)	(4,097)	(4,041)	(4,041)
Total	8,632	23,392	8,920	23,168

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 cashflow 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.

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 13 July 2021, with reference to the New 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.

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 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 2022, the unquoted portfolio was valued at £27,980,000 (2021: £27,400,000). 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	7.00% - 8.25%	+0.5%	(648)	(2.5)
		-0.5%	688	2.6
Inflation	3.0% - 14.0%	+1.0%	1,774	6.8
		-1.0%	(1,627)	(6.2)
Irradiation	785 - 1,270 kWh/m^2	+1.0%	621	2.4
		-1.0%	(617)	(2.4)
Degradation	0.30% - 0.40%	+0.1%	(723)	(2.8)
		-0.1%	737	2.8
Power prices	£32 - 212/MWh	+10.0%	774	3.0
		-10.0%	(782)	(3.0)

Asset life

The Board has also considered the potential impact of changes to the anticipated lives of assets in the portfolio. Close to ninety percent of the VCT's value is in assets refinanced by debt, and under the debt facility agreements, reserves are in place for renewing key equipment as and when required. Key equipment of 3 solar sites were repowered in 2021. Furthermore, the underlying assets have leases that are valid for the lifetime of the VCT, 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 LIBOR 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 and other financial liabilities.

	Average interest rate	Average period until maturity	2022 £'000	2021 £'000
Fixed rate	8%	2,286 days	668	533
Floating rate	0%		1	30
No interest rate			22,723	22,605
			23,392	23,168

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.

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 (2021: £300). As at 30 September 2022 the Bank of England (BoE) base rate was 2.25%, the base rate having increased from 1.75% to 2.25% on 22 September 2022. The BoE base rate further increased by 0.75% to 3.00% on 3 November 2022 and by 0.50% on 15 December 2022 to the current base rate of 3.50%. Any potential further change in the base rate, at the current level, would be likely to 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:

	2022 £'000	2021 £'000
Investments in loan stocks	960	1,893
Cash and cash equivalents	1	30
Interest, dividends and other receivables	115	169
	1,076	2,092

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.

Three of the VCT loan investments were extended at the same terms during the year.

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 £607,000 (2021: £390,000) of which £ 352,000 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 for an analysis of the repayment terms), which are expected to be repaid by way of future dividends from, or the sale of, these companies, being £4,097,000 (2021: £4,041,000). The Board therefore believes that the VCT's exposure to liquidity risk is low. The VCT always holds sufficient levels of funds as cash in order to meet 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:

As at 30 September 2022	Due in less than 1 year £'000	Due between 1 year and 5 years £'000	Due after 5 years £'000	Total £'000
Loans payable to investee companies	1,935	2,162	–	4,097
	1,935	2,162	–	4,097

As at 30 September 2021	Due in less than 1 year £'000	Due between 1 year and 5 years £'000	Due after 5 years £'000	Total £'000
Loans payable to investee companies	1,071	2,970	–	4,041
	1,071	2,970	–	4,041

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 2022 as analysed by the expected maturity date is as follows:

As at 30 September 2022	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
Fully performing loan stock	960	–	–	–	–	960
Past due loan stock	–	–	–	–	–	–
	960	–	–	–	–	960

As at 30 September 2021	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
Fully performing loan stock	1,893	–	–	–	–	1,893
Past due loan stock	–	–	–	–	–	–
	1,893	–	–	–	–	1,893

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) 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 2022 the VCT had loans from investee companies of £4,097,000 (2021: £4,041,000). 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.

20. Contingencies, guarantees and financial commitments

At 30 September 2022, conditional on the achieved sale price, VCT had financial commitments towards the external advisors used for the sale of the VCT's assets.

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 39 to 41.

22. Significant interests

Details of shareholdings in those companies where the VCT's holding, as at 30 September 2022, represents more than 20% of the nominal value of any class of shares issued by the portfolio company are predominantly disclosed in the Review of Investments on pages 14 to 21. Relevant companies which do not feature in the Review of Investments are listed below. All of the companies named are incorporated in England and Wales. The percentage holding in each class of shares also reflects the percentage voting rights in each company as a whole.

Company	Registered office	Class of shares	Number held	Proportion of class held	Capital and reserves	Profit/(loss) for the year
Penhale Solar Limited	EC4A 3TW	Ordinary	299,601	50%	£596,000	£25,000
Minsmere Power Limited	EC4A 3TW	Ordinary	200,001	50%	£93,000	(£13,000)
Small Wind Generation Limited	EC4A 3TW	Ordinary	840,001	50%	(£539,000)	(£27,000)
Lunar 3 Limited	EC4A 3TW	Ordinary	100	50%	£nil	£nil

Explanatory notes

The financial information, Capital and reserves and Profit/(loss), has been sourced from the statutory accounts of the underlying investee companies. The financial information disclosed relates to accounting year ending 31 March 2022.

23. Net debt reconciliation

	1 October 2021 £'000	Cashflows £'000	30 September 2022 £'000
Cash at bank and in hand	30	(29)	1
Other loans	4,041	56	4,097

24. Events after the end of the reporting period

The Chancellor announced at the Autumn Statement 2022 the introduction of the Electricity Generator Levy. The EGL is an exceptional and time-limited measure that responds to the effect that unique geopolitical events, when combined with structural challenges within the UK market, are having on the prices being paid for electricity in the UK.

The EGL has been introduced from 1 January 2023 and will remain in force until April 2028, as announced at Autumn Statement.

The EGL replace the proposal for the Cost Plus Revenue Limit (CPRL) which was announced in October 2022, powers for which were taken in the Energy Prices Act 2022. The CPRL will not be taken forward.

The EGL is limited, through a threshold, to those groups, or stand-alone companies, generating more than 50 Gigawatt-hours (GWh) per annum of electricity from in scope generation assets in a qualifying period. On an ongoing basis, the EGL does not impact the VCT, however its impact on potential realisation proceeds has been incorporated into the valuation of the portfolio at 30 September 2022.

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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Giles Clark (resigned – 30 September 2022)

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