# FORESIGHT SOLAR FUND LIMITED

AUDITED CONSOLIDATED ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016**

Foresight group

Important Information: The Company currently conducts its affairs, and intends to do so for the foreseeable future, so that the shares issued by Foresight Solar Fund Limited can be recommended by Independent Financial Advisers to retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream pooled investment products. The shares are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream pooled investments and it is intended that this will also continue for the foreseeable future.

# Contents

# Financial Highlights

## As at 31 December 2016

| | | |
|---|---|---|
| **£350.8 million**<br>Net Asset Value | **6.17 pence**<br>Dividends per Share declared for the period | **102.9 pence**<br>NAV per Share |
| **£549.0 million**<br>Gross Asset Value | **104.1 pence**<br>Share Price | **7.04%**<br>Total NAV Return* |
| **£354.9 million**<br>Market Capitalisation | **340,950,912**<br>Number of Shares with Voting Rights | **6.58%**<br>Total Shareholder Return |

- The underlying portfolio, which is fully operational and accredited, now totals 16 assets with an installed capacity of 348MW. The portfolio generated 319 Gigawatt Hours ("GWh") of clean energy during 2016, sufficient to power approximately 97,000 UK homes. The total revenues earned across the portfolio amounted to £34.2 million.

- The Company is on track to pay the target dividend of 6.17 pence per share for the year to 31 December 2016. Interim dividends of 1.54 pence per share were paid in June, September and December 2016 and a further interim dividend of 1.55 pence per share was approved by the Directors on 15 February 2017 and will be paid on 5 May 2017.

- The Company aims to deliver a full year dividend for the year ending 31 December 2017 of 6.32 pence per share (6.00 inflated by RPI for 2014 - 2016). Since IPO, all target dividends have been achieved.

- Driven by an improving outlook for the portfolio's revenues and asset acquisitions, Net Asset Value ("NAV") increased to £350.8 million over the year, taking the NAV per Ordinary Share to 102.9 pence, an increase of 3.9 pence since 31 December 2015. A substantial average size of over 21MW per solar installation means the portfolio benefits from efficiencies of scale particularly in terms of lower asset management costs and operating and maintenance charges.

- Successful share placings took place in September and October 2016 raising total gross proceeds of £60.8 million from new and existing investors, bringing the total equity capital raised to £345.7 million.

- Minority equity positions totalling 10MW were acquired in three existing portfolio assets - Southam Asset, Paddock Wood and Atherstone. This is the first acquisition from a near-term pipeline of operational, fully accredited and income generating solar facilities with a total capacity of 132MW over which the Company is in advanced negotiations, and demonstrates the ability to quickly deploy investor funds into cash-generating assets.

- A new £160 million long-term debt facility was put in place by the Company's subsidiary in March 2016 at attractive terms, refinancing a £150 million short-term acquisition facility. A new, short-term revolving acquisition facility of £40 million was also agreed, providing the necessary flexibility to take advantage of future pipeline opportunities.

- An improving outlook for power prices has led to a supportive market for further acquisitions. As the UK's secondary market for solar assets matures, further opportunities have been identified and the Company will continue to selectively pursue these to expand the portfolio and support cash generation. Active negotiations are underway with 150MW of capacity, of which 50MW are expected to be acquired imminently.

### Following Period End

- In February the Company announced the acquisition of Shotwick, a solar park located in Flintshire. At 72MW peak capacity and 50MW AC export capacity, Shotwick is currently the largest operational solar asset in the UK. This increases the number of assets in the portfolio to 17 with a total installed capacity of 420MW.

* Annualised from IPO on 29 October 2013 and calculated in line with AIC methodology, which does not include dividends approved but not paid.


ATHERSTONE, 15MW, WARWICKSHIRE

# Chairman's Statement

*Now in its fourth year, the Company has built a strong portfolio of 16 operating solar assets. During 2016, positive progress has been made by focusing on the consolidation and optimisation of the assets. The Company is now well-placed to take advantage of the expected recovery in UK wholesale power prices, which will support the continued delivery of attractive returns to Shareholders.*

*The Company has achieved all target dividends to date and is on track to deliver a 6.17 pence dividend for the year ended 31 December 2016.*

*In addition to the 72MW acquisition of Shotwick in February 2017, and an imminent investment in a 50MW asset, the Investment Manager continues to review a pipeline of c.100MW of assets available in the primary and the developing secondary market. Opportunities to expand the portfolio in line with Company's investment objective will be pursued selectively.*

*The success of the Company's share placings during the second half of 2016 evidences the appeal to investors of the stable income flows generated by the portfolio. Underpinned by the current low-interest rate environment, the Board expects to see positive ongoing demand for yielding infrastructure assets, such as those held by the Company.*

**Alex Ohlsson, Chairman**

KENCOT, 37MW, OXFORDSHIRE

## Financial Results

On behalf of the Board, I am pleased to present the Audited Annual Report and Financial Statements for Foresight Solar Fund Limited (the "Company") for the year to 31 December 2016. The portfolio, which is fully operational and accredited, now totals 16 solar assets across the UK with an installed capacity of 348MW.

During the period, the Net Asset Value per Ordinary Share increased by 3.9 pence from 99.0 pence as at 31 December 2015 to 102.9 as at 31 December 2016. This positive valuation movement, which is more fully described in the Investment Manager's Report from page 19, reflects an improving outlook for the revenues generated by the portfolio assets. Across the period as a whole, power price forecasts have had a negative impact on NAV as the UK electricity market remained suppressed during the first half of the year. However, with electricity prices increasing during the third and fourth quarters of the year and independent third party consultants predicting that this trend will continue, the Board remains optimistic about the future earnings of the solar assets in the portfolio.

The Profit after Tax for the period was £30.7 million resulting in Earnings per Share of 10.38 pence.

## Annual General Meeting

The Next Annual General Meeting ("AGM") will be held on 12 June 2017 at 9.30am. Resolutions to include:

(i) To approve the Directors' Remuneration Report for the period ended 31 December 2016; and

(ii) To approve the Directors' Remuneration Policy

## Dividend and Dividend Growth

The Company continues to achieve its dividend objectives and has paid all target dividends since IPO. The Company remains on track to deliver the targeted RPI-linked dividend of 6.17 pence for the year ending 31 December 2016 (2015: 6.10 pence). In line with the growth of the UK's RPI, the Company is targeting a full year dividend of 6.32 pence for the period ending 31 December 2017, to be paid in four equal quarterly distributions.

As noted in the Company's Prospectuses, subject to market conditions and Company performance, it is the Directors' intention to pay a sustainable and inflation-linked level of dividend income to Shareholders.

## Operational Performance

As described more fully in the Investment Manager's report, the production of the underlying portfolio during the underlying period was 5.3% below expectations. The Asset Manager continues to work hard to mitigate the impact of incidents such as the external grid disconnection which occurred at Bournemouth. Unusual in its length, this unavoidable period of grid maintenance carried out by the Distribution Network Operator had originally been scheduled to include peak production months however, intervention by the Asset Manager was successful in minimising its impact. The strong technical expertise and proactive negotiations of the Asset Manager have also been instrumental in driving discussions with EPC contractors towards satisfactory outcomes with regard to technical issues. Irradiation levels during the year were in line with forecasts.

## Capital Raising and Financing

With support from both existing and new investors, the Company took advantage of strong market demand in the second half of 2016 to raise total additional equity capital of £60.8 million. Both the placing of shares held in Treasury and the tap issue of new Ordinary Shares, in September and October 2016 respectively, were oversubscribed. The Company may consider launching a new placing programme in due course subject to market conditions and investor demand.

In March 2016, a subsidiary of the Company agreed a £160 million long-term debt facility, wholly refinancing the £150 million short-term acquisition facility previously in place. The Board was especially pleased with the attractive terms that were achieved. This was the result of over nine month's work by the Investment Manager and demonstrates the value that can be created for investors as a result of the experience of the team. A new, short-term revolving acquisition facility of £40 million was also agreed, providing the necessary flexibility to take advantage of future pipeline opportunities.

## Portfolio Development

With this additional capital available, the Company has been well-placed to selectively pursue new acquisitions. During the period the Investment Manager evaluated over 700MW of solar assets from primary and secondary vendors, demonstrating good availability of assets in the market. Maintaining its diligent investment process and prudent stance regarding market pricing, the Investment Manager progressed negotiations to reach exclusivity over a pipeline of 132MW. 10MW of capactiy were acquired during the year, with an additional 72MW added after the end of the period and 50MW expected to reach financial close in the near term, demonstrating that NAV accretive opportunities exist in the secondary market and can be sourced by the Company.

Opting to increase exposure to existing well-understood assets with a proven track record, the Company bought the remaining minority equity positions in the Southam, Paddock Wood and Atherstone assets in November 2016. The Company also completed the acquisition of Shotwick in February 2017. Located in Flintshire, Wales, and with an installed peaking capacity of 72MW, Shotwick is the UK's largest solar installation.

The Company maintains its strategy of favouring assets that are accretive to NAV and continues to analyse a further pipeline of c.100MW.

The Asset Manager has continued to focus on the consolidation and optimisation of the existing portfolio. Given the substantial scale of the portfolio and the considerable average asset size the Asset Manager has been able to secure significantly improved commercial terms for many of the assets' contracts, including reduced Operation and Maintenance costs and insurance premiums. Floating Power Purchase Agreements ("PPAs") have also been implemented, positioning the portfolio to capture more of the benefits from the rising power prices seen in recent months and which are expected to continue into 2017.

## Evolution of the UK Solar Market

The UK solar market continued to grow throughout 2016 although at a much reduced rate compared to previous periods. By the time the Renewables Obligation Scheme closes on 31 March 2017, it is estimated that the UK will have a total installed solar capacity of 12GW. During 2016, the UK solar market was the most active in the EU with deals worth a total £2.9 billion, including refinancings, greenfield projects and acquisitions.

Activity levels in the secondary market continue to build with a significant number of portfolios becoming available in recent months, confirming the UK solar market consolidation opportunity.

The year 2016 offered greater regulatory stability for the sector and an improving outlook in terms of power prices but the year was not without its complications. While unexpected, we believe the Brexit EU referendum result in June 2016 will have a limited impact on the Company. The fundamentals of the UK solar sector are not underpinned by any EU regulation or legislation. The subsequent dissolution of The Department of Energy and Climate Change ("DECC") and transfer of its responsibilities to the new Department of Business, Energy and Industrial Strategy ("BEIS"), incorporating the Department of Business, Innovation and Skills ("BIS"), could have positive implications if this results in more co-ordinated policy decisions. The Company will continue to monitor any future impact that Brexit and the newly created BEIS may have on the Company.

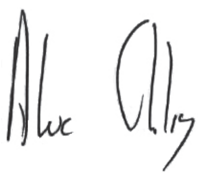
## Outlook

Now in its fourth year and with an established portfolio of utility scale solar assets, the Company is well-placed to take advantage of the ongoing recovery in UK wholesale power prices which will support the continued delivery of attractive returns to Shareholders. Work by the Asset Manager to maximise the operating performance of the assets is ongoing. Further value-enhancing opportunities are continually being identified.

Entering 2017, the considerable size of the UK's solar industry means there is a wealth of opportunities in the developing market for secondary assets and the Investment Manager is currently reviewing a pipeline of c.100MW of potential investments. The Company is also able to invest up to 25% in other jurisdictions which we expect could provide further attractive pipeline opportunities, supported by the transactional experience of the Investment Manager's global team. Selective additions to the portfolio will be made in line with the Investment Manager's prudent approach to both asset quality and pricing.

The success of the Company's share placings during the year evidences investor support for the stable income flows generated by the portfolio.

We expect this trend will continue, supported by the current low-interest rate environment and, as a result, anticipate reporting further growth in demand for yielding infrastructure assets, such as the Foresight Solar Fund Limited.



**Alex Ohlsson**
*Chairman*
15 February 2017

# Corporate Summary and Investment Objective

Foresight Solar Fund Limited invests in a portfolio of predominantly UK ground-based solar PV assets to achieve its objective of providing Shareholders with a sustainable and increasing dividend with the potential for capital growth over the long term.

## The Company

The Company's Initial Public Offering on 24 October 2013 raised £150 million, creating the largest dedicated solar investment company listed in the UK at the time. Gross proceeds of £134.9 million were raised under a subsequent 12 month placing programme initiated in September 2014. In September 2016, £28.9 million was raised through the oversubscribed reissue of Shares out of Treasury and in October 2016 a further £31.9 million was raised through a tap issue, which was also oversubscribed. To date, the Company has raised a total of £345.7 million through Share Placings.

The Company had a market capitalisation at the end of the period of £354.9 million and owns a portfolio of 16 large scale, ground based solar power plants across the UK with a total operational capacity of 348MW.

## Corporate Summary

Foresight Solar Fund Limited ("the Company") is a closed-ended company with an indefinite life and was incorporated in Jersey under the Companies (Jersey) Law 1991, as amended, on 13 August 2013, with registration number 113721.

The Company has 340,950,912 Ordinary Shares in issue which are listed on the premium segment of the Official List and traded on the London Stock Exchange's Main Market.

The Company makes its investments through intermediate holding companies and underlying Project Vehicles/Special Purpose Vehicles ("SPVs") which are ultimately wholly-owned by the Company.

## Investment Objective

The Company seeks to provide investors with a sustainable and inflation-linked dividend together with the potential for capital growth over the long-term through investment in a diversified portfolio of predominantly UK ground-based solar assets.

## Investment Policy

The Company will pursue its investment objective by acquiring a portfolio of ground based, operational solar power plants predominantly in the UK. Investments outside the UK and assets which are still, when acquired, under construction will be limited to 25 per cent. of the Gross Asset Value of the Company, calculated at the time of investment.

Although all assets acquired by the Company to date have been located in the UK, the Company is currently reviewing a number of attractive overseas pipeline opportunities. Acquisitions overseas will be supported by Foresight's established and experienced teams from offices located in Italy, the US and Australia.

The Company will seek to acquire, through subsidiaries, majority or minority stakes in individual ground-based solar assets. When investing in a stake of less than 100 per cent. in a solar power plant SPV, the Company will secure its shareholder rights through Shareholders' agreements and other legal transaction documents.

Power purchase agreements will be entered into between each of the individual solar power plant SPVs in its portfolio and creditworthy offtakers in the UK. Under the PPAs, the SPVs will sell solar generated electricity and green benefits to the designated offtaker. The Company may retain exposure to UK power prices through PPAs that avoid mechanisms such as fixed prices or price floors.

Investments may be in equity or debt or intermediate instruments but not in any instruments traded on any investment exchange.

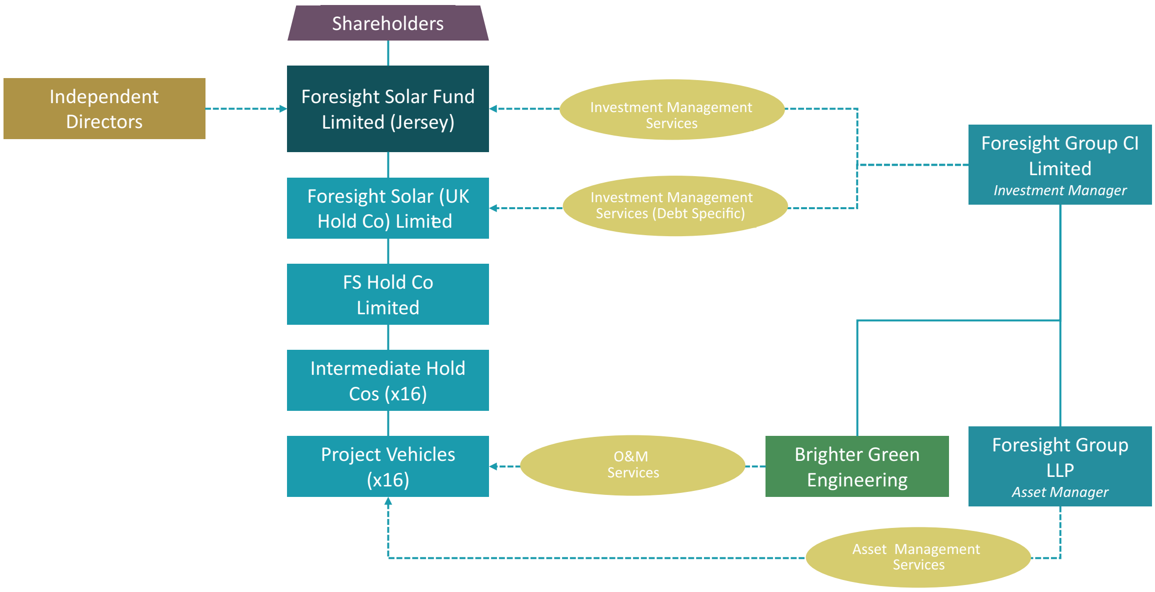
The Company is permitted to invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds.

In order to spread risk and diversify its portfolio, at the time of investment no single asset shall exceed in value (or, if it is an additional stake in an existing investment, the combined value of both the existing stake and the additional stake acquired) 30 per cent. of the Company's Gross Asset Value post acquisition. The Gross Asset Value of the Company will be calculated based on the last published gross investment valuation of the Company's underlying portfolio, including cash, plus acquisitions made since the date of such valuation at their cost of acquisition. The Company's portfolio will provide diversified exposure through the inclusion of not less than five individual solar power plants and the Company will also seek to diversify risk by ensuring that a significant proportion of its expected income stream is derived from green benefits (which will consist of, for example, Renewable Obligation Certificates ("ROCs") and Feed-in Tariffs ("FiTs")). Diversification will also be achieved by the Company using a number of different third party providers such as developers, Engineering, Procurement and Construction ("EPC") contractors, Operation and Maintenance ("O&M") contractors, panel manufacturers, landlords and Distribution Network Operators.

The Company's Articles provide that Gearing, calculated as borrowings as a percentage of the Company's Gross Asset Value will not exceed 50 per cent. at the time of drawdown. It is the Board's current intention that long-term gearing, calculated as borrowings as a percentage of the Company's Gross Asset Value will not exceed 40 per cent. at the time of drawdown.

Any material change to the investment policy will require the prior approval of Shareholders by way of an ordinary resolution (for so long as the Ordinary Shares are listed on the Official List) in accordance with the Listing Rules.

## Corporate Structure*



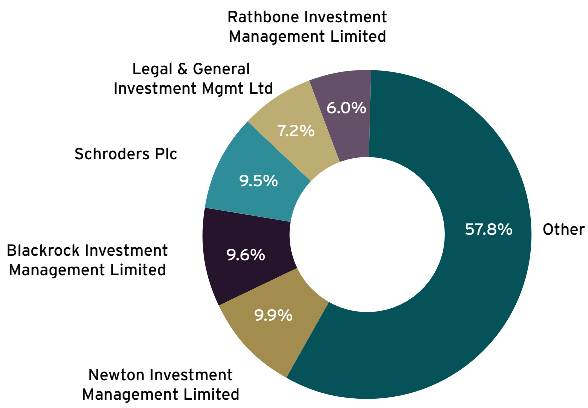

*Simplified for illustrative purposes

## Significant Shareholders

The Company's Shareholders include a substantial number of blue-chip institutional investors.

Shareholders in the Company with more than a 5% holding as at 30 December 2016 are as follows:

| Investor | % Shareholding in Fund |
|---|---|
| Newton Investment Management Limited | 9.9% |
| Blackrock Investment Management Limited | 9.6% |
| Schroders Plc | 9.5% |
| Legal & General Investment Mgmt Ltd | 7.2% |
| Rathbone Investment Management Limited | 6.0% |
| **Total** | **42.2%** |




## Alternative Investment Fund Management Directive ("AIFMD")

The AIFMD, which was implemented across the EU on 22 July 2013 with the transition period ending 22 July 2014, aims to harmonise the regulation of Alternative Investment Fund Managers ("AIFMs") and imposes obligations on managers who manage or distribute Alternative Investment Funds ("AIFs") in the EU or who market shares in such funds to EU investors. Under the AIFMD, the Company is self-managed and acts as its own Capitalised Alternative Investment Fund Manager.

Both the Company and the Investment Manager are located outside the European Economic Area ("EEA") but the Company's marketing activities in the UK are subject to regulation under the AIFMD.

# The Investment Manager

The Company's Investment Manager is Foresight Group CI Limited ("Foresight Group CI"), which is responsible for the development and management of the assets of the Company including the sourcing and acquisition of future ground-based solar power plants predominantly located in the UK, advising on the Group's borrowing strategy, the sale of the electricity and the administering of green benefits. The Investment Manager is a Guernsey registered company, incorporated under the Guernsey Law with registered number 51471. The Investment Manager is licensed and regulated by the Guernsey Financial Services Commission.

Foresight, defined here as Foresight Group CI and its subsidiaries, is a privately-owned infrastructure and private equity Investment Manager, managing assets of c. £2.3 billion, raised from pension funds and other institutional investors, UK and international private and high net-worth individuals and family offices. Founded in 1984, in total Foresight manages 27 funds on behalf of institutional and retail investors including four venture capital trusts which are listed on the premium segment of the Official List and are admitted to trading on the Main Market. Headquartered in The Shard, London, with further offices in Guernsey, Nottingham, Manchester, Rome, San Francisco and Sydney, Foresight has over 160 staff.

Foresight established its solar investment team in 2007 and launched its first solar fund, Foresight European Solar Fund, in early 2008. Foresight Solar VCT plc was launched in November 2010 and the Group has since raised over £200 million for solar-focused Enterprise Investment Schemes. In 2013, Foresight managed funds issued the largest UK solar index linked bond at that date.

Foresight is now the second largest solar asset owner in the UK with over 630MW of installed capacity. In total, the team manages c. £1.2 billion invested in over 75 operating solar plants totalling over 750MW of existing operational capacity across the UK, Italy and the USA.

The group's dedicated multinational infrastructure team of 38 professionals comprises individuals with operational, financing, legal, tax and structuring expertise in the renewable energy sector. The team, which is supported by further finance, sales, marketing, investor relations and administration functions across the Foresight group, includes 30 investment and finance professionals, as well as a technical team of eight focused on the optimisation of the solar plants.

The Company's Investment Management team is led by four experienced UK-based fund managers and is responsible for new asset acquisitions, pipeline development, value enhancement of the Company and also advises the Board on the optimal borrowing strategy of the Company. The management team is supported by a team of UK-based solar investment analysts with additional resource obtained from Foresight's US, Italian and Australian investment teams. Foresight is overseen by an Executive Committee of which Jamie Richards and Gary Fraser are members. Foresight's Executive Committee provides strategic investment advice to the management team and the Board.

**Jamie Richards, Partner, Head of Infrastructure**
Jamie joined Foresight in 2000 and is one of its four Executive Committee members. Since inception in 2007, he has had overall responsibility for Foresight's infrastructure/solar business in the UK, Italy and US and related funds including origination and structuring. Jamie has overseen, as a member of the investment committee, more than 75 solar projects representing Foresight's approximately £1.2 billion solar portfolio. Prior to 2007, he led a number of venture capital and private equity transactions in the technology and cleantech sectors representing Foresight's funds and was a non-executive director for several companies. Jamie is a chartered accountant and has 20 years' experience in fund management, banking and corporate recovery. Before joining Foresight, Jamie worked at PwC, Citibank and MIDIS, both in London and Sydney. Jamie holds a BSc in Economics and Accounting from The University of Bristol.

**Ricardo Pineiro, Partner, Head of UK Solar**
Ricardo has led Foresight's UK solar investments since inception in 2010, including the acquisition of over 40 UK solar power plants, totalling c.600MW and continues to oversee their commercial management. He has also been responsible for arranging c.£470 million of third party debt facilities to date, including revolving debt facilities, listed bonds and project finance facilities. Ricardo joined Foresight from Espirito Santo Investment, where he spent three years in the project finance division as manager with a special focus on transport, energy, oil and gas. Prior to this he worked as a business analyst in the corporate finance division of a Portuguese investment bank in Lisbon. Ricardo is primarily focused on leading new infrastructure transactions across UK and other international markets.

**Gary Fraser, Partner, Group Finance Director**
Gary is a chartered accountant and Chartered Fellow of the Securities Institute. He worked with Ernst & Young between 1993 and 1999, predominantly in the audit and risk assurance and corporate finance areas and joined ISIS Asset Management plc in 1999 where he was responsible for the provision of similar services to several investment companies. He joined Foresight in 2004 and is one of its four Executive Committee members.

**Matthew Black, Senior Investment Manager**
Matt has been is responsible for the origination, financing and structuring of UK solar transactions since joining Foresight in 2012 including leading the acquisition of over 200MW of UK solar projects. He previously spent more than four years at Credit Suisse where he was responsible for the product development, structuring and investment management of retail and institutional investment products. He was also a Research Associate at Imperial College, London where he focused on the financing of UK renewable energy and electricity infrastructure. Matt holds an MSc in Environmental Technology and Energy Policy from Imperial College, an MA in International Relations and a BA in Politics both from the University of Sheffield.

# The Asset Manager

The underlying investments have appointed Foresight Group LLP, a subsidiary of Foresight Group CI, to act as Asset Manager. The Asset Manager is responsible for the management of the operating assets including relationships with contractors, asset performance, portfolio optimisation and commercial negotiations during the operating phase. Foresight Group LLP is authorised and regulated by the Financial Conduct Authority. It is overseen by a strong, experienced and majority independent Board.

The Company's Asset Management team is led by a Senior Portfolio Manager, responsible for the financial and commercial operations of the assets, and a Technical Director with six years of European solar experience who supervises the operational management of the Company's portfolio on a day to day basis.

Foresight has developed a best-in-class, in-house solar asset management team through the active management of a large portfolio of operational and construction stage assets. The team incorporates portfolio managers, electrical engineers, legal assistants and accountants and is further enhanced by an outsourced back office support function which provides limited back office and administrative functions such as invoicing and financial reporting for each solar power plant.

Foresight's excellence in asset optimisation has been attained through continual emphasis on operational efficiencies achieved through the consolidation of costs across O&M activities and insurances, negotiating attractive offtake pricing and ongoing equipment improvements.

Being an early entrant into the solar market, Foresight has a wealth of experience in the sector and has been able to develop its own centralised monitoring system so that all sites can be remotely monitored in real time. This sophisticated asset management database forms the basis of all performance analysis and reporting as well as enabling the enforcement of contractual compliance. This a powerful tool for being able to assess the performance of the portfolio of sites on a continuous basis and ensures that all information is consistent, accurate and relevant. It also allows Foresight's engineers to identify and notify onsite contractors of incidents quickly and work with them in order to minimise the impact on portfolio production. Foresight also oversees each of the O&M contractors' performance, incident control and technical reporting in order to ensure that each solar power plant is operated and managed so as to maximise profits and reduce operating risks.

**Tom Moore, Senior Portfolio Manager**
Tom has responsibility for the financial and commercial operations of Foresight's infrastructure assets. Tom joined Foresight in 2013 from Jubilee Financial Products where he was a financial controller within the asset management and investment banking space responsible for internal finance, operations and compliance. There he was also performed advisory work for M&A transactions and corporate restructurings. Before this he spent four years in practice with Saffery Champness. Tom is a Chartered Accountant and holds a BSc in Economics from The University of York.

**Arnoud Klaren, Senior Portfolio Manager and Technical Director**
Arnoud joined Foresight in 2011 and is responsible for the technical operations of Foresight's solar portfolio. Prior to joining the firm, Arnoud worked at SolFocus, where he spent four years managing solar projects based on concentrated photovoltaics ("CPV"), an innovative solar technology. There, he was responsible for the construction and start-up of pioneering CPV projects in Spain, Saudi Arabia and Greece. Prior to SolFocus, Arnoud founded and managed ThinkSpectrally, a spin-off company of The University of Valencia in Spain, dedicated to quality assurance in the PV manufacturing process. Arnoud holds an MA in Electrical Engineering from the Twente University of Technology.

# Portfolio Assets

## Overview

| Asset | Location | Status | ROCs | Installed Peak Capacity | Connection Date | Acquisition Date | Ownership | Original Cost[2] | Fair Value |
|---|---|---|---|---|---|---|---|---|---|
| **Wymeswold**[1] | Leicestershire | Operational and accredited | 2.0<br>1.4 | 32<br>2 | March 2013 | November 2013<br>March 2015 | 100% | £45.0m | £50.1m |
| **Castle Eaton** | Wiltshire | Operational and accredited | 1.6 | 18 | March 2014 | June 2014 | 100% | £22.6m | £21.9m |
| **Highfields** | Essex | Operational and accredited | 1.6 | 12 | March 2014 | June 2014 | 100% | £15.4m | £15.0m |
| **High Penn** | Wiltshire | Operational and accredited | 1.6 | 10 | March 2014 | June 2014 | 100% | £12.7m | £12.0m |
| **Pitworthy** | North Devon | Operational and accredited | 1.4 | 16 | March 2014 | June 2014 | 100% | £19.3m | £18.3m |
| **Hunters Race** | West Sussex | Operational and accredited | 1.4 | 11 | July 2014 | September 2014 | 100% | £13.3m | £13.5m |
| **Spriggs Farm** | Essex | Operational and accredited | 1.6 | 12 | March 2014 | November 2014 | 100% | £14.6m | £14.8m |
| **Bournemouth** | Dorset | Operational and accredited | 1.4 | 37 | September 2014 | December 2014 | 100% | £47.9m | £51.3m |
| **Landmead** | Oxfordshire | Operational and accredited | 1.4 | 46 | December 2014 | December 2014 | 100% | £52.4m | £54.1m |
| **Kencot** | Oxfordshire | Operational and accredited | 1.4 | 37 | September 2014 | March 2015 | 100% | £49.5m | £49.0m |
| **Copley** | Lincolnshire | Operational and accredited | 1.3 | 30 | December 2015 | June 2015 | 100% | £32.7m | £38.0m |
| **Atherstone** | Warwickshire | Operational and accredited | 1.4 | 15 | March 2015 | July 2015<br>November 2016 | 100% | £16.2m | £16.6m |
| **Paddock Wood** | Kent | Operational and accredited | 1.4 | 9 | March 2015 | July 2015<br>November 2016 | 100% | £10.7m | £11.5m |
| **Southam** | Warwickshire | Operational and accredited | 1.4 | 10 | March 2015 | July 2015<br>November 2016 | 100% | £11.1m | £11.8m |
| **Port Farm** | Wiltshire | Operational and accredited | 1.4 | 35 | March 2015 | August 2015 | 100% | £44.5m | £46.0m |
| **Membury** | Berkshire | Operational and accredited | 1.4 | 16 | March 2015 | September 2015 | 100% | £22.2m | £21.9m |
| **Total Portfolio** | | | | **348** | | | | **£430.1m** | **£445.8m** |

## Post-period end acquisition

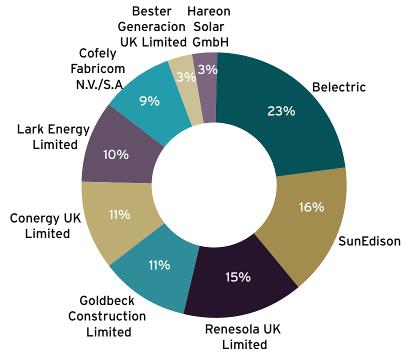
| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Shotwick** | Flintshire | Operational and accredited | 1.3 | 72 | March 2016 | February 2017 | 100% | £74.9m | n/a |
| **Total** | | | | **420** | | | | **£505.0m** | **n/a** |

1 The 1.4 ROC banding and March 2015 acquisition date refer to the 2.3MW Wymeswold extension finalised in March 2015.

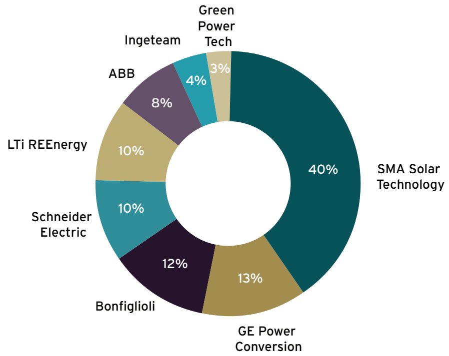
2 Original cost at time of acquisition, including transaction costs.

## Diversification (by MW)

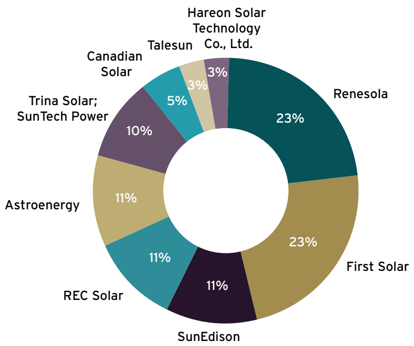
### EPC Contractors



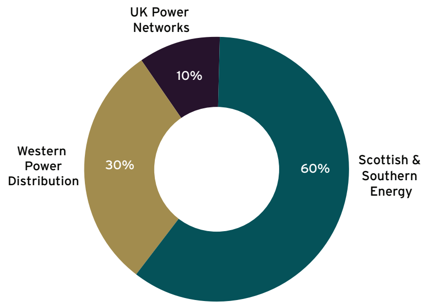

### Inverters



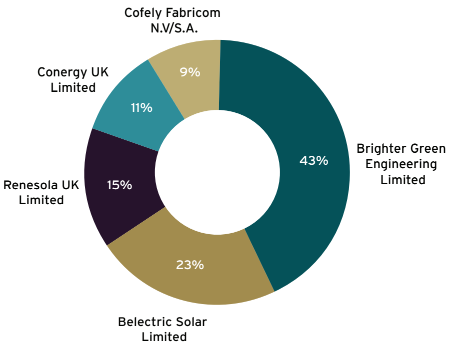

### Module Suppliers



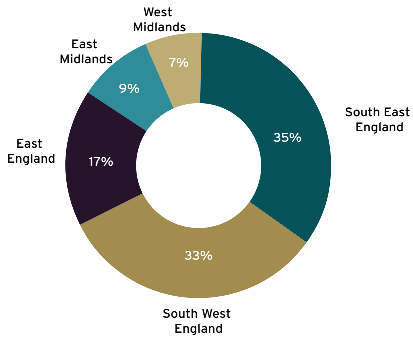

### Grid Operators



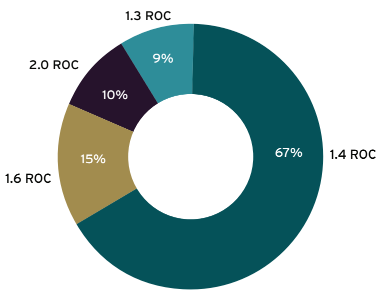

### O&M Contractors




### Regions




### ROCs



## Map of Portfolio Assets


Acquisition completed post period end

Shown to scale with the size of markers corresponding to installed peak capacity per asset

# Asset Summaries



## Wymeswold, Leicestershire

| | |
|---|---|
| Ownership | 100% |
| MW | 34 |
| ROCs | 2.0/1.4 |
| Acquisition Date | November 2013/March 2015 |
| Solar Panels | 142,000 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Trina Solar; Suntech Power |
| EPC Party | Lark Energy |
| O&M Counterparty | Brighter Green Engineering |
| Inverter Supplier | LTi REEnery |
| Grid Operator | Western Power Distribution |

## Castle Eaton, Wiltshire

| | |
|---|---|
| Ownership | 100% |
| MW | 18 |
| ROCs | 1.6 |
| Acquisition Date | June 14 |
| Solar Panels | 60,000 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Canadian Solar |
| EPC Party | SunEdison |
| O&M Counterparty | Brighter Green Engineering |
| Inverter Supplier | Bonfiglioli |
| Grid Operator | Southern Electric Power |

## Highfields, Essex

| | |
|---|---|
| Ownership | 100% |
| MW | 12 |
| ROCs | 1.6 |
| Acquisition Date | June 14 |
| Solar Panels | 38,000 |
| Technology | Monocrystalline |
| Panel Supplier | SunEdison |
| EPC Party | SunEdison |
| O&M Counterparty | Brighter Green Engineering |
| Inverter Supplier | Ingeteam |
| Grid Operator | UK Power Networks |

# Asset Summaries (continued)

| High Penn, Wiltshire | |
|---|---|
| Ownership | 100% |
| MW | 10 |
| ROCs | 1.6 |
| Acquisition Date | June 14 |
| Solar Panels | 30,000 |
| Technology | Monocrystalline |
| Panel Supplier | SunEdison |
| EPC Party | SunEdison |
| O&M Counterparty | Brighter Green Engineering |
| Inverter Supplier | Bonfiglioli |
| Grid Operator | SSE Power Distribution |
| | UK Power Networks |

| Pitworthy, North Devon | |
|---|---|
| Ownership | 100% |
| MW | 16 |
| ROCs | 1.4 |
| Acquisition Date | June 14 |
| Solar Panels | 48,000 |
| Technology | Monocrystalline |
| Panel Supplier | SunEdison |
| EPC Party | SunEdison |
| O&M Counterparty | Brighter Green Engineering |
| Inverter Supplier | Bonfiglioli |
| Grid Operator | Western Power Distribution |

| Hunters Race, West Sussex | |
|---|---|
| Ownership | 100% |
| MW | 11 |
| ROCs | 1.4 |
| Acquisition Date | September 14 |
| Solar Panels | 41,000 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Hareon Solar |
| EPC Party | Hareon Solar |
| O&M Counterparty | Hareon Solar |
| Inverter Supplier | Power One |
| Grid Operator | SSE Power Distribution |

## Spriggs Farm, Essex

| | |
|---|---|
| Ownership | 100% |
| MW | 12 |
| ROCs | 1.6 |
| Acquisition Date | November 14 |
| Solar Panels | 50,000 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Talesun |
| EPC Party | Bester Generation |
| O&M Counterparty | Brighter Green Engineering |
| Inverter Supplier | Green Power Tech |
| Grid Operator | UK Power Networks |

## Bournemouth, Dorset

| | |
|---|---|
| Ownership | 100% |
| MW | 37 |
| ROCs | 1.4 |
| Acquisition Date | December 14 |
| Solar Panels | 146,000 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | REC |
| EPC Party | Goldbeck |
| O&M Counterparty | Goldbeck |
| Inverter Supplier | SMA |
| Grid Operator | SSE Power Distribution |

## Landmead, Oxfordshire

| | |
|---|---|
| Ownership | 100% |
| MW | 46 |
| ROCs | 1.4 |
| Acquisition Date | December 14 |
| Solar Panels | 483,000 |
| Technology | Thin film |
| Panel Supplier | First Solar |
| EPC Party | Belectric |
| O&M Counterparty | Belectric |
| Inverter Supplier | GE Power Conversion |
| Grid Operator | SSE Power Distribution |

# Asset Summaries (continued)

## Kencot, Oxfordshire

| | |
|---|---|
| Ownership | 100% |
| MW | 37 |
| ROCs | 1.4 |
| Acquisition Date | March 15 |
| Solar Panels | 144,000 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Astronergy |
| EPC Party | Conergy |
| O&M Counterparty | Conergy |
| Inverter Supplier | SMA |
| Grid Operator | Southern Electric Power |

## Copley, Lincolnshire

| | |
|---|---|
| Ownership | 100% |
| MW | 30 |
| ROCs | 1.3 |
| Acquisition Date | June 15 |
| Solar Panels | 115,200 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Renesola |
| EPC Party | Cofely Fabricom N.V./S.A |
| O&M Counterparty | Cofely Fabricom N.V./S.A |
| Inverter Supplier | SMA |
| Grid Operator | Western Power Distribution |

## Atherstone, Warwickshire

| | |
|---|---|
| Ownership | 100% |
| MW | 15 |
| ROCs | 1.4 |
| Acquisition Date | July 15 |
| Solar Panels | 154,200 |
| Technology | Thin film |
| Panel Supplier | First Solar |
| EPC Party | Belectric |
| O&M Counterparty | Belectric |
| Inverter Supplier | SMA |
| Grid Operator | Western Power Distribution |

## Paddock Wood, Kent

| | |
|---|---|
| Ownership | 100% |
| MW | 9 |
| ROCs | 1.4 |
| Acquisition Date | July 15 |
| Solar Panels | 97,200 |
| Technology | Thin film |
| Panel Supplier | First Solar |
| EPC Party | Belectric |
| O&M Counterparty | Belectric |
| Inverter Supplier | SMA |
| Grid Operator | UK Power Networks |

## Southam, Warwickshire

| | |
|---|---|
| Ownership | 100% |
| MW | 10 |
| ROCs | 1.4 |
| Acquisition Date | July 15 |
| Solar Panels | 103,350 |
| Technology | Thin film |
| Panel Supplier | First Solar |
| EPC Party | Belectric |
| O&M Counterparty | Belectric |
| Inverter Supplier | SMA |
| Grid Operator | Western Power Distribution |

## Port Farm, Wiltshire

| | |
|---|---|
| Ownership | 100% |
| MW | 35 |
| ROCs | 1.4 |
| Acquisition Date | August 15 |
| Solar Panels | 135,768 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | ReneSola |
| EPC Party | Renesola UK Limited |
| O&M Counterparty | Renesola UK Limited |
| Inverter Supplier | Schneider Electric |
| Grid Operator | SSE |

# Asset Summaries (continued)

| Membury, Berkshire | |
|---|---|
| Ownership | 100% |
| MW | 16 |
| ROCs | 1.4 |
| Acquisition Date | September 15 |
| Solar Panels | 63,288 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | ReneSola |
| EPC Party | Renesola UK Limited |
| O&M Counterparty | Renesola UK Limited |
| Inverter Supplier | ABB |
| Grid Operator | SSE |

## Post period end acquisition

| Shotwick, Flintshire | |
|---|---|
| Ownership | 100% |
| MW | 72 |
| ROCs | 1.3 |
| Acquisition Date | February 17 |
| Solar Panels | 227,728 |
| Technology | Polycrystalline Silicon |
| Panel Supplier | Jetion |
| EPC Party | China Triumph International Engineering Corporation ("CTIEC") |
| O&M Counterparty | CTIEC |
| Inverter Supplier | SMA |
| Grid Operator | Scottish Power |

# Investment Manager's Report

For the year ended 31 December 2016

## Key Metrics

| | As at 31 December 2016 | As at 31 December 2015 |
|---|---|---|
| Market Capitalisation | £354.9 million | £281.8 million |
| Share Price | 104.1 pence | 100.0 pence |
| Total Dividend per Share for the Year | 6.17 pence | 6.10 pence |
| Gross Asset Value | £549.0 million* | £439.1 million |
| Net Asset Value | £350.8 million | £279.1 million |
| NAV per Share | 102.9 pence | 99.0 pence |
| NAV Change per Share | 3.9 pence | -1.9 pence |
| Total Return (NAV) | 7.04% | 5.5% |
| Total Shareholder Return | 6.58% | 4.81% |
| Equity Discount Rate | 7.5% | 7.5% |
| Profit after Tax | £30.7 million | £15.2 million |

* of Company and its subsidiaries

## Portfolio Summary

The 16 asset portfolio, comprising solar installations across England and Wales with a total generating capacity of 348MW, has been carefully constructed since IPO. Investment opportunities have been selected to ensure diversification by geography, while aiming to maximise exposure to regions with favourable irradiation patterns. The portfolio is also diversified by technology and counterparties in order to minimise risk. The individual selection of solar assets also takes into account pricing, driven by the aim of achieving portfolio growth but not at the expense of securing good value for investors.

In keeping with the Company's low risk strategy and in order to minimise exposure to construction risk, 15 of the 16 assets within the portfolio were operational when acquired and subject to certain conditions having been achieved by the developer of the plant, including the assets being built to specified performance standards and successful connection to the grid.

## Basis of Presentation

As described more fully on page 49, amendments to IFRS 10 effective 1 January 2016 have been implemented and have resulted in an accounting policy change in relation to consolidation of subsidiaries. This means that the Company has valued its holding in its sole direct subsidiary, UK Hold Co, at fair value through profit or loss rather than consolidating its holding in UK Hold Co as it did in prior years. The result of this change means that the value of debt (held by a subsidiary) and underlying investments (also held by a subsidiary) are not separated in the Statement of Financial Position.

## Acquisitions and Pipeline

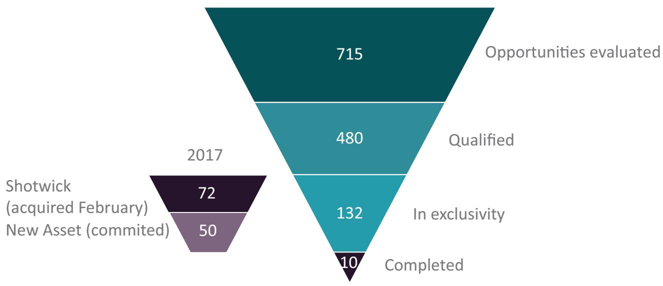
In November 2016, the Company completed the acquisition (a total of 10MW) of the remaining minority equity positions in the 10MW Southam asset, 9MW Paddock Wood asset and the 15MW Atherstone asset. The Company originally acquired majority positions in the three sites, which are operational and accredited under the 1.4 ROC subsidy regime, in July 2015 and was pleased to have the opportunity to increase its ownership to 100% of the share capital in the three assets.

A total of 715MW of potential asset acquisitions were evaluated by the Investment Manager during 2016. Of these, 480MW were considered appropriate for the Company, of which 132MW were progressed to exclusivity and ultimately 10MW of additional installed capacity acquired during the period. Following period end the Company acquired the 72MW solar site at Shotwick and continues to have the right to buy a further 50MW asset.

This reflects the prudent investment strategy and preferred approach of acquiring assets that will be accretive in value to Shareholders. The Investment Manager was particularly cautious about acquiring new assets in the first half of the year in an environment of decreasing UK wholesale power prices, due to the disparity it believed existed between the pricing expectations of asset vendors and buyers. However, following the Brexit referendum result the Investment Manager felt the market environment became more attractive. The increased uncertainty triggered by Brexit led some potential overseas acquirers of UK solar assets to reconsider. Set against a backdrop of improving power prices, this prompted the Investment Manager to progress a number of the opportunities to exclusivity.

Potential acquisitions are sourced through the Investment Manager's extensive contacts, which as a global investor in renewables extend beyond the UK to Italy, Spain, Australia and the US, including strong relationships with vendors, typically contractors and developers that build solar power plants. In acquiring additional investments, the emphasis is on how assets can enhance the creation of distributable cash flow within the Company's portfolio.

### 2016 deal flow analysis, MW




The Investment Manager's Investment Committee reviews prospective new investments at various stages and ultimately recommends any acquisition to the Board for approval. The Board considers the suitability of any prospective acquisition in relation to the existing portfolio and its match with the Company's investment policy. As part of the due diligence process, the Investment Manager's analysis is complemented by the use of other professional expertise including technical consultants, accountants, taxation and legal advisers and insurance experts. Foresight has built a reputation as a trusted acquirer in the sector with strong transactional capabilities and the ability and willingness to execute swiftly when required.

The Investment Manager seeks to maintain diversification within the Company's portfolio by investing in a number of solar power plants with varying characteristics which mitigates exposure to a number of different technical (as well as geographical) risks. The grid connections for the solar power plants in the Company's portfolio are managed by a number of different Distribution Network Operators. The Company also uses a number of other, different third party providers in respect of each solar power plant such as developers, EPC contractors, O&M contractors, panel manufacturers, landlords and offtakers.

## Following Period End

In February 2017, the Company announced the acquisition of Shotwick solar park in Flintshire, North Wales. Shotwick was connected to the grid in March 2016 and has received Renewable Obligation Certificate ("ROC") accreditation of 1.3ROCs/MWh. With a peak capacity of 72MW and a 50MW AC export capacity, Shotwick is currently the largest operational solar asset in the UK. Via a private wire agreement Shotwick provides renewable electricity to the neighbouring Shotton paper mill owned by UPM, a Finnish conglomerate with a market cap of €11.87 billion.

The acquisition has been funded using the remainder of both the equity proceeds recently raised and the acquisition facility available to the Company. The Company expects to enable repayment of the facility through additional equity raises in 2017. It should be noted that the Company has contractual rights to all revenue generated by Shotwick since 30 November 2016.

## Regulatory and Market Changes

While the regulatory environment for UK renewables has proved more settled in 2016 than 2015, the year has not been without its upheavals in other regards, most notably the EU referendum result in June. While unexpected, the result appears likely to have limited, if any, impact on the Company. However, one indirect consequence, certainly in the short-term, has been to accelerate the uptick in rising UK power prices, a side-effect of a weakened pound.

The fundamentals of the UK solar sector are not underpinned by EU regulation or legislation. The Renewable Obligation and the Levy Control Framework are enshrined in the Law of England and Wales and do not require transposition from EU Directives or other legislation. Asset revenue streams are driven by UK Government subsidies and UK wholesale power prices and all of the Company's operational costs are denominated in Sterling. The main costs to the portfolio are land leases and O&M contracts which have been secured under long term contracts. Financing costs also have a limited exposure to interest rate movements with only c. 4% of the Company's long term debt facilities directly linked to LIBOR.

In July 2016, it was announced that The Department of Energy and Climate Change ("DECC") would be dissolved and the department's functions would be transferred to the new Department of Business, Energy and Industrial Strategy ("BEIS") a combination of DECC and the Department of Business, Innovation and Skills. The new department will be led by the Rt. Hon. Greg Clark, the former Communities Secretary who has also held the position of shadow Energy Secretary in the past. The appointment has been broadly well-received by those in the renewable industry, as the Minister has previously been vocal of his support for renewable energy and the green economy. While the impact this will have on the renewable energy sector is at this point unclear, there are several positives that may result from the decision such as the ability for more co-ordinated policy decisions.

Following these announcements, the Investment Manager does not anticipate any further regulatory changes that may impact the UK's renewable initiatives or the Government's commitment to the 2008 Climate Change Act targets. Indeed, on 30 June 2016 the Government approved the Fifth Carbon Budget demonstrating its continued commitment to the development of renewable and low carbon energy supply. If adhered to, it will limit annual emissions to an average of 57% below 1990 levels. This would require a significant reduction in carbon emissions by 2028, considering UK emissions were only 35% below 1990 levels in 2014, with a further fall of 3% provisionally calculated for 2015. Coming after the EU referendum, this budget has helped allay concerns that the UK's carbon reduction policies could be impacted by the decision to leave the EU. In October 2016, the Committee on Climate Change noted that the vote to leave the EU does not change the UK's legal commitments to reduce its emissions by 57% by 2030 and at least 80% by 2050 (relative to 1990) under the Climate Change Act. UK policy has developed over time in an EU context. The Government has stated its intention to initially convert existing EU laws into UK legislation when the UK leaves the EU. Many aspects of EU level policy will need to be preserved or replicated at the UK level in the longer term. In some areas the Government should take opportunities to improve on EU level approaches.

Of the recent changes to the regulatory environment for UK solar, the announcement in December 2015 of the closure of the Renewable Obligation Scheme ("RO Scheme") to new solar PV of 5MW and below from 1 April 2016 onwards, remains the most relevant. This was driven by the significant increase in the installed capacity of UK solar in prior years, with the Solar Trade Association estimating that UK solar capacity surpassed 10GW at the end of March 2016. DECC had previously flagged that it would continue to monitor the deployment of new installations and the subsequent impact this would have on the Levy Control Framework ("LCF"). It should be noted that the changes to the RO Scheme described above had no impact on the existing installed capacity of the Company portfolio or any of the projects in its immediate pipeline.

The contracts for difference ("CfD") scheme was also suspended indefinitely in November 2015. However, in November 2016 BEIS announced that the second auction will now open in April 2017 with a total budget of £290 million across the two delivery years 2021/22 and 2022/23. As had been anticipated, there will be no support for solar PV, which along with onshore wind is deemed too mature for this support.

The UK's total solar capacity has continued to grow in the wake of 2015's regulatory revisions, albeit at a slower pace. The UK solar market is expected to reach 12GW of installed capacity by the time the ROC regime closes for new installation in March 2017, from the existing 11GW in Q3 2016. Large scale, ground mounted installations are thought to account for over 60% of the total solar market. The rapid growth and scale of UK installed solar capacity over the past five years has created an active market in large-scale secondary assets. The Investment Manager's market position and credibility gives it priority access to many transactions and it seeks to lever its relationship with prospective vendors of assets in order to obtain the highest possible quality of assets whilst avoiding competitive auction processes. This allows acquisitions to be expedited in a timely manner, while securing attractive investment returns. The Investment

Manager currently expects a significant amount of large scale ground mounted solar assets to become available in the secondary market over the next 24 months, supporting the expected Company growth in the short to medium term.

## Power Prices

During the first half of the year UK power prices remained under pressure primarily from low gas prices due to stockpiles of liquefied gas. Gas, which accounts for approximately half of total UK generation capacity, remains the main driver of power prices. A short term fall in coal prices due to continued oversupply in the market also exerted downwards pressure. Electricity demand continued to fall mainly due to reduced industrial output from the iron and steel industries.

However, power prices reached an inflexion point midway through 2016, with the downward trend seen in recent years beginning to reverse. The nascent increases seen in Q3 were attributable primarily to an increase in gas price forecasts, driven by an assumed weaker Sterling to Euro ratio in the wake of Brexit.

The upward trend in forecast power prices continued in Q4 with third party consultants attributing this to expected increases in oil and gas prices as well as tighter capacity margins due to the retirement of unprofitable generators, continuing delays in investment decisions for new thermal projects and the impact of the industrial emissions directive. Rising forecast long-term gas prices in the UK are triggered by further diversification away from Russian gas towards higher cost liquefied natural gas and supply from other regions. Future demand is also expected to increase, driven by assumed GDP growth, increasing upwards momentum.

The average power price achieved across the portfolio during the year was £37.7/MW (2015:£42.2/MWh). The portfolio is now in a position to benefit from rising electricity prices due to the Manager's decision not to fix electricity prices within the portfolios PPAs with prices of over £50/MWh being achieved in Q4 2016.

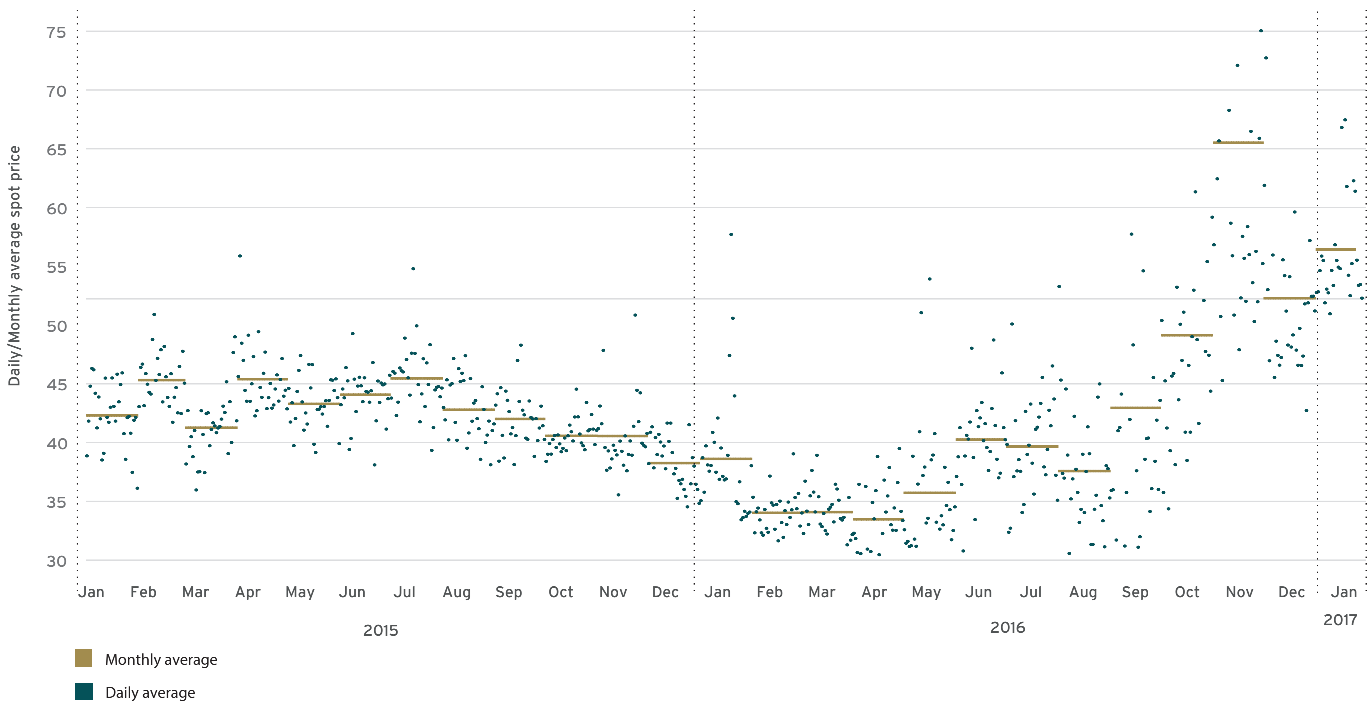
The Investment Manager uses forward looking power price assumptions to assess the likely future income of the portfolio assets for valuation purposes. The Company's assumptions are formed from a blended average of the forecasts provided by a number of third party consultants. Between its IPO in October 2013 and 31 December 2016, the Company revised its power price forecasts downwards nine times. During the year to 2016 there was a downward movement of 3.6%, however, during the second half of the year the Company made two upward revisions in forecast power prices, resulting in an average annual increase of 2.2% over that period, in line with the most recently published advisor reports. Following the recent upwards revision the Investment Manager's forecast for future power prices remains 27.5% below the level at IPO. The Company's forecasts continue to assume an increase in power prices in real terms over the medium to long-term of 1.7% per annum (2015: 1.8%).

During the period, 63% of the Company's operational portfolio revenue came from the sale of ROCs and other green benefits to an off-taker. These revenues are directly and explicitly linked to inflation for 20 years from the accreditation date under the ROC regime and subject to Retail Price Index ("RPI") inflationary increases applied by Ofgem in April of each year.

The majority of the remaining 37% of revenues derive from electricity sales which are subject to wholesale electricity price movements. Electricity prices in the UK are a component of the RPI index basket of goods and services and as a result present a degree of correlation with the long term RPI. This direct indexation of revenues derived from ROC benefits and the degree of inflation linkage of the wholesale electricity price provides a significant percentage of cash flows correlated with long-term inflation.

PPAs are entered into between each individual solar power asset and off-takers in the UK electricity supply market. Under the PPAs, each asset will sell the entirety of the generated electricity and ROCs to the designated off-taker.

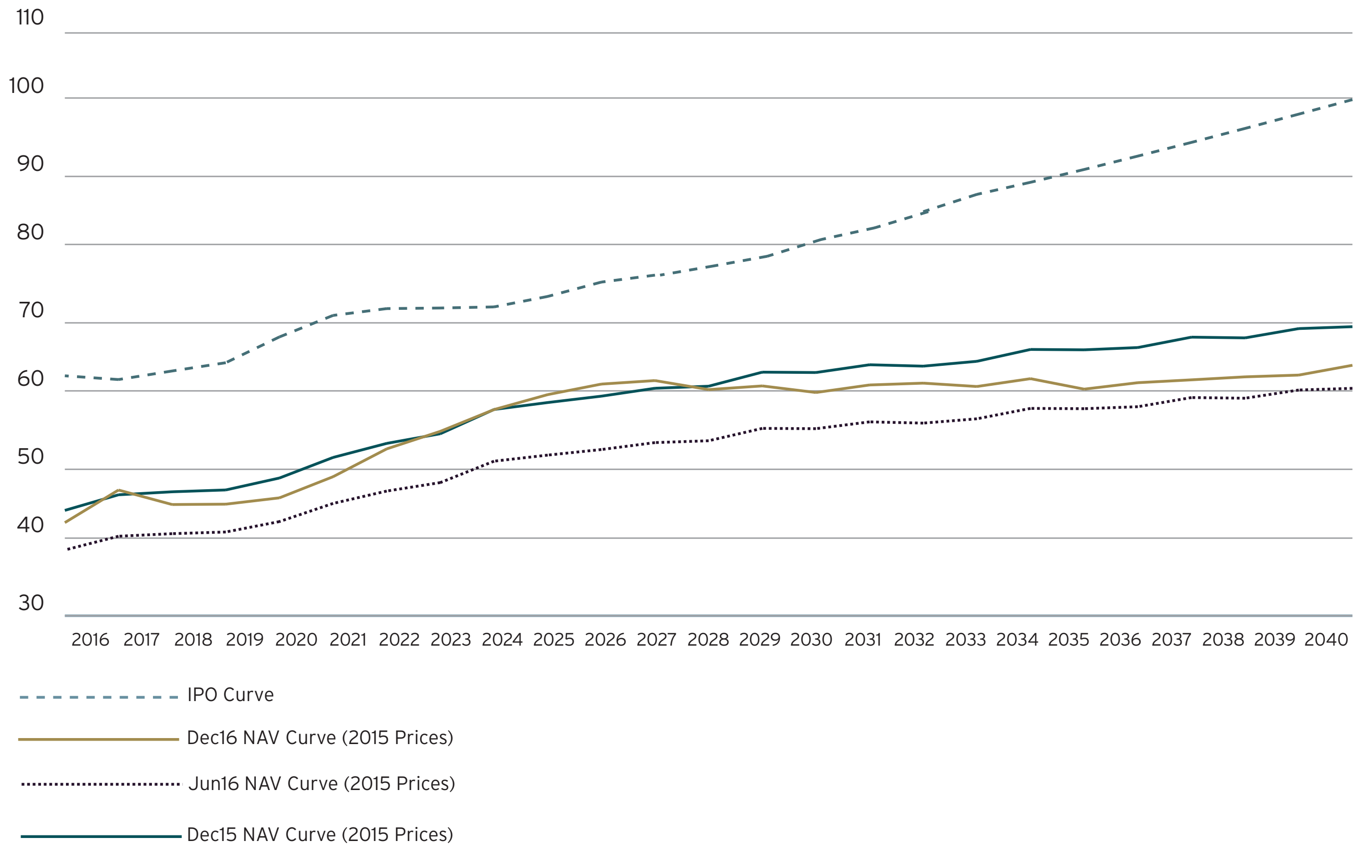
### Daily and monthly generation weighted spot electricity prices



# Investment Manager's Report (continued)

The Company's PPA strategy seeks to optimise revenues from the power generated, while keeping the flexibility to manage the portfolio appropriately. As of 31 December 2016, 15 of the 16 assets in the portfolio assets had in place a five year floating rate PPA, which tracks market power prices. The remaining asset, Wymeswold, has in place fixed price arrangements until Q4 2017. The Wymeswold asset represents c.10% of the total portfolio installed capacity. The Investment Manager is constantly reassessing conditions in the electricity market and updating its view on likely future movements. The Company retains the option to fix the PPAs of its portfolio assets at any time. As part of the Investment Manager's ongoing efforts to maximise the commercial performance of the portfolio, a PPA tendering process across all assets has been undertaken. This process has seen a significant reduction in fees charged by our off-takers.

Wholesale power prices (£/MWh)



## Portfolio Optimisation

During the period the Asset Manager has run a number of concurrent processes to maximise the free cash being generated by the portfolio. As well as focusing on increasing the technical efficiency of the sites, the asset management team has been able to significantly improve the commercial terms across a number of contracts.

### Power Purchase Agreements

To date, the Company has adopted a PPA strategy that seeks to optimise revenues from power generated, whilst maintaining the flexibility to manage a rapidly growing portfolio appropriately.

Having reached an installed capacity of 338MW by the end of 2015, the Asset Manager believed that the portfolio was of a significant scale in order to optimise the PPA and commercial terms of the portfolio. Following a portfolio wide tender exercise to find the most appropriate and competitive contracts in the market, the Company entered into new five year PPA contracts for 15 of the 16 assets in the portfolio at the end of Q1 2016. Wymeswold, the remaining asset which represents 10% of the total portfolio installed capacity, had already secured an attractive long-term contract in 2013 with fixed price arrangements until Q4 2017.

Through the new PPAs, the Company is able to take advantage of the wholesale market movements through the flexibility of being able to fix power prices at any point in time. By entering the new PPA contracts the Company secured an increase in passthrough rates for the sale of both ROCs and electricity against the original contracts, resulting in an increase of 3% for ROC passthrough rates and 4.6% for electricity sales passthrough rates. At the end of the period, 32% of the Company's operational portfolio revenues were linked to spot power prices. This has allowed the Company to benefit from the recent upward movement in power prices, which are currently forecast to continue. At the same time, the existing PPA contracts allow the Investment Manager to fix the price at any time by giving notice to the offtaker, thereby mitigating the risk of dividend reductions from significant downward movements in prices. It should be noted that the PPAs also provide the flexibility to incorporate new technologies such as batteries and storage, which may provide potential upside in the future.

### Project Insurance

Over the past two years the like for-like cost of insurance across the portfolio has fallen by over 50% achieved by the Asset Manager through the increased buying power of a larger portfolio. This reduction in cost has been accomplished at the same time as improving the terms of cover such as lowering the level of claim deductibles in March 2016. The Asset Manager fixed the current price for a three-year period, subject to certain loss limits not being breached.

### Operation and Maintenance Service

O&M costs are expected to decrease in the short and medium term as the increase in total UK solar installed capacity allows for market consolidation and economies of scale. The Asset Manager aims to improve cost efficiency by renegotiating the majority of the existing O&M agreements as the assets in the portfolio reach the end of the two year guaranteed performance period. This will allow the Company to secure competitive renewal terms while ensuring the standard of work expected by the Investment Manager is met, either by entering new contracts with the existing O&M contractor or by appointing a new contractor.

As part of this process, Brighter Green Engineering ("BGE") was appointed as O&M contractor to the Wymeswold site in December 2015, resulting in a decrease in annual fees. During 2016, the O&M contracts for a further six assets within the portfolio have been transferred to BGE.

### Brighter Green Engineering

Brighter Green Engineering has ultimate Shareholders in common with Foresight Group although they operate as separate entities and share no common executive personnel. The tender process of O&M contracts for Foresight's assets remains competitive and these are awarded on merit.

Further to the reduction in cost that the new O&M contracts bring, BGE offers strong technical expertise and market leading incident response times. BGE provides a comprehensive scope of work in excess of that typically offered by competitors, including:

- Full turnkey scope including, but not limited to, unlimited corrective maintenance (with key components replaced), response times, high-voltage works, plant security and monitoring;
- Frequent module and panel cleaning;
- Annual thermographic study of all modules, with further investigation and/or laboratory testing in case of malfunctions as required in preparation of claims;
- Annual testing of IV curve tracing for strings with exact methodology defined;
- Assistance with laboratory testing of up to 50 modules annually (including demounting, mounting, transport);
- Annual testing of transformer oil and two-yearly testing of partial discharge activity on all switchgear. These activities are typically only recommended by the equipment manufacturers but the Asset Manager has included it in the scope as mandatory, recognising the importance of high-voltage equipment on site, regarding their replacement cost in case of catastrophic faults, and particularly the associated plant downtime and costs; and
- Full management of Landscape and Environmental Management Plans, ensuring compliance with planning conditions and collaborations with ecologists to enhance biodiversity.

We expect efficiencies to be secured for the remaining assets in the portfolio once the existing O&M contractual terms reach either the end of their two year guaranteed performance period, when applicable, or final contract term, further reducing costs to the Company.

### Impact on Operating Profit

In addition to the widened contractual terms, it is anticipated that the portfolio efficiencies achieved will provide an 8% increase in operating profits across the portfolio from 2017 onwards. This increase is measured against the terms of contracts inherited at acquisition of assets assuming power prices and production are held constant. It is the Asset Manager's view that further portfolio efficiencies can be secured in the future assuming a consolidation of the O&M sector and further economies of scale arising from an increase in the number of MW owned by the Company.

### Maximising Value through the Final Acceptance Certificate ("FAC") Process

As each solar asset in the portfolio approaches the end of the two year EPC warranty period in preparation for the issuance of a Final Acceptance Certificate ("FAC"), Foresight carries out a rigorous analysis of the site. This aims to identify any possible defects and ensure construction, planning and all equipment is in-line with contractual obligations. In addition to a thorough site audit by Foresight's engineers and a full evaluation of performance data for the asset, the modules are tested by an accredited laboratory and independent experts test the high voltage equipment including transformers and switchgear. If deemed necessary cables are tested for insulation faults. Through this process, the Asset Manager has become aware of issues, minor in many cases. Subsequently, the EPC contractor is notified of any operational underperformance relative to the levels guaranteed at acquisition, or defects with the plant. Before the FAC is issued, the Asset Manager negotiates with the EPC contractor for the remedy of any faults or seeks to enforce the financial settlement agreed in the EPC contract to fully compensate the Company for any lost earnings likely to be incurred as a result of underperformance over the life of the asset.

Through its extensive operating experience, the Asset Manager has managed the FAC process with numerous EPC contractors and fully utilises the opportunity presented to support the future value of the assets in the Company's portfolio and safeguard their long term performance.

### Potential Induced Degradation

Potential Induced Degradation ("PID") is widely acknowledged module defect which is anticipated to affect up to 25% of the modules installed in the UK. Manufacturing defects exacerbated by humid conditions found in the UK have been shown to cause PV modules to degrade faster than would usually be expected, reducing their efficiency over time. Since PID was first identified improvements have been made in the manufacturing process and the issue occurs less frequently in newer modules, typically those manufactured after 2015.

Modules that are PID sensitive can see a deterioration in performance at any point in their life. If properly tested, modules show their susceptibility to PID from an early stage even though its effects may not be seen for many years. The effects of PID can be stopped or reversed (with the EPC contractor required to meet the cost if identified at an appropriate stage) through the implementation of site-specific technological solutions.

Based on the developing understanding of PID and its potential impact on the UK's solar industry, the Asset Manager is utilising the knowledge and experience of its team to take a proactive approach. The team is currently working with industry experts and laboratories to ensure all assets are properly and thoroughly audited, both on the field and in the laboratory, and identify any that may be susceptible to PID. If detected, the defect is notified to the EPC contractor and an assessment made of the likely impact on performance over the lifetime of the asset.

### Useful Economic Life of Assets

The DCF methodology used to value the assets within the portfolio assumes a 25-year asset life with no residual value at the end of this period. This assumption is based upon the market standard lease terms for the properties on which the Company's solar assets are located and planning consent periods initially granted by local planning offices.

The Investment Manager believes that this is a prudent approach, however there are several factors that justify the incorporation of residual value within the portfolio valuation including:

- The useful operating life of the equipment in the portfolio is anticipated to be, according to independent technical advisers, at least 40 years if the equipment is properly maintained;
- All of the assets' connection agreements provide the right to generate electricity into the grid with no specified expiry date; and
- Three of the lease agreements in place have the option to extend beyond the initial consented period to an average of 37 years.

As such, the Asset Manager has begun to explore the option of extending leases and planning authority across the portfolio. Three sites, Wymeswold, Bournemouth and Hunters Race, which together represent 30% of installed portfolio capacity, already have in place extended lease periods and planning authority for a period of 35, 35 and 40 years respectively from the start of operations. Applying the current discount rate and extending current model assumptions as well as incorporating enhanced capital expenditure to a capped life of 35 years would have an immediate uplift on NAV of 2.5 pence.

For illustration purposes, in addition to incorporating the extensions mentioned above, if the remaining 13 assets were to be valued on a 35-year basis from connection, the Company's NAV would increase by a further 8.0 pence. The table below illustrates the impact on NAV of extended asset lives.

| NAV (using current lease assumptions) | Alternate NAV (recognising extended life where lease and planning already available; 3 assets) | Alternate NAV (recognising extended life of all other assets) |
|---|---|---|
| 102.9 | 105.4 | 113.4 |

The Investment Manager expects to incorporate lease extension assumptions into the valuations once it is comfortable with the underlying assumptions relevant to the extended periods of time.

## Portfolio Performance

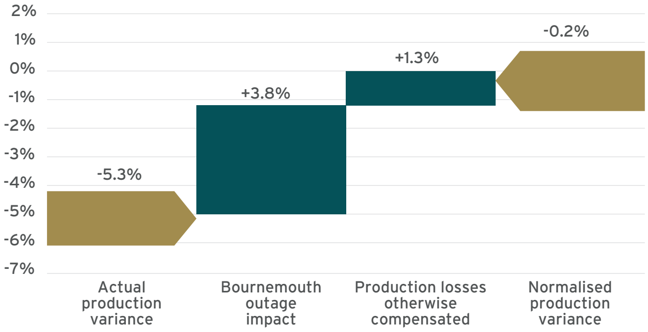
The total electricity production of the portfolio during the year was 319GWh. While many of the assets continued to generate electricity in line with, or above expectations, the overall total for the Company was 5.3% below what was anticipated. While disappointing, this underperformance can be attributed to a number of specific sites that have experienced what are expected to be isolated and non-recurrent problems. These sites and the issues behind their underperformance are explored in more detail below. The Asset Manager continues to focus on minimising incidents of underperformance and on securing compensation from EPC contractors or pursuing insurance claims for the losses incurred.

We do not expect any short-term fluctuations in power generation to affect the medium to long-term outlook for the Company and the Asset Manager remains optimistic about restoring production levels of the portfolio in the near term.

The main driver was a grid outage at the Bournemouth site which resulted in 12.8GWh of lost production. The impact of the Bournemouth outage represented in a decrease in the total portfolio production for the period of 3.8% against the expectations of the Investment Manager.

Compensation received includes insurance proceeds and Liquidated Damages ("LDs") received relating to lost production within the calendar year. LDs relating to EPC defects or potential future loss of production are not included for this purpose. The notional performance of the portfolio, once compensation and the Bournemouth outage are adjusted for, was 0.2% below expectations.

### Production Reconciliation




Irradiation levels recorded for the year were in line with expectations, with a weighted average variance of 0.2% above the forecasts produced at the time of acquisition and validated by independent technical advisers. Annual irradiation forecasts are subject to a 4% deviation against long term historical averages; a range within which the irradiation recorded at all of the assets fell.

### Overview of Portfolio Performance

The expectations of the Investment Manager are based on those used at the time of acquisition and are not adjusted.

| | Irradiance Variance | Production Variance | Production (MW hours) |
|---|---|---|---|
| Atherstone | 2.3% | 3.9% | 14,351 |
| Bournemouth | -1.4% | -32.9% | 26,560 |
| Castle Eaton | 0.8% | -5.7% | 15,831 |
| Copley Farm | 1.6% | 5.9% | 29,794 |
| High Penn | 0.7% | -6.9% | 8,788 |
| Highfields Farm | -0.5% | -6.9% | 11,143 |
| Hunters Race | -0.4% | 1.7% | 10,832 |
| Kencot Hill | 0.7% | 0.6% | 36,057 |
| Landmead | 3.8% | 3.2% | 44,181 |
| Membury | -2.9% | -2.2% | 15,952 |
| Paddock Wood | 1.5% | 5.2% | 9,797 |
| Pitworthy Farm | -3.9% | -19.2% | 12,580 |
| Port Farms | -0.7% | -1.5% | 33,283 |
| Southam | 0.0% | 3.8% | 10,110 |
| Spriggs Farm | -3.2% | -17.6% | 9,833 |
| Wymeswold | 0.6% | -4.2% | 30,317 |
| **Total** | | **-5.3%** | **319,409** |
| **Weighted average** | **0.2%** | | |

### Bournemouth

Production at the Bournemouth site was affected by a planned grid outage announced by the Distribution Network Operator ("DNO") required in order to increase the line capacity. The original timetable for the programme of works anticipated a maximum planned outage of eight weeks starting from February 2016. As the work progressed additional faults with the line were identified which took a further month to rectify. During this time, the Asset Manager worked closely with the DNO to limit the amount of additional down time to the Bournemouth plant. This resulted in the site being re-energised before the work had been fully completed to minimise the impact on production during the summer months when irradiation levels are at their highest. After re-energisation, the Asset Manager remained in a continued dialogue with the DNO and agreed that the further remaining works would be carried out in the winter months. A further outage therefore occurred in the middle of December for a total of four days. The oversight and influence applied by the Asset Manager during the incident were significant and helped limit the losses to the Company in relation to the disconnection. External grid disconnections are not insurable events.

### Spriggs Farm

Following investigations undertaken in conjunction with the module manufacturer, PID has been identified as the cause of underperformance at Spriggs Farm. The Investment Manager is working closely with the EPC contractor and remedial work has started on the site. The project will be protected by the original EPC warranty bond until the Asset Manager is satisfied that any works in relation to the EPC warranty claim have been completed and the long term performance of the asset reverts to initial expectations.

Spriggs Farm also suffered from a transformer outage during the year. This event represented 6.1% of the annual expected production. Losses were covered through insurance policies.

### Wymeswold

Wymeswold was the first asset in the portfolio to begin its Final Acceptance Certificate ("FAC") testing. As an asset approaches its FAC, members of the asset management team make numerous visits to the site and a technical advisor appointed to ensure that all elements provided under the asset's EPC contract have been met.

During the Wymeswold FAC process, the Asset Manager filed a compensation claim against the EPC contractor in relation to defects that had not been rectified to its satisfaction. The project has received a cash settlement amount enabling the SPV to repay a larger proportion of its Shareholder loan during the year than anticipated.

A substantial amount of improvement work was carried out on site to rectify inverters, string combiner boxes and DC strings. Although this led to a negative impact on performance in the short-term, we believe it will lead to improved performance of the asset over the medium to long-term. The Asset Manager continues to work with BGE, the O&M contractor for the site, to improve the site's performance and has already seen an improvement in site performance during the second half of the year.

### Castle Eaton, High Penn, Highfields and Pitworthy

The Asset Manager had previously identified varying degrees of underperformance across Castle Eaton, High Penn, Highfields and Pitworthy - the four sites constructed by SunEdison. The projects have had various performance issues since operational commencement, some of which have been addressed by SunEdison following discussions with the Asset Manager. The Asset Manager has monitored the situation closely from an early stage and has been able to identify specific reasons for the lower levels of production seen. LDs have been received by the Company at the FAC stage to fully compensate for lost production within the year but also to compensate for any longer term performance issues. However the Asset Manager expects a meaningful improvement in performance in the near term.

During 2015, the Intermediate Acceptance Certificate showed the projects performed below the guaranteed performance ratio ("PR") levels. As a result, the Asset Manager and SunEdison agreed that the guaranteed PRs would be lowered with SunEdison paying full financial compensation for the expected loss in performance over the lifetime of the plants.

Unfortunately, around the same time as SunEdison's US parent company filing for Chapter 11 creditor protection in the US in April 2016, the performance of the sites deteriorated further. During Q2 and Q3 of 2016, Foresight's technical team tracked PRs and identified underlying problems throughout the period, notifying SunEdison of defects under the four EPC contracts. The Asset Manager appointed an independent technical advisor to support them through this process. All four sites have performed below levels guaranteed in the EPC contracts.

The Asset Manager has subsequently made claims for the cumulative value of identified defects and for LDs resulting from poor performance. As is normal, the LDs were calculated on a net present value basis to cover the next 23 years of potentially lower production.

Late in the year, the Asset Manager also terminated all four O&M contracts with SunEdison and appointed Brighter Green Engineering. The Asset Manager has approved remedial plans for all issues identified and have appointed contractors to perform the required remedial works.

Also at Pitworthy, an inverter station caught fire in December 2015 which temporarily halted production at the plant into 2016. As the fire was caused by factors outside of the O&M contractor's control, an insurance claim was made and was subsequently settled with proceeds reflecting 5.6% of the expected annual production.

The Asset Manager is confident that financial compensation already received fully compensates the Company for the under performance of the SunEdison assets.

## Financing

### Fundraising

During the period, the Company successfully raised £60.8 million additional equity capital through a placing of shares held in Treasury, in September, and a tap issue of new shares in October, both of which were oversubscribed. The Company may consider launching a new placing programme in due course subject to market conditions and investor demand.

| Date | Placing Price | Shares Issued (million) | Funds Raised |
|---|---|---|---|
| 31 December 2015 (cumulative) | - | 281.8 | £284.9m |
| 13 September 2016 | 102.9 pence | 28.2 Treasury Shares | £28.9m |
| 28 October 2016 | 103.0 pence | 31.0 New Shares | £31.9m |
| 31 December 2016 (cumulative) | - | 341.0 | £345.7m |

### Gross Asset Value ("GAV")

The GAV of the Company, excluding subsidiaries, is £350.89 million. The reconciliation below shows the GAV as it would be on a consolidated basis when all external debt at the intermediate holding level is included. There is no external debt at asset level.

| | |
|---|---|
| GAV of Company | £350.89 million |
| Less: Valuation of Investment | (£273.61 million) |
| Add: Valuation of underlying solar portfolio | £445.80 million |
| Add: other net assets of subsidiaries | £25.90 million |
| GAV of Company and Subsidiaries | £548.98 million |

### Long-Term Refinancing

In March 2016, the Company's subsidiaries reached Financial Close on a £160 million long-term debt facility. This facility wholly refinanced the £150 million short-term acquisition facility that was previously in place.

The long-term facility was provided by Macquarie Infrastructure Debt Investment Solutions ("MIDIS") and Abbey National Treasury Services ("Santander") as shown below:

| Lender | Tranche | Size (GBP Million) | Tenor | Applicable Rate |
|---|---|---|---|---|
| MIDIS | Fixed-rate, fully amortising | 63 | 18 years | 3.78% |
| MIDIS | Inflation linked, fully amortising | 63 | 18 years | RPI index + 1.08% |
| Santander | Term Loan, fully amortising | 34 | 8 years | LIBOR + 1.70% |

The Term Loan tranche is priced over the London Interbank Offered Rate ("LIBOR") and benefits from an interest rate swap hedging 80% of the outstanding debt during the term of the loan. For the year ended 31 December 2016 the average cost of long-term debt was 2.5% per annum.

As at 31 December 2016, the total outstanding long-term debt was £158.3 million, representing 29% of GAV. The total outstanding debt, including short term facilities, was £198.3 million, representing 36% of GAV.

The long-term refinancing was the result of more than nine months of complex structuring, detailed negotiation and execution of the debt facilities. The detailed knowledge and experience of the Investment Manager enabled a competitive process to be run which resulted in attractive debt terms when compared to similar facilities closed within the renewable sector during the period. The competitive tender process was run exclusively by the Investment Manager.

In addition, the terms under which the debt has been secured do not limit the Company's flexibility and have not caused it to compromise on any commercial terms that would be potentially disadvantageous. The Company is fully able to maintain its strategy of retaining exposure to UK power prices through PPAs that do not require mechanisms such as fixed prices or price floors.

### Acquisition Facility

In conjunction with the Financial Close of the long-term facility, a subsidiary of the Company entered into a new, short-term revolving acquisition facility with Santander at a favourable rate as follows:

| Lender | Size (GBP million) | Tenor | Applicable rate |
|---|---|---|---|
| Santander | 40 | 3 years | LIBOR + 2.05% |

The applicable rate of 2.05% represents a decrease of 12 basis points against the average applicable rate of the revolving facilities refinanced in March 2016.

This short-term facility will provide the Company with the flexibility to take advantage of future pipeline opportunities and to reduce the interest expense. The facility was fully drawn by 31 December 2016 in advance of the acquisition of Shotwick.

# Investment Manager's Report (continued)

### Dividends

At the time of the IPO, the Company targeted a 6.0 pence annual dividend per Ordinary Share increasing in line with inflation from 1 January 2014, net of all fees and expenses. Since the IPO, the Company has met all target dividends. The Company is targeting a full year dividend for the period ending 31 December 2017 of 6.32 pence.

As noted in the Company's 2014 Annual Accounts, the Directors approved an increase in the frequency of dividend payments from semi-annually to quarterly.

### Dividend Timetable for the period 1 January 2016 to 31 December 2016

On 24 June 2016, the first interim dividend of 1.54 pence per share for the period ending 31 December 2016 was paid. The second interim dividend of 1.54 pence per share was paid on 30 September 2016 and the third on 30 December 2016. The Company remains on target to deliver a dividend of 6.17 pence for the financial year ending 31 December 2016 following the approval of the fourth and final interim dividend, of 1.55 pence, by the Board on 15 February 2017. This will be paid on 5 May 2017.

| Dividend | Amount | Status | Payment Date |
|---|---|---|---|
| Interim 1 | 1.54 pence | Paid | 24 June 2016 |
| Interim 2 | 1.54 pence | Paid | 30 September 2016 |
| Interim 3 | 1.54 pence | Paid | 30 December 2016 |
| Interim 4 | 1.55 pence | Approved | 5 May 2017 |
| **TOTAL** | **6.17 pence** | | |

| Dividend Timetable | Date |
|---|---|
| Ex-dividend Date | 6 April 2017 |
| Record Date | 7 April 2017 |
| Payment Date | 5 May 2017 |

### Dividend Cover

Dividends of £18.7 million were paid in the year. Against the relevant net cash flows of the Company and underlying investments, these dividends were covered 1.08 times when dividends paid to newly issued equity are excluded.

Dividends were covered 1.10 times when compensation received post year end but in relation to the year is included.

### Ongoing Charges

The ongoing charges ratio for the year to 31 December 2016 is 1.20% (2015: 1.24%). This has been calculated using methodology as typically recommended by the Association of Investment Companies ("AIC").

### Total Shareholder Return of Foresight Solar Fund Limited vs. Indices, rebased to 100

## Investment Performance

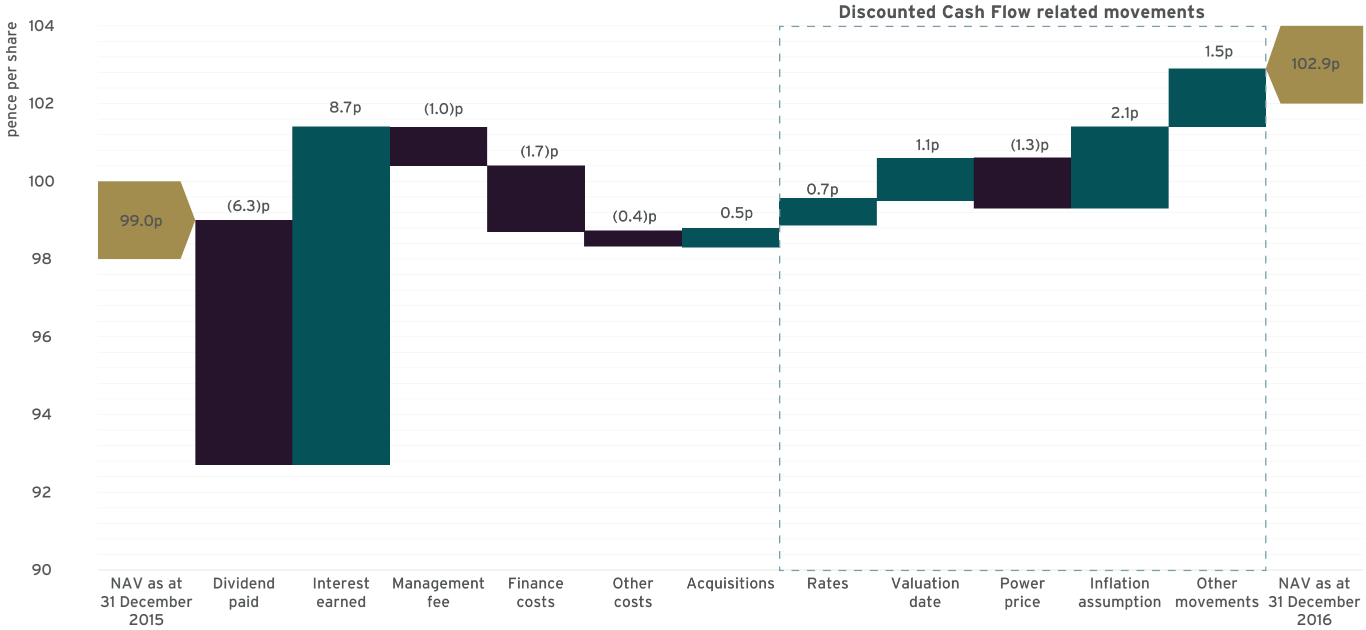
The NAV per share for the Company as at 31 December 2016 increased to 102.9 pence compared to 99.0 pence as at 31 December 2015.

### Movements in NAV

A breakdown in the movement of the NAV during the year to 31 December 2016 is shown in the table below.

| | NAV | NAV per share |
|---|---|---|
| **As at 31 December 2015** | **279,106,101** | **99.0p** |
| Dividend paid | -18,675,316 | (6.3)p |
| Interest earned | 26,229,311 | 8.7p |
| Equity Raise | 59,600,722 | - |
| Management fee | -3,053,351 | (1.0)p |
| Finance costs | -5,074,450 | (1.7)p |
| Other costs (inc. Corporation Tax) | -1,260,923 | (0.4)p |
| Acquisitions | 1,625,705 | 0.5p |
| **Discounted Cash Flow** | | |
| Rates | 2,186,295 | 0.7p |
| Valuation date | 3,258,853 | 1.1p |
| Power price | -3,902,445 | (1.3)p |
| Inflation assumption | 6,146,898 | 2.1p |
| Other movements | 4,582,582 | 1.5p |
| **As at 31 December 2016** | **350,769,982** | **102.9p** |

### Movements in NAV (pence per share)



# Investment Manager's Report (continued)

## Valuation of the Portfolio

The Investment Manager is responsible for providing fair market valuations of the Company's underlying assets to the Directors. The Directors review and approve these valuations following appropriate challenge and examination. Valuations are undertaken quarterly. A broad range of assumptions are used in our valuation models. These assumptions are based on long-term forecasts and are not affected by short-term fluctuations, be it economic or technical.

The current portfolio consists of non-market traded investments and valuations are based on a Discounted Cash Flow ("DCF") methodology. This methodology adheres to both IAS 39 and IFRS 13 accounting standards as well as International Private Equity and Venture Capital ("IPEV") Valuation methodology.

It is the policy of the Investment Manager to value with reference to Discounted Cash Flows ("DCF") at the later of commissioning or completion. This is partly due to the long periods between agreeing an acquisition price and financial completion of the acquisition. Quite often this delay incorporates construction as well as time spent applying for, and achieving, ROC accreditation upon which the Company's acquisition of assets is usually contingent. Revenues generally accrue for the benefit of the purchaser. Revenues accrued do not form part of the DCF calculation when making a fair and proper valuation.

The Company's independent Board reviews the operating and financial assumptions, including the discount rates, used in the valuation of the Company's portfolio and approves them based on the recommendation of the Investment Manager. These assumptions are reviewed as part of the annual audit by KPMG.

## Valuation Sensitivities

Where possible, assumptions are based on observable market and technical data. In many cases, such as the forward power prices, independent advisors are used to provide reliable and evidenced information allowing the Investment Manager to adopt a prudent approach. We set out the inputs we have ascertained would have a material effect upon the NAV in note 16 of the financial statements. All sensitivities are calculated independently of each other.

## Technical Performance

The performance ratio assumptions in the valuation models have historically been linked to contractually guaranteed performance and the initial technical due diligence findings at the time of acquisition. The long term assumptions are adjusted on an ongoing basis as more data becomes available, recognising the actual performance ratios experienced across the portfolio on an asset by asset basis. This approach is applied on a quarterly basis to ensure valuation assumptions better reflect the actual performance of the sites. The conservative movements in assumed performance ratios are implemented at a rate that ensures short term fluctuations do not over inflate performance potential.

## Discount Rate

The Company continues to adopt an equity discount rate of 7.5% which the Investment Manager believes appropriately reflects the risk profile of the operational assets that have been acquired, the total installed capacity at portfolio level and asset diversification. The Investment Manager regularly reviews the discount rate to ensure it remains in line with any changes to the risk profile of the Company. The Investment Manager is focused on making acquisitions of assets that are accretive to NAV with the aim of maintaining a stable discount rate.

## Rates

The portfolio stands to benefit from changes in local business rates, announced on 30 September 2016 as part of a wider revaluation. To date rateable values on solar assets have been £8,000/MW regardless of the level of subsidy. From 1 April 2017 this will change as the Valuation Office Agency aims to reflect how operational costs and revenues of solar assets have changed over the seven years since the last business rates revaluation in 2010. From April, solar assets will be liable for different levels of business rates based on a range of rateable values reflecting the level of subsidy received and cost of construction. Older solar sites will incur higher charges while newer sites (assets receiving subsidies at 1.6 ROCs and below, a category into which 90% of the Company's portfolio falls) will see a fall in the rates paid to local authorities.

## Valuation Date

This movement represents the impact of moving from one valuation date to another. Over the life of the asset this movement will reduce the asset valuation to nil. Short term increases arise from moving towards higher cash yields (and therefore discounting them less).

## Power Price

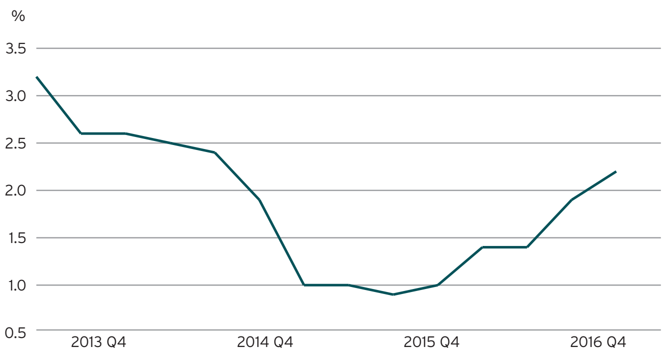
The Company's power price assumptions are formed from a blended average of the forecasts provided by a number of third party consultants.

During the first half of the year the Manager made two downwards revisions in the long term power price forecast representing an average annual fall in prices of 5.6%. During the second half of the year the Company made two upward revisions in forecast power prices, resulting in an average annual increase of 2.2% over that period. The Company's forecasts continue to assume an increase in power prices in real terms over the medium to long-term of 1.7% per annum (2015: 1.8%).

## Inflation Assumptions

The Investment Manager increased its medium/long-term inflation assumption from 2.50% to 2.75% at the end of June 2016. This reflects increases in market inflation expectations due to a number of factors including the result of the EU referendum and resultant weaker Sterling. Following the announcement in August 2016 of additional loosening of monetary policy, including a reduction in interest rates to a record low of 0.25%, the first change since 2009, inflation has continued to pick up as the impact of Sterling's weakness feeds through to the wider economy.

## RPI Percentage Change




Source: ONS

The Investment Manager continues to maintain a conservative 2.25% annual rate of inflation for 2017 before assuming annual inflation of 2.75% thereafter. Post-period end in January 2017, it was announced that the Retail Prices Index rose to 2.5% in December 2016 compared to 2.2% in November 2016 and 1.2% in December 2015. The Investment Manager will continue to monitor actual outturn inflation rates and inflation expectations going forward and adjust the assumptions used in its valuations accordingly.

## Other Movements

This includes other factors behind the valuation movement such as revisions in underlying assumptions regarding operational efficiencies including O&M and insurance.

## Outlook

Entering 2017, the Investment Manager believes the Company and its underlying portfolio is in a strong position. The team responsible for the Company's investment and asset management has leveraged its experience in the sector to implement several value-enhancing strategies to the benefit of Shareholders and this work will continue.

The upward trend in forecast power prices seen in the second half of 2016 has been driven by an increase in gas prices, which have been buoyed by assumptions of a weaker Sterling to Euro ratio in the wake of Brexit. Tighter capacity margins and rising future demand, based on GDP growth expectations, is expected to increase this upwards momentum. Through its existing floating PPA exposure, the Company is well positioned to benefit from rising power prices, which will result in increased revenue generation, further underpinning returns to Shareholders.

While the imminent closure of the ROC regime from 1 April 2017 marks the end of an era of frenetic growth for the UK solar industry, we continue to see new opportunities as the sector evolves. With no new subsidies likely to be available in the near future, there is now a fixed, albeit extensive, pool of large-scale solar generating capacity. This has the potential to help secure the long-term value of the Company's underlying assets, which will continue to benefit from this RPI-linked subsidised revenue stream for 20 years. Meanwhile, corporate power purchase agreements and private-wire deals have the potential to provide a new impetus to market activity.

With an estimated 12GW of installed generating capacity creating an active secondary market, the UK's evolving solar market remains attractive. Driven by falling interest rates and an improving outlook for power prices, the Investment Manager continues to progress an existing pipeline of investment opportunities, with further capacity expected to be acquired in the short term. Additionally, new deal flow is continually being developed with c. 100MW of assets currently under review.

**Foresight Group CI Limited**
*Investment Manager*
15 February 2017

# Risk Management

Reliance is placed on the internal systems and controls of the Investment Manager and external service providers such as the Administrator to effectively manage risk across the portfolio. Foresight has a comprehensive Risk Management Framework in place which is reviewed on a regular basis by the Directors.

A full list of relevant risks can be found in the Prospectus dated 20 September 2013. The Directors consider the following as principle risks and uncertainties and mitigants to the Company at this time.

## Risks relating to the sale of electricity

Generally, the price at which a solar PV plant sells its electricity is determined by market prices in the UK. Risks relating to the price of electricity can broadly be separated into supply side risks, demand side risks and regulatory risk. A decline in the market price of electricity could materially adversely affect the price of electricity generated by solar PV assets and thus the Company's business, financial position, results of operations and business prospects.

Wholesale prices are also dictated by the level of electricity demand which varies depending on the time of day, day of the week or through seasonality. Other demand side measures such as energy efficiency and demand response management could also result in lower wholesale electricity prices.

A number of broader regulatory changes to the electricity market (such as changes to integration of transmission allocation and changes to energy trading and transmission charging) are being implemented across the EU which could have an impact on electricity prices.

The risk of declines in the wholesale price of electricity can be mitigated through a variety of means and trading strategies. The portfolio currently has PPAs in place into the medium term offering a secure route to market. As at the year end 10% of the portfolio was subject to fixed electricity prices and all of the PPAs allow electricity prices to be fixed at any point. The Investment Manager regularly reviews these prices and would look to fix prices if they were forecast to fall below the level needed to provide adequate dividend cover.

The sale of wholesale power accounts for 37% of the revenues of the underlying portfolio.

## Risks relating to regulatory changes in the UK electricity market

From 31 March 2017, the UK Government intends to close the Renewables Obligation Scheme to the accreditation of projects commissioned after that date. It is uncertain what support, if any, will be put in place after March 2017 in order to provide subsidies to new projects which may limit the number of investment opportunities available in the primary market and/or increase competition for existing ROC accredited assets.

The UK Government remains committed to a balanced generation mix, whereby renewables as a share of future generation capacity will rise significantly. This is underpinned by EU and UK binding policy targets.

The UK has revised its policies supporting the renewable energy sector from time to time in order to reduce the benefits available to new renewable power generation projects. The assets would likely suffer a loss if the UK was to abandon the practice of grandfathering and apply adverse retrospective changes to the levels of support for operating projects There is significantly less risk of support being reduced, withdrawn or changed for existing support-accredited projects. In order to maintain investor confidence, the UK has ensured that the benefits already granted to operating renewable power generation projects are exempted from future regulatory change. This practice is referred to as grandfathering. The UK's Renewable Obligation Certificate regime provides a stable 20 year subsidised revenue stream that increases over time in line with RPI.

The Company is also able to invest up to 25% in other jurisdictions which could provide protection against UK centred legislation.

## Risks relating to gearing

The Company's underlying subsidiaries currently have borrowings of approximately £198 million of which £158 million are Term Loan Facilities and £40 million are Revolving Credit Facilities. Under the terms of the Facility Agreements, the borrower has agreed to covenants as to its operation and financial conditions. Any failure by the borrower to fulfil obligations under the Facility Agreements (including repayment) may permit the lender to demand repayment of the related loan and to realise its security which may mean the loss of a solar power asset. In the event that such security involves the lender taking control (whether by possession or transfer of ownership) of the Company's underlying assets, the Company's returns may be adversely impacted.

Furthermore, the Revolving Credit Facility has a shorter term than would be expected under the Long Term Facilities. Although the borrower may repay the amounts currently drawn down under the Revolving Credit Facilities with the net proceeds of share issues, there can be no guarantee that the as to our ability to refinance these facilities on the same terms as current Long Term Facilities on their final repayment dates.

Any new debt facilities are thoroughly appraised before they are entered into to ensure they benefit the Shareholders without creating unnecessary risk. Due to low gearing limits and sound management it is unlikely that debt covenants would negatively impact our ability to pay dividends, and would indeed be expected to increase dividend coverage. Any debt terms would allow individual assets to be sold without debt attached to them as it is envisaged debt will be drawn away from the project vehicles.

## Risks relating to the taxation of the Company

Taxation is subject to change on a regular basis. Therefore, the levels of, and reliefs from, taxation may change during the period of investment. Any change in the Company's tax status or in taxation legislation in the United Kingdom, Jersey or any other tax jurisdiction affecting Shareholders or investors, or changes in accounting practices and standards could affect the value of the investments held by the Company, or affect the Company's ability to achieve its investment objective.

As announced in the March 2016 budget, new rules in relation to the tax deductibility of corporate interest expense are to be included in the Finance Bill 2017. These rules represent the UK's response to the proposals as outlined by the OECD in October 2015 in relation to Base Erosion and Profit Shifting ("BEPS") Action 4. Draft legislation was released on 26 January 2017 but failed to clarify matters sufficiently. The Investment Manager expects further clarity will be provided in the updated draft legislation to be published following the UK budget.

## Risks relating to RPI

The revenues and expenditure of solar PV assets are frequently partly or wholly subject to indexation, typically with reference to RPI and the Company's target distributions are linked to RPI.

We consider the inflation risk presented by these assets to be minimised through the explicit inflation-linked nature of both operating revenues and costs. On the revenue side, ROC prices are formally linked to RPI and for PPAs the electricity price forms part of the RPI basket of goods. For costs, Operation and Maintenance ("O&M") contract prices and land rents are both linked to inflation and as such there is a natural inflation linkage to costs and revenues. Additionally, £63 million of the Long Term Debt in place is linked to RPI.

## Risks relating to operation and maintenance contracts

The Company relies on third-party professionals and independent contractors and other companies to provide the required operator and maintenance support services throughout the operating phases of the solar PV assets in the Company's investment portfolio. If such contracted parties are not able to fulfil their contractual obligations, the Company's ability to operate the solar plants could be adversely affected and the Company may be forced to seek recourse against such parties, provide additional resources to complete their work, or to engage other companies to complete their work.

In addition, if a contractor's work was not of the requisite quality, this could have an adverse effect on projects in which the Company is invested and might not only reduce financial returns but could adversely affect the Company's reputation.

Operational risk is minimised by the use of experienced and financially robust counterparties, supported by availability guarantees and damages if these are not met. Termination provisions are contained within the underlying contracts to replace the O&M provider if performance is unsatisfactory. Foresight's experience in managing this asset type since 2007 and expertise in identifying strong counterparties further mitigate this factor.

## Grid outages

Solar plants are subject to disconnections from the grid from the network operators. These outages are beyond the control of the Asset Manager. Over the past year the loss of production across the portfolio due to external grid disconnections has been higher than expected. Our valuation models assume that the projects will be unavailable for a proportion of the time and we believe this assumption to be robust over the medium to long term. The recent spike in grid disconnections is caused, in part, by the need to upgrade infrastructure to accommodate the large increase in renewable generators. The Manager expects that the impact on this infrastructure improvement will be lower going forward due to the reduced number of new installations. The Manager continues to actively discuss better reporting and management of works with network operators.

# Environmental Social and Governance Considerations

The Company believes Environmental, Social and Governance ("ESG") considerations play an important part in delivering responsible and sustainable growth for the long term. These factors have been integrated into all stages of the investment process, and are actively supported by all involved, regardless of seniority. With that in mind, the Company has adopted a Responsible Investment Framework to provide a suitable operational framework in matters related to the investment process, such that ESG has become part of the normal day-to-day operation.

## Health and Safety

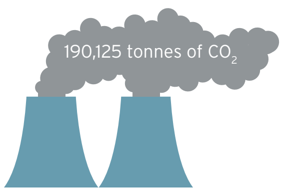
There were no health and safety incidents reported during the period.

Safety, Health, Environmental and Quality ("SHEQ") performance and proportionate risk management are a top priority at all levels for Foresight Group. To further improve the management of SHEQ risks, reinforce best practise and ensure non-compliance with regulations is avoided, the Asset Manager has appointed an independent health and safety consultant who regularly visits the portfolio assets to ensure they not only meet, but exceed, industry and legal standards. The consultant has confirmed that all sites are in compliance with all applicable regulations. Recommendations that have been implemented to help raise standards further include improvements to the safety signage on the fence of two plants.

## Environmental

The 348MW portfolio produced 319.41GWh of clean energy during the period. This is the equivalent of:


97,000 UK homes powered for one year; or




190,125 tonnes of CO2 emissions prevented; or


64,888 tonnes of coal have not been burned

Further to the environmental advantages of large scale renewable energy, each investment is closely scrutinised for localised environmental impact. Where improvements can be made, the Company will work with planning and local authorities to minimise visual and auditory impact of sites.

## Biodiversity Assessments

The Asset Manager is actively exploring ways of maximising the biodiversity and wildlife potential for all of its UK solar assets. As such, the Investment Manager has prepared a series of site specific biodiversity enhancement and management plans to secure long-term gains for wildlife such as:

- Management of grassland areas within the security fencing;
- Management of hedgerows and associated hedge banks;
- Management of field boundaries between security fencing and hedgerows;
- Management of woodland blocks;
- Installation of herptile/reptile hibernacula;
- Installation of boxes for bats, owls and kestrels; and
- Installation of beehives.

As part of our EPC contracts, the plants are designed in such a way that they allow for sheep grazing. Currently our Kencot, Copley and Wymeswold assets have active sheep grazing.

## Social

The Asset Manager has actively sought to engage with the local communities around the Company's solar assets. Open days have been arranged for local residents, businesses and schools to visit the sites where they can learn more about the benefits of solar and the need for more stable renewable policy support.

Numerous educational visits have also taken place across the portfolio, from small school and college tours to Loughborough University students conducting research assignments at the Wymeswold plant. During the period, Hunters Race welcomed students from Chichester College while in May students of the Institution of Engineering and Technology visited Kencot Solar to gain a better understanding of the operations of a solar plant.

## Foresight Receives Five Star Rating from 3D Investing

The Company has been awarded a five star rating by 3D Investing.

Five star funds are the real pioneers in the industry. They are required to demonstrate at least a fair financial performance, excellent transparency, a high social impact and a lack of exposure to ethically controversial companies.

3D Investing provides research and communication services to help investment managers and advisers to deliver a high quality and distinctive service for the socially motivated investor.

For further details please refer to the website www.3dinvesting.com

## Signatory of UNPRI

Foresight Group is a signatory to the United Nations Principles for Responsible Investment ("UNPRI").

The UNPRI, established in 2006, is a global collaborative network of investors working together to put the six Principles for Responsible Investment into practice. As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will each report on our activities and progress towards implementing the Principles.

As a signatory for this voluntary framework, Foresight submits an annual report to the UNPRI on its responsible investment activities, which is approved by senior management. This allows the Group to demonstrate to stakeholders and the public how we incorporate ESG issues, understand where we sit in relation to local and global peers and to learn and develop our practices year-on-year.

Foresight Group actively collaborates with the investment industry and relevant governmental bodies and regulators through direct conversations and contributing to collective consultation papers on matters affecting the investment process, including ESG.

*Signatory of:*

PRI Principles for Responsible Investment

# Corporate Governance Report

The Board has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

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

The UK Corporate Governance Code includes provisions relating to:

- The role of the Chief Executive
- Executive Directors' remuneration
- The need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board does not consider these provisions to be relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no Executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

## The Board

The Company has a Board of three Non-Executive Directors, two of whom are considered to be independent. Peter Dicks is considered non-independent under the listing rules by virtue of being a Director of other Foresight Venture Capital Trusts ("VCTs") which are also managed by Foresight Group.

During the year Peter Dicks acted as a Director of Foresight VCT plc, Foresight 2 VCT plc (in liquidation), Foresight 3 VCT plc and Foresight 4 VCT plc. Due to the different investment focus of the Company the Board believes there to be no conflict between the roles Mr Dicks performs. Where conflicts of interest do arise between the different funds, the common Director would seek to act fairly and equitably between different groups of Shareholders. If a conflict were to occur then decisions would be taken by the independent Directors.

## Division of Responsibilities

The Board is responsible to Shareholders for the proper management of the Company and Board meetings are held on at least a quarterly basis with further ad hoc meetings scheduled as required. In the period under review 12 Board meetings were held. The Board has formally adopted a schedule of matters for which its approval is required, thus maintaining full and effective control over appropriate strategic, financial, operational and compliance issues. A Management Agreement between the Company and the Manager sets out the matters over which the Manager has authority, including monitoring and managing the existing investment portfolio and the limits above which Board approval must be sought. All other matters are reserved for the approval by the Board of Directors.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. In view of its Non-Executive nature and the requirements of the Articles of Association that Directors retire by rotation at the third Annual General Meeting after the AGM at which they were elected, the Board considers that it is not appropriate for the Directors to be appointed for a specific term as recommended by the AIC Code.

Full details of duties and obligations are provided at the time of appointment and are supplemented by further details as requirements change. There is no formal induction programme for the Directors as recommended by the AIC Code. However, this will be implemented should the need arise.

The Board has access to the officers of the Company Secretary who also attend Board Meetings. Representatives of the Manager attend all formal Board Meetings although the Directors may meet without the Manager being present. Informal meetings with the Manager are also held between Board Meetings as required. The Company Secretary provides full information on the Company's assets, liabilities and other relevant information to the Board in advance of each Board Meeting. Attendance by Directors at Board and Committee meetings is detailed in the table below.

| | Board | Management Engagement & Remuneration | Audit |
|---|---|---|---|
| Alex Ohlsson | 12/12 | 1/1 | 2/2 |
| Peter Dicks | 11/12 | 1/1 | 2/2 |
| Chris Ambler | 10/12 | 1/1 | 2/2 |

In the light of the responsibilities retained by the Board and its Committees and of the responsibilities delegated to Foresight Group CI Limited, JTC (Jersey) Limited and its legal advisors, the Company has not appointed a Chief Executive Officer, Deputy Chairman or a Senior Independent Non-Executive Director as recommended by the AIC Code. As such, the provisions of the UK Corporate Governance Code which relate to the division of responsibilities between a Chairman and a Chief Executive Officer are not considered applicable to the Company.

## Investment Manager

As an experienced multi-fund asset manager, Foresight Group has in place established policies and procedures designed to address conflicts of interest in allocating investments among its respective investment funds.

Foresight Group is fully familiar with, and has extensive experience in allocating investments, ensuring fair treatment for all investors and managing conflicts of interest should these arise. Foresight Group is keen to ensure such fair treatment for all investors. Under the rules and regulations of the Guernsey Financial Services Commission ("GFSC"), Foresight Group is also legally obliged to treat its investors fairly and handle such conflicts in an open and transparent manner and these processes are audited on an annual basis.

In terms of allocation, Foresight Group adheres to a formal written policy for allocating new investments which are overseen by the Group's Investment Committee. Each available funding opportunity is allocated pro-rata to the net amounts raised by each Foresight Group managed fund with a sector and asset class investment strategy matching the proposed investment. Where the allocation would result in any Foresight Group managed fund having insufficient liquidity or excessive portfolio concentration, or would fail to reach a deployment deadline set by regulation or contract, the allocation is revised accordingly.

Foresight Group's allocation policy is reviewed from time-to-time by the independent Board of Directors of each of the Foresight Group funds and this policy has been operated successfully for many years. All investments are allocated on pari passu terms.

After a full evaluation of the performance of the Investment Manager, including review of assets purchased by the Company and the results of ongoing portfolio management, it is the opinion of the Directors that the continuing appointment of the Investment Manager on the terms currently agreed is in the interests of the Shareholders.

## Board Committees

The Board has adopted formal terms of reference, which are available to view by writing to the Company Secretary at the registered office, for two standing committees which make recommendations to the Board in specific areas.

The Audit Committee comprises Chris Ambler (Chairman), Alex Ohlsson and Peter Dicks, all of whom are considered to have sufficient financial experience to discharge the role. The Committee meets at least twice a year to, amongst other things, consider the following:

- Monitor the integrity of the financial statements of the Company and approve the accounts;
- Review the Company's internal control and risk management systems;
- Make recommendations to the Board in relation to the appointment of the external auditors;
- Review and monitor the external Auditors' independence; and
- Implement and review the Company's policy on the engagement of the external Auditors to supply non-audit services.

KPMG LLP has completed the Company's external audit for the period and has not performed any non-audit services during the year. Ernst & Young LLP prepares all necessary tax returns following sign off of the annual accounts.

The Management Engagement & Remuneration Committee, which has responsibility for reviewing the remuneration of the Directors, comprises Alex Ohlsson (Chairman), Peter Dicks and Chris Ambler and meets at least annually to consider the levels of remuneration of the Directors, specifically reflecting the time commitment and responsibilities of the role. The Management Engagement & Remuneration Committee also undertakes external comparisons and reviews to ensure that the levels of remuneration paid are in line with industry standards. The Management Engagement & Remuneration Committee also reviews the appointment and terms of engagement of the Manager.

The Board believes that, as a whole, it has an appropriate balance of skills, experience and knowledge. The Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is important and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making new appointments.

Copies of the terms of reference of each of the Company's committees can be obtained from the Company Secretary upon request.

## Board Evaluation

The Board undertakes an annual evaluation of its own performance and that of its Committees through an initial evaluation questionnaire. The Chairman then discusses the results with the Board and its Committees and will take appropriate action to address any issues arising from the process.

## Relations with Shareholders

The Company communicates with Shareholders and solicits their views when it is considered appropriate to do so. Individual Shareholders are welcomed to the Annual General Meeting where they have the opportunity to ask questions of the Directors, including the Chairman, as well as the Chairman of the Audit, Remuneration and the Management Engagement & Remuneration Committee. From time to time, the Board may also seek feedback through Shareholder questionnaires and through open invitations for Shareholders to meet the Investment Manager.

## Internal Control

The Directors of the Company have overall responsibility for the Company's system of internal controls and the review of their effectiveness. The internal controls system is designed to manage, rather than eliminate, the risks of failure to achieve the Company's business objectives. The system is designed to meet the particular needs of the Company and the risks to which it is exposed and by its nature can provide reasonable but not absolute assurance against misstatement or loss.

The Board's appointment of JTC (Jersey) Limited as accountant and administrator has delegated the financial administration of the Company. There is an established system of financial controls in place, to ensure that proper accounting records are maintained and that financial information for use within the business and for reporting to Shareholders is accurate and reliable and that the Company's assets are safeguarded.

Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures and applicable rules and regulations are complied with.

Pursuant to the terms of its appointment, Foresight Group invests the Company's assets in infrastructure investments and have physical custody of documents of title relating to the equity investments involved.

The Investment Manager confirms that there is a continuous process for identifying, evaluating and managing the significant risks faced by the Company. This has been in place for the period under review and up to the date of approval of the Annual Report and financial statements, and is regularly reviewed by the Board and accords with the guidance. The process is overseen by the Investment Manager and uses a risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Investment Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The Board is provided with reports highlighting all material changes to the risk ratings and confirms the action that has or is being taken. This process covers consideration of the key business, operational, compliance and financial risks facing the Company and includes consideration of the risks associated with the Company's arrangements with professional advisors.

# Corporate Governance Report (continued)

The Audit Committee has carried out a review of the effectiveness of the system of internal control, together with a review of the operational and compliance controls and risk management. The Audit Committee has reported its conclusions to the Board which was satisfied with the outcome of the review.

The Board monitors the investment performance of the Company in comparison to its objective at each Board meeting. The Board also reviews the Company's activities since the last Board meeting to ensure that the Investment Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approves changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Investment Manager, the Audit Committee and other third party advisers provide sufficient assurance that a sound system of internal control to safeguard Shareholders' investment and the Company's assets, is in place and maintained. In addition, the Company's financial statements are audited by external Auditors and thus an internal audit function specific to the Company is considered unnecessary.

### Directors' Professional Development

Full details of duties and obligations are provided at the time of appointment and are supplemented by further details as requirements charge, although there is no formal induction programme for the Directors as recommended by the AIC Code. Directors are also provided with key information on the Company's policies, regulatory and statutory requirements and internal controls on a regular basis. Changes affecting Directors' responsibilities are advised to the Board as they arise. Directors also participate in industry seminars.

### Bribery Act 2010

The Company is committed to carrying out business fairly, honestly and openly. The Investment Manager has established policies and procedures to prevent bribery within its organisation.

### Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in this report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are referred to in the Chairman's Statement, Strategic Report and Notes to the Accounts. In addition, the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk.

The Company has sufficient financial resources together with investments and income generated. As a consequence, the Directors believe that the Company is able to manage its business risks.

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

### Viability Statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a three year period, taking into account the Company's current position and the potential impact of the principal risks and uncertainties set out under Risk Management on pages 32 to 33. Based on this assessment, 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 December 2019.

The Directors have determined that a three year period to 31 December 2019 constitutes an appropriate period over which to provide its viability statement. This is the period focussed on by the Board during the strategic planning process and is considered reasonable for a business or our size and nature. Whilst the Directors have no reason to believe the Company will not be viable over a longer period, we believe this presents users of the Annual Report with a reasonable degree of confidence whilst still providing a longer-term perspective.

In making this statement, the Board 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 Board also considers the ability of the Company to raise finance and deploy capital. The results take into account the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

This review has considered the principal risks which were identified by the Manager. The Board concentrated its effort on the major factors which affect the economic, regulatory and political environment. The Board also paid particular attention to the importance of its close working relationship with the Manager, Foresight Group CI Limited.

As part of this process, the Directors have also considered the viability of the Company should long-term debt be introduced in the near future.

# Directors' Remuneration Report



## Introduction

The Board has prepared this report in line with the AIC code. An ordinary resolution to approve this report will be put to the members at the forthcoming Annual General Meeting on 12 June 2017.

The law requires the Company's Auditor, KPMG LLP, to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the 'Independent Auditor's Report.'

## Annual Statement from the Chairman of the Management Engagement & Remuneration Committee.

The Board, which is profiled below, consists solely of Non-Executive Directors and considers at least annually the level of the Board's fees.

## Consideration by the Directors of matters relating to Directors' Remuneration

The Management Engagement & Remuneration Committee comprises three Directors: Alex Ohlsson (Chairman), Chris Ambler and Peter Dicks. The Committee has responsibility for reviewing the remuneration of the Directors, specifically reflecting the time commitment and responsibilities of the role, and meets at least annually. The Committee also undertakes external comparisons and reviews to ensure that the levels of remuneration paid are broadly in line with industry standards and members have access to independent advice where they consider it appropriate.

During the year neither the Board nor the Committee has been provided with external advice or services by any person, but has received industry comparison information from management in respect of the Directors' remuneration. The remuneration policy set by the Board is described below. Individual remuneration packages are determined by the Remuneration Committee within the framework of this policy.

The Directors are not involved in deciding their own individual remuneration.

## Remuneration Policy

The Board's policy is that the remuneration of Non-Executive Directors should reflect time spent and the responsibilities borne by the Directors for the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. The levels of Directors' fees paid by the Company for the period ended 31 December 2016 were agreed in 2015. It is considered appropriate that no aspect of Directors' remuneration should be performance related in light of the Directors' Non-Executive status.

The Company's policy is to pay the Directors quarterly in arrears, to the Directors personally (or to a third party if requested by any Director). Mr Ohlsson's remuneration is paid to Carey Olsen Corporate Services Jersey Limited. None of the Directors has a service contract but, under letters of appointment dated 16th August 2013 may resign at any time by mutual consent. No compensation is payable to Directors leaving office. As the Directors are not appointed for a fixed length of time there is no unexpired term to their appointment but, as noted above, the Directors will retire by rotation every year.

The above remuneration policy was approved by the Shareholders at the Annual General Meeting held 25 April 2016 for the financial year to 31 December 2015 and will apply in subsequent years. Shareholders' views in respect of Directors' remuneration are communicated at the Company's Annual General Meeting and are taken into account in formulating the Directors' remuneration policy.

## Details of Individual Emoluments and Compensation

The emoluments in respect of qualifying services of each person who served as a Director during the period and those forecast for the year ahead are shown below. No Director has waived or agreed to waive any emoluments from the Company in the period under review. No other remuneration was paid or payable by the Company during the current period nor were any expenses claimed by or paid to them other than for expenses incurred wholly, necessarily and exclusively in furtherance of their duties as Directors of the Company. The Company's Articles of Association do not set an annual limit on the level of Directors' fees but fees must be considered within the wider Remuneration Policy noted above. Directors' liability insurance is held by the Company in respect of the Directors.

| | Anticipated Directors' fees for the year ended 31 December 2017 | Audited Directors' fees for year ended 31 December 2016 |
|---|---|---|
| Alex Ohlsson (Chairman) | £60,000 | £60,000 |
| Chris Ambler | £45,000 | £45,000 |
| Peter Dicks | £35,000 | £35,000 |

The Directors are not eligible for pension benefits, share options or long-term incentive schemes.

## Directors' Interests

Directors who had interests in the shares of the Company as at 31 December 2016 are shown below. There were no changes in the interests shown as at 31 December 2015. The Directors do not have any options over shares.

| | Ordinary shares of nil par value held at 31 December 2016 |
|---|---|
| Alex Ohlsson (Chairman) | 25,000[1] |
| Chris Ambler | Nil |
| Peter Dicks | 51,433 |

1 Includes 25,000 shares legally and beneficially owned by a personal pension company.

## Approval of Report

The Board will propose a resolution in the forthcoming AGM that the remuneration of the Directors will remain at the levels shown above for the year to 31 December 2016.

# Audit Committee Report

The Audit Committee is chaired by Chris Ambler and comprises the full Board. The Committee operates within clearly defined terms of reference. The terms of reference were reviewed during the period under review and were deemed appropriate.

Meetings are scheduled to coincide with the reporting cycle of the Company and the committee has met twice in the period under review. The function of the Committee is to ensure that the Company maintains the highest standards of integrity, financial reporting, internal and risk management systems and corporate governance and maintains an effective relationship with the Company's Auditors. None of the members of the Audit Committee has any involvement in the preparation of the financial statements of the Company.

The Audit Committee is charged with maintaining an open relationship with the Company's Auditors. The Chairman of the Audit Committee keeps in regular contact with the Auditors throughout the audit process and the Auditors attend the Audit Committee meeting at which the accounts are considered. The Committee reports directly to the Board which retains the ultimate responsibility for the financial statements of the Company.

## Significant Issues Considered

The Audit Committee has identified and considered the following principle key areas of risk in relation to the business activities (please see page 32 to 33) and financial statements of the company:

- Valuation and existence of unquoted investments. This issue was discussed with the Investment Manager and the Auditor at the conclusion of the audit of the financial statements, as explained below:

## Valuation and Existence of Unquoted Investments

The unquoted investment is a 100% controlling interest in Foresight Solar (UK Hold Co) Limited ("UK Hold Co"), a non-consolidated subsidiary company which is measured at fair value. The majority of UK Hold Co's total assets (by value) are held in an investment where no quoted market price is available. The unquoted investment is a 100% controlling interest in FS Holdco Limited ("FS Holdco"), a non-consolidated subsidiary company which is also measured at fair value, established by using the fair value of the net assets of FS Holdco.

The majority of FS Holdco's total assets (by value) are held in investments where no quoted market price is available. These are valued by using discounted cash flow measurements. The valuation of these underlying investments are seen to be areas of inherent risk and judgement. There is an inherent risk of the Investment Manager unfairly valuing the investment due to the Investment Manager's fee being linked directly to the Net Asset Value of the Company.

During the valuation process the Board and Audit Committee and the Investment Manager follow the valuation methodologies for unlisted investments as set out in the International Private Equity and Venture Capital Valuation guidelines and appropriate industry valuation benchmarks. These valuation policies are set out in note 2 of the accounts. These were then further reviewed by the Audit Committee. The Investment Manager confirmed to the Audit Committee that the underlying investment valuations had been calculated consistently throughout the period and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. Furthermore, the Investment Manager held discussions regarding the investment valuations with the Auditors.

The Investment Manager has agreed the valuation assumptions with the Audit Committee.

Key assumptions used in the valuation forecasts are detailed in note 16 of the financial statements. The Investment Manager has provided sensitivities around those assumptions which are also detailed in note 16.

The Investment Manager and Auditors confirmed to the Audit Committee that they were not aware of any material misstatements. Having reviewed the reports received from the Investment Manager and Auditors, the Audit Committee is satisfied that the key areas of risk and judgement have been addressed appropriately in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The Audit Committee considers that KPMG LLP has carried out its duties as Auditor in a diligent and professional manner.

During the year, the Audit Committee assessed the effectiveness of the current external audit process by assessing and discussing specific audit documentation presented to it in accordance with guidance issued by the Auditing Practices Board. The audit partner is rotated every five years ensuring that objectivity and independence is not impaired. KPMG LLP has audited the Company since 2014. This is the second year the Audit Director has been in place. No tender for the audit of the Company has been undertaken since 2014. As part of its review of the continuing appointment of the Auditors, the Audit Committee considers the need to put the audit out to tender, its fees and independence from the Investment Manager along with any matters raised during each audit.

The Audit Committee considered the performance of the Auditor during the year and agreed that KPMG LLP continued to provide a high level of service and maintained a good knowledge of the market, making sure audit quality continued to be maintained.

# Directors

The Directors, who are Non-Executive and, other than Mr Dicks, independent of the Investment Manager, are responsible for the determination of the investment policy of the Company, have overall responsibility for the Company's activities including its investment activities and for reviewing the performance of the Company's portfolio. The Directors are as follows:

### Alex Ohlsson (Chairman)

Mr Ohlsson is Managing Partner for the law firm Carey Olsen in Jersey. He is recognised as a leading expert in corporate and finance law in Jersey and is regularly instructed by leading global law firms and financial institutions. He is the independent chairman of the States of Jersey's Audit Committee and an Advisory Board member of Jersey Finance, Jersey's promotional body. He is also a member of the Financial and Commercial Law Sub-Committee of the Jersey Law Society which reviews as well as initiates proposals for legislative changes. He was educated at Victoria College Jersey and at Queens' College, Cambridge, where he obtained an MA (Hons) in Law. He has also been an Advocate of the Royal Court of Jersey since 1995.

Mr Ohlsson was appointed as a Non-Executive Director and Chairman on 16 August 2013.

### Chris Ambler

Mr Ambler has been the Chief Executive of Jersey Electricity Plc since 1 October 2008. He has experience in a number of senior positions in the global industrial, energy and materials sectors working for major corporations including ICI/Zeneca, The BOC Group and Centrica/British Gas, as well as in strategic consulting roles. He is a Director on other boards including a Non-Executive Director of Apax Global Alpha Limited, a listed fund which launched on the London Stock Exchange on 15 June 2015.

Mr Ambler is a Chartered Director, a Chartered Engineer and a Member of the Institution of Mechanical Engineers. He holds a First Class Honours Degree from Queens' College Cambridge and an MBA from INSEAD.

Mr Ambler was appointed as a Non-Executive Director on 16 August 2013.

### Peter Dicks

Mr Dicks is currently a Director of a number of quoted and unquoted companies. In addition, he was the Chairman of Foresight VCT plc and Foresight 2 VCT plc from their launch in 1997 and 2004 respectively until 2010 and since then he has continued to serve on the Board of the now merged Foresight VCT plc. He is also on the Board of Foresight 3 VCT plc, Foresight 4 VCT plc, ICG Enterprise Trust plc and Mears Group plc. and Chairman of Unicorn AIM VCT plc, and SVM Emerging Fund.

Mr Dicks was appointed as a Non-Executive Director on 16 August 2013.

THE DIRECTORS: CHRIS AMBLER, PETER DICKS AND ALEX OHLSSON

# Statement of Directors' Responsibilities

## For the period 1 January 2016 to 31 December 2016

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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 these Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable IFRS Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website (which is delegated to Foresight Group and incorporated into their website).

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Annual Report gives a true and fair view of the development and performance of the business and the position of the Company together with a description of the principal risk and uncertainties that the Company faces; and
- the Report and Financial Statements, taken as a whole, are fair, balanced, and understandable and provide the necessary information for the shareholders to assess the Company's performance, business model and strategy.

For and behalf of the Board

**Alex Ohlsson**
*Chairman*
15 February 2017

# Independent Auditor's Report to the Members of Foresight Solar Fund Limited only



## Opinions and conclusions arising from our audit

### 1 Our opinion on the Financial Statements is unmodified

We have audited the financial statements of Foresight Solar Fund Limited (the "Company") for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes on pages 45 to 67. In our opinion, the Financial Statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended; and

- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

### 2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risk of material misstatement that had the greatest effect on our audit was as follows:

### Valuation of Unquoted Investment: £273.6m (2015 restated: £249.7m) Risk versus 2015 unchanged

Refer to page 40 (Audit Committee Report), pages 52 to 53 (Summary of significant accounting policies) and pages 56 to 61 (Financial Statements).

The risk: 78% of the Company's total assets (by value) are held in an investment where no quoted market price is available. The unquoted investment is a 100% controlling interest in Foresight Solar (UK Hold Co) Limited ("UK Hold Co"), a non-consolidated subsidiary company which is measured at fair value. Fair value is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using the fair value of the net assets of UK Hold Co.

87% of UK Hold Co's total assets (by value) are held in an investment where no quoted market price is available. The unquoted investment is a 100% controlling interest in FS Holdco Limited ("FS Holdco"), a non-consolidated subsidiary company which is also measured at fair value, established by using the fair value of the net assets of FS Holdco.

96% of FS Holdco's total assets (by value) are held in investments where no quoted market price is available. These are valued by using discounted cash flow measurements. There is a significant risk over the valuation of these investments [directly held by FS Holdco] and this is the key judgemental area that our audit focused on.

### Our response: Our procedures included:

- documenting and assessing the design and implementation of the investment valuation processes and controls in place.

- challenging the Investment Manager on key judgements affecting the investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines.

- In particular, in relation to the investments valued using discounted cash flow measurements, we challenged the appropriateness of the valuation basis selected as well as underlying assumptions, such as energy yield, power price, costs and inflation rates which produce the cash flow projections; and the appropriateness of the discount factor applied to those cash flow projections.

- Comparing key underlying financial data inputs and energy yield inputs to external sources and management information as applicable.

- Challenging the assumptions around the sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or refinancing may be required. Our work included consideration of events which incurred subsequent to the year end up until the date of this audit report.

- attending the year end Audit Committee meeting where we assessed the effectiveness of the Audit Committee's challenge and approval of unquoted investment valuations; and

- considering the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

### 3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £3.50m (2015: £4.39m), determined with reference to a benchmark of Total Assets, of which it represents 1% (2015: 1%).

In addition, we applied materiality of £0.30m (2015: £0.23m) to income from investments for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the company's members' assessment of the financial performance of the company.

We reported to the Audit Committee any corrected and uncorrected identified misstatements exceeding £175,000 (2015: £219,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company and its underlying investments was undertaken to the materiality noted above and was performed at the Manager's London office.

### 4 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability Statement on page 38, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the company's continuing in operation over the three years to 31 December 2019; or

- the disclosures in note 2 of the financial statements concerning the use of the going concern basis of accounting

# Independent Auditor's Report to the Members of Foresight Solar Fund Limited only (continued)

### 5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the company's position and performance, business model and strategy; or

- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or

- proper returns adequate for our audit have not been received from branches not visited by us; or

- the Company's accounts are not in agreement with the accounting records and returns; or

- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Report on pages 36 to 38 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

### Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 42, the Directors are responsible for the preparation of company's financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the Company financial statements in accordance with applicable law and international Standards of Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

### Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at www.kpmg.com/uk/auditscopeother2014. This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

### The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Philip Merchant**
For and on behalf of KPMG LLP
Chartered Accountants and Recognised Auditor

15 Canada Square
London E14 5GL

15 February 2017

# Statement of Comprehensive Income

## For the year ended 31 December 2016

| | Notes | **31 December 2016 £'000** | 31 December 2015 (Restated) £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Interest income | 4 | **29,462** | 25,119 |
| Gain / (Loss) on investments at fair value through profit or loss | 14 | **4,775** | (6,619) |
| | | **34,237** | 18,500 |
| **Expenditure** | | | |
| Management fees | 5 | **(3,054)** | (2,551) |
| Administration and accountancy expenses | 6 | **(228)** | (123) |
| Directors' fees | 7 | **(140)** | (170) |
| Other expenses | 8 | **(76)** | (442) |
| **Total expenditure** | | **(3,498)** | (3,286) |
| **Profit before tax for the year** | | **30,739** | 15,214 |
| Taxation | | **-** | - |
| **Profit and total comprehensive income for the year** | | **30,739** | 15,214 |
| **Earnings per Ordinary Share (pence per Share)** | 9 | **10.38** | 5.91 |

All items above arise from continuing operations, there have been no discontinued operations during the year.

The accompanying notes on pages 49 to 67 form an integral part of these Financial Statements.

# Statement of Financial Position

## As at 31 December 2016

| | Notes | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments held at fair value through profit or loss | 14 | **273,614** | 249,660 |
| **Total non-current assets** | | **273,614** | 249,660 |
| **Current assets** | | | |
| Interest receivable | 10 | **33,044** | 4,646 |
| Trade and other receivables | 11 | **4,847** | 12,152 |
| Cash and cash equivalents | 12 | **39,381** | 12,924 |
| **Total current assets** | | **77,272** | 29,722 |
| **Total assets** | | **350,886** | 279,382 |
| **Equity** | | | |
| Retained earnings | | **11,767** | (297) |
| Stated capital | 17 | **339,003** | 279,403 |
| **Total equity** | | **350,770** | 279,106 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **116** | 276 |
| **Total current liabilities** | | **116** | 276 |
| **Total liabilities** | | **116** | 276 |
| **Total equity and liabilities** | | **350,886** | 279,382 |
| **Net Asset Value per Ordinary Share** | 18 | **102.88** | 99.04 |

The Financial Statements on pages 49 to 67 were approved by the Board of Directors and signed on its behalf on 15 February 2017 by:

**Alex Ohlsson**
Chairman

The accompanying notes on pages 49 to 67 form an integral part of these Financial Statements.

# Statement of Changes in Equity

## For the year ended 31 December 2016

| | Notes | Stated Capital £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|
| **Balance as at 1 January 2016** | | **279,403** | **(297)** | **279,106** |
| Total comprehensive income for the year: | | | | |
| Profit for the year | | **-** | **30,739** | **30,739** |
| Transactions with owners, recognised directly in equity: | | | | |
| Dividends paid in the period | 21 | **-** | **(18,675)** | **(18,675)** |
| Issue of Ordinary Shares | 17 | **60,781** | **-** | **60,781** |
| Capitalised issue costs | 17 | **(1,181)** | **-** | **(1,181)** |
| **Balance as at 31 December 2016** | | **339,003** | **11,767** | **350,770** |

For the period 1 January 2015 to 31 December 2015 (Restated):

| | Notes | Stated Capital £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|
| Balance as at 1 January 2015: | | 206,226 | 3,607 | 209,833 |
| Total comprehensive income for the year: | | | | |
| Profit for the year | | - | 15,214 | 15,214 |
| Transactions with owners, recognised directly in equity: | | | | |
| Dividends paid in the year | 21 | - | (19,118) | (19,118) |
| Issue of Ordinary Shares | 17 | 74,784 | - | 74,784 |
| Capitalised issue costs | 17 | (1,607) | - | (1,607) |
| Balance as at 31 December 2015 | | 279,403 | (297) | 279,106 |

The accompanying notes on pages 49 to 67 form an integral part of these Financial Statements.

# Statement of Cash Flows

## For the year ended 31 December 2016

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| **Profit for the year before tax from continuing operations** | **30,739** | 15,214 |
| Adjustments for: | | |
| Unrealised (gain)/loss on investments | **(4,775)** | 6,619 |
| Investment income | **(29,462)** | (25,119) |
| **Operating cash flows** | **(3,498)** | (3,286) |
| Decrease/(increase) in trade and other receivables | **7,305** | (7,671) |
| Decrease in trade and other payables | **(160)** | (1,504) |
| **Net cash inflow/(outflow) from operating activities** | **3,647** | (12,461) |
| **Investing activities** | | |
| Increase in loan notes to subsidiary | **(34,000)** | (71,000) |
| Decrease in Shareholder loan to subsidiary | **14,821** | 9,844 |
| Investment income received | **1,064** | 29,879 |
| **Net cash outflow from investing activities** | **(18,115)** | (31,277) |
| **Financing activities** | | |
| Dividends paid | **(18,675)** | (19,118) |
| Issue costs paid | **(1,181)** | (1,607) |
| Proceeds from issue of shares | **60,781** | 74,784 |
| **Net cash inflow from financing activities** | **40,925** | 54,059 |
| **Net increase in cash and cash equivalents** | **26,457** | 10,321 |
| Cash and cash equivalents at the beginning of the year | **12,924** | 2,603 |
| **Cash and cash equivalents at the end of the year** | **39,381** | 12,924 |

The accompanying notes on pages 49 to 67 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## For the year ended 31 December 2016



1. **Company information**
Foresight Solar Fund Limited (the "Company") is a closed-ended company with an indefinite life and was incorporated in Jersey under the Companies Law (Jersey) 1991, as amended, on 13 August 2013, with registered number 113721. The address of the registered office is: Elizabeth House, 9 Castle Street, St Helier, Jersey, JE2 3RT.

The Company has one investment, Foresight Solar (UK Hold Co) Limited ("UK Hold Co"). Up to 31 March 2016, UK Hold Co invested in further holding companies (the "SPVs") which then invested in the underlying investments. On 11 January 2016, UK Hold Co incorporated a subsidiary, FS Holdco Limited ("FS Holdco"). On 31 March 2016, UK Hold Co transferred all equity investments and related Shareholder loans in the SPVs to FS Holdco in return for 16 ordinary shares issued by FS Holdco Limited and a loan receivable on a pari passu basis. FS Holdco 2 Limited ("FS Holdco 2") was incorporated on 1 December 2016. FS Debtco Limited ("FS Debtco") was incorporated on 2 December 2016. As at 31 December 2016, there had been no activities in either FS Holdco 2 or FS Debtco. The principal activity of the Company, UK Hold Co, FS Holdco, FS Holdco 2 and FS Debtco (together "the Group") is investing in operational UK ground based solar power plants.

2. **Summary of significant accounting policies**

**2.1 Basis of presentation**
The Financial Statements for the year ended 31 December 2016 (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") which comprise standards and interpretations issued by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations approved by the International Financial Reporting Interpretation Committee that remain in effect and to the extent they have been adopted by the European Union. The Financial Statements have been prepared on the historical cost convention as modified for the measurement of certain financial instruments at fair value through profit or loss and in accordance with the provisions of the Companies (Jersey) Law 1991.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and underlying assumptions are reviewed on an ongoing basis. Judgements made by management in the application of IFRS that have a significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 3.

For the year ended 31 December 2015 the Company consolidated its holding in the UK Hold Co (including UK Hold Co's investments in the SPVs). Further amendments to IFRS 10 effective 1 January 2016 have been implemented and have resulted in an accounting policy change in relation to consolidation of subsidiaries. These changes are explained in note 2.3 Changes in Accounting Policy and note 2.4 Consolidation.

**2.2 Going concern**
The Directors have considered the Company's cash flow projections for a period of no less than twelve months from the date of approval of these consolidated Financial Statements together with the Company's borrowing facilities. These projections show that the Company will be able to meet its liabilities as they fall due.

The Directors have therefore prepared the Financial Statements on a going concern basis.

**2.3 Changes in accounting policies and disclosures**
**Application of new and revised International Financial Reporting Standards ("IFRSs")**
The following standards which are applicable to the Company became effective for accounting periods commencing on or after 1 January 2016 and have been applied in these financial statements:

- Amendments to IFRS 10, 'Consolidated Financial Statements' and IAS 28, 'Investments in Associates', or 'Investment entities'.

  The amendments to IFRS 10 confirm that an investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities. However, the amendments clarify that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties. This means that the Company has to value its holding in UK Hold Co at fair value through profit or loss rather than consolidating its holding in UK Hold Co.

2. Summary of significant accounting policies (continued)

The Company has therefore restated its comparative figures for the year ended 31 December 2015 to no longer consolidate its holding in UK Hold Co, but rather value its holding at fair value through profit or loss. These changes have affected the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, Statement of Cash Flows and the accompanying notes.

- IFRS 12 Disclosure of Interests in Other Entities by Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) effective 1 January 2016.

  An investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss presents the disclosures relating to investment entities required by IFRS 12.

  The additional disclosures required by IFRS 12 are included in note 15 and note 16 Investments in Unconsolidated Entities.

**New and revised IFRSs in issue but not yet effective**

At the date of authorisation of these Financial Statements, the following standards and interpretations, which have not been applied in these Financial Statements and which are applicable to the Company, were in issue but not yet effective:

- IFRS 15, 'Revenue from Contracts with Customers'. Effective for accounting periods commencing on or after 1 January 2018.
- IFRS 9, 'Financial Instruments - Classification and Measurement'. There is currently no mandatory effective date, however the IASB has tentatively proposed that this will be effective for accounting periods commencing on or after 1 January 2018.
- IFRS 16, 'Leases'. Effective for accounting periods commencing on or after 1 January 2019.

These standards and interpretations will be adopted when they become effective. The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements in future periods, except that IFRS 9 may impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effects of IFRS 9 and IFRS 15 until a detailed review has been completed.

2.4 Consolidation

**Subsidiaries**

All subsidiaries are entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

As discussed in note 1, the Company has one direct subsidiary, a 100% controlling interest in UK Hold Co. Up to 31 March 2016, UK Hold Co itself invested in the SPVs which then invested in the underlying investments. Therefore, the SPVs are indirect subsidiaries. On 11 January 2016, UK Hold Co incorporated a new subsidiary, FS Hold Co, which is also an indirect subsidiary of the Company. On 31 March 2016, UK Hold Co transferred the SPVs to FS Hold Co in return for shares in FS Hold Co and a loan receivable on a pari passu basis. Under IFRS 10 "Consolidated Financial Statements", qualifying entities that meet the definition of an investment entity are not required to produce a consolidated set of Financial Statements and instead account for subsidiaries at fair value through profit or loss. The Directors deem that the Company is an investment entity and therefore the Company does not consolidate any of its subsidiaries but carries them at fair value through profit or loss.

The defined criteria of an 'investment entity' are as follows:

- It holds more than one investment;
- It has more than one investor;
- It has investors that are not related parties to the entity; and
- It has ownership interests in the form of equity or similar interests.

2. Summary of significant accounting policies (continued)

However, the absence of one or more of these characteristics does not prevent the entity from qualifying as an 'investment entity', provided all other characteristics are met and the entity otherwise meets the definition of an 'investment entity':

- It obtains funds from one or more investors for the purpose of providing those investor(s) with professional investment management services;
- It commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- It measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company does not meet all the defined criteria of an 'investment entity' as the Company only has one investment. However, the Directors deem that the Company is nevertheless an 'investment entity' as the remaining requirements has been met and, through UK Hold Co and FS Hold Co, there is a diverse investment portfolio which will fill the criteria of having more than one investment. The Company consolidated its holding in UK Hold Co for the year ended 31 December 2015 as UK Hold Co provides investment related services to the Company and was viewed as being simply an extension of the investment entity's investing activities. However as a result of the amendments to IFRS 10 effective 1 January 2016, intermediate investment entities are not permitted to be consolidated and must be held at fair value through profit or loss. The Company therefore restated its comparative figures for the year ended 31 December 2015 to no longer consolidate its holding in the UK Hold Co, but rather value its holding at fair value through profit or loss. These changes have affected the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, Statement of Cash Flows and its accompanying notes.

UK Hold Co does not meet all the defined criteria of an "investment entity" as it is 100% owned by the Company and, from 31 March 2016, it only has one investment. However, the Directors deem that UK Hold Co is nevertheless an intermediate investment entity as through FS Hold Co, there is a diverse investment portfolio which will fill the criteria of having more than one investment and, the Company that holds 100% of share capital has a number of investors.

FS Hold Co and FS Hold Co 2 do not meet all the defined criteria of an 'investment entity' as they are 100% owned by UK Hold Co. However, the Directors deem that the companies are nevertheless 'investment entities' as the remaining requirements have been met and the Company that holds 100% of the share capital of UK Hold Co has a number of investors.

Therefore, the Company meets the requirements of an 'investment entity'. The Company accounts for its subsidiary at fair value through profit or loss in accordance with IAS 39 "Financial Statements: Recognition and Measurement". The financial asset at fair value through profit or loss carried in the Statement of Financial Position represents the Company's investments in UK Hold Co. See notes 14 and 16 for more detail on the investments held at fair value through profit or loss.

As the UK Hold Co is no longer consolidated, its investements (plus their underlying investments) are no longer separately presented at fair value through profit or loss in the Company's accounts. However accounting standards require that if an investment entity is the parent of another investment entity, the parent shall also provide the additional disclosures required by IFRS 12 interest in unconsolidated subsidiaries. These disclosures are set out in notes 15 and 16.

2.5 Income

Income comprises interest income (bank interest and loan interest). Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Loan interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.6 Expenses

Operating expenses are the Company's costs incurred in connection with the on-going management of the Company's investments and administrative costs. Operating expenses are accounted for on an accruals basis.

The Company's management and administration fees, finance costs and all other expenses are charged through the Statement of Comprehensive Income.

Acquisition costs of assets are capitalised on purchase of assets. Costs directly relating to the issue of Ordinary Shares are charged to the Group's stated capital reserve.

2. Summary of significant accounting policies (continued)

2.7 Taxation

The Company is currently registered in Jersey. The Company is taxed at 0% which is the general rate of Corporation tax in Jersey.

2.8 Functional and presentational currency

The Directors consider the Company's functional currency to be Pounds Sterling ("GBP") as this is the currency in which the majority of the Company's assets and liabilities and significant transactions are denominated. The Directors have selected GBP as the Company's presentation currency.

2.9 Financial Assets and Liabilities

2.9.1 Classification

The Company classifies its financial assets and liabilities in the following categories: at fair value through profit or loss; and financial assets and liabilities at amortised cost. The classification depends on the nature and purpose for which the financial assets and is determined at the time of initial recognition by management.

(a) Financial asset at fair value through profit or loss

The financial asset at fair value through profit or loss consists of one investment in UK Hold Co. The asset in this category is classified as non-current.

(b) Financial assets and liabilities at amortised cost

These assets and liabilities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They comprise trade and other receivables, interest receivable, cash and cash equivalents and trade and other payables.

Trade receivables are rights to receive compensation for goods or services that have been provided in the ordinary course of business to customers. Accounts receivable are classified as current assets if receipt is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current assets.

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.9.2 Recognition and measurement

Purchases and sales of financial assets are recognised on the trade-date (the date on which the Company commits to purchase or sell the asset). Investments are initially recognised at fair value, being the consideration given. It is the policy of the Investment Manager to value with reference to discounted cash flows immediately following acquisition. Investments treated as 'financial assets at fair value through profit or loss' are subsequently measured at fair value. Financial assets at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition, and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. The effect of discounting on these financial assets is not considered to be material.

Fair value is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The Directors base the fair value of the investments based on information received from the Investment Manager. The Investment Manager's assessment of fair value of the investment and its underlying direct and indirect investments is determined in accordance with IAS 39 and IFRS 13. The fair value of UK Hold Co is made up of its equity and loans. The unconsolidated subsidiaries of FS Holdco is determined in accordance with IAS 39 and IFRS 13, using unlevered Discounted Cash Flow principles (unless a more appropriate methodology is applied).

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Consolidated Statement of Comprehensive Income within 'gains/(losses) on investments at fair value through profit or loss' in the period in which they arise.

## 2. Summary of significant accounting policies (continued)

Financial liabilities at amortised cost consist of trade and other payables. Trade and other payables are initially recognised at fair value net of transaction costs incurred and classified as current. All purchases of financial liabilities are recorded on trade date, being the date on which the Company becomes party to the contractual requirements of the financial liability. Unless otherwise indicated the carrying amounts of the Company's financial liabilities approximate to their fair values.

### 2.9.3 Derecognition of financial assets and liabilities

Financial assets (in whole or in part) are derecognised either:

- when the Company has transferred substantially all the risks and rewards of ownership; or
- when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or
- when the contractual right to receive cash flow has expired.

A financial liability (in whole or in part) is derecognised when the Company has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to the Statement of Comprehensive Income.

### 2.10 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Ordinary shares have a nil par value.

### 2.11 Dividend distribution

Dividend distribution to the Company's Shareholders is recognised as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company's Shareholders.

## 3. Critical accounting estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. The Company makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision only affects that year, or in the year of the revision and future years if the revision affects both current and future years. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

### 3.1 Fair value of underlying investments

The fair value of the underlying investments held by the Company's subsidiaries, which impact the value of the company's subsidiaries, are determined by using valuation techniques. The Directors base the fair value of the investments based on information received from the Investment Manager. The Investment Manager's assessment of fair value of investments is determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines, using unlevered Discounted Cash Flow principles (unless a more appropriate methodology is applied). As described more fully in note 16, valuations such as these entail assumptions about solar irradiance, power prices, technological performance, discount rate, operating costs and inflation over a 25 year period. It is in the opinion of the Investment Manager that the IPEV valuation methodology used in deriving a fair value is in accordance with the fair value requirements of IAS 39.

The fair value of UK Hold Co is made up of the fair value of its net assets. In the Director's opinion, this value represents the fair value of the investments at the valuation date as all available information is used in the valuation process. UK Hold Co has one direct subsidiary FS Hold Co and this Investment is fair valued using the FS Hold Co's net asset value as reported at year end.

The fair value of the underlying investments held by FS Hold Co's subsidiaries are determined by using valuation techniques. The Directors base the fair value of the investments based on information received from the Investment Manager.

### 3.2 Determination of investment entities

The Directors of the Company have determined that it meets the definition of an Investment Entity as per IFRS 10. Details of this judgement is disclosed in note 2.4 Consolidation.

## 4. Interest income

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Bank interest income | **13** | 34 |
| Loan interest income | **29,449** | 25,085 |
| | **29,462** | 25,119 |

Loan interest comprises interest on loan notes and interest on Shareholder loans.

Loan notes were issued by UK Hold Co to the Company for the purchase of investments. Interest is payable at 9% per annum in arrears on each Interest Payment Date (28 / 29 February and 31 August each year). Where interest is not paid on payment date, it will compound and future interest shall accrue at 11% per annum from the due date up to the date of actual payment compounding on each Interest Payment Date. Total interest of £27,314,252 was accrued during the year (2015 restated: £21,578,249), £27,314,252 was receivable at year end (2015 restated: £1,050,940). The loan notes balance at year end on which interest is charged is £250,000,000 (2015 restated: £216,000,000). These loans form part of the fair value of the investments as per note 14.

A Shareholder loan is created when the total amount paid by the Company on behalf of UK Hold Co for the cost of Investments is more than the total loan notes issued by UK Hold Co to the Company. Interest is receivable at 9% per annum and is repayable in full on demand. Total interest of £2,135,009 was accrued during the year (2015 restated: £3,497,668). £5,730,000 was receivable at year end (2015 restated: £3,594,816). The Shareholder loan balance at year end is £23,910,000 (2015 restated: £38,729,995). These loans form part of the fair value of the investments as per note 14.

## 5. Management fees

The Investment Manager of the Company, Foresight Group CI Limited, receives an annual fee of 1% of the Net Asset Value ("NAV") of the Company. This is payable quarterly in arrears and is calculated based on the published quarterly NAV. For the year ended 31 December 2016, the Investment Manager was entitled to a management fee of £3,053,551 (2015 restated: £2,551,085) of which £17,066 was outstanding as at 31 December 2016 (2015 restated: £5,535).

## 6. Administration and Accountancy fees

Under an Administration Agreement, the Administrator of the Company, JTC (Jersey) Limited, is entitled to receive minimum annual administration and accountancy fees of £80,000 payable quarterly in arrears. From December 2014 this increased to a minimum of £100,000 per annum resulting from an increase in stated capital. For the year ended 31 December 2016, total administration and accountancy fees were £227,452 (2015 restated: £122,763) of which £50,002 was outstanding as at 31 December 2016 (2015 restated: £4,200).

## 7. Directors' fees

Remuneration of the Directors of the Company is currently paid at a total rate of £140,000 (2015 restated: £170,000). All of the Directors are Non-Executive Directors. Remuneration paid for the year ended 31 December 2016 is detailed below:

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Peter Dicks | **35** | 45 |
| Alex Ohlsson | **60** | 70 |
| Christopher Ambler | **45** | 55 |
| | **140** | 170 |

8. Other Expenses

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Annual fees | **32** | 127 |
| Audit fees | **17** | 36 |
| Legal and professional fees | **27** | 279 |
| | **76** | 442 |

The total audit fee pertaining to the group is £54,900 for the year ended 31 December 2016 (2015 restated: £46,000).

9. Earnings per Ordinary share – basic and diluted

The basic and diluted profits per Ordinary Share for the Company are based on the profit for the period of £30,738,374 (2015 restated: £15,214,912) and on 296,123,500 (2015 restated: 257,246,283) Ordinary Shares, being the weighted average number of shares in issue during the period.

10. Interest receivable

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Interest receivable on loan notes | **27,314** | 1,051 |
| Interest receivable on Shareholder loan | **5,730** | 3,595 |
| | **33,044** | 4,646 |

11. Trade and other receivables

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Prepaid expenses | **-** | 11 |
| Amounts due from subsidiaries | **4,694** | 12,087 |
| Other receivables | **153** | 54 |
| | **4,847** | 12,152 |

12. Cash and cash equivalents

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Cash at bank | **39,381** | 12,924 |
| | **39,381** | 12,924 |

13. Trade and other payables

| | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Accrued expenses | **116** | 276 |
| | **116** | 276 |

## 14. Investments at fair value through profit or loss

The following table presents the Company's investments at fair value through profit or loss:

| | | 31 December 2016 £'000 | 31 December 2015 (Restated) £'000 |
|---|---|---|---|
| Investment in UK Hold Co | Equity | **-** | - |
| | Loans | **273,614** | 249,660 |
| | | **273,614** | 249,660 |
| Book cost as at 1 January | | **254,730** | 193,574 |
| Opening Investment Holding (losses)/ gains | | **(5,070)** | 1,549 |
| Valuation as at 1 January | | **249,660** | 195,123 |
| Movements during the year | | | |
| Purchase at cost | | **34,000** | 71,000 |
| Disposal proceeds | | **(14,821)** | (9,844) |
| Investment Holding gains/(losses) | | **4,775** | (6,619) |
| Valuation as at 31 December | | **273,614** | 249,660 |
| Book cost as at 31 December | | **273,909** | 254,730 |
| Closing investment holding gains | | **(295)** | (5,070) |
| | | **273,614** | 249,660 |

The Company has one investment in Foresight Solar (UK Hold Co) Limited ("UK Hold Co"). This investment consists of both debt and equity and is not quoted in an active market. Accordingly, the investment in UK Hold Co has been valued using its net assets.

In turn, UK Hold Co has one investment in FS Holdco Limited ("FS Holdco"). This investment also consists of both debt and equity and is not quoted in an active market. Accordingly, the investment in FS Holdco has been valued using its net assets.

In turn, FS Holdco's investment portfolio consists of unquoted investments in solar projects, the valuations of which are based on a discounted cash flow methodology (as set out in note 16).

### Fair value hierarchy

IFRS 13 "Fair Value Measurement" requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows investments recognised at fair value, categorised between those whose fair value is based on:

(a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

(b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

(c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

All investments held at fair value through profit or loss are classified as level 3 within the fair value hierarchy.

As UK Hold Co's net asset value is not considered observable market data the investment in UK Hold Co has been classified as level 3. There were no movements between levels during the year.

**14. Investments at fair value through profit or loss (continued)**

As at 31 December 2016:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Unquoted investment | - | - | 273,614 | 273,614 |
| | - | - | 273,614 | 273,614 |

As at 31 December 2015:

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Unquoted investment | - | - | 249,660 | 249,660 |
| | - | - | 249,660 | 249,660 |

**Sensitivity Analysis**

Due to the nature of the Group structure and the underlying valuation basis of UK Hold Co, FS Holdco and the underlying solar project investments, the valuation of the Company's investment at fair value through profit or loss is directly linked to the valuation of the underlying solar investments. Therefore, the unobservable inputs driving the valuation of the Company's investments in UK Hold Co are directly attributable to the valuation of the unquoted investments in FS Holdco which is discussed further in note 16.

**15. Investments in unconsolidated entities**

Details of the undertakings which the unconsolidated subsidiaries held as at 31 December 2016 are listed below:

| Name | Direct or indirect holding | Country of incorporation | Principal activity | Proportion of shares and voting rights held |
|---|---|---|---|---|
| Foresight Solar (UK Hold Co) Limited ("UK Hold Co") | Direct | UK | Holding Company | 100% |
| FS Holdco Limited ("FS Holdco") | Indirect | UK | Subsidiary | 100% |
| FS Holdco 2 Limited ("FS Holdco 2") | Indirect | UK | Subsidiary | 100% |
| FS Debtco Limited ("FS Debtco") | Indirect | UK | Subsidiary | 100% |
| FS Wymeswold Limited | Indirect | UK | SPV | 100% |
| FS Castle Eaton Limited | Indirect | UK | SPV | 100% |
| FS Pitworthy Limited | Indirect | UK | SPV | 100% |
| FS Highfields Limited | Indirect | UK | SPV | 100% |
| FS High Penn Limited | Indirect | UK | SPV | 100% |
| FS Hunter's Race Limited | Indirect | UK | SPV | 100% |
| FS Spriggs Limited | Indirect | UK | SPV | 100% |
| FS Bournemouth Limited | Indirect | UK | SPV | 100% |
| FS Landmead Limited | Indirect | UK | SPV | 100% |
| FS Kencot Limited | Indirect | UK | SPV | 100% |
| FS Copley Limited | Indirect | UK | SPV | 100% |
| FS Port Farms Solar Limited | Indirect | UK | SPV | 100% |
| FS Membury Limited | Indirect | UK | SPV | 100% |
| FS Southam Solar Limited | Indirect | UK | SPV | 100% |
| FS Atherstone Solar Limited | Indirect | UK | SPV | 100% |
| FS Paddock Wood Solar Farm Limited | Indirect | UK | SPV | 100% |
| Atherstone Hold Co Limited | Indirect | UK | SPV | 100% |
| Southam Hold Co Limited | Indirect | UK | SPV | 100% |
| Paddock Wood Hold Co Limited | Indirect | UK | SPV | 100% |
| Wymeswold Solar Farm Limited ("Wymeswold") | Indirect | UK | Investment | 100% |
| Castle Eaton Solar Farm Limited ("Castle Eaton") | Indirect | UK | Investment | 100% |
| Pitworthy Solar Farm Limited ("Pitworthy ") | Indirect | UK | Investment | 100% |
| Highfields Solar Farm Limited ("Highfields") | Indirect | UK | Investment | 100% |
| High Penn Solar Farm Limited ("High Penn ") | Indirect | UK | Investment | 100% |
| Hunter's Race Solar Farm Limited ("Hunter's Race") | Indirect | UK | Investment | 100% |
| Spriggs Solar Farm Limited ("Spriggs ") | Indirect | UK | Investment | 100% |

| Name | Direct or indirect holding | Country of incorporation | Principal activity | Proportion of shares and voting rights held |
|---|---|---|---|---|
| Bournemouth Solar Farm Limited (“Bournemouth”) | Indirect | UK | Investment | 100% |
| Landmead Solar Farm Limited (“Landmead”) | Indirect | UK | Investment | 100% |
| Kencot Hill Solar Farm Limited (“Kencot”) | Indirect | UK | Investment | 100% |
| Copley Solar Limited (“Copley”) | Indirect | UK | Investment | 100% |
| Port Farms Solar Limited (Port Farm”) | Indirect | UK | Investment | 100% |
| Membury Solar Limited (“Membury”) | Indirect | UK | Investment | 100% |
| Atherstone Solar Farm Ltd (“Atherstone”) | Indirect | UK | Investment | 100% |
| Southam Solar Farm Ltd (“Southam”) | Indirect | UK | Investment | 100% |
| Paddock Wood Solar Farm Ltd (“Paddock Wood”) | Indirect | UK | Investment | 100% |

15. **Investments in unconsolidated entities (continued)**

**Year ended 31 December 2016**

The following table represents the fair values of the investments held by FS Holdco Limited as required by IFRS12.

| | Cost as at 1 January 2016 £'000 | Additions / (Disposals) £'000 | Cost as at 31 December 2016 £'000 | Unrealised gain/(loss) as at 1 January 2016 £'000 | Movement on unrealised gain/(loss) £'000 | Unrealised gain/ (loss) as at 31 December 2016 £'000 | Fair value as at 31 December 2016 £'000 |
|---|---|---|---|---|---|---|---|
| Wymeswold | 44,247 | (500) | 43,747 | 4,817 | 1,536 | 6,353 | 50,100 |
| Castle Eaton | 22,508 | - | 22,508 | (756) | 148 | (608) | 21,900 |
| Pitworthy | 19,272 | - | 19,272 | (734) | (238) | (972) | 18,300 |
| Highfields | 15,403 | - | 15,403 | (785) | 382 | (403) | 15,000 |
| High Penn | 12,623 | - | 12,623 | (1,105) | 482 | (623) | 12,000 |
| Hunter's Race | 12,239 | - | 12,239 | 900 | 361 | 1,261 | 13,500 |
| Spriggs | 14,437 | - | 14,437 | 271 | 92 | 363 | 14,800 |
| Bournemouth | 47,911 | - | 47,911 | 1,682 | 1,707 | 3,389 | 51,300 |
| Landmead | 52,416 | - | 52,416 | (65) | 1,749 | 1,684 | 54,100 |
| Kencot | 48,442 | - | 48,442 | (563) | 1,121 | 558 | 49,000 |
| Copley | 32,680 | - | 32,680 | 2,956 | 2,364 | 5,320 | 38,000 |
| Paddock Wood | 6,335 | 4,431 | 10,766 | 108 | 626 | 734 | 11,500 |
| Atherstone | 12,595 | 3,484 | 16,079 | 156 | 365 | 521 | 16,600 |
| Southam | 7,702 | 3,365 | 11,067 | (154) | 887 | 733 | 11,800 |
| Port Farms | 44,502 | (505) | 43,997 | 267 | 1,736 | 2,003 | 46,000 |
| Membury | 21,671 | - | 21,671 | (351) | 580 | 229 | 21,900 |
| | 414,983 | 10,275 | 425,258 | 6,644 | 13,898 | 20,542 | 445,800 |

15. **Investments in unconsolidated entities (continued)**

**Year ended 31 December 2015**

The following table represents the fair values of the investments held by FS Holdco Limited (2015: Foresight Solar (UK Hold Co) Limited) as required by IFRS12.

| | Cost as at 1 January 2015 | Additions / (Disposals) | Cost as at 31 December 2015 | Unrealised gain/(loss) as at 1 January 2015 | Movement on unrealised gain/(loss) | Unrealised gain/ (loss) as at 31 December 2015 | Fair value as at 31 December 2015 |
|---|---|---|---|---|---|---|---|
| Wymeswold | 45,046 | (799) | 44,247 | 3,684 | 1,133 | 4,817 | 49,064 |
| Castle Eaton | 22,508 | - | 22,508 | 192 | (948) | (756) | 21,752 |
| Pitworthy | 19,272 | - | 19,272 | 243 | (977) | (734) | 18,538 |
| Highfields | 15,403 | - | 15,403 | 247 | (1,032) | (785) | 14,618 |
| High Penn | 12,623 | - | 12,623 | (123) | (982) | (1,105) | 11,518 |
| Hunter's Race | 13,036 | (797) | 12,239 | (26) | 926 | 900 | 13,139 |
| Spriggs | 14,621 | (184) | 14,437 | 699 | (428) | 271 | 14,708 |
| Bournemouth | 47,911 | - | 47,911 | 249 | 1,433 | 1,682 | 49,593 |
| Landmead | 52,416 | - | 52,416 | 1,189 | (1,254) | (65) | 52,351 |
| Kencot | - | 48,442 | 48,442 | - | (563) | (563) | 47,879 |
| Copley | - | 32,680 | 32,680 | - | 2,956 | 2,956 | 35,636 |
| Paddock Wood | - | 6,335 | 6,335 | - | 108 | 108 | 6,443 |
| Atherstone | - | 12,595 | 12,595 | - | 156 | 156 | 12,751 |
| Southam | - | 7,702 | 7,702 | - | (154) | (154) | 7,548 |
| Port Farms | - | 44,502 | 44,502 | - | 267 | 267 | 44,769 |
| Membury | - | 21,671 | 21,671 | - | (351) | (351) | 21,320 |
| | 242,836 | 172,147 | 414,983 | 6,354 | 290 | 6,644 | 421,627 |

16. **Fair value of the investments in unconsolidated entities**

**Valuation process**

Valuations are the responsibility of the Board of Directors. The Investment Manager is responsible for submitting fair market valuations of Group assets to the Directors. The Directors review and approve these valuations following appropriate challenge and examination. Valuations are carried out quarterly. The current portfolio consists of non-market traded investments and valuations are based on a discounted cash flow methodology. The Investment Manager's assessment of fair value of investments is determined in accordance with the International Private Equity and Venture Capital ("IPEV") Valuation Guidelines, using unlevered Discounted Cash Flow principles. It is in the opinion of the Investment Manager and Directors that the IPEV Valuation Guideline methodology used in deriving a fair value is in accordance with the fair value requirements of IFRS 13.

**Sensitivity analysis of significant changes in unobservable inputs within Level hierarchy of underlying Investments**

The Company's investments are valued with reference to the discounted value of future cash flows. The Directors consider the valuation methodology used, including the key assumptions and discount rate applied, to be appropriate. The Board review, at least annually, the valuation inputs and where possible, make use of observable market data to ensure valuations reflect the fair value of the investments. A broad range of assumptions are used in the valuation models. These assumptions are based on long-term forecasts and are not affected by short term fluctuations in inputs, be it economic or technical.

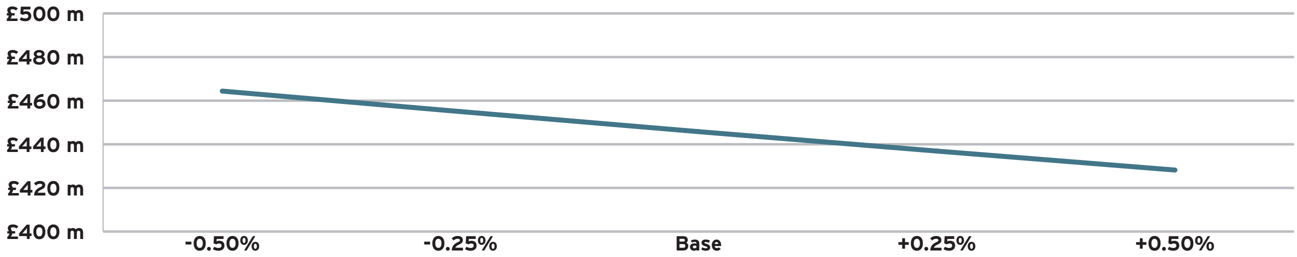
The Directors consider the following assumptions to be significant inputs to the DCF calculation.

16. Fair value of the investments in unconsolidated entities (continued)

Discount rate

The weighted average discount rate used is 7.5%. The Directors do not expect to see a significant change in the discount rates applied within the Solar Infrastructure sector. Therefore a variance of +/- 0.5% is considered reasonable.

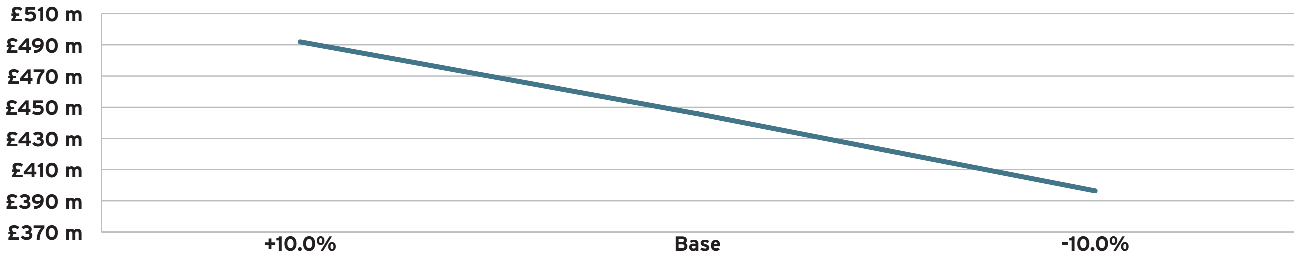
| | -0.50% | -0.25% | Base | +0.25% | +0.50% |
|---|---|---|---|---|---|
| **Directors' valuation (£m)** | 464.4 | 455.0 | **445.8** | 436.9 | 428.2 |
| **NAV per share (pence)** | **108.4** | **105.6** | **102.9** | **100.3** | **97.7** |
| **Change vs Base Case (%)** | 4.19 | 2.06 | **0.00** | (2.00) | (3.93) |




Production

Base case production is a function of a number of separate assumptions including irradiation levels, availability of the sites and technical performance of the equipment. A sensitivity of +/- 10% is considered reasonable given stable levels of irradiation, contractual availability guarantees and understanding of future performance levels of the equipment.

| | +10% | Base | -10% |
|---|---|---|---|
| **Directors' valuation (£)** | 491.9 | **445.8** | 396.4 |
| **NAV per share (pence)** | **116.4** | **102.9** | **88.4** |
| **Change vs Base Case (%)** | 10.35 | **0.00** | (11.08) |



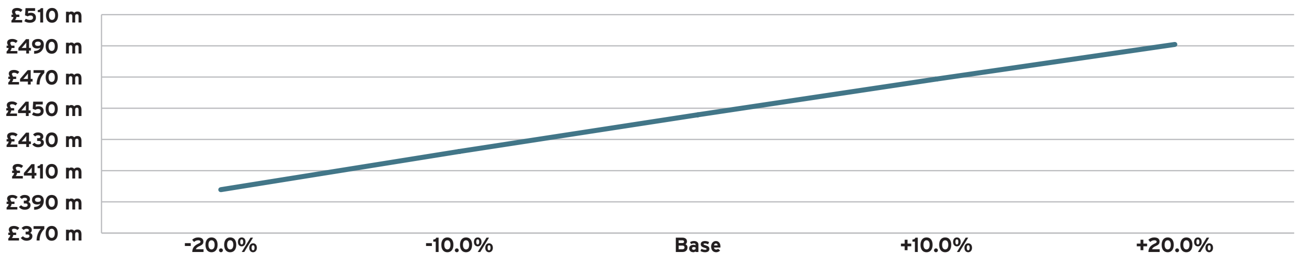
16. **Fair value of the investments in unconsolidated entities (continued)**

**Power Price**

DCF models assume power prices that are consistent with the Power Purchase Agreements ("PPA") currently in place. At the PPA end date, the model reverts to the power price forecast.

The power price forecasts are updated quarterly and based on power price forecasts from leading independent sources. The Investment Manager adjusts where more conservative assumptions are considered appropriate and applies expected PPA sales discounts. The forecast assumes an average annual increase in power prices in real terms of approximately 1.8%.

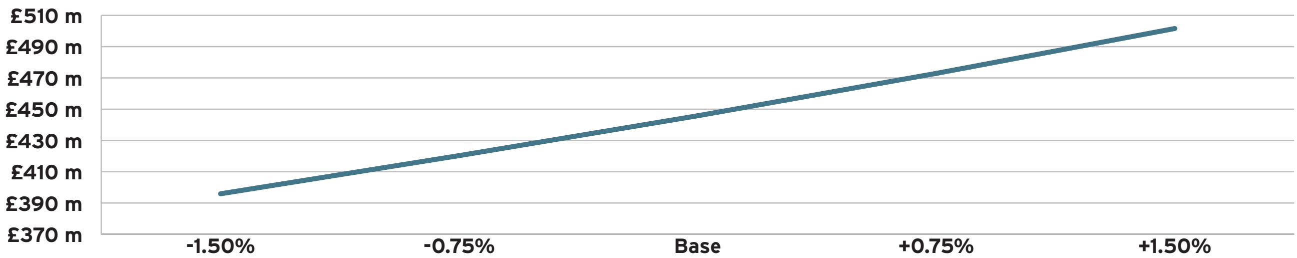
| | -20.0% | -10.0% | Base | +10.0% | +20.0% |
|---|---|---|---|---|---|
| **Directors' valuation (£)** | 397.8 | 422.3 | **445.8** | 468.7 | 490.9 |
| **NAV per share (pence)** | **88.8** | **96.0** | **102.9** | **109.6** | **116.1** |
| **Change vs Base Case (%)** | (10.76) | (5.26) | **0.00** | 5.14 | 10.12 |




**Inflation**

A variable of 1.5% is considered reasonable given historic fluctuations. An inflation rate of 2.25% was used for 2017 and 2.75% for future years.

| | -1.50% | -0.75% | Base | +0.75% | 1.50% |
|---|---|---|---|---|---|
| **Directors' valuation (£)** | 395.9 | 420.3 | **445.8** | 472.9 | 501.6 |
| **NAV per share (pence)** | **88.3** | **95.4** | **102.9** | **110.8** | **119.3** |
| **Change vs Base Case (%)** | (11.18) | (5.71) | **0.00** | 6.09 | 12.53 |

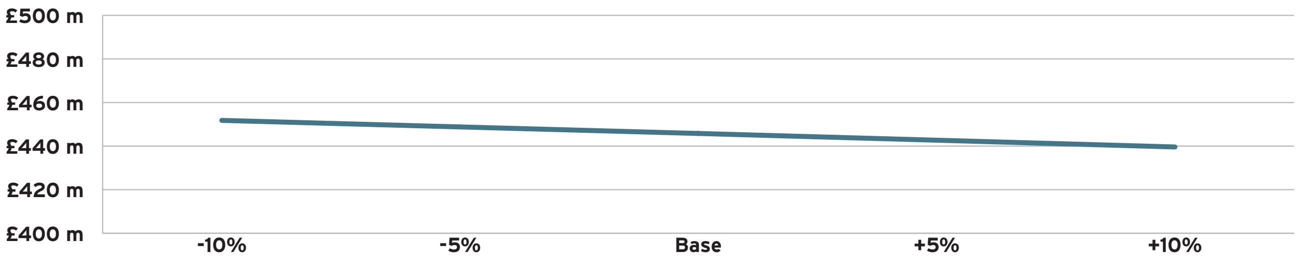


16. **Fair value of the investments in unconsolidated entities (continued)**

**Operating costs (investment level)**

Operating costs include operating and maintenance ("O&M"), insurance and lease costs. Other costs are fixed and are therefore not considered to be sensitive to changes in unobservable inputs. Base case costs are based on current commercial agreements. We would not expect these costs to fluctuate widely over the life of the assets and are comfortable that the base case is prudent. A variance of +/- 5.0% is considered reasonable, a variable of 10.0% is shown for information purposes.

| | -10.00% | -5.00% | Base | +5.00% | +10.00% |
|---|---|---|---|---|---|
| **Directors' valuation (£m)** | 451.8 | 448.8 | **445.8** | 442.7 | 439.6 |
| **NAV per share (pence)** | **104.7** | **103.8** | **102.9** | **102.0** | **101.1** |
| **Change vs Base Case (%)** | 1.36 | 0.68 | **0.00** | (0.69) | (1.38) |




17. **Stated Capital**

The stated capital of the Company consists solely of Ordinary Shares of nil par value and therefore the value of the stated capital relates only to share premium. At any General Meeting of the Company each Shareholder will have, on a show of hands, one vote and on a poll one vote in respect of each Ordinary Share held. Stated capital is the net proceeds received from the issue of Ordinary Shares (net of issue costs capitalised).

**Ordinary Shares**

| | **31 December 2016 Shares** | 31 December 2015 (Restated) Shares |
|---|---|---|
| Opening balance | **281,803,232** | 208,000,000 |
| Issued during the period | **59,147,680** | 101,955,375 |
| Repurchased and held in Treasury | **-** | (28,152,143) |
| Closing balance | **340,950,912** | 281,803,232 |

| | **31 December 2016 £'000** | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Opening balance | **279,403** | 206,226 |
| Proceeds from share issue | **60,781** | 74,784 |
| Less: issue costs capitalised | **(1,181)** | (1,607) |
| Closing balance | **339,003** | 279,403 |

18. **NAV per Ordinary Share**

The Net Asset Value ("NAV") per redeemable Ordinary Share for the Company is based on the Net Asset Value at the reporting date of £350,769,981 (2015 restated: £279,106,101) and on 340,950,912 (2015 restated: 281,803,232) redeemable Ordinary Shares, being the number of Ordinary Shares in issue at the end of the period.

19. **Financial instruments and risk profile**

The Company holds cash and liquid resources as well as having receivables and payables that arise directly from its operations. The underlying investments of the Company's investment activities indirectly expose it to various types of riks associated with solar power. The main risks arising from the Company's financial instruments are market risk, liquidity risk, credit risk and interest rate risk. The Directors regulatory review and agree policies for managing each of these risks and these are summarised below:

19.1 Market risk

(a) Foreign exchange risk

Foreign currency risk, as defined in IFRS 7, arises as the values of recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. As the Company operates only within the United Kingdom and Jersey, the Directors have concluded that the Company is not exposed to foreign exchange risk.

(b) Price risk

The Company's investments are susceptible to market price risk arising from uncertainties about future values of the instruments. The Company's Investment Manager provides the Company with investment recommendations. The Company's Investment Manager's recommendations are reviewed and approved by the Investment Manager before the investment decisions are implemented. To manage the market price risk, the Company's Investment Manager reviews the performance of the investments on a regular basis and is in regular contact with the management of the non current investments for business and operational matters.

Price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. At 31 December 2016, the Company's only investment was valued at net assets excluding the outstanding loans issued by the Company. Were this value to increase by 10%, the increase in net assets attributable to Shareholders for the year would have been £27,361,400. The impact of changes in unobservable inputs to the underlying investments is considered in note 16.

19.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due as a result of the maturity of assets and liabilities not matching. An unmatched position potentially enhances profitability, but can also increase the risk of losses. Liquidity could be impaired by an inability to access secured and/or unsecured sources of financing to meet financial commitments. The Board monitors the Company's liquidity requirements to ensure there is sufficient cash to meet the Company's operating needs.

31 December 2016

| | **Carrying amount £'000** | **Contractual Total £'000** | **Less than 6 months £'000** | **6 to 12 Months £'000** | **Greater than 12 months £'000** |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Investments | 273,614 | 273,614 | - | - | 273,614 |
| Trade and other Receivables | 4,847 | 4,847 | 4,847 | - | - |
| Interest receivable | 33,044 | 33,044 | 33,044 | - | - |
| Cash and cash equivalents | 39,381 | 39,381 | 39,381 | - | - |
| **Total Financial assets** | **350,886** | **350,886** | **77,272** | **-** | **273,614** |
| Trade and other payables | (116) | (116) | (116) | - | - |
| **Total financial liabilities** | (116) | (116) | (116) | - | - |
| **Net position** | **350,770** | **350,770** | **77,156** | **-** | **273,614** |

31 December 2015 (Restated)

| | Carrying amount £'000 | Contractual Total £'000 | Less than 6 months £'000 | 6 to 12 Months £'000 | Greater than 12 months £'000 |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Investments | 249,660 | 249,660 | - | - | 249,660 |
| Trade and other Receivables | 12,141 | 12,141 | 12,141 | - | - |
| Interest receivable | 4,646 | 4,646 | 4,646 | - | - |
| Cash and cash equivalents | 12,924 | 12,924 | 12,924 | - | - |
| **Total Financial assets** | **279,371** | **279,371** | **29,711** | **-** | **249,660** |
| **Financial Liabilities** | | | | | |
| Trade and other payables | (276) | (276) | (276) | - | - |
| **Total financial liabilities** | (276) | (276) | (276) | - | - |
| **Net position** | 279,095 | 279,095 | 29,435 | - | 249,660 |

19. Financial instruments and risk profile (continued)

19.3 Credit risk

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

The Company places cash with authorised deposit takers and is therefore potentially at risk from the failure of such institutions.

In respect of credit risk arising from other financial assets and liabilities, which mainly comprise of cash and cash equivalents, exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. In order to mitigate such risks, cash is maintained with major international financial institutions. During the year and at the reporting date, the Company maintained relationships with the following financial institutions:

| | Moody's Credit Rating | 31 December 2016 £'000 |
|---|---|---|
| Cash in hand: | | |
| Royal Bank of Scotland International Limited | **P2** | **327** |
| Lloyds Bank International Limited | **P1** | **18,684** |
| Santander UK plc | **P1** | **20,370** |
| **Total Group cash and cash equivalents and total cash in hand** | | **39,381** |
| **Total Group cash balances held by banks** | | **39,381** |

| | Moody's Credit Rating | 31 December 2015 (Restated) £'000 |
|---|---|---|
| Cash in hand: | | |
| Royal Bank of Scotland International Limited | P2 | 12,923 |
| Lloyds Bank International Limited | P1 | 1 |
| **Total Group cash and cash equivalents and total cash in hand** | | 12,924 |
| **Total Group cash balances held by banks** | | 12,924 |

19.4 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 exposure to the risk of changes in market interest rates relates primarily to the Company's long-term borrowing to its subsidiary. At year end the Company had no long term borrowings with third parties (2015 restated: Nil).

| | Total portfolio 31 December 2016 £'000 | Weighted average interest rate 31 December 2016 % | Weighted average time for which rate is fixed 31 December 2016 Days |
|---|---|---|---|
| Loan notes | **250,000** | **10.93%** | **780** |
| Shareholder loans | **23,910** | **9.00%** | **1,287** |
| Cash | **39,381** | **-** | **-** |
| | **313,291** | | |

## 19. Financial instruments and risk profile (continued)

| | Total portfolio 31 December 2015 (Restated) £'000 | Weighted average interest rate 31 December 2016 (Restated) % | Weighted average time for which rate is fixed 31 December 2016 (Restated) Days |
|---|---|---|---|
| Loan notes | 216,000 | 9.99% | 678 |
| Shareholder loans | 38,730 | 9.00% | 921 |
| Cash | 12,924 | | |
| | 267,654 | | |

### 19.5 Other risks

**Political and economic risk**

The value of Ordinary Shares may be affected by uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation or interest rates, currency repatriation and other political and economic developments in law or regulations and, in particular, the risk of expropriation, nationalisation, and confiscation of assets and changes in legislation relating to the level of foreign ownership.

Governmental authorities at all levels are actively involved in the promulgation and enforcement of regulations relating to taxation, land use and zoning and planning restrictions, environmental protection, safety and other matters. The introduction and enforcement of such regulations could have the effect of increasing the expense and lowering the income or rate of return from, as well as adversely affecting the value of, the Company's assets.

## 20. Capital Management

The Company's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares (up to its authorised number of shares) or sell assets to reduce debt.

## 21. Dividends

Dividends paid during the year comprise an interim dividend in respect of the prior year from 1 October 2015 to 31 December 2015 of £4,311,589 (1.53 pence per Ordinary Share) and interim dividends in respect of quarter 1 (1 January 2016 to 31 March 2016) of £4,339,770 (1.54 pence per Ordinary Share), quarter 2 (1 April 2016 to 30 June 2016) of £4,773,313 (1.54 pence per Ordinary Share) and quarter 3 (1 July 2016 to 30 September 2016) of £5,250,644 (1.54 pence per Ordinary Share) respectively.

## 22. Related party disclosures

For the purposes of these Financial Statements, a related party is an entity or entities who are able to exercise significant influence directly or indirectly on the Company's operations.

As noted in Note 2, the Company does not consolidate its subsidiary. However, the Company and its subsidiaries (direct and indirect) are a Group and therefore, are considered to be related parties.

During the year the Company acquired an additional £34,000,000 in Loan Notes from UK Hold Co (2015: £71,000,000), bringing the total issued by UK Hold Co up to £250,000,000 (2015: £216,000,000), on which interest of £27,314,252 was receivable for the year (2015: £21,578,249). As at the reporting date interest of £27,314,252 was receivable (2015: £1,050,940).

As at the reporting date, the Company has a Shareholders loan receivable from UK Hold Co totalling £23,910,000 (2015: £38,729,995). Total interest of £ 2,135,009 was receivable for the year (2015: £3,497,668) all of which was outstanding at reporting date (2015: £3,594,816).

22. **Related party disclosures (continued)**

On 31 March 2016, UK Hold Co transferred all Shareholder loans which formed part of the investment in its subsidiaries , being £343,730,873, to FS Holdco in return for a loan payable by FS Holdco to UK Hold Co of £343,730,873, On 14 April 2016, UK Hold Co's oustanding loan balance with The Royal Bank of Scotland Plc (the "RBS") of £149,503,500 was paid by FS Holdco on behalf of UK Hold Co. On 23 December 2016, FS Holdco increased its loan to UK Hold Co by £34,000,000. The total interest payable for the year was £20,511,723 (2015: Nil).

Up to 31 March 2016, UK Hold Co was entitled to loan interest on the Shareholder loans from the SPVs, totalling £6,837,036, of which nil was outstanding at the reporting date (2015: £2,018,173). Following the transfer on 31 March 2016 to the year end, FS Holdco was entitled to loan interest on the Shareholder loans, from the SPVs, totalling £19,371,585, of which £10,385,755 was outstanding as at the reporting date. During the year, FS Holdco received repayments of Shareholder loans from the SPVs totalling £1,005,000.

All of the SPVs are cash generating solar farms. On occasion revenues may be received or expenses paid on their behalf by UK Hold Co (up to 31 March 2016) and FS Holdco (from 31 March 2016). All of these transactions are related parties. At year end, the following SPVs had amounts payable and receivable to FS Holdco:

| | **31 December 2016 £'000** | 31 December 2015 £'000 |
|---|---|---|
| **Receivable** | | |
| Copley | **116** | - |
| **Payable** | | |
| Atherstone | **-** | 329 |
| Copley | **-** | 2,000 |
| Kencot | **293** | - |
| Membury | **758** | |
| Paddock Wood | **-** | 212 |
| Southam | **-** | 122 |
| Total payable to SPVs | **935** | 2,663 |

During the year under review, UK Hold Co made use of a tax credit of £1,003,322 (2015: £Nil) availed by its subsidiary, FS Holdco, to reduce the tax liability of the Group at the reporting date.

The manager is considered a related party as it provides key management services to the Group. Refer to note 23 for transactions with the manager.

23. **Transactions with the manager**

Foresight Group CI Limited, acting as investment manager to the Group in respect of its investments, earned fees of £3,053,551 during the year (2015 restated: £2,551,085), of which £17,066 was outstanding as at 31 December 2016 (2015 restated: £5,535).

Foresight Group CI Limited charged fees to FS Hold Co of £680,000 (31 December 2015: £Nil) during the year in relation to the arrangement and transaction advice of the long term refinancing of the Group, of which £Nil (31 December 2015: £Nil) was outstanding as at year end.

Foresight Group LLP, a related party of Foresight Group CI, charged asset management fees to the underlying projects of £512,000 during the period (31 December 2015: £368,350).

Brighter Green Engineering, a related party of Foresight Group LLP, charged fees to the underlying projects under both the O&M contracts and EPC defect remedial work of £853,203 during the period (31 December 2015: £19,944)

Pursuant to the terms of the Prospectus, the total launch costs to be borne by the Shareholders of the Company were capped at 2% of the launch proceeds of £150,000,000 (i.e. £3,000,000) with any excess launch costs being reimbursed to the Company from Foresight Group CI Limited. Launch costs to be reimbursed from Foresight Group CI Limited amounted to £213,644 (31 December 2015: £29,671).

**24. Commitments and contingent liabilities**

As at the year end a SPV ultimately owned by the Company had agreed to fund the acquisition of Sandridge Solar Power Limited ("Sandridge") for the value of at least £56.8m. Sandridge is a 49.63 MW capacity solar plant located in Wiltshire. Completion of the acquisition is subject to various conditions being satisfied by the vendor.

The Company had no contingent liabilities.

**25. Controlling party**

In the opinion of the Directors, there is no controlling party as no one party has the ability to direct the financial and operating policies of the Company with a view to gaining economic benefits from its direction.

**26. Post balance sheet events**

On 18 January 2017 the Company acquired an additional £35,200,000, funded using equity proceeds raised during the year, of Loan Notes in UK Hold Co, bringing the total issued by UK Hold Co up to £285,200,000. This £35,200,000 was utilised in the acquisition of Atem Solar Limited (Shotwick Solar) on 2 February 2017 by FS Holdco 2, a direct subsidiary of UK Hold Co.

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Foresight group

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