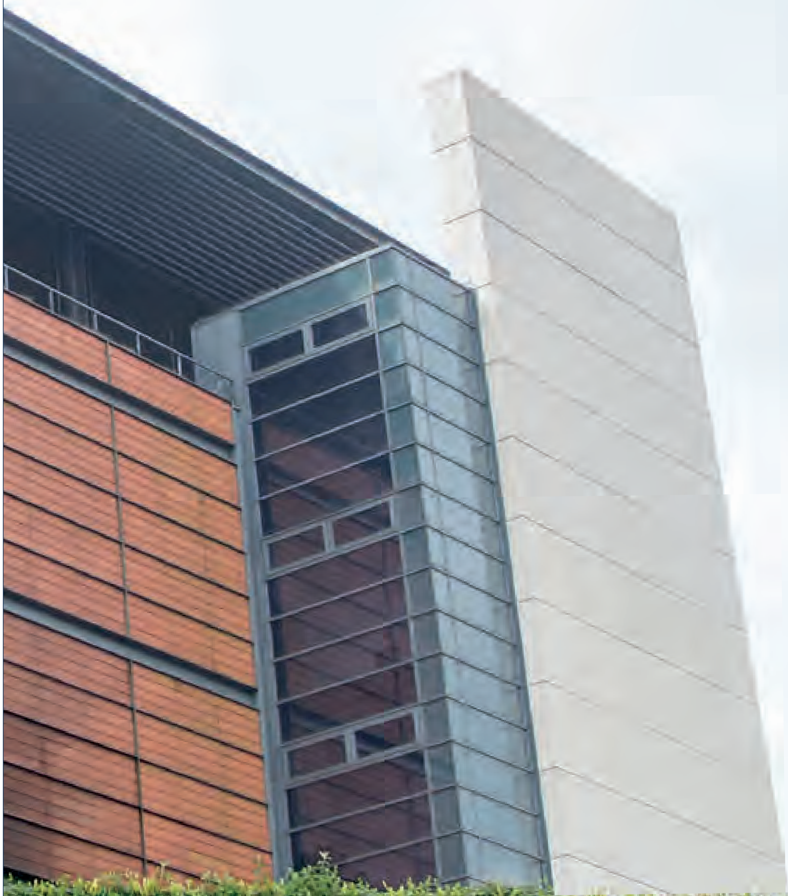
SEEIT

**SDCL ENERGY EFFICIENCY INCOME TRUST PLC**

ANNUAL REPORT & AUDITED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2019

SEEIT





## INTRODUCTION

Energy efficiency involves the delivery of cheaper, cleaner and more reliable energy solutions at the point of use, reducing or eliminating reliance on the grid or subsidies. This can be achieved for commercial, industrial and public buildings through on-site clean energy generation, such as combined heat and power and roof-top solar, or through energy demand reduction measures, such as lighting, heating and cooling solutions and storage.

Energy efficient solutions present an attractive proposition for clients, offering a reduction in energy costs with the added benefit of improved energy performance and reliability. Where energy prices are relatively high, carbon emission reduction targets are a priority and energy availability and security are an issue, energy efficiency has a valuable role to play in the modern energy economy.

Decentralised, on-site energy solutions can reduce or avoid the significant generation, transmission and distribution losses associated with a centralised grid, saving money and carbon. By reducing consumption of existing hydrocarbon resources, energy efficiency is widely recognised as the most effective solution in seeking to reduce greenhouse gas emissions.

A substantial and rapidly growing marketplace has emerged for energy efficiency solutions, which provides SEEIT with an attractive growth sector in which to invest.

# 1. Highlights and Overview

Following the Company's successful IPO in December 2018, SEEIT represents the first publicly listed investment trust in the UK with energy efficiency as its primary investment focus.

## 1.1 Summary of the period to 31 March 2019[1]

£100m

INITIAL PUBLIC OFFERING ("IPO")
in December 2018

£72m

FURTHER FUNDRAISING
after period end

£60.9m

PORTFOLIO VALUATION
at 31 March 2019

98.4p

NAV PER SHARE
up from 98.0p at IPO

0.4p

EARNINGS PER SHARE
in the period

5p

TARGET DIVIDEND
for year ending March 2020 and 5.5p for the year ending March 2021[4]

- **Initial Public Offering ("IPO")** of £100 million in December 2018
- **Acquisition** of Seed Portfolio for £87[2] million in December 2018 and the first investment in the USA of £3.8m in March 2019
- **Pipeline** of near- and medium-term investment opportunities diversified across technology and geography
- **Portfolio Valuation** of £60.9 million at 31 March 2019[3]
- **Cash** of £38 million at 31 March 2019 - available for investments, including £30 million for three committed investment opportunities
- **NAV per share** as at 31 March 2019 of 98.4p, up from 98.0p at IPO
- **Earnings per share** in the period of 0.4p and investment cashflows in the period from the portfolio of £1.7m
- **Interim Dividend** of 1.0p declared relating to the period ending 31 March 2019
- **Target dividend** of 5p for year ending March 2020 and 5.5p for the year ending March 2021[4]
- **Further fundraising** additional £72 million raised, after period end on 16 April 2019

[1] The Company was incorporated on 12 October 2018 (start date for these financial statements), however acquired the investments that made up the Seed Portfolio following Admission to Listing on the London Stock Exchange on 11 December 2018

[2] The Seed Portfolio comprised nine energy efficiency projects with a value of £57 million along with three contracted investment opportunities with identified counterparties totalling £30 million.

[3] Value of the portfolio of investments, see Section 3.2 Valuation of the Portfolio for details

[4] The target dividend stated here, matches the target dividend outlined in the November 2018 Prospectus and should not be treated as a profit forecast for the Company.

# 1.2 Chairman's statement

On behalf of the Board, I am pleased to present the first annual report and audited financial statements of SDCL Energy Efficiency Income Trust Plc ("SEEIT" or "The Company") for the period ended 31 March 2019.

Following the Company's successful IPO in December 2018, SEEIT represents the first publicly listed investment trust in the UK with energy efficiency as its primary investment focus. The Board has appointed Sustainable Development Capital LLP ("SDCL") as Investment Manager for the Company.

## INVESTMENT ACTIVITY

SEEIT invests in a portfolio of energy efficient and distributed generation assets. As set out in the November 2018 Prospectus, shortly after the IPO in December, SEEIT completed the acquisition of the Seed Portfolio of assets for a total commitment of £87 million. The portfolio comprising nine energy efficiency projects valued at c.£57 million is mostly operational and, spread across a range of technologies and counterparties, well diversified by credit, technology and regulatory risk. The projects in the Seed Portfolio include Combined Cooling/Heating and Power Plants ("CCHP"), biomass boilers and LED lighting projects, all located in the UK.

On 7 March 2019, we announced SEEIT's first acquisition in the United States, with the acquisition of Northeastern US CHP, a 71% interest in a portfolio of eight operating CCHP units on the east coast of the USA for a total cash consideration of $5.0 million.

On 19 June 2019, SEEIT announced that it has entered into a delivery framework to install, own and operate rooftop solar projects across a section of Tesco's estate in the UK for which it is budgeting an initial contracted investment of £5 million with potential for an additional £15 million to be contracted in projects across further sections of Tesco's UK estate.

SEEIT has assumed commitments to three framework investment programmes totalling c.£30 million – "Clarke", "VCo" and "Fastflow". Final investment decisions and drawdowns against these commitments, which are at the discretion of SEEIT, are expected to be made during the coming financial year.

The acquisition of the Seed Portfolio and SEEIT's subsequent investments in the UK and the United States were set out as objectives in the November 2018 Prospectus and demonstrate the Investment Manager's ability to source and execute investment opportunities in assets which deliver long-term, stable and predictable cash flows and provide environmental benefits. Discussions surrounding additional investments in Europe (predominantly on-site generation) and North America (a combination of on-site generation and energy conservation measures) are ongoing and if concluded successfully, will lead to additional investment by the Company in the coming financial year.

## FINANCIAL PERFORMANCE

The net asset value ("NAV") per share was 98.4p at 31 March 2019. The Investment Portfolio was valued at £60.9 million as at 31 March 2019 comprising the Seed Portfolio and the US investment.

Investment cashflows from the portfolio during the period of £1.7 million were in line with expectations. Further details can be found in Section 3.1 - Financial Review.

## 1.2 CHAIRMAN'S STATEMENT – CONTINUED

### DISTRIBUTIONS

In line with previous guidance, on 14 May 2019 SEEIT announced its first interim dividend of 1.0p per share in respect of the period from IPO to the 31 March 2019.

Going forward, the Board anticipates paying semi-annual interim dividends, targeting total dividends of 5.0p per share for the year ending March 2020 and 5.5p per share for the year ending March 2021, in line with guidance in the November 2018 Prospectus.

### FUNDING

SEEIT completed its initial public offering on 11 December 2018. On the 16th April 2019, the Company announced the results of a new primary issue of Ordinary Shares in the capital of SEEIT under its placing programme. We were delighted that the placing raised gross proceeds of £72.0 million.

The Company intends to use the proceeds of the placing together with debt financing to assist in funding the acquisition of certain pipeline project assets that were identified at the time of the IPO.

In April 2019 the Company, through its direct subsidiary, SEEIT Holdco, secured a revolving acquisition debt facility of £25 million as well as access to acquisition financing of up to £40 million. This additional borrowing capacity will enable SEEIT to access short-term capital to execute on its active deal pipeline, including some large potential acquisitions.

### SHAREHOLDERS

The Company is looking to maintain an open and constructive dialogue with shareholders. During the IPO and the subsequent placing the Investment Manager held extensive roadshows and additional meetings with shareholders. The Company is keen to take on board the views and opinions of shareholders. The Board will be available to answer shareholders' questions directly at the Annual General Meeting which will be held in September 2019 and Directors are available to meet shareholders when required.

### CORPORATE GOVERNANCE

I am pleased to be joined on the Board by Christopher Knowles and Helen Clarkson who bring a wealth of relevant skills and experience. The Board recognises the importance of a strong corporate governance culture that meets requirements of the UK Listing Authority ("UKLA"), the Financial Conduct Authority ("FCA") and the Association of Investment Companies ("AIC") of which the Company is a member.

The Board has put in place a framework for corporate governance which it believes is appropriate for an investment company, in line with the best practices in relation to matters affecting shareholders, regulators and other stakeholders of the Company. With a range of relevant skills and experience, all Directors contribute to the Board discussions and debates. In particular, the Board believes in providing as much transparency for investors as is needed to ensure investors can clearly understand the prospects of the business while also preserving an appropriate level of commercial confidentiality.

Additional information on corporate governance is available in Section 4.3 Corporate Governance Statement.

### KEY RISKS

SEEIT has established a risk management framework, which includes systems and procedures designed to enable the Company to ensure that all applicable risks pertaining to SEEIT can be identified, monitored and managed.

The key credit risks arising within the portfolio relate to applicable counterparties. At present, there are no specific matters to address in this regard.

Operational risk across the portfolio varies by project, with risks inherently higher for development/construction projects, than for operational assets with stable and predictable cash flows. The Board receives frequent updates from the Investment Manager on the progress of the portfolio's sole construction project, Huntsman Energy Centre, which due to delays in the project's commissioning process, is expected to become operational during the second half of the Company's financial year.

## 1.2 CHAIRMAN'S STATEMENT – CONTINUED

Further details of the Key Risks can be found in Section 3.4 Risk and Risk Management.

### OUTLOOK

The energy efficiency asset class is becoming an important component of energy supply and demand management. SEEIT is uniquely placed to contribute strongly to global decarbonisation - whilst providing a compelling investment opportunity and stable, predictable long-term yield.

The sourcing of operational energy efficiency and distributed generation assets remains a strong market opportunity, with the Investment Manager evaluating an extensive pipeline of attractive opportunities across both technology and geographies, in particular CCHP and rooftop solar in both Continental Europe and in the USA.

The Board and the Investment Manager regularly review the existing portfolio to find ways in which to unlock additional value and to optimise the portfolio. This includes finding investment opportunities that enhance the diversification of the portfolio and unlocking additional value through further active portfolio management.

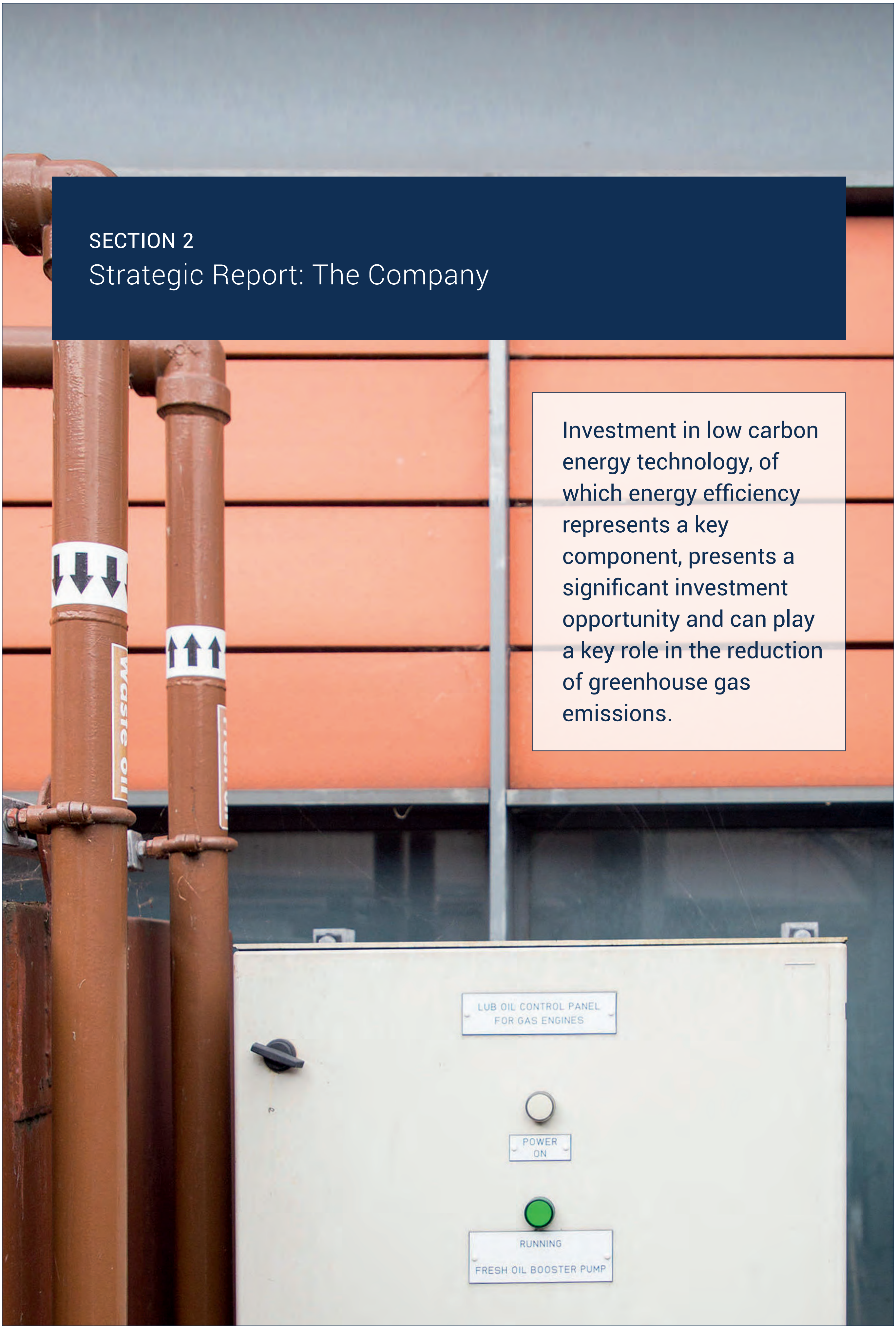
I would like to thank shareholders for their support in the establishment of the Company and we look forward to working closely with the Investment Manager to deliver our stated investment objectives.

TONY ROPER
**Chairman**

SECTION 2

# Strategic Report: The Company

Investment in low carbon energy technology, of which energy efficiency represents a key component, presents a significant investment opportunity and can play a key role in the reduction of greenhouse gas emissions.



## 2.1 The Energy Efficiency Market

As outlined in the Intergovernmental Panel on Climate Change Energy's special report, '*Global Warming of 1.5°C* , in order to limit global warming to 1.5°C above pre-industrial levels, by 2050 average annual investment in low-carbon energy technologies and energy efficiency will need to be increased by a factor of six compared to 2015 levels[5]. As a result, investment in low carbon energy technology, of which energy efficiency represents a key component, presents a significant investment opportunity and can play a key role in the reduction of greenhouse gas emissions.

Most electricity supply in developed markets such as the UK and North America has historically been delivered by large, centralised, grid connected "utility scale" power plants, often using fuels such as natural gas or coal. However, substantial energy losses occur in the generation, transmission and distribution of energy from grid connected power plants. Much of this loss is attributable to heat loss associated with the generation process. Overall, this wastage can result in the loss of over 60% of the energy used to generate electricity.

Once delivered to the point of use, over one third of energy can be wasted in buildings or infrastructure assets, through sub-optimal lighting, heating, ventilation, air conditioning, insulation, management systems, controls or other sources.

Decentralised energy represents a shift away from a centralised system of large-scale energy generation which is reliant on an expansive distribution network. Decentralised energy takes advantage of distributed power and heat solutions based on local generation at or near to the point of use, which can significantly improve efficiency and resilience, and can often be delivered at lower cost than the grid and with little, if any, support from subsidies.

Decentralisation in the context of energy efficiency provides three key benefits:

- FINANCIAL PERFORMANCE:
  implementation of energy efficiency solutions provides significant cost savings on energy bills and serves to ensure long term energy pricing stability through fixed price contracts;
- ENVIRONMENTAL PERFORMANCE:
  energy efficient solutions from leading technology and service providers implement advanced technological developments, which seek to deliver reductions in greenhouse gas emissions; and
- INFRASTRUCTURE PERFORMANCE:
  commercially proven solutions with warranties or performance guarantees deliver high-quality outcomes for lighting, heating ventilation air conditioning ("HVAC"), combined heat and power ("CHP"), building management systems ("BMS") controls, processes and optimisation, thereby upgrading infrastructure solutions to reduce costs through the provision of significant performance and reliability upgrades.

[5] IPCC, 2018: Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, Maycock, M. Tignor, and T. Waterfield (eds.)]. *World Meteorological Organization, Geneva, Switzerland, 32 pp.*

# 2.2 Investment Proposition

Listed in December 2018 on the Premium segment of the Main Market of the London Stock Exchange ("LSE"), SEEIT is a first of its kind investment company focused primarily on investments in operational energy efficiency assets located primarily in the UK, Continental Europe and North America.

## INVESTMENT OBJECTIVE

The Company's investment objective is to generate an attractive total return for investors comprising stable dividend income and capital preservation, with the opportunity for capital growth.

## INVESTMENT POLICY

The Company achieves its investment objective by investing principally in a diversified portfolio of energy efficiency projects with high quality, private and public sector counterparties.

The contracts governing these energy efficiency projects entitle the Company to receive stable, predictable cash flows in respect of predominantly operational energy efficiency equipment installed at counterparties' premises.

The Company's returns take the form of contractual payments by counterparties in respect of the relevant energy efficiency equipment used by them.

Whilst the Company invests predominantly in operational energy efficiency projects, the Company may under certain circumstances invest in energy efficiency projects while such projects are in a development phase or construction phase.

In respect of each type of energy efficiency equipment, the Company seeks to diversify its exposure to engineers, manufacturers or other service providers by contracting, where commercially practicable, with a range of different engineers, manufacturers or other service providers.

Energy efficiency projects are acquired individually or as a portfolio from a single or a range of vendors. The Company may also invest in energy efficiency projects jointly with a co-investor.

The Company achieves diversification by investing in different energy efficiency technologies and contracting with a wide range of counterparties.

The Company invests and manages its energy efficiency projects with the objective of assembling a high quality, diversified portfolio.

The Company will initially focus its attention on the UK. It is, however, anticipated that the Company will make investments in continental Europe, North America and, potentially, the Asia Pacific region.

## INVESTMENT RESTRICTIONS

In order to ensure a spread of investment risk, the Company has adopted the following investment restrictions:

- no energy efficiency project investment by the Company will represent more than 20 per cent. of gross asset value, calculated at the time of investment;
- the aggregate maximum exposure to any counterparty will not exceed 20 per cent. of gross asset value, calculated at the time of investment;
- at least 25 per cent. of the gross asset value, calculated at the time of investment, will be in respect of energy efficiency equipment based in the UK;
- the aggregate maximum exposure to energy efficiency projects in either a development phase or construction phase will not exceed 35 per cent. of gross asset value, calculated at the time of investment, provided that, of such aggregate amount, the aggregate maximum exposure to energy efficiency projects in a development phase will not exceed 10 per cent. of gross asset value, calculated at the time of investment; and
- the Company will not invest in other UK listed closed-ended investment companies.

## 2.2 INVESTMENT PROPOSITION – CONTINUED

### USE OF DERIVATIVES

The Company may use derivatives for efficient portfolio management but not for investment purposes. In particular, the Company may engage in full or partial interest rate hedging or otherwise seek to mitigate the risk of interest rate increases and full or partial foreign exchange hedging to mitigate the risk of currency fluctuations.

The Company will only enter into hedging contracts and other derivative contracts when they are available in a timely manner and on terms acceptable to it. The Company reserves the right to terminate any hedging arrangement in its absolute discretion.

### CASH MANAGEMENT

Whilst it is the intention of the Company to be fully or near fully invested in normal market conditions, the Company may hold cash on deposit and may invest in cash equivalent investments, which may include short term investments in money market type funds and tradeable debt securities ("Cash and Cash Equivalents"). There is no restriction on the amount of Cash and Cash Equivalents that the Company may hold and there may be times when it is appropriate for the Company to have a significant Cash and Cash Equivalent position instead of being fully or near fully invested.

### AMENDMENTS TO THE INVESTMENT POLICY

No material change will be made to the Company's Investment Policy without the prior approval by ordinary resolution of Shareholders.

## 2.3 Business Model and Investment Strategy

### SEEIT SIMPLIFIED STRUCTURE

SEEIT's investments are held by its single direct subsidiary and main investment vehicle, SEEIT Holdco Limited.

SDCL and Sanne Group (UK) Limited ("Sanne") are third party service providers appointed by SEEIT via, respectively, a management agreement and an administration agreement.

INVESTMENT MANAGER

SDCL
Sustainable Development Capital LLP

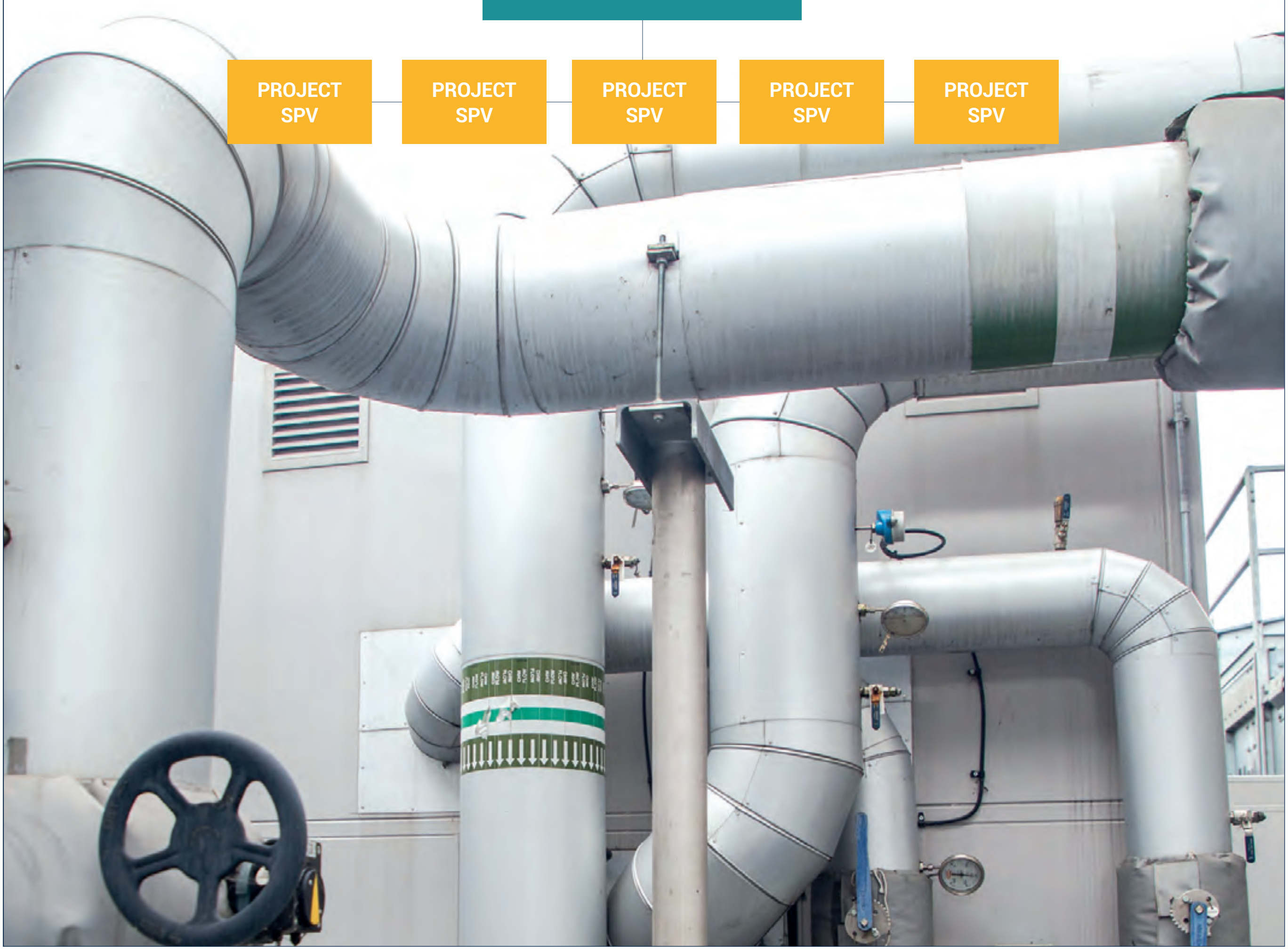
SEEIT
SDCL Energy Efficiency Income Trust Plc

FUND ADMINISTRATOR & COMPANY SECRETARY

SANNE
Sanne Group (UK) Ltd

SEEIT HOLDCO

PROJECT SPV | PROJECT SPV | PROJECT SPV | PROJECT SPV | PROJECT SPV



## 2.3 BUSINESS MODEL AND INVESTMENT STRATEGY – CONTINUED

### PORTFOLIO CONSTRUCTION AND INVESTMENT SOURCING

SEEIT invests with the objective of assembling a portfolio of energy efficiency projects, diversified by

### INVESTMENT STAGE

Whilst SEEIT invests predominantly in operational energy efficiency and distributed generation projects, the Company may under certain circumstances invest in projects which are at construction or development phase

### EQUIPMENT/ SERVICE PROVIDERS

SEEIT diversifies its exposure to equipment manufacturers, engineers and other service providers through investing in different energy efficiency technologies and contracting with a wide range of counterparties

### GEOGRAPHY

The existing portfolio comprises projects located in the UK and USA. In addition, the Company is actively pursuing investments in Continental Europe, further assets in North America and, potentially, the Asia Pacific region and other OECD countries

SDCL, as Investment Manager, sources investments through its long-standing relationships with third party developers, utility companies, project owners, energy service companies, financial intermediaries and directly from counterparties. Each prospective investment is assessed against the Company's investment objectives and Investment Policy and, if considered potentially suitable, an initial analysis and review of the opportunity will be undertaken. Each opportunity is scrutinised on the basis of the investment criteria outlined below.

In selecting potential energy efficiency and distributed generation projects, SDCL employs established criteria and portfolio construction guidelines in order to source projects with some or all of the following characteristics:

- operational assets installed at energy intensive and inefficient commercial and public buildings and facilities;
- projects utilising commercially proven technologies, with an appropriate level of warranties and performance guarantees;
- contracting with energy efficiency equipment vendors and manufacturers, subcontractors and counterparties who are strong credit counterparties;
- passing performance risks down to EPC contractors, O&M contractors, subcontractors, energy efficiency equipment vendors and manufacturers via warranties and guarantees;
- based upon measured and verifiable savings criteria as set forth in an energy services agreement ("ESA") governing the terms on which energy savings are apportioned between the Counterparty and the Project SPV;
- projects based in the key target markets of the UK, Continental Europe, North America and selectively in Asia Pacific and other OECD countries;
- achieving economies of scale, either individually or through aggregation;
- appropriate environmental, social and governance undertakings shall be secured from each Counterparty; and
- ability to achieve significant reductions in energy use and consequently emissions of greenhouse gases and other pollutants.

### 2.3 BUSINESS MODEL AND INVESTMENT STRATEGY – CONTINUED

#### INVESTMENT PROCESS

Once a potential opportunity that falls within the Company's Investment Policy has been identified and the Investment Manager wishes to proceed with the acquisition of such project, the Investment Manager undertakes further analysis which sets out the analysis, investment structure, investment rationale, risks and returns, capital expenditure budget, proposed revenue model, necessary next steps and recommendations.

Based on the analysis, the Investment Manager will determine whether further detailed financial, legal and technical due diligence should be carried out by the team and/or third-party firms and advisers, or whether to proceed with the further negotiation of deal terms with the relevant counterparties. Once the decision to proceed has been made, the Investment Manager will be responsible for further business due diligence, while the appropriate financial, tax, legal, technical and other due diligence processes will be conducted by third party firms and/or advisers.

The Investment Manager will also negotiate the transaction terms with relevant counterparties such as developers, EPC contractors, O&M contractors, advisers and revenue counterparties, where applicable.

Once the detailed due diligence process has been completed, the Investment Manager will prepare updated analysis which comprises details of investment opportunity, risks and returns, investment structure based on due diligence process and final contract terms, as a result of negotiations, as well as a financial model illustrating risk and return in scenario and sensitivity analysis as appropriate.

The Investment Manager will then decide on whether to make the investment or not. The Investment Manager will notify the Board of its decision prior to making the investment or sale of an asset.

Where the Investment Manager intends to acquire energy efficiency projects from a SDCL related party, the Investment Manager will approach the Board at the earliest opportunity to discuss any additional diligence or comfort, such as independent valuation or audits required. The Investment Manager will not execute an acquisition of an energy efficiency project from a SDCL related party without prior Board approval.

## 2.4 Company Key Performance Indicators ("KPIs")

The Company sets out below its financial KPIs which it uses to track the performance of the Company over time against the objectives as described in the Strategic Report.

| Financial Item | Period ended 31 March 2019 '000 |
|---|---|
| NAV per share | 98.4p |
| Premium/(discount) to NAV | 5% |
| Earnings per share | 0.4p |
| Dividend per share (declared for the period ending) | 1.0p |
| Weighted Average Project Life | 11.3 years |
| Largest five investments as a % of Investment Portfolio | 88% |
| Largest investment as a % of Investment Portfolio | 28% |
| Weighted average length of asset operations history | 2.4 years |
| Ongoing Charges Ratio | 1.38% |

# 2.5 Investment Manager's Report

### THE INVESTMENT MANAGER

Sustainable Development Capital LLP is an investment firm with a proven track record of investment in energy efficiency and decentralised energy generation projects.

SDCL was founded in 2007 by Jonathan Maxwell and has raised over £500 million of capital commitments, including four funds exclusively focused on energy efficiency with projects in the UK, Europe, North America and Asia. SDCL is headquartered in London and also operates worldwide from offices in New York, Dublin and Singapore. The team consists of 23 employees, including 15 investment professionals.

## Operational Highlights

Following the acquisition of the Seed Portfolio in December 2018, the portfolio has performed in line with expectations with no significant changes in the operation of the assets to report.

### LIGHTING TECHNOLOGY

Santander UK Lighting: In January 2019, Santander UK plc announced that their group would be closing 140 UK branches in 2019. Santander UK plc have yet to advise details of the branch closures. Subject to the timing of the closures, a payment from Santander as counterparty for early termination (based on kWh) will compensate for the early termination of those properties within the overall contract.

### CCHP

The CCHP assets within the portfolio, including the Northeastern US CHP acquisition made in March 2019 are all operating in line with expectations, with no significant operational updates to report for the period.

### STEAM RAISING BOILER TECHNOLOGY

Huntsman Energy Centre: Production of steam (the point at which revenues are generated) is expected to occur in the second half of the financial year. This timing represents a delay from the expectation at the time of the acquisition of the Seed Portfolio, principally due to the complexity around the commissioning of the project, with the delay providing sufficient time for system testing prior to regular production of steam. All parties are continuing to work constructively to complete the construction phase per the timetable set.

At the time of the acquisition of Huntsman Energy Centre, as a result of historical delays, a 10% retention of the acquisition price was withheld. The retention will, subject to satisfaction of certain conditions, be partially paid out at commercial operations date, with the remainder paid out within nine months following commercial operations date. This retention mechanism has ensured that there has been no impact on the value of this investment to the Company as the delay in receiving steam revenues has been offset by a reduction in the retention amount payable directly attributable to the delay.

### BIOMASS BOILER TECHNOLOGY

The biomass boiler assets within the portfolio are all operating in line with or above expectations, with no significant operational updates to report for the period.

At Moy Park Biomass, the production of heat was above expected levels for the year to March 2019 which has resulted in a one off increase to expected cash flows to the Company – this has been reflected in the Portfolio Valuation.

## Financial Highlights

The Company was successfully listed on the Main Market of the London Stock Exchange on 11 December 2018. IPO costs for the formation of SEEIT were capped at 2% (£2 million) of the £100m raised.

Shortly after the IPO, on 19 December 2018 SEEIT announced the completion of the Seed Portfolio acquisition, as outlined in the November 2018 Prospectus for a total cash commitment of £87 million.

The acquisition comprising nine energy efficiency projects valued at £57 million, which are predominately operational and well diversified across technologies and sectors with relatively low credit, technology and regulatory risk, together with three committed investment commitments with identified counterparties totalling c.£30 million.

## 2.5 INVESTMENT MANAGER'S REPORT – CONTINUED

On 7 March 2019, SEEIT announced the Company's first acquisition in the USA, Northeastern US CHP, a 71% interest in a high-quality portfolio of eight operating CCHP units on the east coast of the USA for a total cash consideration of $5.0 million.

On 19 June 2019, SEEIT announced that it has entered into a delivery framework to install, own and operate rooftop solar projects across a section of Tesco's estate in the UK for which it is budgeting an initial contracted investment of £5 million with potential for an additional £15 million to be contracted in projects across further sections of Tesco's UK estate.

### DIVIDEND DECLARATION

Per previous guidance, on 14 May 2019 the Directors of SEEIT declared that an interim dividend of 1.0 pence per ordinary share be paid on 28 June 2019 to shareholders in respect of the period from incorporation to 31 March 2019.

Going forward, the Board anticipates paying semi-annual interim dividends, targeting total dividends of 5.0p per share for the year ending 31 March 2020 and 5.5p per share for the year ending March 2021, in line with guidance communicated in the November 2018 Prospectus.

As noted in the November 2018 Prospectus, if an election under SI2009/2034 is made by the Company to designate part or all of its dividends as an interest distribution in respect of an accounting period, then the corresponding dividends paid by the Company will be taxed as interest income on UK resident individual shareholders.

### FUNDING AND CAPITAL

On 16th April 2019, the Board of Directors announced the results of a placing of new ordinary shares in the capital of SEEIT which had raised gross proceeds of £72.0 million.

The Company intends to use the net proceeds of the placing together with debt financing to assist in funding the acquisition of certain pipeline project assets that were identified at the time of the IPO as well as assets that have been sourced subsequently.

These assets include the portfolio of CHP projects in Southern Europe, identified in the November 2018 Prospectus, along with a healthy pipeline of additional investment opportunities, including CHP and rooftop solar projects in both Continental Europe and the United States which meet SEEIT's investment criteria and are expected to generate attractive returns.

### REVOLVING CREDIT FACILITY

As advised in the November 2018 Prospectus, in the interests of capital efficiency, in order to enhance income returns, long-term capital growth and capital flexibility, SEEIT is permitted to maintain a conservative level of gearing. To implement this gearing, in April 2019 SEEIT, through its main investment vehicle, SEEIT Holdco secured a revolving credit facility ("RCF") of £25 million with Investec Bank plc as well as access to acquisition financing of up to £40 million.

The RCF has an expiry of 30 June 2022 and will be used by the Company to execute on its active deal pipeline which includes some large potential acquisitions.

## Key Risks

See Section 3.4 Risk and Risk Management for further details on key risks.

### CREDIT/COUNTERPARTY

The key credit risks arising within the portfolio relate to applicable off-take counterparties. There are no specific matters to highlight in this respect. However, it is noted that beyond the direct counterparty risks there is a related risk of early termination of certain of the off-take contracts (which may be more likely to crystalise in circumstances involving financial difficulties within such counterparties, or otherwise a result of key strategic changes). Project due diligence did not identify any basis for concluding that such contract terminations would be likely, as the applicable industrial plants are key, highly stable and strategically important, to the respective firms.

2.5 INVESTMENT MANAGER'S REPORT – CONTINUED

### OPERATIONAL RISK

Operational risk will inevitably vary by project, but risks will inherently tend to be higher within development/construction projects, than with stable operating assets. Within the current portfolio, the only construction project (Huntsman Energy Centre) has been subject to construction delays, this highlights the inherent additional risk in construction stage assets. As stated in the Operational Highlights review above, this delay has had no material impact on returns.

### MARKET

Electricity prices remain high in resource-constrained markets such as the UK and North-East USA, in combination with depressed natural gas prices, this continues to present an attractive incentive for alternative sourcing of lower cost and lower carbon energy through energy efficient or distributed generation solutions.

The market for both operational energy efficiency and distributed generation projects remains strong with a significant number of pipeline opportunities being seen since the IPO in December 2018.

## Environmental, social and governance

### OVERVIEW

SEEIT is focused on conducting business responsibly. That means behaving ethically, respecting people and the environment. SEEIT maintains a high standard of business conduct and stakeholder engagement so as to ensure a positive impact on the community and environment in which it operates. This requires monitoring and consideration of its stakeholders by building strong relationships with suppliers, customers, communities and authorities among others. SEEIT's relationships with its stakeholders, and its dedication to maintain a responsible approach to investment, is essential to position SEEIT well for the longer term – and is expected by its shareholders.

### SUSTAINABILITY

The integration of distributed generation and energy efficiency projects into the broader global energy generation mix serves to provide positive and sustainable long-term environmental impacts, providing a significant reduction in energy used to generate electricity, representing tangible and repeatable reductions in greenhouse gas emissions.

SDCL will seek to ensure that all suppliers have appropriate sustainability policies in place, with a focus on procurement and employment policies.

SEEIT also seeks to minimise any local impacts through extensive consultation with statutory consultees, local authorities and, where appropriate, local communities. Engagement with stakeholders is maintained to the highest standards once assets become operational.

### ANTI-BRIBERY AND CORRUPTION

Although SEEIT has no employees, the Company is committed to respecting human rights in its broader relationships. SEEIT does not tolerate corruption, fraud, the receiving of bribes or breaches in human rights. Both SEEIT and SDCL have anti-corruption and bribery policies in place in order to maintain standards of business integrity, a commitment to truth and fair dealing and a commitment to complying with all applicable laws and regulations.

SDCL employees are provided with training for anti-bribery and corruption which is completed annually. All counterparties are assessed by the Investment Manager to mitigate against bribery and corruption. When SDCL completes acquisitions on behalf of SEEIT, there is vendor due diligence and all sales and purchase agreements are required to have anti-bribery and corruption prevention clauses.

### CORPORATE CULTURE

The Company's approach to sustainability and corporate culture includes:

- Considering the risk culture of the Company on a regular basis to confirm it is appropriate, is expected to support the sustainability of the company, and is consistent with the risk appetite;
- Embedding and improving on good practices in the day-to-day management processes – which are assessed by the Board in the course of the quarterly Board meetings as well as in a wide range of ad hoc interactions during the year;

2.5 INVESTMENT MANAGER'S REPORT – CONTINUED

- Promoting an appropriate culture of stewardship, responsibility, accountability and openness; and
- A focus by the Board and SDCL on appropriate interaction with key stakeholders, including shareholders, lenders, regulators, vendors, co-investors and suppliers.

As SEEIT has no employees, the Directors look through to the culture of SEEIT's key service providers on an ongoing basis including annual reviews. The Board interacts regularly with staff of the Investment Manager both at senior and operational levels, in both formal and informal settings. This promotes greater openness and trust between the key individuals engaged in delivering against the Company's objectives and ensures the Investment Manager remains fully aligned with the Company's corporate culture and approach to sustainability. The Board also engages closely throughout the year with the Company's administrator, brokers, and legal and public relations advisers to gauge the broader positioning and direction of the business.

## Outlook and Strategy

SDCL and the Board of SEEIT are focused on delivering value enhancement in the portfolio whilst ensuring ongoing preservation of value.

The Investment Manager continues to seek out predominantly operational opportunities which are well suited for the Company's investment objectives and policies. These projects will be sourced from key private and public sector sources, utilising SDCL's long standing relationships with third-party developers, utility companies, project owners, energy service companies, financial intermediaries and from counterparties, directly.

SDCL is continuing to source energy efficiency assets, often perceived as non-core, the sale of which can provide effective balance sheet relief for counterparties. This continues to be a high level of focus in the sourcing of potential assets, along with opportunities stemming from portfolio realignments and opportunities from developers seeking to recycle capital.

### PIPELINE

The Company is progressing with the evaluation of a pipeline of further investment opportunities that were identified at the time of the IPO. Two of the three opportunities identified in the November 2018 Prospectus have been closed – involving cogeneration in the United States and rooftop solar photovoltaic ("PV") in the UK. The Company continues to progress with the third opportunity involving investment in a portfolio of cogeneration in Spain, where discussions with the vendor are ongoing. The Investment Manager intends to use the proceeds of the placing conducted in April 2019, to the extent necessary together with debt facilities available to the Company, to fund the current project pipeline assets.

The Investment Manager has developed a healthy pipeline of additional investment opportunities, including cogeneration, lighting and other efficient and decentralised energy projects, predominantly in Europe and North America. Most of these opportunities are portfolios of operational assets, although some are larger scale individual projects that meet the Company's investment and risk criteria. To a more limited extent, the Company may invest in projects at any earlier stage, for instance during construction, provided that they contribute to positive cash flow within the coming financial year.

Projects are sourced through direct bilateral engagement by the Investment Manager via its established relationship network, as well as through selective participation in formal sales processes where the Investment Manager believes that the Company has a competitive advantage. Significant emphasis is placed by the Investment Manager in its deal sourcing process on the contribution that prospective investment can make to portfolio returns and diversification by geography, technology and counterparty.

The value of the opportunities represented by the near-term investment pipeline considerably exceeds the cash that the Company currently has available for investment, which supports the ability to be selective and also raises good prospects for increasing the Company's capitalisation through further debt or equity financing.

SECTION 3

# Strategic Report: Portfolio Review

## FINANCIAL INFORMATION

In accordance with IFRS 10 the Company carries investments at fair value as it meets the conditions of being an Investment Entity.

In order to provide shareholders with more transparency into the Company's capacity for investment, ability to make distributions, operating costs and gearing levels, results have been reported in the pro forma tables below on a non-statutory "Portfolio Basis" to include the impact if SEEIT Holdco Limited ("Holdco") were to be consolidated on a line-by-line basis.

The Directors consider the non-statutory Portfolio Basis to be a more helpful basis for users of the accounts to understand the performance and position of the Company because key balances, including cash and debt balances carried in Holdco and expenses incurred in Holdco, are shown in full rather than being netted off.

The impact of including Holdco is shown in the Holdco reallocation column which reconciles back to the statutory financial statements (IFRS) and constitute a reallocation between line items rather than affecting NAV and Earnings.

NAV per share and Earnings per share are the same under the Portfolio Basis and the IFRS basis.

# 3.1 Financial Review

## SUMMARY FINANCIAL STATEMENTS

| Portfolio Basis Summary Income Statement | Period to 31 March 2019 | | |
|---|---|---|---|
| | Portfolio Basis £'000 | Holdco reallocation | IFRS (Company) |
| Total Income | 1,626 | (64) | 1,562 |
| Expenses & Finance Costs | (1,211) | 64 | (1,147) |
| **Profit/(loss) before Tax** | **415** | **-** | **415** |
| Tax | - | - | - |
| Earnings | 415 | - | 415 |
| **Earnings per share (pence)** | **0.4** | **-** | **0.4** |

On the Portfolio Basis, Total Income of £1,626k represents the return from the portfolio recognised as income comprising dividends, interest and valuation movements. Further detail on the valuation movements is given in Section 3.2 Valuation of the Portfolio.

On an IFRS basis, both Total Income and Expenses & Finance Costs are lower than on the Portfolio Basis, as costs incurred by the Holdco are included within Total Income under IFRS, not under Expenses & Finance Costs. Total income of £1,562k comprises income received by the Company and valuation movements in its investments.

Total fees accruing to the Investment Manager were £241k for the period, comprising the 0.9% p.a. management fee for assets up to £750m.

In the period - the Company and Holdco incurred £680k of acquisition costs on new investments, primarily relating to the acquisition of the Seed Portfolio, unsuccessful bids and bids in progress (mainly legal, technical and tax due diligence).

Neither the Investment Manager nor any of its affiliates receives other fees from the Company's portfolio of investments.

On both the Portfolio Basis and IFRS basis, Earnings were £415k and Earnings per share were 0.4p.

| Portfolio Basis Balance Sheet | 31 March 2019 | | |
|---|---|---|---|
| | Portfolio Basis £'000 | Holdco reallocation | IFRS (Company) |
| Investments at fair value | 60,850 | 484 | 61,334 |
| Working capital | (2,004) | 1,078 | (926) |
| Net cash | 39,569 | (1,562) | 38,007 |
| **Net assets attributable to Ordinary Shares** | **98,415** | **-** | **98,415** |
| **NAV per share** | **98.4** | **-** | **98.4** |

On a Portfolio Basis, Investments at fair value are £60,850k, representing the Portfolio Valuation. Further detail on the movement in Investments at fair value is given in Section 3.2 Valuation of the Portfolio.

On a Portfolio Basis, net cash at 31 March 2019 was £39,569k; mainly reflecting cash from equity capital raised net of cash used for acquisitions. The Company is expecting to utilise the cash balance in delivering the identified pipeline.

An analysis of net cash movement is shown in the cash flow analysis below.

On an IFRS basis, Investments at fair value were £61,334k, reflecting the Portfolio Basis Investments at fair value, cash held by Holdco and working capital in Holdco.

NAV per share was 98.4p. NAV per share has increased by 0.4p since the IPO, reflecting the earnings in the period.

## 3.1 FINANCIAL REVIEW – CONTINUED

| Portfolio Basis Cash Flow Statement | 31 March 2019 Portfolio Basis £'000 | Holdco reallocation | IFRS (Company) |
|---|---|---|---|
| Cash from investments | 1,687 | (1,653) | 34 |
| Operating and finance costs outflow | (425) | 11 | (414) |
| **Net cash inflow/(outflow) from operations before capital movements** | **1,262** | **(1,642)** | **(380)** |
| Cost of new investments including acquisition costs | (59,507) | 80 | (59,427) |
| Share capital raised net of costs | 97,813 | - | 97,813 |
| Movement in the year | 39,569 | (1,562) | 38,007 |
| Net cash at start of the period | - | - | - |
| **Net cash at end of the period** | **39,569** | **(1,562)** | **38,007** |

Cash inflows from the portfolio on a Portfolio Basis were £1,687k, in line with expectations.

The cost of new investments by the SEEIT group on a Portfolio Basis of £59,507k includes the cash cost of the Seed Portfolio acquisition at IPO of £54,456k (net of contractual retentions of £2.7 million) and the new US investment of £3,803k. The acquisition of the Seed Portfolio also included a cash commitment of £30 million which has not yet been drawn.

At the point of acquiring the Seed Portfolio, a total of £2.7 million retentions were withheld by the Company of which £1.5 million was subject to finalising and agreeing the working capital of the investments acquired and £1.2 million in relation to Huntsman Energy Centre which requires certain condition to be met. At 31 March 2019, the SEEIT group is expecting to pay c. £2.3 million of the £2.7 million contractual retentions, the reduction comprising a £0.1 million adjustment in relation to the finalised working capital of the investments acquired and a £0.3 million reduction as a result of delays in the completion of construction works of the Huntsman Energy Centre project. The contractual retention for the Huntsman Energy Centre does not become payable until after construction completion and is subject to further conditions being met.

On an IFRS basis, costs of new investments of £59,427k reflects funding extended by the Company to Holdco in the period.

Hedging for the Group is undertaken by Holdco and therefore the Company had no cash flows for this on an IFRS basis. Holdco enters into forward sales to hedge foreign exchange exposure in line with the Company's hedging policy set out below (see 'Foreign Exchange Hedging'). On a Portfolio Basis, there was no cash flow in the period although hedges were put in place for the US investment prior to 31 March 2019.

### ONGOING CHARGES

Ongoing charges, in accordance with Association of Investment Companies ("AIC") guidance, are defined as annualised ongoing charges (i.e. excluding acquisition costs and other non-recurring items) divided by the average published undiluted net asset value in the period. On this basis - the Ongoing charges percentage is 1.38% when the Company's initial period of activity is extrapolated to a full year.

### GROUP DRAWINGS AND GEARING LEVELS

A revolving credit facility ("RCF") was put in place in April 2019 and therefore as at 31 March 2019, Holdco had no drawings.

The RCF was entered into by Holdco for £25 million and has an expiry date of 30 June 2022. It also provides for access to additional £40 million of acquisition financing. The Company is therefore able to confirm that sufficient working capital is available for the financial year ending 31 March 2020, without needing to refinance. The Investment Manager will, however, periodically consider refinancing options aligned to the pipeline of potential transactions.

### FOREIGN EXCHANGE HEDGING

The Company, through currency hedges entered into by Holdco, aims to limit volatility of NAV per share to movements in foreign exchange rates. Forward sales of foreign currency are put in place for a period of up to 2 years taking into account the cost benefit of hedging activity whilst retaining the key objective of materially mitigating the impact of foreign exchange movements on the Company's results.

# 3.2 Valuation of the Portfolio

## INTRODUCTION

The Investment Manager is responsible for carrying out the fair market valuation of the SEEIT group's portfolio of investments (the "Portfolio Valuation") which is presented to the Directors for their consideration and approval. A valuation is carried out on a six-monthly basis, as at 31 March and 30 September each year. The Portfolio Valuation is the key component in determining the Company's NAV.

For non-market traded investments (being all the investments in the current portfolio), the valuation is based on a discounted cash flow methodology and adjusted in accordance with the IPEV (International Private Equity and Venture Capital) valuation guidelines where appropriate to comply with IFRS 13 and IFRS 9, given the special nature of infrastructure investments. Where an investment is traded in an open market, a market quote is used.

The Investment Manager exercises its judgment in assessing the expected future cash flows from each investment based on the project's expected life and the financial models produced for each project company and adjusts the cash flows where necessary to take into account key external macro-economic assumptions and specific operating assumptions.

The fair value for each investment is then derived from the application of an appropriate market discount rate to reflect the perceived risk to the investment's future cash flows and the relevant year end foreign currency exchange rate to give the present value of those cash flows. The discount rate takes into account risks associated with the financing of an investment such as investment risks (e.g. liquidity, currency risks, market appetite), any risks to the investment's earnings (e.g. predictability and covenant of the income) and a thorough assessment of counterparty credit risk, all of which may be differentiated by the phase of the investment.

The Investment Manager uses its judgement in arriving at the appropriate discount rate. This is based on its knowledge of the market, taking into account intelligence gained from its bidding activities, discussions with financial advisers in the appropriate market, and publicly available information on relevant transactions.

The valuation methodology is unchanged from the Company's IPO and details of the valuation methodology can be found in the Company's November 2018 Prospectus.

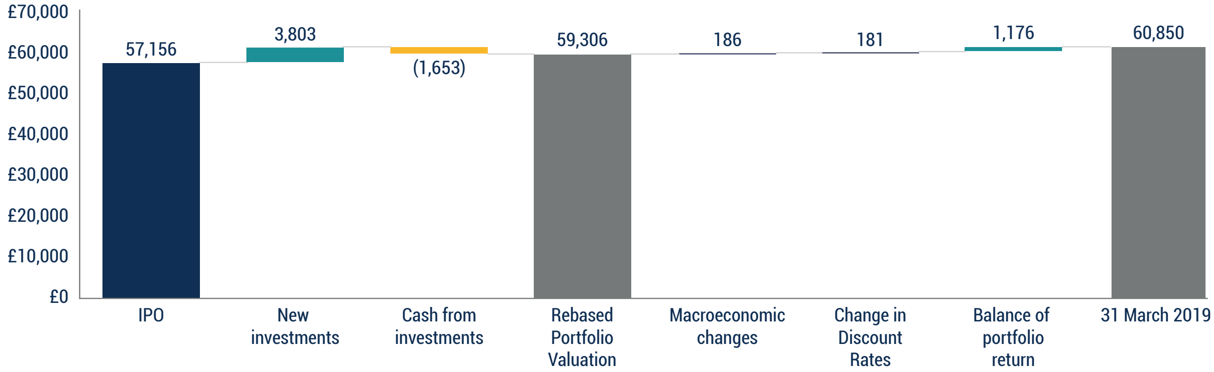
## PORTFOLIO VALUATION

The Portfolio Valuation as at 31 March 2019 was £60,850k. This valuation compares to £57,156k as at the IPO on 11 December 2018 (up 6.7%). A reconciliation between the Portfolio Valuation at 31 March 2019 and Investment at fair value shown in the financial statements is given in Note 8 to the financial statements, the principal differences are as per the table below.

| | £'000 |
|---|---|
| Portfolio Valuation | 60,850 |
| Holdco cash | 1,562 |
| Holdco net working capital | (1,077) |
| **Investment at fair value (see Note 8)** | **61,334** |

## VALUATION MOVEMENTS

A breakdown of the movement in the Portfolio Valuation in the period is illustrated in the chart and set out in the table below.



## 3.2 VALUATION OF THE PORTFOLIO – CONTINUED

### Valuation Movements During the Period to 31 March 2019 (£'000)

| | | |
|---|---|---|
| **Portfolio Valuation – acquired at IPO** | | 57,156 |
| New Investments (since IPO) | 3,803 | |
| Cash Receipts from Investments | (1,653) | |
| | | 2,150 |
| **Rebased Portfolio Valuation** | | **59,306** |
| Changes in Macroeconomic Assumptions | 186 | |
| Changes in Discount Rates | 181 | |
| Balance of Portfolio Return | 1,176 | |
| | | 1,544 |
| | | **60,850** |

The opening valuation after acquiring the Seed Portfolio shortly after the IPO was £57,156k. Allowing for investments of £3,803k and cash receipts from investments of £1,653k, the rebased valuation is £59,306k.

Additional investments of £3,803k in the period comprise the following:

- a £3,803k investment in Northeastern US CHP

### RETURN FROM THE PORTFOLIO

Each movement between the rebased valuation of £59,306k and the 31 March 2019 valuation of £60,850k is considered in turn below:

**(i) Changes in macroeconomic assumptions:**
Inflation assumptions: Long-term inflation assumptions of 2.75% p.a. were applied to all UK projects, resulting in a minor adjustment in the valuation of £186k.

Tax rate assumptions: The assumptions for tax rates in the UK are unchanged from IPO and in the USA it is unchanged from the acquisition assumption.

**(ii) Reduction in valuation discount rates:**
There were no changes to discount rates applied to the investments acquired as part of the Seed Portfolio. The £181k uplift in valuation is as a result of a reduction in the discount rate applied to Northeastern US CHP.

The Company commissioned an independent review of the valuation discount rates adopted at IPO in relation to the Seed Portfolio which confirmed the rates used were appropriate. Each of these discount rates were reviewed again for the 31 March 2019 valuation to determine if they remain appropriate.

The discount rate used for valuing each investment represents an assessment of the rate of return at which infrastructure investments with similar risk profiles would trade on the open market.

The weighted average portfolio valuation discount rate as at 31 March 2019 was c.6.5%.

**(iii) Balance of portfolio return:**
This refers to the balance of valuation movements in the year (excluding (i) to (ii) above) and represents an uplift of £1,176k. The balance of portfolio return mostly reflects the net present value of the cash flows brought forward for the period at the average prevailing portfolio discount rate and reflects good operational cashflow performance.

The portfolio return also included some additional valuation adjustments - the valuation of the Huntsman Energy Centre has seen a reduction of c. £300k as a result of the delay in finalising the completion of the construction which is anticipated to occur in the second half of the financial year. The NAV of the Company is however not affected as the contractual retention payable in relation to this project as part of the acquisition of the Seed Portfolio has decreased by a similar amount.

At Moy Park Biomass, production of heat in the year to 31 March 2019 was higher than forecast, resulting in a one off increase of the valuation.

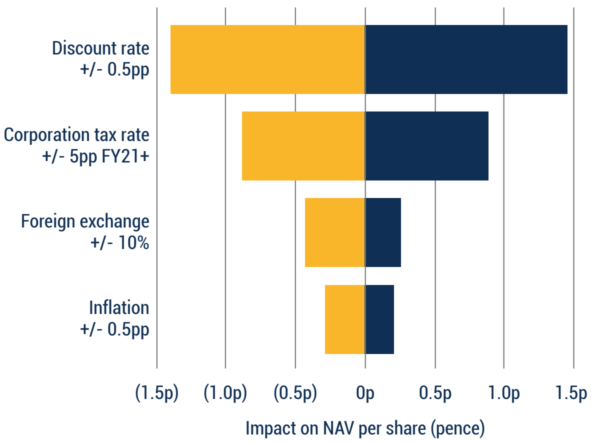
## 3.2 VALUATION OF THE PORTFOLIO – CONTINUED

### VALUATION ASSUMPTIONS

| | | 31 March 2019 |
|---|---|---|
| Inflation rates | UK (RPI) | 2.75% p.a. |
| | USA (CPI) | 2.00% p.a. |
| Tax rates | UK | 19% to March 2020, 17% thereafter |
| | USA | 21% Federal & 3-9% State rates |
| Foreign exchange rates | USD/GBP | 0.77 |

### KEY SENSITIVITIES

The following chart illustrates the sensitivity of SEEIT's NAV per share to changes in key valuation input assumptions (with the labels indicating the impact of the sensitivities on the NAV in pence per share):




1. NAV per share is based on 100m ordinary shares in issue at 31 March 2019
2. Foreign exchange sensitivity is net of hedging at 31 March 2019

For each of the sensitivities, it is assumed that potential changes occur independently of each other with no effect on any other base case assumption, and that the number of investments in the portfolio remains static throughout the modelled life.

#### Discount Rate Sensitivity

Whilst not a macro-economic assumption, the weighted average discount rate that is applied to each portfolio company's forecast cash flow, is the single most important judgement and variable for the purposes of valuing the portfolio.

A 0.5% increase in the discount rates would result in a NAV per share decrease of 1.4p based on the Portfolio Valuation as at 31 March 2019. A 0.5% decrease in the discount rates would result in a NAV per share increase of 1.4p based on the Portfolio Valuation as at 31 March 2019.

#### Corporation Tax Rate Sensitivity

The profits of each portfolio company are subject to corporation tax in the country where the project is located. The sensitivity considers a 5% movement in tax rates in all jurisdictions.

A 5% increase in corporation tax rates would result in a NAV per share reduction of 0.9p based on the Portfolio Valuation as at 31 March 2019. A 5% decrease in corporation tax rates would result in a NAV per share increase of 0.8p based on the Portfolio Valuation as at 31 March 2019.

#### Foreign Exchange Rate Sensitivity

This sensitivity considers a 10% movement in relevant non-GBP currencies, which in the case of the Portfolio Valuation at 31 March 2019 is US Dollar.

A 10% increase in foreign exchange rates would result in a NAV per share reduction of 0.3p based on the Portfolio Valuation as at 31 March 2019. A 10% decrease in foreign exchange rates would result in a NAV per share increase of 0.2p based on the Portfolio Valuation as at 31 March 2019.

#### Inflation Rate Sensitivity

This sensitivity considers a 0.5% movement in long term inflation in the UK and USA.

A 0.5% increase in inflation rates would result in a NAV per share reduction of 0.2p based on the Portfolio Valuation as at 31 March 2019. A 0.5% p.a. decrease in inflation rates would result in a NAV per share increase of 0.2p based on the Portfolio Valuation as at 31 March 2019. The Company's NAV has limited exposure to inflation and does not expect this to increase in the future.

Please refer to Note 13 in the Notes to the Financial Statements for further detail.

# 3.3 Investment Portfolio

## PORTFOLIO ANALYSIS

### Five largest investments in the portfolio

The table below shows the five largest investments in the Investment Portfolio as a proportion of the overall Portfolio Valuation which excludes cash held by the Company at 31 March 2019.

| Project | As a % of the Investment Portfolio |
|---|---|
| Santander UK Lighting | 28% |
| Moy Park Biomass | 24% |
| Huntsman Energy Centre | 23% |
| Northeastern US CHP | 7% |
| Moy Park Lighting | 6% |
| **Five largest assets - total** | **88%** |
| Remaining Investment Portfolio assets | 12% |
| **Total** | **100%** |

## OVERVIEW OF THE FIVE LARGEST INVESTMENTS

### Santander UK Lighting – UK

LED Lighting project comprising 90,000 lamps across over 800 of Santander's offices and branches across the UK. Building management systems, processes and optimisation and HVAC units have also been installed in certain offices. The counterparty has entered into a services agreement with the project SPV for the provision of lighting which currently has seven years remaining.

As outlined in Section 2.5 Investment Manager's Report above, in January 2019, Santander UK plc announced that their group would be closing 140 UK branches over the course of 2019. Santander UK plc have yet to advise details of the branch closures to the Company. Subject to the timing of the closures, a payment from Santander as counterparty for early termination (based on kWh) is expected to compensate for the early termination of those properties within the overall contract.

### Moy Park Biomass – UK

The Moy Park project comprises 86 biomass boilers at several poultry farms operated by Moy Park in Lincolnshire, UK. The counterparty has entered into a heat supply agreement, under which they are contracted to pay a fee for each boiler in addition to a variable amount for heat produced above a threshold. In addition, the project is entitled to a sum under the Renewable Heat Incentive from OFGEM, calculated with reference to the heat output of the boilers. The project has approximately 17 years left to run.

The biomass boilers use wood pellets as feedstock. The project SPV has contracted with Land Energy Girvan Limited to supply wood pellets for 20 years.

### Huntsman Energy Centre - UK

This project involves the installation of three steam raising boilers and two steam compressors at the counterparty's premises in Wilton, North Yorkshire, UK. The counterparty has entered into a steam services agreement with the project SPV to design, build, operate and maintain the project, pursuant to which the project SPV will sell the steam generated to the counterparty, in return for contracted revenues. The term of the contract once the project becomes operational is 15 years.

### Northeastern US CHP – USA

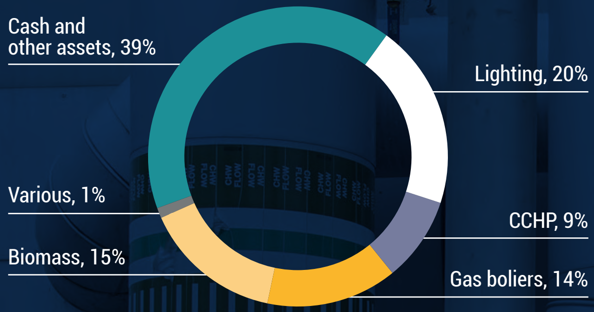
The project, which comprise CHP units for a prison, university, multi-family developments and a nursing home, have a total installed capacity of 2.5MW of CHP and 1,250 tonnes of cooling capacity. The units are each subject to Energy Purchase Agreements, which benefit from long-term contracted cash flow, and each unit has been fully operational and revenue generating for over a year. Revenues from the sites are generated through electricity sales, the provision of hot and chilled water and from electricity demand reduction.

### Moy Park Lighting – UK

Moy Park Lighting comprises LED lighting at 15 Moy Park sites across the UK. The project has been structured as a loan, with funding provided directly to a project SPV established by Future Energy Services ("FES"), which SEEIT has acquired. The project SPV owns the assets, with FES responsible for the delivery, operation and maintenance of the project. The Seller Funds and FES, through the joint venture vehicle have entered into a loan facility directly with the project SPV, which has approximately 5 years left to run.

## 3.3 INVESTMENT PORTFOLIO – CONTINUED

### Portfolio diversification by technology




The largest exposure by technology as at 31 March 2019, calculated on a gross asset basis at 21% is in lighting (Santander UK Lighting, Moy Park Lighting and NCP Lighting) and this is spread across different technology providers including GE Lighting and FES. The second largest technology exposure is to biomass (Moy Park Biomass) with 15%. Gas boilers (Huntsman Energy Centre) represent 14%.

Both the biomass and the gas boilers are through EPC & O&M with Engie representing 29% of the portfolio. No other providers represent more than 10% of the portfolio.

### Portfolio diversification by geography


At 31 March 2019, the majority (93%) of the Investment Portfolio is located in the UK, with the entire Seed Portfolio acquisition comprising of UK based assets.

The Northeastern US CHP investment (7% of the Investment Portfolio) represents the Company's first investment outside of the UK.

# 3.4 Risk & Risk Management

## RISK MANAGEMENT FRAMEWORK

SDCL on behalf of SEEIT has established a risk management framework, which includes systems and procedures designed to enable the Company to ensure that all applicable risks pertaining to the Company can be identified, monitored and managed.

The risk management framework is overseen by the Company's Audit and Risk Committee, which meets at least three times each year. The remit of the Audit and Risk Committee includes a requirement to monitor and keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems. The Committee receives periodic risk management reports from the Investment Manager to support its assessment, and also assesses the risk register at each meeting,whereby each risk is rated, risk mitigating factors detailed and applicable controls highlighted.

Part of SEEIT's wider risk management framework includes the activities of key service providers, including the Investment Manager, which has established its own risk management function.

The Company's approach to risk management is calibrated according to the specific characteristics of the Company's investment strategy, namely investing principally in a diversified portfolio of energy efficiency projects, with high quality private and public sector counterparties.

The table below summarises the key risks to the Company and the actions taken to mitigate such risks.

| Key risks | Mitigation |
|---|---|
| **Market risks** (including energy-market exposure and macro-economic factors) | ▶ Energy-market exposure can be limited via hedging strategies and appropriate contractual provisions. |
| **Credit risks** (including risks relating to the provision of funding for development or construction projects, or otherwise risks categorised as counterparty risks as detailed below) | ▶ Counterparty due diligence is undertaken, which would include credit rating assessments.<br>▶ Exposures to deposit-takers, during periods of high portfolio cash weightings, are mitigated by diversification of credit. |
| **Liquidity risks** (there is limited liquidity in the shares, investments in the underlying energy efficiency projects are typically highly illiquid and the Company may have debt) | ▶ The Company is a closed-ended fund, with medium term gearing limited to 35%, hence there is limited scope by which the portfolio would be obliged to realise assets.<br>▶ Assets are typically purchased upon the basis of immediate positive cashflows, which also has benefit in respect of portfolio liquidity. |
| **Counterparty risks** (credit risk assessments may arise in respect of prospective counterparties and the long-term nature of the energy contracts may still involve material residual counterparty risks) | ▶ Counterparty risks are mitigated via credit risk management disciplines relating to off-takers, including credit risk assessments and diversification of such counterparties.<br>▶ Additional protections such as parent company guarantees may also be available |
| **Operational risks** (including risks relating to installing, operating and decommissioning energy efficiency equipment, risks that the equipment may not be properly and adequately maintained or otherwise underperform, risks relating to lack of available feedstock, risks relating to contractors' licences and other legal risks and valuation-related risks) | ▶ Experienced and skilled contractors are employed for projects and appropriate contractual performance assurances may further mitigate such risks.<br>▶ Portfolio diversification by technology, key contractors and geography limits concentration of such risks.<br>▶ Significant focus is provided to key contracts, and protections therein, in respect of any development projects, energy-related contracts and similar.<br>▶ Where applicable, availability and pricing of feedstock is a key factor in the assessment of investment proposals. |

## 3.4 RISK & RISK MANAGEMENT – CONTINUED

| Key risks | Mitigation |
| --- | --- |
| **Country/Regional risks** (including risks relating to changes in tax laws and regulations, risks relating to any unhedged currency exposure and other international political risks, such as relating to Brexit) | ▶ Typically, portfolio investments would not depend upon energy-related subsidies.<br>▶ The potential relative merits of currency hedging is duly assessed in respect of non-UK investment proposals.<br>▶ Brexit is not currently expected to have a material impact due to the nature of the portfolio operations, however contingency planning has included additional project-related supplies of key parts from suppliers within the EU27.<br>▶ The investment strategy aims to deliver significant geographical portfolio diversification.<br>▶ Given the long-term nature of typical portfolio projects, potential political risk is a material due diligence consideration and is carefully managed accordingly. |

### RISK DIVERSIFICATION

In order to ensure a spread of investment risk, the Company has adopted certain investment restrictions to diversify the portfolio per the Investment Policy, these are outlined in Section 2.3 Business Model and Investment Strategy

### KEY RISK INDICATORS AND METRICS

The Company monitors a number of key risk indicators and metrics including, as applicable:

(i) Structural medium-term gearing;

(ii) Portfolio concentration by project, client counterparty, country and industry sector;

(iii) Development and construction project portfolio weighting;

(iv) Subcontractor exposure weighting;

(v) Off-taker credit rating weighting;

(vi) Technology exposure weighting; and

(vii) Weighted average contract lifespans.

### EMERGING RISKS

The Company is keen to ensure that it maintains a pro-active stance on any potential emerging risks and over the course of the financial year, the Company and SDCL will develop its plans further to identify and mitigate any emerging risks.

## 3.5 Viability Statement

The Directors have assessed the viability of the Company over a five-year period to March 2024. In making this statement the Directors have considered the resilience of the Company, taking account of its current position, the principal risks facing the business in severe but plausible downside scenarios, and the effectiveness of any mitigating actions.

The Directors have determined that the five-year period to March 2024 is an appropriate period over which to provide this viability statement as this period accords with the Company's business planning exercises and is appropriate for the investments owned by the Company.

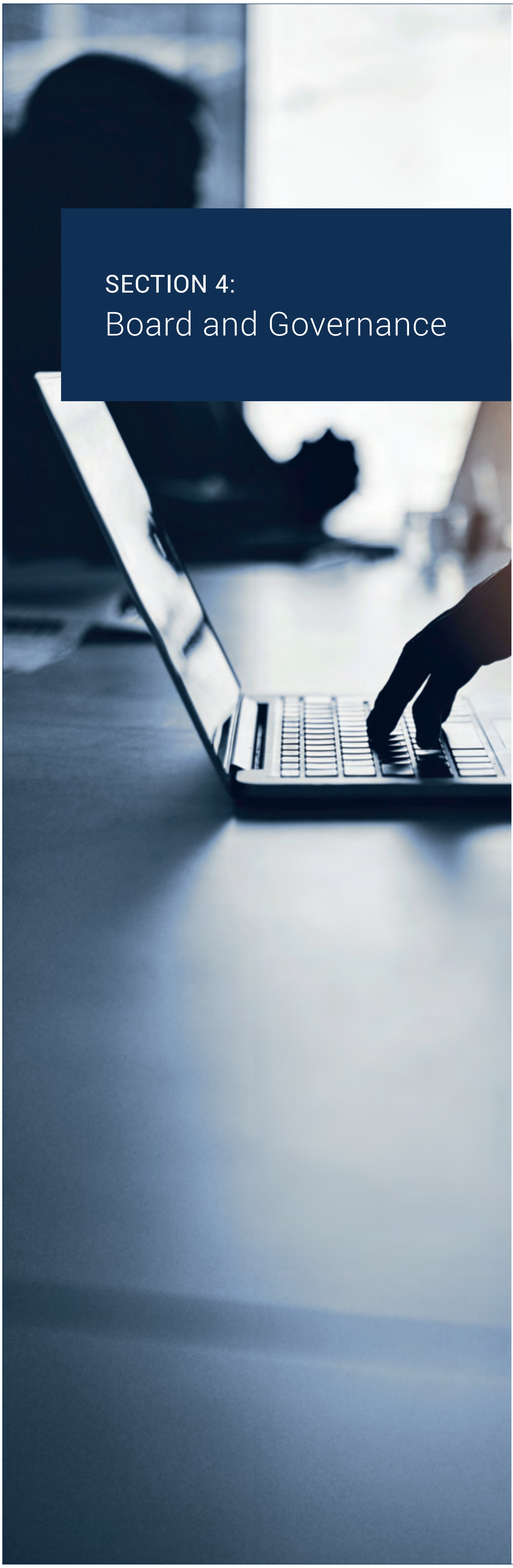
The Company benefits from investments with predictable long-term cash flows and a set of risks that can be identified and assessed. The projects are each supported by detailed financial models. The Directors believe that the diversification within the portfolio of projects helps to withstand and mitigate for the risks it is most likely to meet.

The Investment Manager prepares and the Directors review summary five-year cash flow projections each year as part of business planning. The projections consider cash flows, dividend cover, investment policy compliance and other key financial indicators over the period. Sensitivity analysis on these projections considers the potential impact of the Company's principal risks actually occurring. These projections are based on the Investment Manager's expectations of future asset performance, income and costs, and are consistent with the methodology applied to provide the valuation of the investments.

Based on this review, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to March 2024.

On behalf of the Board

TONY ROPER,
**Chairman**



SECTION 4:

# Board and Governance

## 4.1 Board of Directors

### Anthony (Tony) Roper

**CHAIRMAN**

Tony has over 25 years' experience of making and managing infrastructure equity investments in the UK, Europe, North America and Australia. He trained as a structural engineer before moving on to project management, accounting, financing, infrastructure investment, asset management and fund management of listed investment companies. Between 1994 and 2006 he worked at John Laing PLC, latterly as a director responsible for M&A, strategy in relation to the infrastructure portfolio and future growth prospects.

From 2006 to 2011 he worked at HSBC Specialist Investments, providing advice to HICL Infrastructure Company Limited ("HICL") on acquisitions, portfolio management and financing. From 2011 to June 2018 Tony was a managing partner at InfraRed Capital Partners ("InfraRed") responsible for InfraRed's three infrastructure yield funds, was the HICL fund manager until June 2017 and sat on a number of investment committees, including for The Renewables Infrastructure Group Limited ("TRIG"), listed on the London Stock Exchange.

Tony is currently a director of Affinity Water Limited (as a shareholder non-executive director on behalf of HICL and InfraRed) and is non-executive Chairman of Aberdeen Standard European Logistics Income plc, which launched in November 2017.

Tony has an MA in Engineering from Cambridge University and is an ACMA.

## Helen Clarkson

**DIRECTOR AND CHAIR OF THE AUDIT AND RISK COMMITTEE**

Helen joined The Climate Group in March 2017 as Chief Executive Officer. In addition to leading the growing Climate Group team, Helen sits on the board of the We Mean Business Coalition and served on the advisory board for the 2018 Global Climate Action Summit, leading the work on Healthy Energy Systems.

Prior to joining The Climate Group, Helen worked at Forum for the Future where she founded the organization's US office. At Forum, Helen led work with large US corporations such as Target, Walmart, Nike, Gap, and Levi Strauss & Co. to solve complex sustainability challenges at both the organizational and broader systemic level.

Helen joined Forum from Médecins Sans Frontières where she worked on humanitarian missions in countries including Democratic Republic of Congo, Sudan, Pakistan and Nigeria.

Helen qualified as a Chartered Accountant with Deloitte, and has an undergraduate degree in Philosophy from Cambridge University, and a master's degree from Birkbeck College, University of London.

## Christopher (Chris) Knowles

**SENIOR INDEPENDENT DIRECTOR AND CHAIRMAN OF THE REMUNERATION COMMITTEE**

Chris has over 40 years' experience of development economics, project finance, infrastructure and climate and environmental finance. He has spent the majority of his career at the European Investment Bank ("EIB"), most recently heading the climate investment business. From 2000 to 2005 he led the lending operations team responsible for EIB's financing in the transport and infrastructure sectors in Spain, closing EUR 4 to 5 billion of financing annually for Europe's largest national infrastructure programme, much of it in PPP form. He spent the 1990s doing broadly similar jobs throughout the Central European region, Finland and Greece and the 1980s in the African and Caribbean regions. Prior to EIB he worked for the Lesotho National Development Corporation, the European Commission and Lazard Brothers.

From 2006 to 2017 Chris was part of an initiative by EIB to reinforce its activity in sectors of high policy priority for the EU and in which the EIB seeks to develop innovative approaches. In this capacity, he had pan-European responsibility for a diverse portfolio of activities, including equity funds for infrastructure and clean energy, carbon finance, and structured finance in the energy and environmental sectors. He is a representative on various advisory committees including that for the Climate Bond Initiative and the OECD Centre for Green Finance & Investment. He was chairman of the Green for Growth Fund, which focussed on energy efficiency projects in the Balkans, Caucasus and MENA regions, and a board member of the European Energy Efficiency Fund (which focusses on the pan-EU region).

Chris holds degrees in Economics and Management from the University of Durham.

## 4.2 The Investment Manager

The Company and the Investment Manager have entered into the Investment Management Agreement pursuant to which the Investment Manager has been given responsibility, subject to the overall supervision of the Board, for active discretionary investment management of the portfolio in accordance with the Company's investment objective and policy.

The Investment Manager is authorised and regulated as an AIFM by the FCA and, as such, is subject to the FCA Rules in the conduct of its investment business.

As the entity appointed to be responsible for risk management and portfolio management, the Investment Manager is the Company's AIFM. The Investment Manager has full discretion under the Investment Management Agreement to make investments in accordance with the Company's investment policy from time to time. This discretion is, however, subject to: (i) the Board's ability to give instructions to the Investment Manager from time to time; and (ii) the requirement of the Board to approve certain investments where the Investment Manager has a conflict of interest in accordance with the terms of the Investment Management Agreement.

The Investment Manager also has responsibility for financial administration and investor relations, advising the Company and its group in relation to the strategic management of the Portfolio, advising the Company in relation to any significant acquisitions or investments and monitoring the Company's funding requirements.

Further information on the group can be found at their website: www.sdcl-ib.com

# 4.3 Corporate Governance Statement

The Board of SEEIT plc has considered the Principles and Provisions of the AIC Code of Corporate Governance 2019 (AIC Code). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code 2019 (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to SEEIT 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. The company has complied with (or is in the process of complying, as noted below) the Principles and Provisions of the AIC Code, except for the provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. The Board has agreed that these provisions are not relevant to the position of the Company as it has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions. 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.

## OVERVIEW

The Board recognises the importance of a strong corporate governance culture that meets the requirements of the UK Listing Authority ("UKLA"), the Financial Conduct Authority ("FCA") and the Association of Investment Companies ("AIC") of which the Company is a member.

The Board has put in place a framework for corporate governance which it believes is appropriate for an investment company in line with the best practices in relation to matters affecting shareholders, regulators and other stakeholders of the Company.

With a range of relevant skills and experience the board is well balanced and functions effectively with all Directors contributing to the Board discussions and debates. The Board believes in providing as much transparency for investors as is reasonably possible to ensure investors can clearly understand the prospects of the while also preserving an appropriate level of commercial confidentiality.

During the financial year, the Board will publish a statement which outlines the Company's purpose, values and strategy.

## AIFM DIRECTIVE

The AIFM Directive imposes detailed and prescriptive obligations on fund managers established in the EEA. These obligations include prescriptive rules on measuring and capping leverage in line with known European standards, the treatment of investors, liquidity management, the use of "depositaries" and cover for professional liability risks.

The AIFM Directive imposes conditions on the marketing of entities such as the Company to investors in the EEA. The AIFM Directive requires that an "alternative investment fund manager" ("AIFM") be identified to meet such conditions where such marketing is sought. For these purposes, SDCL, as the legal entity responsible for performing portfolio and risk management of the Company, is the AIFM.

## ASSOCIATION OF INVESTMENT COMPANIES

The Company is a member of the Association of Investment Companies (the "AIC") and has considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code"). The Company has adopted the AIC Code. The AIC Code, as explained by the AIC's Code of Corporate Governance Guide for Investment Companies, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

## THE BOARD

The Board consists of three non-executive Directors. In accordance with Principle 2 of the AIC Code all of the non-executives are independent of the Investment Manager. The Chairman, Tony Roper, met the independence criteria of the AIC Code Principle 1 upon appointment and has continued to meet this condition throughout his term of service. Although not a requirement of the AIC Code, in accordance with guidance in Principle 1, the Board has a Senior Independent Director, Chris Knowles, who was appointed as Senior Independent Director at IPO. Being non-executive Directors, none of the Directors has a service contract with the Company.

## 4.3 CORPORATE GOVERNANCE STATEMENT – CONTINUED

The Articles of Incorporation provide that each of the Directors shall retire at each annual general meeting in accordance with Principle 3 of the AIC Code. All three Directors intend to retire and offer themselves for re-election at the forthcoming Annual General Meeting in September 2019.

A Director who retires at an annual general meeting may, if willing to act, be reappointed. The Directors are not subject to automatic reappointment.

The Board believes that the balance of skills, gender, experience and knowledge of the current Board provides for a sound base from which the interests of investors will be served to a high standard.

The Board recommends the re-election of each Director and supporting biographies are disclosed in Section 4.1 Board of Directors.

This financial year, the Board will publish a document outlining the responsibilities of the Chairman and Senior Independent Director.

The Board is scheduled to meet at least four times a year and between these formal meetings there is regular contact with the Investment Manager, the Administrator and the Company's Broker. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company that should be brought to the attention of the Directors. The Directors also have access, where necessary in the carrying out of their duties, to independent professional advice at the expense of the Company.

The Board considers agenda items laid out in the notice and agenda of meeting which are circulated to the Board in advance of the meeting as part of the Board papers. Directors may request any agenda items to be added that they consider appropriate for Board discussion. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion. Board meetings include a review of investment performance and associated matters such as health and safety, marketing/ investor relations, risk management, gearing, general administration and compliance, peer group information and industry issues.

The Board will establish a Nomination Committee during this financial year. Due to the limited size of the Board, the Nomination Committee is expected to comprise the entire Board.

The Board believes that the composition of the Board and its Committees reflect a suitable mix of skills and experience, and that the Board, as a whole, and its Committees functioned effectively during the period to March 2019 since incorporation.

The Board is diverse in its composition and thought processes. The Directors have a breadth of experience relevant to the Company. The members of the Board strive to challenge each other constructively to make sure all issues are examined from different angles and the Board holds the Investment Manager properly to account on the effective management of the Company.

The board will carry out a board evaluation during this financial year, led by the Chairman, and this will include an evaluation, led by the Senior Independent Director, of the performance of the Chairman.

The independence of each Director has been considered and each has been confirmed as being independent of the Company and the Investment Manager.

### DELEGATION OF RESPONSIBILITIES

The Board has delegated the following areas of responsibility:

The day-to-day administration of the Company has been delegated to Sanne Group (UK) Limited in its capacity as Company Secretary and Administrator.

The Investment Manager has full discretion (within agreed parameters) to make investments in accordance with the Company's Investment Policy and has responsibility for financial administration and investor relations, in addition to advising the Board in relation to further capital raisings and the payment of dividends amongst other matters, subject to the overall supervision and oversight of the Board.

## 4.3 CORPORATE GOVERNANCE STATEMENT – CONTINUED

Among the specific tasks of the Investment Manager are the overall financial management of the Company and existing portfolio as a whole, including the deployment of capital, management of the SEEIT group's debt facilities, hedging arrangements, the sourcing of new investments, preparing the semi-annual valuations, the statutory accounts, the management accounts, business plans, presenting results and information to shareholders, coordinating all corporate service providers to the Company and giving the Board general advice.

Members of the Investment Manager's teams are also appointed as Directors of the SEEIT group's project companies and/or intermediate holding companies and as part of their role in managing the portfolio, they attend Board meetings of these companies and make appropriate decisions. Material decisions are referred back to SDCL's investment committee for consideration, and the SEEIT Board is consulted on key matters relevant to SEEIT's strategy, policies or overall performance, both on an ad hoc basis where required and during formal reporting sessions, including all matters outside the Investment Manager's delegated authority.

The Board has sought to identify potential conflicts which could arise, including the situation whereby the Investment Manager intends to acquire energy efficiency projects from a SDCL related party. Should such a situation arise, as in the case of the Northeastern US CHP transaction, where SEEIT was acquiring a project from a SDCL related party, the Investment Manager approached the Board at the earliest opportunity to discuss any additional diligence or comfort, such as independent valuation or audits required.

### SHARE PREMIUM ACCOUNT

As outlined in the November 2018 Prospectus, in order to create significant distributable reserves available to facilitate share repurchases and the payment of future dividends, the Company completed the cancellation of the share premium account. Following the approval of the Court on 12 March 2019 the cancellation of the share premium account became effective.

## 4.3 CORPORATE GOVERNANCE STATEMENT – CONTINUED

### COMMITTEES OF THE BOARD

The committees of the Board are the Audit & Risk Committee and the Remuneration Committee. Due to the limited size of the Board, the Remuneration Committee comprises the entire Board. Terms of reference for each Committee have been approved by the Board and are available on the Company's website.

The three members of the Board were all appointed shortly prior to the Company's launch in October 2018. The following meetings were held since incorporation:

| | Quarterly Board Meetings | Audit and Risk Committee | Remuneration Committee |
|---|---|---|---|
| Number of meetings | 2 | 3 | 1 |
| **Meetings attended** | | | |
| Tony Roper | 2 | 3 | 1 |
| Helen Clarkson | 2 | 3 | 1 |
| Chris Knowles | 2 | 3 | 1 |

During the period a number of ad hoc Board/Committee meetings were held to deal with matters substantially of an administrative nature and these were attended by those Directors available.

### RELATIONS WITH SHAREHOLDERS

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. Senior members of the Investment Manager make themselves available, as practicable, to meet with principal shareholders and key sector analysts. Feedback from these meetings is provided to the Board. The Board is also kept fully informed of all relevant market commentary on the Company by the Company's Financial PR agency, as well as receiving relevant updates from the Investment Manager and the Company's broker.

The Company reports formally to shareholders twice a year and will hold an Annual General Meeting in September 2019, at which members of the Board will be available to answer shareholder questions.

Results of Annual General Meetings will be announced by the Company promptly after the relevant meeting. Additionally, other notices and information are provided to shareholders on an ongoing basis through the Company's website in order to assist in keeping shareholders informed. The Secretary and Registrar monitor the voting of the shareholders and proxy voting is taken into consideration when votes are cast at the Annual General Meeting.

# 4.4 Audit and Risk Committee Report

The Audit & Risk Committee has been in operation since the inception of the Company in October 2018. Chaired by Helen Clarkson, it operates within clearly defined terms of reference and comprises all of the Directors. It is also the formal forum through which the independent auditor reports to the Board of Directors and met three times since inception.

The Audit & Risk Committee has adopted formal Terms of Reference which are available on the Company's website. The Terms of Reference are reviewed periodically as necessary.

The main duties of the Audit & Risk Committee are:

- assessing, and recommending to the Board for approval, the contents of the half year and annual financial statements and reviewing the independent auditor's report thereon, including consideration as to whether the financial statements are overall fair, balanced and understandable;
- reviewing the valuation of the Company's investments prepared by the Investment Manager and making a recommendation to the Board on the valuation;
- agreeing with the independent auditor the external audit plan including discussing with the independent auditor the key risk areas within the financial statements;
- considering and understanding the key risks of misstatement of the financial statements and formulating an appropriate plan to review these and agreeing with the Investment Manager its processes to manage these risk areas;
- reviewing the Viability and Going Concern Statements and reviewing the work prepared by the Investment Manager in support of these statements;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the independent auditor as well as reviewing the effectiveness of the external audit process and making any recommendations to the Board for improvement of the audit process;
- reviewing and recommending to the Board for approval the audit, audit related and non-audit fees payable to the independent auditor or their affiliated firms overseas and the terms of their engagement;
- reviewing the appropriateness of the Company's accounting policies;
- ensuring the adequacy and effectiveness of the internal control and risk management systems;
- monitor current risk exposures on behalf of the Board;
- to consider any reports or information received in respect of whistleblowing; and
- reporting to the Board on how it has discharged its duties.

None of the members of the Audit & Risk Committee have any involvement in the preparation of the financial statements of the Company, as this has been contracted to the Investment Manager and the Company's Administrator.

The Audit & Risk Committee meets the independent auditor before, during and after their audit and has discussed with the independent auditor the scope of its annual audit work and also its audit findings. The independent auditor attends the Audit & Risk Committee meetings at which the annual and interim accounts are considered, and at which it has the opportunity to meet with the Committee without representatives of the Investment Manager and Administrator being present. The Audit & Risk Committee has direct access to the independent auditor and to key senior staff of the Investment Manager, and it reports its findings and recommendations to the Board which retains the ultimate responsibility for the financial statements of the Company.

## SIGNIFICANT ISSUES CONSIDERED

After discussion with the Investment Manager and the independent auditor, the Audit & Risk Committee determined that the key risks of misstatement of the Company's financial statements related to the valuation of the investments and the adoption of Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

## ADOPTION OF INVESTMENT ENTITY ACCOUNTING STANDARD

The Directors have agreed to adopt the Investment Entities accounting standards (Amendments to IFRS 10, IFRS 12 and IAS 27). As explained in Note 2 to the financial statements, the Directors are of the opinion that the Company meets the requirements

## 4.4 AUDIT AND RISK COMMITTEE REPORT – CONTINUED

of an "Investment Entity". Assessing whether the Company and certain subsidiaries met the criteria of Investment Entities, in accordance with Investment Entities Amendments, was seen as a key judgement.

The Audit Committee debated the appropriateness of adopting the new standard with the Investment Manager and independent auditor. The Audit and Risk Committee concluded that the new standards will improve stakeholders' understanding of the financial performance and position of the Group.

### VALUATION OF INVESTMENTS

As outlined in Note 8 to the financial statements, the total carrying value of the investment portfolio at fair value at 31 March 2019 was £60,850k. Market quotations are not available for these financial assets, and as such, their valuation is undertaken using a discounted cash flow methodology. This requires a series of material judgements to be made as further explained in Note 3 to the financial statements.

The valuation process and methodology were discussed by the Audit & Risk Committee with the Investment Manager at the time of the IPO in December 2018, in March 2019 prior to the year-end valuation process, and again in May 2019 and June 2019 as part of the year-end sign off process. The Audit & Risk Committee met with the independent auditor when it reviewed and agreed the independent auditor's group audit plan and also at the conclusion of the audit of the financial statements, and focussed much of its discussion on the valuation process. The Investment Manager carries out a valuation semi-annually and provides a detailed valuation report to the Company.

At the time of the IPO, the Company also engaged Grant Thornton as an independent valuation expert to provide a valuation opinion. Grant Thornton provided a report to the Audit & Risk Committee that confirmed that the valuation was within a range which Grant Thornton considered to be fair and reasonable on a fair value basis.

**Valuation of Investments – key forecast assumptions**

The Audit & Risk Committee considered in detail those assumptions that are subject to judgement that may have a material impact on the valuation. The key assumptions are:

**Macroeconomic assumptions**

Macroeconomic assumptions include inflation and tax rate assumptions. The Investment Manager's assumptions in this area are set out and explained in Section 3.2 Valuation of the Portfolio.

The Investment Manager has discussed and agreed the valuation assumptions with the Audit & Risk Committee. In relation to the key judgements underpinning the valuation, the Investment Manager has provided sensitivities showing the impact of changing these assumptions and these have been reviewed by the Investment Manager and the Audit & Risk Committee to assist in forming an opinion on the fairness and balance of the annual report, together with their conclusion on the overall valuation.

**Valuation of Investments – valuation discount rates**

The discount rates adopted to determine the valuation are selected and recommended by the Investment Manager. The discount rate is applied to the expected future cash flows for each investment's financial forecasts derived adopting the assumptions explained above, amongst others, to arrive at a valuation (discounted cash flow valuation). The resulting valuation is sensitive to the discount rate selected. The Investment Manager is experienced and active in the area of valuing these investments and adopts discount rates reflecting its current extensive experience of the market. It is noted however that this requires subjective judgement and that there is a range of discount rates which could be applied. The discount rate assumptions and the sensitivity of the valuation of the investments to this discount rate are set out in Section 3.2 Valuation section of the Portfolio.

The Audit & Risk Committee discussed with the Investment Manager the process adopted to arrive at the selected valuation discount rates (which includes comparison with other market transactions and an independent review of valuation discount rates by Grant Thornton just prior to the IPO in December 2018) and satisfied itself that the rates applied were appropriate. The independent auditor explained to the Audit & Risk Committee the results of its review of the valuation, including its consideration of the Company's underlying cash flow projections, the economic assumptions and discount rates.

## 4.4 AUDIT AND RISK COMMITTEE REPORT – CONTINUED

### INTERNAL CONTROLS AND RISK MANAGEMENT

The Audit & Risk Committee is responsible for the Company's system of internal control and for reviewing its effectiveness. It has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

The process is based on a risk-based approach to internal control through a risk log which identifies the key functions carried out by the Investment Manager and other service providers; the various activities undertaken within those functions; the risks associated with each activity; and the controls employed to minimise and mitigate those risks. The risk log is updated on an on-going basis and reviewed quarterly and the Audit & Risk Committee considers all material changes to the risk ratings and the action which has been, or is being, taken. By their nature, these procedures will provide a reasonable, but not absolute, assurance against material misstatement or loss.

At each Board meeting, the Board also monitors the SEEIT group's investment performance and it reviews the group's activities since the last Board meeting to ensure that the Investment Manager is adhering to the Company's Investment Policy and approved investment guidelines. The Board considers the pipeline of new potential opportunities and reviews the prices paid for new investments during the quarter.

Further, at each Board meeting, the Board receives reports from the Investment Manager, Company Secretary and Administrator in respect of compliance matters and duties they have performed on behalf of the Company.

The Board has considered the need for an internal audit function and it has decided that the systems and procedures employed by the Investment Manager and the Administrator, including their own internal review processes and processes in place in relation to the Company, provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Audit & Risk Committee recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives, and to provide reasonable, but not absolute, assurance against material misstatement or loss, and relies on the operating controls established by the Company's Administrator and the Investment Manager.

The Investment Manager prepares management accounts and updates business forecasts on a quarterly basis, which allow the Board to assess the Company's activities and review its performance. The Board and the Investment Manager have agreed clearly defined investment criteria, return targets, and exposure limits. Reports on these performance measures, coupled with cash projections and investment valuations, are submitted to the Board at each quarterly meeting.

The Investment Manager prepares quarterly project performance and project financial analysis, and highlights the key activities performed and any specific new risks identified relating to the operating portfolio for consideration by the Board.

### APPOINTMENT OF THE INDEPENDENT AUDITOR

PricewaterhouseCoopers LLP ("PwC") was appointed to be independent auditor for the SEEIT group at the IPO of the Company.

The objectivity of the independent auditor is reviewed by the Audit & Risk Committee which also reviews the terms under which the independent auditor may be appointed to perform non-audit services. The Audit & Risk Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the independent auditor, with particular regard to any non-audit work that the independent auditor may undertake. In order to safeguard auditor independence and objectivity, the Audit & Risk Committee ensures that any other advisory and/or consulting services provided by the independent auditor does not conflict with its statutory audit responsibilities.

Advisory and/or consulting services generally only cover reviews of interim financial statements, tax compliance and capital raising work. The independent auditor may not undertake any work for the Company in respect of the preparation of the financial statements, preparation of valuations used in financial statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations.

## 4.4 AUDIT AND RISK COMMITTEE REPORT – CONTINUED

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the independent auditor, with particular regard to the level of non-audit fees. Total fees paid amounted to £149k for the period ended 31 March 2019 of which £105k related to audit and audit related services to the Company and its direct subsidiary, SEEIT Holdco, and £44k related to audit of the SEEIT group's project subsidiaries and other audit-related services. The only non-audit services provided by PwC in the year to the Company and its subsidiaries are in relation to the review of the completion accounts required as part of the transaction to acquire the Seed Portfolio.

Notwithstanding such services, the Audit & Risk Committee considers PwC to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

To fulfil its responsibility regarding the independence of the independent auditor, the Audit & Risk Committee considered:

- a report from the independent auditor describing their arrangements to identify, report and manage any potential independence threats; and
- the extent of non-audit services provided by the independent auditor.

To assess the effectiveness of the external audit process, the Audit & Risk Committee reviewed:

- the independent auditor's fulfilment of the agreed audit plan and variations from it; and
- reports highlighting any significant issues that arose during the course of the audit;

The Audit & Risk Committee notes the requirements of the UK Corporate Governance Code and, in particular, the requirement to put the external audit out to tender at least every 10 years. As this is the first year of operation of the Company, it is not expected that the Company will tender the external audit in the foreseeable future.

The Audit & Risk Committee is satisfied with PwC's effectiveness and independence as auditor having considered the degree of diligence and professional scepticism demonstrated by the firm. As such, the Committee has not considered it necessary during this period to conduct a tender process for the appointment of its independent auditor for the year ending 31 March 2020.

The Audit & Risk Committee will conduct a formal review of PwC following the issue of these financial statements to ensure that the Audit & Risk Committee considers all aspects of the independent auditor's service and performance.

Having satisfied itself that the independent auditor remains independent and effective, the Audit & Risk Committee has recommended to the Board that PwC be reappointed as independent auditor for the period ending 31 March 2020.

HELEN CLARKSON
**Chair, Audit & Risk Committee**

# 4.5 Directors' Remuneration Report

## STATEMENT OF THE CHAIRMAN OF THE REMUNERATION COMMITTEE

The Remuneration Committee, chaired by Christopher Knowles, operates within clearly defined terms of reference and comprises all the Directors of the Company, all of whom are independent and non-executive. It met once in the period from incorporation of the Company to 31 March 2019.

The terms of reference of the Committee (available from the Company's website) are to determine and agree the Board policy for the remuneration of the Directors of the Company, including the approval of any ad-hoc payments in respect of additional corporate work required such as the issuance of new shares.

As all Directors of the Company are non-executive, they receive an annual fee appropriate for their responsibilities and time commitment but no other incentive programmes or performance-related emoluments.

On behalf of the Board

CHRISTOPHER KNOWLES
**Chair, Remuneration Committee**

## REMUNERATION POLICY

All Directors of the Company are non-executive and they receive an annual fee appropriate for their responsibilities and time commitment. As such there are:

- no service contracts with the Company;
- no long-term incentive schemes;
- no options or similar performance incentives; and
- no payments for loss of office unless approved by shareholder resolution.

The Directors' remuneration shall:

- reflect the responsibility, experience, time commitment and position on the Board;
- allow the Chairman, Senior Independent Director and Chair of the Audit and Risk Committee to be remunerated in excess of any potential remaining Board members to reflect their increased roles of responsibility and accountability;
- be paid quarterly in arrears;
- include remuneration for additional, specific corporate work which shall be carefully considered and only become due and payable on completion of that work; and
- be reviewed annually and, at least every three years, by an independent professional consultant with experience of investment companies and their fee structures.

## 4.5 DIRECTORS' REMUNERATION REPORT – CONTINUED

### REMUNERATION COMMITTEE

The Remuneration Committee was formed and met once in the period from incorporation to 31 March 2019 to consider the remuneration of the Directors. Given the skills and experience of the Directors and the size of the Board, it was deemed appropriate for all of the Directors to be members of the Remuneration Committee.

Each of the Directors is entitled to receive a fee from the Company at such rate as may be determined in accordance with the Company's Articles of Association. The Directors' current level of remuneration is £30,000 per annum for each Director other than the Chairman, who will receive an additional £15,000 per annum, the chairperson of the Audit and Risk Committee, who will receive an additional £5,000 per annum and the Senior Independent Director, who will receive an additional £5,000 per annum.

The table below sets out the Directors' remuneration approved and paid for the period to 31 March 2019 as well as that proposed for the year ending 31 March 2020.

There is no CEO and there are no employees in the Company and therefore no key management personnel, apart from the Directors disclosed below.

The remuneration shown below as paid (before taxes where relevant), is audited.

No additional fees were payable to the Directors in the period to 31 March 2019.

The Directors will also be entitled to be paid all reasonable expenses properly incurred by them in connection with the performance of their duties. These expenses will include those associated with attending general meetings, Board or committee meetings and legal fees. In the period to 31 March 2019, such expenses were de minimis. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company.

The Board also considered the availability of time of each Director, taking into account their other commitments, and concluded that adequate time was in each case available for the appropriate discharge of the Company's affairs.

The Board will seek approval at the AGM in 2019 for the Remuneration Policy and the annual Directors' fees for routine business for the year ending March 2020.

| Director | Role | Remuneration paid for period from incorporation to 31 March 2019 £'000 | Remuneration proposed for year ending 31 March 2020 £'000 |
|---|---|---|---|
| Tony Roper | Chairman | £17 | £45 |
| Helen Clarkson | Audit & Risk Committee Chair | £13 | £35 |
| Christopher Knowles | Senior Independent Director | £13 | £35 |
| **Total** | | **£43** | **£115** |

# 4.6 Report of the Directors

## PRINCIPAL ACTIVITY

The Company is a closed-ended UK investment trust that invests in energy efficient projects. Further details can be found in the Strategic Report. The Directors do not anticipate any change in the principal activity of the Company in the foreseeable future.

## INVESTMENT TRUST STATUS

Prior to IPO, the Company ensured that it would meet the obligations required of it to achieve approved investment trust status (under Section 1158 of the Corporation Tax Act 2010 and the Investment Trust Regulations 2011). The Company is required to meet relevant eligibility conditions and ongoing requirements. In particular, the Company must not retain more than 15 per cent. of its eligible investment income. The Company has conducted and monitored its affairs so as to enable it to comply with these requirements.

## CORPORATE GOVERNANCE

All companies with a premium listing of equity shares in the UK are required under the UK Listing Rules to comply with the principles of the UK Corporate Governance Code. The Company became a member of the Association of Investment Companies ("AIC") during the reporting period and has therefore put in place arrangements to comply with the AIC Code of Corporate Governance ("AIC Code") which is endorsed by the UK Corporate Governance Code.

The Board recognizes the importance of sound corporate governance culture that meets the requirements of the UK Listing Authority and the AIC Code.

As an AIC member, the Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, provides a "comply or explain" code of corporate governance and addresses all the principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies such as the Company. The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide, provides better information to shareholders.

The Board is of the view that, throughout the period ended 31 March 2019, the Company complied with the recommendations of the AIC Code and the provisions of the UK Code, except for the provisions relating to:

- The role of the chief executive
- Executive Directors' remuneration; and
- The need for an internal audit function

Provision A.2.1 of the UK Code requires a chief executive to be appointed. As an investment trust, the Company has no employees and therefore has no requirement for a chief executive. All the Directors including the Chairman are non-executive and independent of the Investment Manager. The Company has not established a nomination committee or management engagement committee, which is not in accordance with the provision B.2.1 and D.2.1of the UK Code, and Principle 5 of the AIC Code respectively. The Board considers that given the Company's current size and structure of the Board, these provisions are not currently relevant or appropriate to the position of the Company. The absence of an internal audit function is noted in the Audit and Risk Committee Report.

The Board considers that the Company's existing internal financial and operating controls, coupled with the analysis of risks inherent in the business models of the Company continue to provide appropriate tools for the Company to monitor, evaluate and mitigate its risks.

## FOREIGN ACCOUNT TAX COMPLIANCE ACT ("FATCA") AND THE OECD COMMON REPORTING STANDARDS ("CRS")

The Board, in conjunction with the Company's service providers and advisers, will ensure the Company's compliance with FATCA's and CRS's requirements to the extent relevant to the Company.

## SHARE CAPITAL

The issued share capital of the Company as at 31 March 2019 was 100,000,000 ordinary shares and at the date of this report was 171,287,129.

The Company has one class of ordinary shares which carry no rights to fixed income. Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the shareholders are entitled to all of the surplus assets of the Company.

## 4.6 REPORT OF THE DIRECTORS – CONTINUED

Shareholders will be entitled to attend and vote at all general meetings of the Company and, on a poll, to one vote for each ordinary share held.

The Company's Articles of Association may be amended by the members of the Company by special resolution (requiring a majority of at least 75 per cent. of the persons voting on the relevant resolution).

### MAJOR INTERESTS IN ORDINARY SHARES

Directors who held office during the period and had interests in the shares of the Company as at 31 March 2019 are given in the table below.

| | Ordinary shares of £1 each held at 26 June 2019 |
|---|---|
| Tony Roper[1] | 35,000 |
| Helen Clarkson | 5,000 |
| Christopher Knowles[2] | 25,000 |
| **Total** | **60,000** |

(1) Tony Roper purchased an additional 10,000 Ordinary shares post period end
(2) Christopher Knowles purchased an additional 10,000 Ordinary shares post period end which were legally and beneficially transferred to members of his immediate family.

### SIGNIFICANT SHAREHOLDINGS

As at 26 June 2019, the Company is aware of or has received notification of the following interests in 5% or more of the Company' shares:

| | Ordinary shares held % |
|---|---|
| CCLA Investment Management | 17.80 |
| Investec Wealth & Investment | 13.44 |
| Newton Investment Management | 9.99 |
| M&G Investment Management | 8.86 |
| Tesco Pension Investment | 8.67 |
| Liontrust Sustainable Investments | 5.89 |
| Gravis Capital Partners | 5.14 |

Directors' and Officers' liability insurance cover is in place in respect of the Directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court.

Except for such indemnity provisions in the Company's Articles of Association and in the Directors' letters of appointment, there are no qualifying third-party indemnity provisions in force.

### POLITICAL DONATIONS

The Company has made no political donations since incorporation.

### RESULTS AND DIVIDEND

On 14 May 2019, the Board declared a dividend of 1.0 pence per share with respect to the period ended 31 March 2019.

### GOING CONCERN

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis of accounting in preparing the annual financial statements.

This conclusion is based on a review of the Company's cash flow projections together with cash and committed borrowing facilities available to it.

### RELATIONS WITH SHAREHOLDERS

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Investment Manager is available at all reasonable times to meet with principal shareholders and key sector analysts. The Chairman, the Senior Independent Director and other Directors are also available to meet with shareholders if required.

The AGM of the Company will provide a forum for shareholders to meet and discuss issues with the Directors and Investment Manager.

The Board receives comprehensive shareholder reports from the Company's Registrar and regularly monitors the views of shareholders and the shareholder profile of the Company. The Board is also kept fully informed of all relevant market commentary on the Company by the Investment Manager.

# 4.7 Statement of Directors' Responsibilities

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## DIRECTORS' CONFIRMATIONS

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Section 4.1 Board of Directors confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's independent auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## SECTION 5:
# Financial Statements

# 5.1 Independent auditors' report to the members of SDCL Energy Efficiency Income Trust plc

## Opinion

In our opinion, SDCL Energy Efficiency Income Trust plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit and cash flows for the period from 12 October 2018 to 31 March 2019 (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in shareholders' equity for the period then ended; and the notes to the financial statements which include a description of the significant accounting policies

Our opinion is consistent with our reporting to the Audit and Risk Committee.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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.

### INDEPENDENCE

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in Note 5 to the financial statements, we have provided no non-audit services to the company in the period from 12 October 2018 to 31 March 2019.

## Our audit approach

### CONTEXT

Our audit was planned and executed having regard to the fact that this is the first period the company is producing financial statements after admission to the London Stock Exchange on 11 December 2018.

The company meets the criteria of IFRS 10 investment entities and in light of this, our overall audit approach in terms of scoping and key audit matters focusses on the valuation of investments.

### OVERVIEW


**Materiality**

- Overall materiality: £1 million, based on 1% of total assets.

**Audit scope**

- The company invests in a diversified portfolio of energy efficient projects through an intermediate holding company and special purpose vehicles.
- The company financial statements include investments in operating and under construction assets which are held at fair value.
- We tailored the scope of our audit taking into account the type of investments held by the company, the accounting processes and controls and the industries that the company is exposed to through its investments. Furthermore, we also held meetings with management's internal valuation team during the planning and completion stages of our audit.

**Key audit matters**

- Valuation of investments.

## 5.1 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SDCL ENERGY EFFICIENCY INCOME TRUST PLC – CONTINUED

### THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### CAPABILITY OF THE AUDIT IN DETECTING IRREGULARITIES, INCLUDING FRAUD

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the London Stock Exchange regulations, environmental regulations, AIC Code of Corporate Governance and Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the valuation of investments. Audit procedures performed by the engagement team included:

- Challenging the assumptions and judgments made by management in their significant accounting estimate, valuation of investments;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above 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 would become aware of it. Also, 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 or intentional misrepresentations, or through collusion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of investments**<br>The company has £61 million of investments recorded at fair value and these are significant in the context of the overall balance sheet of the company (see Note 8 of the financial statements).<br><br>The company invests through a holding company which in turn hold debt and equity interest in project companies (the "underlying investment portfolio") for which there is no liquid market.<br><br>The fair value of the underlying investment portfolio has been valued on a discounted cash flow basis, which necessitates significant estimates in respect of the forecasted cash flows and discount rates applied. | We planned our audit to critically assess management's assumptions and the investment valuation model in which they are applied.<br><br>We have evaluated the design and implementation of relevant controls over the changes to the valuation of investments recorded at fair value.<br><br>We tested a sample of inputs into the fair value models and assessed the reasonableness of the assumptions used in determining the fair value of investments. Testing found that the assumptions used by the Directors' were supportable and reasonable. |

## 5.1 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SDCL ENERGY EFFICIENCY INCOME TRUST PLC – CONTINUED

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| The directors' assessment of those fair values involves estimates about the future results of the business, in particular around future revenues, growth rates and discount rates applied to future cash flow forecasts where there is a higher degree of sensitivity. Based on the historical performance of investments and best estimates of future assumptions, the directors believe that these fair value investments are recorded within the reasonable range.<br><br>The Audit and Risk Committee have set out their consideration of this risk on pages 35 to 38 as well as the forecasted cash flows and discount rates being recognised as a critical accounting estimate in Note 3 of the financial statements. Note 8 includes a breakdown of the investments and assumptions applied to the valuation. Determining the valuation methodology and determining the inputs to the valuation are subjective and complex. This, combined with the significance of the unlisted investments balance in the statement of financial position, meant that this was a key audit matter for our current year audit. | We used our internal valuation specialists to provide audit support in reviewing and concluding on the fair valuation of the underlying investment portfolio. They (a) reviewed the appropriateness of the valuation methodology and approach and (b) reviewed and commented on the computation of the discounted cash flow valuation model, including comparing the discount rate and other key assumptions against comparable market participants and other macroeconomic data, where appropriate.<br><br>We obtained satisfactory explanations when challenging assumptions made by management in the applicable valuation model.<br><br>We tested the mathematical accuracy of the valuation model to ensure incorporation of the assumptions into the valuation model was performed appropriately and the selected discount rates were correctly applied. We assessed the sensitivity calculations performed by management over all investments in respect of the key assumptions.<br><br>We have concluded that the valuation of investments is within a reasonable range. Additionally, the valuation is supported by the available evidence and the valuation methodologies used have been assessed by us as being appropriate and reasonable.<br><br>The results of our procedures identified no material errors in the fair valuation of investments. |

### HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

### MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

| | |
| --- | --- |
| Overall materiality | £1 million. |
| How we determined it | Based on 1% of total assets. |
| Rationale for benchmark applied | We believe that total assets is the most appropriate benchmark because this is the key metric of interest to investors, and is a generally accepted measure used for companies in this industry. |

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £50,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## 5.1 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SDCL ENERGY EFFICIENCY INCOME TRUST PLC – CONTINUED

### GOING CONCERN

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy. |
| We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

### STRATEGIC REPORT AND REPORT OF THE DIRECTORS

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the period ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. *(CA06)*

### THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE COMPANY AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE COMPANY

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 43 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 27 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## 5.1 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SDCL ENERGY EFFICIENCY INCOME TRUST PLC – CONTINUED

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the company and statement in relation to the longer-term viability of the company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the AIC Code of Corporate Governance (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the company and its environment obtained in the course of the audit. *(Listing Rules)*

### OTHER CODE PROVISIONS

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 43, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the company's position and performance, business model and strategy is materially inconsistent with our knowledge of the company obtained in the course of performing our audit.
- The section of the Annual Report on pages 35 to 38 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### 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. *(CA06)*

## Responsibilities for the financial statements and the audit

### RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities set out on page 43 the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### 5.1 INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SDCL ENERGY EFFICIENCY INCOME TRUST PLC – CONTINUED

## Other required reporting

### COMPANIES ACT 2006 EXCEPTION REPORTING

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; 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.

We have no exceptions to report arising from this responsibility.

### APPOINTMENT

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 10 December 2018 to audit the financial statements for the period ended 31 March 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge
26 June 2019

# 5.2 Financial Statements

## Statement of Comprehensive Income

For the Period from 12 October 2018 to 31 March 2019

| | Notes | For the period ended 31 March 2019 £'000 |
|---|---|---|
| **Income** | | |
| Investment income | 4 | 1,562 |
| **Total income** | | 1,562 |
| Fund expenses | 5 | (1,147) |
| **Operating profit** | | 415 |
| **Profit for the period before tax** | | 415 |
| Tax | 6 | – |
| **Profit and total comprehensive income for the period after tax** | | 415 |
| **Profit and total comprehensive income for the period attributable to:** | | |
| Equity holders of the Company | | 415 |
| **Earnings Per Ordinary Share (pence)** | 7 | 0.4 |

The accompanying Notes on pages 55 to 66 are an integral part of these financial statements.

All items in the above Statement derive from continuing operations.

**Other Comprehensive income**

There were no items of other comprehensive income in the current period.

## 5.2 FINANCIAL STATEMENTS – CONTINUED

# Statement of Financial Position

as at 31 March 2019

| | Notes | 31 March 2019 £'000 |
|---|---|---|
| **Non-current assets** | | |
| Investment at fair value through profit or loss | 8 | 61,334 |
| | | 61,334 |
| **Current assets** | | |
| Trade and other receivables | 9 | 2,001 |
| Cash and cash equivalents | | 38,007 |
| | | 40,008 |
| **Current liabilities** | | |
| Trade and other payables | 10 | (2,927) |
| **Net current assets** | | 37,081 |
| **Net assets** | | 98,415 |
| **Capital and reserves** | | |
| Share capital | 11 | 1,000 |
| Share premium | | – |
| Other reserves | 11 | 97,000 |
| Retained earnings | | 415 |
| **Total equity** | | 98,415 |
| **Net assets per share (pence)** | | 98.4 |

The accompanying Notes on pages 55 to 66 are an integral part of these financial statements.

The financial statements for the period ended 31 March 2019 of SDCL Energy Efficiency Income Trust plc on pages 51 to 54, were approved and authorised for issue by the Board of Directors on 26 June 2019.

Signed on behalf of the Board of Directors:

Helen Clarkson
Director

Tony Roper
Director

Company number: 11620959

5.2 FINANCIAL STATEMENTS – CONTINUED

## Statement of Changes in Shareholders' Equity

For the Period from 12 October 2018 to 31 March 2019

| | Note | Share Capital £'000 | Share Premium £'000 | Other distributable reserves £'000 | Retained earnings £'000 | **Total £'000** |
|---|---|---|---|---|---|---|
| **Balance at 12 October 2018** | | – | – | – | – | – |
| Shares issued | 11 | 1,000 | 99,000 | – | – | 100,000 |
| Share issue costs | 11 | – | (2,000) | – | – | (2,000) |
| Reserves transfer | | | (97,000) | 97,000 | – | – |
| Profit and total comprehensive income for the period | | – | – | – | 415 | 415 |
| **Shareholders' equity at 31 March 2019** | | 1,000 | – | 97,000 | 415 | 98,415 |

Other distributable reserves were created through the cancellation of the Share Premium account on 12 March 2019. This amount is capable of being applied in any manner in which the Company's profits available for distribution, as determined in accordance with the Companies Act 2006, are able to be applied.

The accompanying Notes on pages 55 to 66 are an integral part of these financial statements.

5.2 FINANCIAL STATEMENTS – CONTINUED

# Statement of Cash Flows

For the Period from 12 October 2018 to 31 March 2019

| | Notes | For the period ended 31 March 2019 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating profit for the period | | 415 |
| Adjustments for: | | |
| Gain on investment at fair value through profit or loss | | (78) |
| **Operating cash flows before movements in working capital** | | 337 |
| **Changes in working capital** | | |
| Movement in trade and other receivables | 9 | (2,001) |
| Movement in trade and other payables | 10 | 227 |
| **Net cash used in operating activities** | | (1,437) |
| **Cash flows from investing activities** | | |
| Purchase of investment | | (58,556) |
| **Net cash used in investing activities** | | (58,556) |
| **Cash flows from financing activities** | | |
| Net proceeds from the issue of shares | | 98,000 |
| **Net cash generated from financing activities** | | 98,000 |
| Net movement in cash and cash equivalents during the period | | 38,007 |
| Cash and cash equivalents at the beginning of the period | | – |
| **Cash and cash equivalents at the end of the period** | | 38,007 |

The accompanying Notes on pages 55 to 66 are an integral part of these financial statements.

# 5.3 Notes to the Financial Statements

For the period from 12 October 2018 to 31 March 2019

## 1. General Information

The Company is registered in England and Wales under number 11620959 pursuant to the Companies Act 2006. The Company's registered office and principal place of business is Asticus Building, 2nd Floor, 21 Palmer Street, London, SW1H 0AD. The Company was incorporated on 12 October 2018 and is a Public Company and the ultimate controlling party of the group.

On 7 December 2018, the Company announced the results of its initial public offering ("IPO"), which raised gross proceeds of £100m. The Company's ordinary shares were admitted to the premium segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange under the ticker SEEIT on 11 December 2018. Subsequent fundraising in April 2019 raised gross proceeds of £72m. Details can be found in Note 16.

The Company's objective is to generate an attractive total return for investors comprising stable dividend income and capital preservation, with the opportunity for capital growth through the acquiring and realising of a diverse portfolio of energy efficient projects.

The Company currently makes its investments through its principal holding company and single subsidiary, SEEIT Holdco Limited ("HoldCo"), and intermediate holding companies which are directly owned by the Holdco. The Company controls the investment policy of each of the Holdco and its intermediate holding companies in order to ensure that each will act in a manner consistent with the investment policy of the Company.

The Company has appointed Sustainable Development Capital LLP as its Investment Manager (the "Investment Manager") pursuant to the Investment Management Agreement dated 22 November 2018. The Investment Manager is registered in England and Wales under number OC330266 pursuant to the Companies Act 2006. The Investment Manager is regulated by the FCA, number 471124.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

## 2. Significant Accounting Policies

### A) BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with The Companies Act 2006 and International Financial Reporting Standards adopted for use in the European Union ("IFRS"). Such financial statements will be prepared under the historical cost convention, except for certain investments and financial instruments measured at fair value through the Statement of Comprehensive income. The principal accounting policies adopted are set out below and consistently applied, subject to changes in accordance with any amendments in IFRS.

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

#### (i) New and amended standards adopted by the Company

The Company adopted the following standards that became effective during the current year, although they had no material impact on the Company's financial statements.

- IFRS 9 Financial Instruments
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRS 15 Revenue from Contracts with Customers

#### (ii) New standards and interpretation not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2019 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

| **Title of standard** | **IFRS 16, 'Leases'** |
|---|---|
| Nature of change | IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, since the distinction between operating and finance leases is removed. Under the new standard, an asset (that is, the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. |
| Impact | The Company has no leases and hence does not expect any impact on the financial statements. |

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### B) IFRS 10, INVESTMENT ENTITIES EXEMPTION

The Company invests all of its investable cash into SEEIT Holdco Limited (the "Holdco") as advised by the Investment Manager.

The sole objective of the Holdco is to enter into several energy efficient projects, via individual corporate entities. The Holdco issues equity and loans to finance the projects.

## 5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

The Directors have concluded that in accordance with IFRS 10, the Company meets the definition of an investment entity. Under IFRS 10 investment entities are required to hold subsidiaries at fair value through the Statement of Comprehensive Income rather than consolidate them. There are three key conditions to be met by the Company for it to meet the definition of an investment entity. For each reporting period, the Directors assess whether the Company continues to meet these conditions:

(i) The Company has obtained funds for the purpose of providing investors with investment management services.

(ii) The business purpose of the Company, which was communicated directly to investors, is investing solely for risk adjusted returns (including having an exit strategy for investments).

(iii) The performance of substantially all investments is measured and evaluated on a fair value basis.

In assessing whether the Company meets the definition of an investment entity set out in IFRS 10 the Directors note that:

(i) the Company has multiple investors with shares issued publicly on London Stock Exchange and obtains funds from a diverse group of shareholders who would otherwise not have access individually to investing in energy efficient projects;

(ii) the Company's purpose is to invest funds for both investment income and capital appreciation. The Holdco and its SPVs have indefinite lives however the underlying assets do not have an unlimited life and therefore minimal residual value and therefore will not be held indefinitely; and

(iii) the Company measures and evaluates the performance of all of its investments on a fair value basis which is the most relevant for investors in the Company. The Directors use fair value information as a primary measurement to evaluate the performance of all of the investments and in decision making.

The Directors are of the opinion that the Company meets all the typical characteristics of an investment entity and therefore meets the definition set out in IFRS 10.

The Directors believe the treatment outlined above provides the most relevant information to investors.

### C) GOING CONCERN

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of approval of the financial statements. The Directors have reviewed the Company's financial projections and cash flow forecasts and believe, based upon those projections and forecasts that it is appropriate to prepare the financial statements on a going concern basis. Accordingly, they continue to adopt the going concern basis in preparing its financial statements. Further detail is contained in the Strategic Report.

### D) SEGMENTAL REPORTING

The Chief Operating Decision Maker ("CODM") being the Board of Directors, is of the opinion that the Company is engaged in a single segment of business, being investment in energy efficient projects to generate investment returns whilst preserving capital. The financial information used by the CODM to manage the Company presents the business as a single segment.

### E) FOREIGN CURRENCY TRANSLATION

**Foreign currency and presentation currency**
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates, the Company's functional currency. The financial statements are presented in Pounds Sterling which is the Company's functional and presentation currency.

**Transactions and balances**
Foreign currency transactions are translated into Pounds Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

### F) INCOME

Dividend income and investment income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income within investment income when the Company's right to receive payments is established.

Fair value gains on financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income at each valuation point.

Finance income comprises interest earned on cash held on deposit. Finance income is recognised on an accruals basis. Other income is accounted for on an accruals basis using the effective interest method.

### G) DIVIDENDS

Dividends to the Company's shareholders are recognised when they become legally payable. In the case of interim dividends, this is when they are paid. In the case of final dividends, this is when they are approved by the shareholders at the Annual General Meeting.

### H) FUND EXPENSES

All expenses including investment management fees, transaction costs, non-executive directors' fees are accounted for on an accruals basis. Share issue expenses of the Company directly attributable to the issue and listing of shares are charged to the share premium account.

## 5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

### I) ACQUISITION COSTS
In line with IFRS 3 (Revised), acquisition costs are expenses to the Income Statement as they are incurred.

### J) TAXATION
The Company is liable to UK corporation tax on its income.

The Company is exempt from UK corporation tax on chargeable gains as it has been approved by HMRC as an investment trust company.

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted at the date of the Statement of Financial Position.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit or the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments, except where the Company is able to control the timing of the reversal of the difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the Statement of Comprehensive Income except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

### K) CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes deposits held at call with banks and other short-term deposits with original maturities of three months or less. There is no expected credit loss as the bank institution has a credit rating of BBB+ and all cash is held at call from the bank.

### L) TRADE AND OTHER RECEIVABLES
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that not quoted in an active market. Receivables are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Directors also consider any expected credit loss and will subsequently re-measure receivables to ensure they are held at fair value. Given the nature of receivables, however, and the short time length involved between their origination and settlement, their amortised cost is considered to be the same as their fair value at the date of origination.

The Company has assessed IFRS 9's new expected credit loss model and does not consider any impact on these financial statements.

### M) TRADE AND OTHER PAYABLES
Trade and other payables are initially recognised at fair value, and subsequently re-measured at amortised cost using the effective interest method where necessary.

### N) FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IFRS 9 Financial instruments.

Investments are recognised when the Company has control of the asset. Control is assessed considering the purpose and design of the investments including any options to acquire the investments where these options are substantive. The options are assessed for factors including the exercise price and the incentives for exercise.

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

At initial recognition, the Company measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the statement of comprehensive income. The Company subsequently measures all equity investments at fair value and changes in the fair value of financial assets at FVPL are recognised as gains/(losses) on investments at fair value through profit or loss within investment income.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### O) SHARE CAPITAL
The Company's ordinary shares are not redeemable and are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction in equity and are charged to the share premium account. The costs incurred in relation to the IPO of the Company were charged to the share premium account.

5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

# 3. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period and future periods if the revision affects both current and future periods.

## Judgements

### Investment entity

As disclosed in Note 2, the Directors have concluded that the Company meets the definition of an investment entity as defined in IFRS 10, IFRS 12 and IAS 27. This conclusion involved a degree of judgement and assessment as to whether the Company met the criteria outlined in the accounting standards.

## Estimates

### Investment valuations

The Board of Directors has appointed the Investment Manager to produce investment valuations based upon projected future cash flows. These valuations are reviewed and approved by the Board. The investments are held indirectly through the Holdco and its intermediate holding companies.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Board bases the fair value of the investments on the information received from the Investment Manager. The Company classified its investment at fair value through profit or loss as Level 3 within the fair value hierarchy.

Fair values for those investments for which a market quote is not available, in this instance being all investments, are determined using the income approach which discounts the expected cash flows at the appropriate rate. The investment at fair value through profit or loss is valued by discounting future cash flows to the group from investments in both equity cash flows, such as dividends and equity redemptions, and subordinated loans cash flows, such as interest and principal repayments, at an appropriate discount rate.

The valuation at 31 March 2019 includes significant estimates for future cash flows, including an estimate of costs remaining to complete a construction asset and the expected cash flows from one project for production of heating in excess of the contractual minimum production.

The weighted average discount rate applied in the March 2019 valuation was 6.5%. The discount rate is considered one of the most unobservable inputs through which an increase or decrease would have a material impact on the fair value of investment at fair value through profit or loss. Further estimates are made on macroeconomic assumptions on inflation, corporation tax and foreign exchange which are further described in Note 8 and Note 13.

5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

## 4. Investment Income

| | Period ended 31 March 2019 £'000 |
|---|---|
| Dividend income | 1,450 |
| Bank interest received | 34 |
| Gain on investment at fair value through profit or loss (Note 8) | 78 |
| **Investment income** | **1,562** |

## 5. Fund Expenses

| | Period ended 31 March 2019 £'000 |
|---|---|
| Investment management fees | 241 |
| Transaction costs | 629 |
| Non-executive directors' fees | 34 |
| Other expenses | 145 |
| Fees to the Company's independent auditor: | |
| – for the audit of the statutory financial statements | 98 |
| **Fund Expenses** | **1,147** |

In addition to the above, fees of £27k were paid by Holdco to the Company's independent auditor for other audit related services.

As at 31 March 2019, the Company had no employees. The Company confirms that it has no key management personnel, apart from the Directors disclosed in Directors' Remuneration Report. There is no other compensation apart from those disclosed.

## 6. Taxation

The tax for the period shown in the Statement of Comprehensive Income is as follows.

| | Period ended 31 March 2019 £'000 |
|---|---|
| **Profit for the period before taxation** | 415 |
| Profit for the period multiplied by the standard rate of corporation tax of 19% | 79 |
| Fair value movements (not subject to taxation) | (15) |
| Dividends received (not subject to tax) | (276) |
| Surrendering of tax losses to unconsolidated subsidiaries | 212 |
| **UK Corporation Tax** | **–** |

5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

## 7. Earnings per Share

| | Period ended 31 March 2019 '000 |
|---|---|
| Profit and comprehensive income for the period (£) | 415 |
| Weighted average number of ordinary shares | 100,000 |
| **Earnings per ordinary share (pence)** | **0.4** |

There is no dilutive element during the financial period and subsequent to the financial period.

## 8. Investment at fair value through profit or loss

### Valuation methodology

The Directors have satisfied themselves as to the methodology used and the discount rates and key assumptions applied in producing the valuations. All investments are at fair value through profit or loss.

For non-market traded investments (being all the investments in the current portfolio), the valuation is based on a discounted cash flow methodology and adjusted in accordance with the IPEV (International Private Equity and Venture Capital) valuation guidelines where appropriate to comply with IFRS 13 and IFRS 9, given the special nature of infrastructure investments. Where an investment is traded in an open market, a market quote is used.

The Investment Manager exercises its judgment in assessing the expected future cash flows from each investment based on the project's expected life and the financial models produced for each project company and adjusts the cash flows where necessary to take into account key external macro-economic assumptions and specific operating assumptions.

The fair value for each investment is then derived from the application of an appropriate market discount rate to reflect the perceived risk to the investment's future cash flows and the relevant year end foreign currency exchange rate to give the present value of those cash flows. The discount rate takes into account risks associated with the financing of an investment such as investment risks (e.g. liquidity, currency risks, market appetite), and any risks to the investment's earnings (e.g. predictability and covenant of the income) and a thorough assessment of counterparty credit risk, all of which may be differentiated by the phase of the investment.

The Company records the fair value of Holdco by calculating and aggregating the fair value of each of the individual project companies and holding companies in which the Company holds an indirect investment.

The total change in the value of the investment in the HoldCo is recorded through profit and loss in the Statement of Comprehensive Income.

### Fair value measurement by level

IFRS 13 requires disclosure of fair value measurement by level. Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The Company's indirect investments have been classified as level 3 as the investments are not traded and contain unobservable inputs. The Company's investment is considered to be a level 3 asset. As the fair value of the Company's equity and loan investments in the HoldCo is ultimately determined by the underlying fair values of the SPV investments or debt schedules, the Company's sensitivity analysis of reasonably possible alternative input assumptions is the same across all its investments.

## 5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

The Company owns the Investment Portfolio through its direct investment in the wholly owned HoldCo. This is comprised of the Investment Portfolio and the residual net assets of the HoldCo. The Total Investment at fair value is recorded under Non-Current Assets in the Statement of Financial Position.

| | 31 March 2019 £'000 |
|---|---|
| Acquisitions at cost at IPO | 57,156 |
| New investments | 4,100 |
| Movement in fair value | 78 |
| **Closing investment at fair value through profit or loss** | **61,334** |

Shortly after the IPO, the Seed Portfolio was acquired via an investment of £57,156k in HoldCo, incurring transaction costs of £629k. An additional investment in Holdco was made on 28 February 2019 for a total consideration of £4,100k in relation to acquiring the Northeastern US CHP investment.

A reconciliation between the Portfolio Valuation, being the valuation of the Investment Portfolio, and the Investment at fair value through profit or loss per the Statement of Financial Position is provided below. The principal differences are the balances in Holdco for cash and working capital.

| | £'000 |
|---|---|
| Portfolio Valuation | 60,850 |
| Holdco cash | 1,562 |
| Holdco net working capital | (1,077) |
| **Investment at fair value through profit or loss (see Note 8)** | **61,334** |

Due to the nature of the investments, they are always expected to be classified as level 3. There have accordingly been no transfers between levels during the period.

### Valuation Assumptions

| | | 31 March 2019 |
|---|---|---|
| Inflation rates | UK (RPI) | 2.75% p.a. |
| | USA (CPI) | 2.00% p.a. |
| Tax rates | UK | 19% to March 2020, 17% thereafter |
| | USA | 21% Federal & 3-9% State rates |
| Foreign exchange rates | USD/GBP | 0.77 |

The following table shows the investments of the Company owned via the HoldCo.

| Investment | Place of Business | Ownership Interest |
|---|---|---|
| Huntsman Energy Centre | United Kingdom | 100% |
| Northeastern CHP | USA | 71% |
| Santander UK Lighting | United Kingdom | 100% |
| Moy Park Biomass | United Kingdom | 100% |
| Moy Park Lighting [1] | United Kingdom | 100% |
| Riverdale Datacentre | United Kingdom | 100% |
| St Barts CHP | United Kingdom | 100% |
| Holywell Solutions | United Kingdom | 100% |
| SmartEnergy | United Kingdom | 49% |
| NCP Lighting [1] | United Kingdom | 50% |

In March 2019 the Company, via its subsidiary, acquired a 71% interest in Northeastern US CHP from a US based fund managed by an affiliate of the Investment Manager. The consideration paid was US$5.0 million.

1 Debt investment only

5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

## 9. Trade and other receivables

| | 31 March 2019 £'000 |
|---|---|
| Dividend receivable | 1,450 |
| Prepayments | 236 |
| VAT receivable | 206 |
| Other receivables | 109 |
| **Total trade and other receivables** | **2,001** |

## 10. Trade and other payables

| | 31 March 2019 £'000 |
|---|---|
| Due to investment | 2,700 |
| Other payables | 227 |
| **Total trade and other payables** | **2,927** |

Amounts due to investment are interest free, unsecured, have no fixed repayment schedule and are repayable on demand.

## 11. Share capital and reserves

| Share issuance | Number of shares £'000 | Gross amount raised £'000 | Issue costs £'000 | Share capital £'000 | Other Reserves £'000 |
|---|---|---|---|---|---|
| Issued on 11 December 2018 | 100,000 | 100,000 | (2,000) | 1,000 | 97,000 |
| **Total issued at 31 March 2019** | **100,000** | **100,000** | **(2,000)** | **1,000** | **97,000** |

The Company currently has one class of ordinary share in issue. All the holders of the ordinary shares, which total 100,000,000, are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Other distributable reserves were created through the cancellation of the Share Premium account on 12 March 2019. This amount is capable of being applied in any manner in which the Company's profits available for distribution, as determined in accordance with the Companies Act 2006, are able to be applied.

### Retained reserves

Retained reserves comprise the retained earnings as detailed in the Statement of Changes in Equity.

## 12. Net assets per ordinary share

| | 31 March 2019 |
|---|---|
| Shareholders' equity (£'000) | 98,415 |
| Number of ordinary shares ('000) | 100,000 |
| **Net assets per ordinary share (pence)** | **98.4** |

5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

# 13. Financial risk management

### Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders. In accordance with the Company's investment policy, the Company's principal use of cash (including the proceeds of the IPO) has been to fund investments as well as ongoing operational expenses.

The Board, with the assistance of the Investment Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. The capital structure of the Company consists entirely of equity (comprising issued capital, reserves and retained earnings).

The Company is not subject to any externally imposed capital requirements.

### Financial risk management objectives

The Board, with the assistance of the Investment Manager, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyses exposures by degree and magnitude of risk.

These risks include market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

### Price risk

The value of the investments directly and indirectly held by the Company is affected by the discount rate applied to the expected future cash flows and as such may vary with movements in interest rates, inflation, power prices, market prices and competition for these assets.

### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is indirectly exposed to currency risk through its HoldCo as investments are held in GBP, EUR and USD.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial assets and financial liabilities are at a pre-determined interest rate, as a result the Company is subject to limited exposure to risk due to fluctuations in the prevailing levels of market interest rates.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

The Company does not have any significant credit risk exposure to any single counterparty in relation to trade and other receivables. On-going credit evaluation is performed on the financial condition of accounts receivable.

As at 31 March 2019 there were no receivables considered impaired. At investment level, the credit risk relating to significant counterparties is reviewed on a regular basis and potential adjustments to the discount rate are considered to recognise changes to these risks where applicable.

The Company maintains its cash and cash equivalents across various banks to diversify credit risk. These are subject to the Company's credit monitoring policies including the monitoring of the credit ratings issued by recognized credit rating agencies.

The Company has no financial assets that are subject to the expected credit loss model. Investments are held at fair value using discounted cash flows. Receivables are primarily intercompany and taxation. While cash and cash equivalents are subject to the impairment requirements of IFRS 9, there was no identified impairment loss.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Board of Directors has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by monitoring forecast and actual cash flows and by matching the maturity profiles of assets and liabilities.

The table below shows the maturity of the Company's non-derivative financial assets and liabilities. The amounts disclosed are contractual, undiscounted cash flows and may differ from the actual cash flows received or paid in the future as a result of early repayments.

## 5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

| | Up to 3 months £'000 | Between 3 and 12 months £'000 | Between 1 and 5 years £'000 | Total £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 38,007 | – | – | 38,007 |
| Trade and other receivables | 1,559 | – | – | 1,559 |
| **Liabilities** | | | | |
| Trade and other payables | (2,927) | – | – | (2,927) |
| **Total** | **36,639** | **–** | **–** | **36,639** |

### Discount rates
The discount rates used for valuing each renewable infrastructure investment are based on both the industry discount rate and on the specific circumstances of each project. The risk premium takes into account risks and opportunities associated with the investment earnings.

The discount rates used for valuing the investments in the portfolio are as follows:

| | 31 March 2019 |
|---|---|
| Weighted Average discount rate | 6.5% |
| **Discount rates** | **4.5% to 9.5%** |

A change to the weighted average discount rate by plus or minus 0.5% has the following effect on the NAV.

| Discount rates | NAV/share impact | -0.5% change | Net asset value | +0.5% change | NAV/share impact |
|---|---|---|---|---|---|
| **31 March 2019** | **1.5p** | **£1,455k** | **£98,415k** | **(£1,395k)** | **(1.4p)** |

### Inflation rates
The portfolio valuation assumes long-term inflation of 2.75% per annum for UK investments (based on UK RPI) and 2.0% per annum for the US investment (based on US CPI). A change in the inflation rate by plus or minus 0.5% has the following effect on the NAV, with all other variables held constant.

| Inflation rate | NAV/share impact | -0.5% change | Net asset value | +0.5% change | NAV/share impact |
|---|---|---|---|---|---|
| **31 March 2019** | **0.3p** | **£289k** | **£98,415k** | **(£209k)** | **(0.2p)** |

### Corporation tax rates
The portfolio valuation assumes tax rates based on the relevant jurisdiction as shown in Note 8. A change in the corporation tax rate by plus or minus 5% has the following effect on the NAV, with all other variables held constant.

| Corporation tax rate | NAV/share impact | -5% change | Net asset value | +5% change | NAV/share impact |
|---|---|---|---|---|---|
| **31 March 2019** | **0.9p** | **£891k** | **£98,415k** | **(£886k)** | **(0.9p)** |

## 5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

### Foreign exchange rates
The portfolio valuation assumes foreign exchange rates based on the relevant jurisdiction as shown in Note 8. A change in the foreign exchange rate by plus or minus 10% has the following effect on the NAV, with all other variables held constant. The effect is shown after the effect of hedging which reduces the impact of foreign exchange movements on the Company's NAV.

| Foreign exchange rate | NAV/share impact | -10% change | Net asset value | +10% change | NAV/share impact |
|---|---|---|---|---|---|
| **31 March 2019** | **0.3** | **£260k** | **98,415** | **(£260k)** | **(0.3p)** |

# 14. Subsidiaries
The following table shows the subsidiaries of the Company. As the Company is regarded as an Investment Entity, these entities have not been consolidated in the preparation of the financial statements.

| Investment | Place of Business | Ownership Interest |
|---|---|---|
| SEEIT Holdco Limited | United Kingdom | 100% |
| EECo Kingscourt Limited | United Kingdom | 100% |
| SEEIT Europe Limited | United Kingdom | 100% |
| EECo Data Centres No. 1 Limited | United Kingdom | 100% |
| SEEIT US Limited | United Kingdom | 100% |
| EECo Biomass No 1 Limited | United Kingdom | 60% |
| EECo Evergreen Limited | United Kingdom | 100% |
| EECo Wilton No. 1 Limited | United Kingdom | 100% |
| EECo Car Parks No. 2 Limited | United Kingdom | 50% |
| SmartEnergy Finance Two Limited | United Kingdom | 49% |
| SDCL VCO Energy Limited | United Kingdom | 100% |
| Combined Heat and Power Investments Limited | United Kingdom | 100% |
| Energy Efficient Global UK Project Limited | United Kingdom | 100% |
| EECo Smithfield Limited | United Kingdom | 100% |
| SDCL Solar Edge | United Kingdom | 100% |
| SDCL TG Cogen, LLC | USA | 100% |

The subsidiaries above with the exception of SDCL TG Cogen, LLC are registered at Foxglove House, 166 Piccadilly, London, United Kingdom, W1J 9EF. SDCL TG Cogen, LLC is registered in Delaware, USA.

5.3 NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
For the period from 12 October 2018 to 31 March 2019

## 15. Related parties

The Company and Sustainable Development Capital LLP (the "Investment Manager") have entered into the Investment Management Agreement pursuant to which the Investment Manager has been given responsibility, subject to the overall supervision of the Board, for active discretionary investment management of the Company's Portfolio in accordance with the Company's investment objective and policy.

As the entity appointed to be responsible for risk management and portfolio management, the Investment Manager is the Company's AIFM. The Investment Manager has full discretion under the Investment Management Agreement to make investments in accordance with the Company's investment policy from time to time. This discretion is, however, subject to: (i) the Board's ability to give instructions to the Investment Manager from time to time; and (ii) the requirement of the Board to approve certain investments where the Investment Manager has a conflict of interest in accordance with the terms of the Investment Management Agreement. The Investment Manager also has responsibility for financial administration and investor relations, advising the Company and its group in relation to the strategic management of the Portfolio, advising the Company in relation to any significant acquisitions or investments and monitoring the Company's funding requirements.

Under the terms of the Investment Management Agreement, the Investment Manager will be entitled to a fee calculated at the rate of:

- 0.9 per cent, per annum of the adjusted NAV in respect of the Net Asset Value of up to, and including, £750 million; and
- 0.8 per cent, per annum of the adjusted NAV in respect of the Net Asset Value in excess of £750 million.

The management fee is calculated and accrues monthly and is invoiced monthly in arrears. During the period ended 31 March 2019, management fees of £241k was incurred of which £69k was payable at the period end.

In March 2019 the Company, via its subsidiary, acquired a 71% interest in Northeastern US CHP from a US based fund managed by an affiliate of the Investment Manager.

As at 31 March 2019, £2.7m was due to the Holdco in relation to the acquisition of the Investment Portfolio. During the period £58.6m of funding was provided by the Company to the HoldCo for investment acquisitions.

## 16. Events after the reporting period

The Directors have evaluated subsequent events from the date of the financial statements through to the date the financial statements were available to be issued. There were no subsequent events identified which require adjustment or disclosure in these financial statements other than those stated below.

In April 2019, the Company became the Guarantor of the Revolving Credit Facility (RCF) secured by its subsidiary (Holdco). The RCF includes a three-year revolving tranche of £25 million and acquisition finance of up to £40 million.

On 18 April 2019, the Company issued 71,287,129 new ordinary shares at a price of 101.0 pence per share raising gross proceeds of £72m. The Company intends to use the proceeds from the Placing to fund the acquisition of certain pipeline project assets.

On 14 May 2019, the Company declared an interim dividend of 1.0 pence per share relating to the period ending 31 March 2019. The dividend is payable on 28 June 2019.

On 19 June 2019, SEEIT announced that it has entered into a delivery framework to install, own and operate rooftop solar projects across a section of Tesco's estate in the UK for which it is budgeting an initial contracted investment of £5 million with potential for an additional £15 million to be contracted in projects across further sections of Tesco's UK estate.

# Alternative Investment Fund Managers Directive Disclosures (Unaudited)

Under the AIFMD legislation, an AIFM must, where appropriate for each Alternative Investment Fund ("AIF") it manages, disclose in the Company's annual report the total amount of remuneration paid to its staff for the financial period, split into fixed and variable remuneration, and where relevant, any carried interest paid by the AIF. The aggregate amount of remuneration broken down by senior management and members of staff whose actions have a material impact on the risk profile of the AIF must also be disclosed.

SDCL has set out its Remuneration Code in its Compliance Manual. The Remuneration Code applies to an approved full-scope AIFM such as SDCL. Compliance with the AIFM Remuneration Code will ensure compliance with the Prudential Sourcebook for Banks, Building Societies and Investment Firms "BIPRU" requirements as contained within the Financial Conduct Authority's (UK) Handbook.

It is important to note that:

- Staff engaged in control functions are independent, have appropriate authority, and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of business areas;
- Where a component of an employee's remuneration is performance related the total amount of remuneration is based on a combination of the assessment of the performance of the individual, of the business unit concerned, and of the overall results of the firm;
- When assessing individual performance, financials and non-financial criteria are taken into account;
- Fixed and variable components of total remuneration are appropriately balanced;
- The Policy is consistent with and promotes sound and effective risk management and does not encourage risk taking which is not consistent with the risk profiles of the Company;
- A variety of factors including financial and non-financial measures influence the level of remuneration that the Investment Manager receives and the investment management role and activity is also governed by its Conflict of Interest Policy;
- The total remuneration incurred by the AIFM (Sustainable Development Capital LLP) in relation to the activities of SDCL Energy Efficiency Income Trust plc is approximately £186k;
- This was allocated as 100% Fixed; and
- The average number of staff engaged during the period was 9.

# Company Information

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Christopher Knowles
Helen Clarkson

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**Depositary**
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# Key Company Data

| | |
|---|---|
| **Company name** | SDCL ENERGY EFFICIENCY INCOME TRUST PLC |
| **Registered address** | Asticus Building 2nd Floor,<br>21 Palmer Street,<br>London, SW1H 0AD |
| **Listing** | London Stock Exchange – Premium Listing |
| **Ticker symbol** | SEIT |
| **SEDOL** | BGHVZM4 |
| **Index inclusion** | FTSE All-Share, FTSE SmallCap |
| **Company year-end** | 31st March |
| **Dividend payments** | Bi-Annual |
| **Investment Manager** | Sustainable Development Capital LLP |
| **Company Secretary & Administrator** | Sanne Group (UK) Limited |
| **Shareholders' funds** | £98.4m as at 31 March 2019 |
| **Market capitalisation** | £103.3m as at 31 March 2019 |
| **Management fees** | 0.9% p.a. of NAV (adjusted for uncommitted cash) |
| **ISA, PEP and SIPP status** | The Ordinary Shares are eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired by purchase in the market, and they are permissible assets for SIPPs |
| **Website** | www.sdcleeit.co.uk |

# Glossary

**AIC Code** the AIC Code of Corporate Governance, as revised or updated from time to time

**AIFM** an alternative investment fund manager, within the meaning of the AIFM Directive

**AIFM Directive** Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No. 1095/2010; the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision

**Board** the Board of Directors of the Company, who have overall responsibility for SEEIT

**Biomass boiler** a wood-fuelled heating system, which burns wood pellets, chips or logs to provide warmth in a single room or to power central heating and hot water boilers

**BMS** building management systems

**CCHP** combined cooling/heating and power

**CHP** combined heating and power

**Company** SDCL Energy Efficiency Income Trust plc, a limited liability company incorporated under the Act in England and Wales on 12 October 2018 with registered number 11620959, whose registered office is at Asticus Building 2nd Floor, 21 Palmer Street, London, SW1H 0AD

**Company SPV** a Project SPV owned by the Company or one of its Affiliates through which investments are made

**Contractual payment** the payments by the Counterparty to the Company or relevant Project SPV under the contractual arrangements governing an Energy Efficiency Project, whether such payments take the form of a service charge, a fee, a loan repayment or other forms of payments as may be appropriate from time to time

**Counterparty** the host of the Energy Efficiency Equipment with whom the Company has entered into the Energy Efficiency Project, either directly or indirectly through the use of one or more Project SPVs

**Decentralised energy** is energy which is produced close to where it will be used, rather than at a large centralised plant elsewhere, delivered through a centralised grid infrastructure

**Energy efficiency** using less energy to provide the same level of energy. Efficient energy use is achieved primarily through implementation of a more efficient technology or process

**Energy efficiency equipment** the equipment that is installed at the premises of a Counterparty or a site directly connected to the premises of a Counterparty in connection with an Energy Efficiency Project, including but not limited to CHP units, CCHP plant schemes, HVAC units, lighting equipment, biomass boilers and steam raising boilers (including IP steam processors)

**Energy efficiency project** has the meaning given in paragraph 3 of Part II (Industry Overview, Investment Opportunity and Seed Portfolio) of the November 2018 Prospectus

**Energy efficiency technology** technologies deployed to achieve an improvement in energy efficiency

**EPC** Engineering, procurement and construction

**ESA** an energy saving agreement governing the terms on which energy savings are apportioned between the counterparty and the relevant Project

**HoldCo** is SEEIT HoldCo Limited, the Company's single wholly owned subsidiary

**Investment Manager** Sustainable Development Capital LLP, a limited liability partnership incorporated in England and Wales under the Limited Liability Partnership Act 2000 with registered number OC330266

**Investment Portfolio** is the portfolio of energy efficiency investments held by the Company via its single wholly owned subsidiary, SEEIT Holdco Limited

**Lighting equipment** energy efficient lighting used in connection with an Energy Efficiency Project, including but not limited to LEDs and associated fittings

**November 2018 Prospectus** is the prospectus issued by the Company on 22 November 2018

**Ordinary Shares** an ordinary share of £0.01 in the capital of the Company issued and designated as "Ordinary Shares" of such class (denominated in such currency) as the Directors may determine in accordance with the Articles and having such rights and being subject to such restrictions as are contained in the Articles

**O&M contractors** operations and maintenance contractors. the contractor appointed by the Company or the relevant Project SPV to perform maintenance obligations in relation to the relevant Energy Efficiency Equipment

**SDCL Group** the Investment Manager and the SDCL Affiliates

**Steam raising boiler technology** is technology through which pressurised water is transformed into steam through the application of heat

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SEEIT

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