# Trading Emissions PLC

# Report and Financial Statements

# for the year ended 30 June 2016

# Trading Emissions PLC

## Contents

# Trading Emissions PLC

## Company Information

| | |
|---|---|
| **Directors** | Martin Adams (Chairman)<br>Neil Duggan<br>Mark Lerdal<br>Philip Scales |
| **Secretary** | Philip Scales |
| **Administrator, Registrar and Registered Office** | FIM Capital Limited<br>IOMA House<br>Hope Street<br>Douglas<br>Isle of Man<br>IM1 1AP |
| **Nominated Adviser** | Liberum Capital Limited<br>Ropemaker Place<br>Level 12<br>25 Ropemaker Street<br>London<br>EC2Y 9LY |
| **Crest Provider** | Computershare Investor Services<br>(Channel Island) Limited<br>Queensway House<br>Hilgrove Street<br>St Helier<br>Jersey<br>JE4 9XY |
| **Independent Auditor to the Company** | KPMG Audit LLC<br>Heritage Court<br>41 Athol Street<br>Douglas<br>Isle of Man<br>IM99 1HN |

# Trading Emissions PLC

# Chairman's Statement

Dear Shareholder

The process continues of winding down the various businesses of Trading Emissions PLC ("TEP" or the "Company"). We restructured the sale terms of our Polish wind project in January and settled the remainder of the ERPA-related litigation with one of our Chinese counterparties in March, which allowed us to effect a distribution to Shareholders of £12.5 million, equivalent to 5.0 pence per Share, in April. Since the end of the financial year, we have announced the sale of a portion of our Italian solar portfolio.

At the end of the financial year, the Company's key remaining investments were our interests in TEP (Solar Holdings) Limited ("TEP Solar") and TEP (Renewables Holding) Limited ("TEP Renewables").

**Financial Highlights**

*Net Asset Value*

At the end of the financial year on 30 June 2016, the net asset value ("NAV") of the Company was £15.8 million (6.3 pence per Share) compared with £26.3 million (10.5 pence per Share) on 31 December 2015 and £26.6 million (10.6 pence per Share) at 30 June 2015.

*Cash*

At 30 June 2016, TEP held cash of £3.4 million (1.4 pence per Share), or 21.7% of NAV. During the second half of the financial year, the Company's most significant cash movements were the payments of the Shareholder distribution of £12.5 million and £3.7 million in taxes related to the holding in 2015 by Billiter Energy Corporation ("Billiter") in Element Markets. TEP's main sources of cash generated during the second half of the financial year were distributions received from TEP Solar of £1.0 million and from TEP Renewables of £5.0 million.

**Carbon Portfolio**

No Certified Emissions Reductions ("CERs") were delivered to TEP during the last financial year and we continue to terminate outstanding Emissions Reduction Purchase Agreements ("ERPAs") with our Chinese counterparties whenever opportunities arise. 14 ERPAs were terminated, cancelled or otherwise lapsed during the last financial year.

*Valuation*

At 30 June 2016, TEP's small untradeable CER inventory had no value. There were no net liabilities related to CERs and no value was attributed to the remaining ERPAs.

*Arbitrations*

All five of the arbitration processes in respect of the six claims made against TEP by subsidiaries of one of our Chinese counterparties have now concluded or terminated. On 30 June 2016, we reached a final settlement in respect of all of the arbitrations and all six ERPAs were terminated. No financial consideration was paid or received.

During the financial year ended 30 June 2016, TEP incurred tribunal, legal and related expenses in connection with the arbitrations of approximately £0.4 million. In view of the final settlement, we have released the remaining £1.0 million provision for legal and related costs.

## Chairman’s Statement (continued)

**Carbon Portfolio** (continued)

*Future Reporting*

Given the lack of materiality in valuation terms, the Board does not intend to report further to Shareholders on the carbon portfolio unless there is a material development in future. The Board will, however, continue to monitor developments and endeavour to minimise associated costs and liabilities.

**Private Equity Portfolio**

Following the receipt of distributions from the sale of Billiter in the first half of the financial year, we have now settled the remaining liabilities associated with the US federal and state taxes for the year ended 31 December 2015. Of a total tax liability of £3.8 million (compared with an initial estimate of £2.9 million), £3.7 million was paid during the financial year ended 30 June 2016.

The fair value of TEP's remaining Private Equity portfolio at 30 June 2016 was £13.0 million (5.2 pence per Share), equivalent to 82.4% of NAV, compared with £16.1 million (6.4 pence per Share) at 31 December 2015 and £19.5 million (7.8 pence per Share) at 30 June 2015. We continue to hold two key Private Equity investments.

*TEP Solar*

During the financial year, TEP received the equivalent of £1.0 million from TEP Solar, which had, in turn, been distributed by one of its Italian subsidiaries.

We announced in September 2016 the sale by TEP Solar of the entire interest held in two Italian subsidiaries, Etuno Srl and Solar Energy Italia 6 Srl, to Sonnedix. The aggregate net proceeds from the sale of these companies, after allowing for transaction costs, are estimated to be €8.5 million. Completion and receipt of the sales proceeds are subject to various conditions precedent being fulfilled no later than 14 December 2016. Of the payment by Sonnedix at completion, €3.0 million will be deposited in escrow, to be released to TEP Solar as to €1.0 million after one year and the remaining €2.0 million two years after completion. The deferred payments are conditional on no claims having been received pursuant to indemnities provided by TEP Solar customary for this type of transaction.

TEP Solar expects to receive initial net disposal proceeds upon completion of approximately €5.5 million by the end of 2016. Since 30 June 2016, TEP Solar has received a further €1.0 million distribution from an Italian subsidiary. Any cash not required to meet TEP’s Solar’s liabilities and operating costs will be distributed to TEP in due course.

While work continues on fulfilling the conditions precedent to the sale of the two subsidiaries of TEP Solar, we continue to resolve the operating and other issues experienced at TEP Solar’s remaining three subsidiaries in Italy with a view to maximising the value of those companies.

# Chairman's Statement (continued)

**Private Equity Portfolio** (continued)

*TEP Renewables*

Following the sale in mid-2014 of TEP Renewable's equity interest in EWG Slupsk, the developer of one of the largest wind farms in northern Poland, an amendment to the terms of the sales and purchase agreement was signed in early 2016. The amendment triggered the distribution of the initial sales proceeds of €7.0 million (£5.0 million) from TEP Renewables to TEP.

The buyer of the interest in EWG Slupsk is currently facing an increasingly uncertain investment environment for wind projects in Poland.

Although the buyer has no recourse to the initial sales proceeds of €7.0 million already received by TEP Renewables, the balance estimated at between €10.7 million and €13.4 million between 2018 and 2020 is at increased risk. Two laws enacted in Poland in 2016 impact significantly on the viability of the EWG Slupsk project.

The "Investment in Wind Energy" law includes:

- A requirement that the distance between a new wind turbine and any residential property must be at least ten times the total height of the wind turbine. Although our project is grandfathered, none of our project's currently permitted turbine sites would otherwise comply, making any amendment to our permits potentially problematic.
- A prohibition on the "modernisation or repowering" of turbines when the useful life has ended, thereby rendering no residual value to project operators.
- A modification in the calculation of property taxes, which imply a potential increased tax liability of up to five times.

An amendment to the "Renewable Energy Sources" law changed the auction mechanism whereby multiple categories of auctions for the sale of renewable energy have now been introduced. The categorization of wind projects is unclear and the timing of the first energy auctions is uncertain.

The changes and delays to the planning framework and regulatory structure in Poland create significant uncertainty for EWG Slupsk's wind farm project at a time when lease payments to the landowners are due to recommence.

**Distributions**

Since 2013, TEP has distributed to Shareholders a cumulative total of £84.9 million, equivalent to 34.0 pence per Share.

The Board intends to announce a further distribution to Shareholders following receipt by TEP of the net sales proceeds from TEP Solar.

**Outlook**

The timing and quantum of realisation proceeds from TEP's remaining investments is unpredictable. The Board will continue to monitor at each of its quarterly meetings the level of projected operating costs compared with the value of the remaining assets and sales projections.

The Board intends to consult with Shareholders in due course, regarding the options for an orderly and cost effective cessation of the Company's operations.

**Martin M. Adams**
**Chairman**
**25 October 2016**

# Trading Emissions PLC

## Directors' Report

The Directors present their report and the audited Financial Statements of Trading Emissions Plc ("TEP" or the "Company") for the year ended 30 June 2016.

**Principal activities, trading review and future developments**

The Company was incorporated in the Isle of Man as a public limited company on 15 March 2005 for the purpose of investing in environmental and emission assets, companies providing products and services related to the reduction of green-house gas emissions and associated financial products. On 22 December 2011, the Company was re-registered as a company under the Isle of Man Companies Act 2006.

On 13 September 2010, Shareholders amended the Investing Policy such that TEP is committed to realising assets and distributing the net proceeds as soon as practicable to Shareholders, subject to retaining sufficient cash to meet current and future liabilities.

**Results and distributions**

The results for the year ended 30 June 2016 are set out in the Statement of Comprehensive Income on page 12.

A review of the Company's activities is contained in the Chairman's Statement on pages 3 to 5.

The following distribution of 5.0 pence per Share was declared and paid during the financial year:

| Amount (£'000) | Date declared | Date paid |
|---|---|---|
| 12,490 | 24 March 2016 | 29 April 2016 |

The transfers to and from reserves are as set out in the Statement of Changes in Equity on page 14.

Particulars of the authorised and issued share capital are set out in note 16 *Share capital,* to the Financial Statements.

**Directors**

The Directors holding office during the financial year and to date were as follows:

Martin Adams (Chairman)
Neil Duggan
Mark Lerdal
Philip Scales

No Director holding office at 30 June 2016 or 30 June 2015 respectively had any interest in the Shares of the Company.

**Company Secretary**

The Company Secretary holding office throughout the financial year and to date was Philip Scales.

**Auditor**

KPMG Audit LLC, being eligible, has expressed its willingness to continue in office.

# Trading Emissions PLC

## Directors' Report (continued)

**Subsequent Events**

For a summary of significant events occurring subsequent to 30 June 2016, please refer to note 22 *Subsequent Events*, of the Financial Statements.

**By Order of the Board**

**Philip Scales**
**Company Secretary**
**25 October 2016**

# Trading Emissions PLC

## Statement of Directors' Responsibilities in Respect of the Directors’ Report and Financial Statements

The Directors are responsible for preparing the Directors’ Report and the Financial Statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU.

The Financial Statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU; 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 proper 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. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

By Order of the Board

**Philip Scales**
**Company Secretary**
**25 October 2016**

# Trading Emissions PLC

# Corporate Governance Statement

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice.

The Board communicates frequently and meets at regular intervals, and at these meetings the Directors are responsible for approval of the overall strategy and major developments of the Company. The Board directs the Company's activities through its regular Board meetings and monitors performance through timely and relevant reporting procedures.

The members of the Board, all of whom are non-executive, have met regularly throughout the financial year, as detailed in Table 1 below. Accurate and detailed minutes are taken at each meeting. In addition to formal Board and Committee meetings, Directors also attend a number of informal meetings to represent the Company's interests.

It is the Board's policy that any appointment of new Directors is considered and, if appropriate, approved by the full Board.

The Company Secretary, to whom all Directors have access, attended Board and Committee meetings, and ensured compliance with relevant procedural obligations, as well as being available for the provision of advice to the Company and Directors.

**Table 1 – Directors' meetings**

| Directors' Meetings | Martin Adams | Philip Scales | Neil Duggan | Mark Lerdal |
|---|---|---|---|---|
| 22 July 2015 | x | x | x | x |
| 6 October 2015 | x | x | x | x |
| 20 November 2015 | | x | x | |
| 17 December 2015 | x | x | x | x |
| 19 February 2016 | | x | x | |
| 17 March 2016 | x | x | x | x |
| 30 June 2016 | x | x | x | x |

Of the four non-executive Directors who held office during the financial year, three are considered independent. These are Martin Adams, Neil Duggan and Mark Lerdal. Philip Scales is not considered independent as he is a director and shareholder of FIM Capital Limited ("FIM"). FIM is the Company's administrator.

Each Director shall retire at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company.

Each Director (other than the Chairman and any Director holding an executive office) shall retire at each general meeting following the ninth anniversary of the date on which he was appointed or elected (as the case may be).

The Company maintains Directors' & Officers' insurance.

**Committees of the Board**

The Board operated one committee: the Nomination and Remuneration Committee. The Company Secretary acts as Secretary to the Committee.

**Nomination and Remuneration Committee**

The Nomination and Remuneration Committee was established in February 2012 and makes recommendations to the Board, which retains the right of final decision.

**Nomination and Remuneration Committee** (continued)

The Nomination and Remuneration Committee determines and agrees with the Board the framework or broad policy for the remuneration of the Company's non-executive Directors, ensures that the Company's non-executive Directors are provided with appropriate incentives to encourage enhanced performance and attract, motivate and retain non-executive Directors of the high calibre needed to enhance the Company's performance and to reward them for improving Shareholder value.

No Director plays a part in any discussion about his own remuneration.

The Nomination and Remuneration Committee has met as required since its formation. The Chairman of the Nomination and Remuneration Committee is Philip Scales.

The only meeting of the Committee during the financial year was held on 3 May 2016 and was attended by Neil Duggan and Philip Scales.

**Relations with Shareholders**

The Company is committed to good investor communications and seeks to build and maintain good relationships with its Shareholders. The Company values the views of Shareholders and recognises their interests in the Company's strategy and performance.

Meetings are held with Shareholders on a regular basis and briefings are held with institutional fund managers, analysts and other investors, primarily following the announcement of interim and final results, as well as at other times during the financial year, as appropriate.

Care is taken to ensure that any price sensitive information is released to all Shareholders at the same time in accordance with AIM requirements. Separate resolutions on each substantially separate issue, in particular any proposal relating to the Report & Financial Statements, will be made at the Annual General Meeting.

Communication is also provided through the Annual Report, the Interim Report and the investor relations area on the Company's website (www.tradingemissionsplc.com). The Company's website provides information as required by Rule 26 of the AIM Rules in addition to general corporate and investor information. All material public and regulatory announcements are reviewed by the Board and the Company's Nominated Adviser prior to release and publication.

**The Market Abuse Directive**

The Company is committed to compliance with all applicable regulation and has therefore taken steps to implement processes in accordance with the requirements of the Market Abuse Regulation which came into effect on the 3 July 2016 and is applicable to AIM Listed companies. The regulation aims to enhance market integrity and investor protection and replaces the Market Abuse Directive currently in force.

**Philip Scales**
**Director and Company Secretary**
**25 October 2016**

# Report of the Independent Auditors, KPMG Audit LLC, to the members of Trading Emissions PLC

We have audited the Financial Statements of Trading Emissions Plc for the year ended 30 June 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

**Respective responsibilities of Directors and Auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

**Opinion on the Financial Statements**

In our opinion the Financial Statements:
- give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of its profit for the year then ended; and
- have been properly prepared in accordance with IFRSs as adopted by the EU.

**KPMG Audit LLC**
*Chartered Accountants*
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

# Trading Emissions PLC

## Statement of Comprehensive Income

| Note | | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|---|
| 6.4 | Realised gain on disposal of financial assets at fair value through profit or loss – Carbon | **569** | 120 |
| 6.3 | Net change in fair value of financial assets and financial liabilities at fair value through profit or loss - Carbon | **-** | 1,911 |
| 7 | Realised loss on disposal of financial assets at fair value through profit or loss – Private Equity | **(753)** | - |
| 6.3 | Net change in fair value of financial assets and financial liabilities at fair value through profit or loss - Private Equity | **2,368** | (9,109) |
| 8 | Investment services fees | **(194)** | (442) |
| 8 | Administration fees | **(227)** | (227) |
| | Net foreign exchange gains/(losses) | **125** | (163) |
| 19 | Decrease/(increase) in the provision for litigation costs | **1,041** | (1,817) |
| 10 | Other operating expenses | **(1,258)** | (1,569) |
| | **Operating profit/(loss)** | **1,671** | (11,296) |
| | Finance income | **20** | 15 |
| | **Net finance income** | **20** | 15 |
| | **Profit/(loss) before tax** | **1,691** | (11,281) |
| 11 | Taxation | **-** | - |
| | **Profit/(loss) for the year** | **1,691** | (11,281) |
| | **Other comprehensive income for the year** | **-** | - |
| | **Total comprehensive income/(loss)** | **1,691** | (11,281) |
| 15 | **Basic and diluted earnings/(loss) per Share for the year (expressed in pence per Share)** | **0.68** | (4.52) |

The notes on pages 16 to 41 form an integral part of the Financial Statements.

# Trading Emissions PLC

## Statement of Financial Position

| Note | | As at 30 June 2016 £'000 | As at 30 June 2015 £'000 |
|---|---|---|---|
| | **ASSETS** | | |
| 6 | Financial assets at fair value through profit or loss – Private Equity | **12,997** | 19,539 |
| 13 | Trade and other receivables | **47** | 77 |
| 12 | Cash and cash equivalents | **3,426** | 9,821 |
| | **Current assets** | **16,470** | 29,437 |
| | **LIABILITIES** | | |
| 14 | Trade and other payables | **(688)** | (1,455) |
| 19 | Provision for litigation costs | **-** | (1,401) |
| | **Current liabilities** | **(688)** | (2,856) |
| | **Net current assets** | **15,782** | 26,581 |
| | **Net assets** | **15,782** | 26,581 |
| | **EQUITY** | | |
| 16 | Share capital | **2,498** | 2,498 |
| 17 | Share premium | **-** | 301,086 |
| 17 | Capital redemption reserve | **-** | 395 |
| 17 | Distributable reserves | **13,284** | (277,398) |
| | **Total equity** | **15,782** | 26,581 |

The notes on pages 16 to 41 form an integral part of the Financial Statements.

The Financial Statements were approved and authorised for issue by the Board on 25 October 2016 and signed on its behalf by:

**Neil Duggan**
**Director**

**Philip Scales**
**Director**

# Trading Emissions PLC

## Statement of Changes in Equity

**For the year ended 30 June 2016**

| | Share Capital £'000 | Share Premium £'000 | Capital Redemption Reserve £'000 | Distributable reserves £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2015** | **2,498** | **301,086** | **395** | **(277,398)** | **26,581** |
| Profit for the year | **-** | **-** | **-** | **1,691** | **1,691** |
| **Total comprehensive income** | **-** | **-** | **-** | **1,691** | **1,691** |
| **Transactions with Shareholders** | | | | | |
| Distributions | **-** | **(12,490)** | **-** | **-** | **(12,490)** |
| Transfer to distributable reserves | **-** | **(288,596)** | **(395)** | **288,991** | **-** |
| **Total transactions with Shareholders** | **-** | **(301,086)** | **(395)** | **288,991** | **(12,490)** |
| **Balance at 30 June 2016** | **2,498** | **-** | **-** | **13,284** | **15,782** |

**For the year ended 30 June 2015**

| | Share Capital £'000 | Share Premium £'000 | Capital Redemption Reserve £'000 | Distributable reserves £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2014** | 2,498 | 301,086 | 395 | (266,117) | 37,862 |
| Loss for the year | - | - | - | (11,281) | (11,281) |
| **Total comprehensive loss** | - | - | - | (11,281) | (11,281) |
| **Balance at 30 June 2015** | 2,498 | 301,086 | 395 | (277,398) | 26,581 |

The notes on pages 16 to 41 form an integral part of the Financial Statements.

# Trading Emissions PLC

## Statement of Cash Flows

| | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/(loss) for the year | **1,691** | (11,281) |
| *Adjustment for:* | | |
| - realised gain on disposal of financial assets at fair value through profit or loss – Carbon | **(569)** | (120) |
| - realised loss on disposal of financial assets at fair value through profit or loss – Private Equity | **753** | - |
| - net change in financial liabilities at fair value through profit or loss-Carbon | **-** | (1,911) |
| - net change in financial assets at fair value through profit or loss – Private Equity | **(2,368)** | 9,109 |
| - net foreign exchange (gains)/losses | **(125)** | 163 |
| - finance income | **(20)** | (15) |
| - non cash TEP Investment Company expenses/(income) | **47** | (17) |
| *Changes in working capital:* | | |
| - decrease in trade and other receivables | **31** | 164 |
| - decrease in trade and other payables | **(305)** | (361) |
| - (decrease)/increase in provisions | **(1,401)** | 378 |
| **Cash used in operations** | **(2,266)** | (3,891) |
| Interest received | **20** | 15 |
| Additions to Private Equity | **(32)** | (18) |
| Distributions and receipts from Private Equity | **8,145** | 8,603 |
| **Net cash generated in operating activities** | **5,867** | 4,709 |
| | | |
| **Cash flows from financing activities** | | |
| Distributions to Shareholders (note 18, *Distributions paid and declared*) | **(12,490)** | - |
| **Net cash used from financing activities** | **(12,490)** | - |
| **Net (decrease)/increase in cash and cash equivalents** | **(6,623)** | 4,709 |
| Cash and cash equivalents at start of year | **9,821** | 5,029 |
| Currency gains on cash and cash equivalents | **228** | 83 |
| **Cash and cash equivalents at end of year** | **3,426** | 9,821 |

The notes on pages 16 to 41 form an integral part of the Financial Statements.

# Notes to the Financial Statements for the year ended 30 June 2016

## 1 General information

Trading Emissions Plc (the "Company") invests in environmental and emissions assets, companies providing products and services related to the reduction of greenhouse gas emissions and associated financial products. The Investing Policy of the Company was amended on 13 September 2010 to carry out an orderly realisation of the portfolio of Carbon and Private Equity assets, distribute the net proceeds to Shareholders and then undertake a voluntary winding-up of the Company. No new Private Equity investments will be made except where the Board of Directors of the Company (the "Board") considers it necessary to provide follow-on capital to protect an existing investment.

The Company is a closed-ended investment company domiciled in the Isle of Man. The address of its registered office is IOMA House, Hope Street, Douglas, Isle of Man. The Company was incorporated on 15 March 2005 in the Isle of Man as a public limited company and is quoted on the AIM operated and regulated by the London Stock Exchange. In December 2011, the Company was re-registered under the Isle of Man Companies Act 2006.

## 2 Significant accounting policies

The Company has consistently applied the following accounting policies to all years presented in these Financial Statements.

### 2.1 Basis of accounting

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The Financial Statements have been prepared on the historical cost basis, except for Carbon and Private Equity investments, which have been accounted for on a fair value measurement basis.

#### a) New standards and interpretations issued but not effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2015 and earlier application is permitted. The one new standard potentially relevant to the Company is detailed below.

*IFRS 9 Financial Instruments*

The standard replaces *IAS 39 Financial Instruments: Recognition and Measurement*. It includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 will be effective for accounting periods beginning on or after 1 January 2018, subject to EU endorsement. The Company does not plan to adopt this standard early.

Based on initial assessment, this standard is not expected to have a material impact on the Company. This is because the financial instruments currently measured at fair value through profit or loss ("FVTPL") will continue to be measured at FVTPL under IFRS 9 and those currently measured at amortised cost will continue to be measured at amortised cost under IFRS 9.

## 2 Significant accounting policies (continued)

### 2.2 Classification as an investment entity

The Board concluded that the Company meets the essential elements of definition of an investment entity because:

**(a)** The Company obtained funds for the purpose of providing Shareholders with investment management services.
**(b)** The Company's initial Investing Policy, which was communicated directly to Shareholders, is investment solely for returns from capital appreciation and investment income.
**(c)** The performance of investments is measured and evaluated on a fair value basis.

Also the Company has the following typical characteristics of an investment entity:

**(a)** It has more than one investment.
**(b)** It has more than one Shareholder.
**(c)** It has Shareholders that are not related parties of the entity.
**(d)** It has ownership interests in the form of equity or similar interests.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

### 2.4 Foreign currency translation

Transactions in foreign currencies are translated into Pounds Sterling (£) at the exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Pounds Sterling at the exchange rate at the date on which the fair value was determined.

Foreign currency differences arising on translation are recognised in profit or loss as net foreign exchange gains/(losses), except those arising on financial instruments at FVTPL, which are recognised as a component of net gain from financial instruments at FVTPL.

'Functional currency' is the currency of the primary economic environment in which the Company operates. If indicators of the primary economic environment are mixed, then the Board uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Company's ordinary shares are denominated in Pounds Sterling and dividends are paid in Pounds Sterling. Most of the other operating expenses are denominated and paid in Pounds Sterling. Most of the Company's cash is held in Pounds Sterling. Accordingly, the Board has determined that the functional currency of the Company is Pounds Sterling.

### 2.5 Gains from financial instruments at FVTPL

Gains from financial instruments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

## 2 Significant accounting policies (continued)

### 2.5 Gains from financial instruments at FVTPL (continued)

The realised gain from financial instruments at FVTPL represents the difference between the carrying amount of a financial instrument at the beginning of the reporting period, or the transaction price if it was purchased in the current reporting period, and its settlement price.

The unrealised gain represents the difference between the carrying amount of a financial instrument at the beginning of the reporting period, or the transaction price if it was purchased in the current reporting period, and its carrying amount at the end of the reporting period.

### 2.6 Financial assets and financial liabilities

#### (a) Recognition and initial measurement

Financial assets and financial liabilities at FVTPL are initially recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date on which they originated.

Financial assets and liabilities at FVTPL are initially recognised at fair value, with transaction costs recognised in profit or loss.

Financial assets and liabilities not at FVTPL are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

#### (b) Classification

The Company classifies financial assets and liabilities into the following categories.

Financial assets at FVTPL:

- *Designated as at FVTPL:* TEP Investment Companies included in Carbon and Private Equity investments. See note 5, *Financial risk management* for definitions of TEP Investment Companies, Carbon and Private Equity.

Financial assets at amortised cost:

- *Loans and receivables:* cash and cash equivalents and trade and other receivables. Trade and other receivables are classified as current assets if receipt is due within one year or less. If not, they are presented as non-current assets.

Financial liabilities at FVTPL:

- *Held for trading:* financial liabilities which include Certified Emissions Reduction (“CERs”) and Emission Reduction Purchase Agreements (“ERPAs”).

Financial liabilities at amortised cost:

- *Other liabilities:* trade and other payables. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

## 2 Significant accounting policies (continued)

### 2.6 Financial assets and financial liabilities (continued)

### (b) Classification (continued)

The Company designates all debt and equity instruments at FVTPL on initial recognition because it manages these securities on a fair value basis.

A non-derivative financial asset with fixed or determinable payments may be classified as a loan and receivable unless it is quoted in an active market or is an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

### c) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Company measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Company recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

### d) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the principal repayment, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Trade and other receivables and trade and other payables are accounted for at their nominal values due to their short-term duration.

### e) Impairment

A financial asset not classified at FVTPL is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is 'impaired' if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payment status of the borrowers.

## 2 Significant accounting policies (continued)

### 2.6 Financial assets and financial liabilities (continued)

#### e) Impairment (continued)

An impairment in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairments are recognised in profit or loss and deducted from the gross value of the associated assets. Interest on the impaired asset continues to be recognised. If an event occurring after the event was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

#### f) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

#### g) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and it intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

#### h) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and other highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of short-term commitments.

### 2.7 Interest

Interest income, including interest income from non-derivative financial assets at FVTPL, is recognised in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument on initial recognition. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Interest received or receivable, are recognised in profit and loss as interest income.

## 2 Significant accounting policies (continued)

### 2.8 Dividend Income

Dividend income is recognised in profit on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated at FVTPL is recognised in Statement of Comprehensive Income in a separate line item.

### 2.9 Income Tax

Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

Income tax comprises the expected tax payable or receivable on the taxable income or loss for the financial year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

### 2.10 Share Capital

Ordinary shares (“Shares”) are classified as equity. Incremental costs attributable to the issue of new Shares are shown in equity as a deduction from the proceeds.

In the event that any Shares are cancelled the nominal value is debited to the capital redemption reserve. Where such Shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in total equity.

Share premium represents the difference between the original issue price of £1 of the Shares and the par value of 1 penny. Amounts are recorded net of issuance costs.

### 2.11 Provisions

Provisions comprise liabilities of uncertain timing or amount that may arise. Provisions are recognised when there is a present obligation, legal or constructive, as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

## 2 Significant accounting policies (continued)

### 2.12 Contingent assets and liabilities

Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Company. Any such contingent assets and liabilities are explained in the notes to the Financial Statements.

### 2.13 Expenses

Expenses are recognised in profit or loss when the risks and rewards of goods are transferred to the Company or when services are received. Expenses are accounted for on an accruals basis.

### 2.14 Distributions

Distribution payments to Shareholders are recognised as a liability in the Financial Statements in the period in which the distribution is approved by the Board.

## 3 Use of judgements and estimates

In preparing the Financial Statements, the Board has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Changes in estimates are recognised through profit or loss.

### a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following notes:

- Note 2.2, *Classification as an investment entity* - the Company's classification as an Investment Entity;
- Note 2.4*, Foreign currency translation* – determination of functional currency;
- Note 4, *Segment Reporting* – determination of the Company's operating segments;
- Note 6, *Fair value of financial instruments* – determination of significant unobservable inputs into valuation models of Level 3 financial instruments; and
- Note 7, *Realised loss on disposal of financial assets at fair value through profit or loss – Private Equity* – the Company exercises judgement in measuring and recognising provisions and the exposures to the accrual for tax expenses on the sale of Billiter Energy Corporation ("Billiter").

### b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2016 are included in note 6, *Fair value of financial instruments* and relate to the determination of fair value of financial instruments with significant unobservable inputs.

# Notes to the Financial Statements for the year ended 30 June 2016 (continued)

## 4 Segment Reporting

The Board has determined the operating segments based on the reports and financial information provided to it by the administrator, FIM Capital Limited ("FIM"). These reports are used by the Board to make strategic decisions. The Board manages the assets across three segments, being Carbon, Private Equity and Corporate. The reportable segments are made up as follows:

**Carbon**

The Carbon segment comprises Carbon investments, carbon related trade and other payables at the reporting date of £nil (as at 30 June 2015: £498,000), and provision for litigation costs at the reporting date of £nil (as at 30 June 2015: £1,401,000).

**Private Equity**

The Private Equity segment consists of financial assets at FVTPL – Private Equity at the reporting date of £12,997,000 (as at 30 June 2015: £19,539,000) and an accrual for 2015 US taxes and associated advisers' fees to be paid on behalf of Billiter, which has been included in trade and other payables at the reporting date of £148,000 (as at 30 June 2015: £nil). See note 5, *Financial risk management* for the definition of Private Equity investments and note 7, *Realised loss on disposal of financial assets at FVTPL – Private Equity*.

**Corporate**

The Corporate segment comprises all assets and liabilities not otherwise attributable to the Carbon or Private Equity segments and includes cash at the reporting date of £3,426,000 (as at 30 June 2015: £9,821,000).

| **Net Asset Value ("NAV")** | **As at 30 June 2016 £'000** | **As at 30 June 2015 £'000** |
|---|---|---|
| Carbon | **-** | (1,899) |
| Private Equity | **12,849** | 19,539 |
| Corporate | **2,933** | 8,941 |
| **Total NAV** | **15,782** | 26,581 |

| **Total comprehensive profit/(loss)** | **Year ended 30 June 2016 £'000** | **Year ended 30 June 2015 £'000** |
|---|---|---|
| Carbon | **1,899** | 1,446 |
| Private Equity | **5,800** | (9,109) |
| Corporate | **(6,008)** | (3,618) |
| **Total comprehensive profit/(loss)** | **1,691** | (11,281) |

## 5 Financial risk management

The Company has exposure to the following risks from financial instruments:
- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk.

This note presents information about the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Financial instruments held by the Company include Carbon and Private Equity investments. Both Carbon and Private Equity investments include TEP Investment Companies. Definitions of TEP Investment Companies, Carbon and Private Equity investments are given below.

**1. TEP Investment Companies**
"TEP Investment Companies" comprise all companies in which TEP holds an ownership interest greater than 20%.

**2. Carbon**
The Carbon investments or "Carbon" which comprise CERs, ERPAs and TEP Investment Companies, which trade in CERs and hold ERPAs, are as shown below:

| Name of TEP Investment Company | Principal place of business | % ownership interest |
|---|---|---|
| TEP (Carbon Holdings) Limited | Isle of Man | 100.00 |
| TEP (Hydro Holdings) Limited | Isle of Man | 100.00 |

**3. Private Equity**
"Private Equity" comprises all TEP Investment Companies, with the exception of those which trade in CERs and hold ERPAs.

| Name of TEP Investment Company | Principal place of business | % ownership interest |
|---|---|---|
| Billiter Participações Ltda | Brazil | 100.00 |
| Bionasa Combustivel Natural S.A. | Brazil | 25.00 |
| Carbon Capital Markets Limited* | UK | 99.89 |
| Etuno S.r.l | Italy | 100.00 |
| Florasolar S.r.l | Italy | 100.00 |
| Kalimna Investments Limited | British Virgin Islands | 100.00 |
| RGP Puglia 1 S.r.l | Italy | 100.00 |
| Santa Rita Limited Partnership | UK | 97.29 |
| Solar Energy Italia 1 S.r.l | Italy | 100.00 |
| Solar Energy Italia 6 S.r.l | Italy | 100.00 |
| Solar Services Italia S.r.l | Italy | 100.00 |
| Surya PLC | Isle of Man | 100.00 |
| TEP (Renewables Holding) Limited | Ireland | 100.00 |
| TEP (Solar Holdings) Limited | Ireland | 100.00 |
| Trading Emissions Limited* | UK | 100.00 |

*In liquidation

## 5 Financial risk management (continued)

### 5.1 Risk management framework

The Company maintains positions in a variety of Carbon and Private Equity investments. No new Private Equity investments will be made except where the Board considers it necessary to provide follow-on capital to protect an existing investment, in accordance with the Company's Investing Policy.

The Board manages the Company's assets in line with the Investing Policy objective of the orderly realisation of the Carbon and Private Equity investments.

### 5.2 Credit risk

'Credit risk' is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company. It arises principally from cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all element of credit risk exposure (such as counterpart default risk and country risk).

The Company manages credit risk by minimising its exposure to counterparties with perceived higher risk of default. The Company's credit risk is monitored by the Board.

The Company's activities may give rise to settlement risk. Settlement risk is the risk of a loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

The Company's main exposure to credit risk arises in respect of the following:

- Cash and cash equivalents;
- Amounts receivable from TEP Investment Companies.

**Cash and cash equivalents**

The Company's policy is to deposit cash with institutions with a Standard and Poors minimum long term credit rating of BBB+. The following table shows the split between the institutions (or their subsidiaries) that the Company's cash is deposited with:

| | **Credit rating of parent bank at 30 June 2016** | **As at 30 June 2016 £'000** | **As at 30 June 2015 £'000** |
|---|---|---|---|
| Barclays Bank Plc | A- | **489** | 2,167 |
| Royal Bank of Scotland Plc | BBB+ | **2,937** | 7,654 |
| **Total Cash** | | **3,426** | 9,821 |

**Amounts receivable from TEP Investment Companies**

The Company recognises TEP Investment Companies as financial assets designated at FVTPL. Details of the risks associated with TEP Investment Companies are given in this note.

## 5 Financial risk management (continued)

### 5.3 Liquidity risk

'Liquidity risk' is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company tries to ensure that as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation or financial integrity.

The Company's financial assets include Carbon and Private Equity investments, which are generally illiquid. As a result, the Company may not be able to liquidate some of its financial assets in these investments in due time to meet its liquidity requirements.

The Company's liquidity risk is managed on a daily basis by FIM in accordance with policies and procedures in place.

The Company's overall liquidity position is monitored on a quarterly basis by the Board. Cash flow forecasting is performed on a quarterly basis. The forecasting takes into consideration the strategy of the Investing Policy of achieving an orderly realisation of assets and return capital to Shareholders. The Board monitors liquidity requirements to ensure there is sufficient cash to meet the Company's operational needs.

The Company maintains most of its liquid assets in cash and cash equivalents in order to meet its future financial commitments. As at 30 June 2016 the Company held cash and cash equivalents of £3,426,000 (as at 30 June 2015: £9,821,000).

The table below shows the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments.

| **As at 30 June 2016** | **Less than 1 year (£'000)** | **Between 1 and 2 years (£'000)** | **Between 2 and 5 years (£'000)** | **Over 5 years (£'000)** | **Total (£'000)** |
|---|---|---|---|---|---|
| Trade and other payables | **(653)** | **-** | **(35)** | **-** | **(688)** |
| **Total** | **(653)** | **-** | **(35)** | **-** | **(688)** |

| **As at 30 June 2015** | **Less than 1 year (£'000)** | **Between 1 and 2 years (£'000)** | **Between 2 and 5 years (£'000)** | **Over 5 years (£'000)** | **Total (£'000)** |
|---|---|---|---|---|---|
| Trade and other payables | (1,455) | - | - | - | (1,455) |
| **Total** | (1,455) | - | - | - | (1,455) |

The tables above show the undiscounted cash flows of the Company's financial liabilities on the basis of their earliest possible contractual maturities. The Company's expected cash flows on these instruments do not vary significantly from this analysis.

## 5 Financial risk management (continued)

### 5.4 Market risk

'Market risk' is the risk that changes in market prices – such as interest rates, foreign exchange rates, equity prices and credit spreads – will affect the Company's income or fair value of its holding of financial instruments.

The Company's strategy for the management of market risk is driven by the Company's Investing Policy.

The Company's market risk is managed by the Board in accordance with policies and procedures in place. The Company's market positions are monitored by the Board.

**(a) Interest rate risk**

The Company is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Company's interest-bearing financial instruments, the Company's policy is to transact in financial instruments that mature or re-price in the short-term – i.e. no longer than 3 months. Accordingly, the Company is subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in prevailing levels of market interest rates.

Internal procedures require FIM to manage interest rate risk on a quarterly basis in accordance with the policies and procedures in place. The Company's interest rate risk is monitored on a quarterly basis by the Board. If the interest rate risk is not in accordance with the Investing Policy and guidelines of the Company, then FIM is required to rebalance the portfolio.

The sensitivity analysis reflects how net assets would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. The Board has determined that a fluctuation in interest rates of 5 basis points is reasonably possible, considering the economic environment in which the Company operates.

The Company's main exposure to interest rate risk arises in respect of the Cash and cash equivalents.

During the financial year interest income was received on cash and deposits with financial institutions of £20,000 (year ended 30 June 2015: £15,000). If during the financial year interest rates on average had increased/decreased by 5 basis points with all other variables held constant, the total comprehensive profit/(loss) for the financial year would decrease/increase by £5,000 (year ended 30 June 2015: £3,000).

**(b) Currency risk**

The Company invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in US Dollars ($) and Euros (€). Consequently, the Company is exposed to risk that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of the Company's financial assets or financial liabilities denominated in currencies other than Pounds Sterling.

The Company's currency risk is managed on a daily basis by FIM in accordance with the policies and procedures in place. The Company's currency positions and exposures are monitored on a quarterly basis by the Board.

## 5 Financial risk management (continued)

### 5.4 Market risk (continued)

### (b) Currency risk (continued)

The Company's main exposure to currency risk arises in respect of the following:

- Cash and cash equivalents;
- Carbon investments; and
- Private Equity investments.

**Cash and cash equivalents**

Significant cash balances are held denominated in Pounds Sterling, US Dollars and Euros. For cash held in US Dollars at 30 June 2016 a 10% strengthening of Pounds Sterling against the US Dollar would result in a £5,000 decrease in cash and cash equivalents (year ended 30 June 2015: £167,000). For cash held in Euros at 30 June 2016 a 10% strengthening of Pounds Sterling against the Euro exchange rate would result in a £21,000 decrease in cash and cash equivalents (year ended 30 June 2015: £33,000).

**Carbon investments**

The Company has commitments to purchase CERs under its ERPAs, which are denominated in Euros. No foreign currency hedging is carried out.

**Private Equity investments**

TEP Investment Companies included in Private Equity investments hold net assets that are exposed to currency risk. Currency exposure arising from the net assets of TEP Investment Companies is monitored by the Board.

At the reporting date, the carrying amount of the Company's net financial assets and net financial liabilities held in individual currencies, expressed in Pounds Sterling were as follows:

| | **As at 30 June 2016 £'000** | **As at 30 June 2015 £'000** |
|---|---|---|
| Pounds Sterling | **2,837** | 7,592 |
| US Dollars | **(134)** | 4,188 |
| Euros | **13,093** | 16,604 |
| Other | **(14)** | (1,803) |
| **Net assets** | **15,782** | 26,581 |

## 5 Financial risk management (continued)

### 5.4 Market risk (continued)

#### (c) Other price risk

'Other price risk' is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those rising from interest rate risk or currency risk), whether caused by factors specific to an individual instrument or its issuer or factors affecting all instruments in the traded market.

Price risk is managed by the Board in accordance with the Company's Investing Policy of the orderly realisation of investments. Agreements entered into with third parties for the sale of Carbon or Private Equity investments are negotiated by the Board in order to minimise other price risk.

The Company is exposed to other price risk in respect of:

- Carbon investments; and
- Private Equity investments.

The valuation of financial assets and liabilities are detailed further in note 6, *Fair value of financial instruments*.

**Carbon investments**

At the reporting date the CERs held by the Company were no longer eligible for trading and therefore were valued at £nil (as at 30 June 2015: £nil).

### 5.5 Operational risk

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with processes, technology and infrastructure supporting the Company's activities with financial instruments, either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements.

The Company's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation with achieving its Investing Policy objective of the orderly realisation of financial instruments and generating returns to Shareholders.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board. The responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers, in the following areas:

- Documentation of controls and procedures;
- requirements for:
    - -appropriate segregation of duties between various functions, roles and responsibilities;
    - -reconciliation and monitoring of transactions;
- compliance with regulatory and other requirements;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

The Board's assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions with the service providers.

## 5 Financial risk management (continued)

### 5.6 Capital risk management

Capital is defined as total equity. The objectives in managing capital are to safeguard the Company'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 distributions paid to Shareholders or return capital to Shareholders. The Board manages the capital structure and the return of capital to Shareholders. The Company is not subject to externally imposed regulatory capital requirements.

The Company's cash balance as at 30 June 2016 was £3,426,000 (30 June 2015: £9,821,000). On 24 March 2016 the Company announced a distribution to Shareholders of 5.0 pence per Share, equivalent to £12,490,000 in total. The distribution was financed from the share premium account and paid on 29 April 2016.

## 6 Fair value of financial instruments

### 6.1 Valuation models

The fair values of financial assets and financial liabilities that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for an identical instrument. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

*Level 1*: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

*Level 2*: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

*Level 3*: Inputs are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have an effect on the instrument's valuation. This category includes instruments that are valued based on quoted market prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

A market is regarded as active if quoted prices are readily and regularly available from an exchange. The quoted market price used for assets held is the last traded price at the date of valuation.

## 6 Fair value of financial instruments (continued)

### 6.1 Valuation models (continued)

The categorisation of a financial asset or liability within the hierarchy is based upon the pricing transparency of the asset or liability and does not necessarily correspond to the perceived risk. A financial assets or liabilities level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgement by the Board.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Company uses widely recognised valuation models for determining the fair value of common and simple financial instruments. The availability of observable market prices and model inputs reduces the need for the Board’s judgement and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial market.

For more complex instruments, the Company uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant input into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of the Board’s judgement and estimation and are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty defaults and prepayments and selection of appropriate discount rates.

Valuation estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent the Board believes that a third party market participant would take them into account in a pricing transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate.

Models and values are calibrated against historical data and published forecasts and, when possible, against current or recent observed transactions. This calibration process is inherently subjective and yields ranges of possible inputs and estimates of fair value, and the Board’s judgement is required to select the most appropriate point in the range.

### 6 Fair value of financial instruments (continued)

#### 6.1 Valuation models (continued)

The Company has established a control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function which reports to the Board, who have overall responsibility for fair value measurements. Specific controls include:

- verification of observable pricing inputs;
- re-performance of model valuations;
- a review and approval process for new models and changes to such models; and
- review of unobservable inputs and valuation adjustments.

When third party information, such as discounted cash flow models, is used to measure fair value, then the portfolio valuation function assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of IFRS. This includes

- understanding how the fair value is arrived at and the extent to which it represents actual market transactions; and
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

#### 6.2 Fair value hierarchy – Financial instruments measured at fair value

The financial instruments included within Level 1 are CERs with a fair value at the reporting date of £nil (as at 30 June 2015: £nil).

The Company holds no Level 2 financial instruments.

The financial instruments included within Level 3 are Carbon and Private Equity investments.

There were no transfers of financial assets or liabilities between levels during the year ended 30 June 2016 (year ended 30 June 2015: no transfers).

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

| **As at 30 June 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial assets** | | | | |
| Financial assets at FVTPL – Private Equity | - | - | **12,997** | **12,997** |
| **Total financial assets** | - | - | **12,997** | **12,997** |

| **As at 30 June 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial assets** | | | | |
| Financial assets at FVTPL– Private Equity | - | - | **19,539** | **19,539** |
| **Total financial assets** | - | - | **19,539** | **19,539** |

## 6 Fair value of financial instruments (continued)

### 6.3 Significant unobservable inputs used in measuring fair value

The table below sets outs the information about significant unobservable inputs used at 30 June 2016 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

**Fair value of financial assets at FVTPL – Private Equity:**

| As at 30 June 2016 £'000 | As at 30 June 2015 £'000 | Significant unobservable Inputs | Valuation techniques |
|---|---|---|---|
| **12,997** | 19,539 | Risk-adjusted discount rates that take into account specific performance factors of the investment.<br><br>Actual transaction terms<br><br>Proposed transaction terms<br><br>Expected offer terms<br><br>Forecast cash-flows<br><br>Estimated recovery value | Discounted cash flows<br><br>Cost approach |

Significant unobservable inputs are developed as follows:

Risk-adjusted discount rates represent the rates used to discount forecasted cash flows and estimated recovery values for investments to their present values as part of the calculation of fair value for the investment. The Board uses its judgement to determine a rate that reflects the illiquidity, currency risk and credit risk of counterparties for each specific instrument.

Actual transaction terms include binding agreements from third parties for the purchase of Private Equity.

Proposed transaction terms include non-binding offers received from third parties for the purchase of Private Equity and/or Carbon investments, which form the basis of current negotiations.

Expected offer terms are based on the terms of executed sales.

Forecast cash flows: cash flows are forecast by the Company and management of TEP Investment Companies by considering possible operational scenarios and transaction terms, the amount to be paid or received under each scenario and the probability of each scenario.

Estimated recovery value: estimated recovery value is the amount estimated by the Board to be realised on an investment in a disposal or liquidation scenario.

## 6 Fair value of financial instruments (continued)

### 6.3 Significant unobservable inputs used in measuring fair value (continued)

**Level 3 reconciliation:**

The table below presents the changes in Level 3 financial instruments for the year ended 30 June 2016 and 30 June 2015. There have been no transfers between levels during either year.

**Financial assets at FVTPL**

| Carbon | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|
| Opening balance | - | 31 |
| Net change in fair value | - | (31) |
| **Closing balance** | - | - |

| Private Equity | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|
| Opening balance | 19,539 | 37,236 |
| Net decrease in amounts receivable from TEP Investment Companies | (8,910) | (8,588) |
| Net change in fair value | 2,368 | (9,109) |
| **Closing balance** | 12,997 | 19,539 |

**Financial liabilities at FVTPL**

| Carbon | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|
| Opening balance | - | 1,942 |
| Net change in fair value | - | (1,942) |
| **Closing balance** | - | - |

### 6.4 Realised gain on disposal of financial assets at FVTPL – Carbon

During the financial year a gain of £566,000 was recognised in relation to the write-off of CER creditors. The creditors were for CER inventory delivered to the Company between 2013 and 2015, but not invoiced for. The Company remains liable to pay for the gross proceeds from the sale of the CERs if they are invoiced, under the terms of the relevant ERPAs, the Company but has the right to offset CER issue costs, which are expected to exceed the sales proceeds. During the year ended 30 June 2016 all ERPAs related to these creditors were terminated and at 30 June 2016 the Company is no longer liable for any CER costs that have not been invoiced.

During the financial year the Company negotiated an off-market sale of its only remaining illiquid but technically tradeable CER inventory of £3,000 (year-ended 30 June 2015: £120,000).

## 6 Fair value of financial instruments (continued)

### 6.5 Sensitivity of fair value measurement to changes in unobservable inputs

Although the Board believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on net assets. The most significant unobservable input in each valuation is the risk-adjusted discount rate used. If the discount rates used were increased this would have an unfavourable impact on the value of Private Equity. The Board has determined that it would be reasonably possible for the risk-adjusted discount rate of each valuation model to be increased or decreased by an arbitrary 5 per cent, the effects are shown in the table below.

| **Private Equity** | **Year ended 30 June 2016 £'000** | **Year ended 30 June 2015 £'000** |
|---|---|---|
| Favourable | **646** | 1,188 |
| (Unfavourable) | **(577)** | (995) |

### 6.6 Financial instruments not measured at fair value

Financial assets not measured at fair value include cash and cash equivalents and trade and other receivables. These are short-term financial assets whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

## 7 Realised loss on disposal of financial assets at FVTPL – Private Equity

On 20 November 2015 the Company entered into a Membership Interest Purchase Agreement ("MIPA") with RASCHWA LLC for the sale of TEP Investment Company Billiter, that owned 51.2% of Element Markets LLC ("Element Markets"), which completed on 31 December 2015. Under the terms of the MIPA, the Company is liable for all of Billiter's income tax up to the date of sale. During the year ended 30 June 2016 net cash receipts in relation to Billiter of £2,190,000 ($3,217,000) were received by the Company, after payments on account for Billiter's 2014 and 2015 US Federal and State taxes, in accordance with the terms of the MIPA. As at 30 June 2016 an accrual has been included in the Company's trade and other payables for Billiter's outstanding estimated 2015 US Federal and State taxes and for related advisers' fees of £148,000 ($197,000). The realised loss on disposal of the investment was £753,000 ($1,110,000).

## 8 Investment Services and Administration fees

**Investment Services fees**

Under a Services Agreement, EEA Fund Management Limited ("EEA") received a monthly fee of £23,700. Investment services fees for the year ended 30 June 2016 were £194,000 (for the year ended 30 June 2015: £442,000).

The Services Agreement was terminated effective 5 March 2016, following which no monthly fees are payable. EEA continues to be entitled to receive an equity transaction fee in relation to a disposal made of an investment that was previously held by a TEP Investment Company.

## 8 Investment Services and Administration fees (continued)

**Administration fees**

The Company appointed FIM, a fund administration and investment management company incorporated in the Isle of Man, to provide administration and secretarial services including financial accounting and company secretarial services to the Company. Under the Administration and Secretarial Agreement, FIM receives an administration fee of £212,000 per annum. Administration fees paid to FIM for the year ended 30 June 2016 were £227,000 (year ended 30 June 2015: £227,000). In addition to the annual fee, FIM was paid £15,000 for work performed in relation to the Carbon investments arbitrations that came to an end during the financial year, and for work performed in relation to the Carbon investments. The Administration and Secretarial Agreement can be terminated by the Company with 6 months' notice.

## 9 Directors' fees

The Company paid the following fees to Directors during the financial year:

| | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|
| Martin Adams | **60** | 60 |
| Neil Duggan* | **45** | 60 |
| Mark Lerdal | **40** | 40 |
| Philip Scales* | **5** | 5 |
| Christopher Agar | **-** | 19 |
| Norman Crighton | **-** | 17 |
| **Total Directors' fees** | **150** | 201 |

* Isle of Man resident

The annual non-executive Directors' fees (excluding any additional fees) are currently £60,000 for the Chairman and £40,000 for the other non-executive Directors other than for Philip Scales who receives an annual fee of £5,000. The Directors are also reimbursed for travel and out of pocket expenses incurred. Directors' fees included an additional annual fee of £20,000 payable to the Chairman of the Audit Committee Neil Duggan until 30 September 2015.

The Company operates a Directors' Incentive Plan ("DIP") which entitles participating Directors to 2% of distributions made to Shareholders.

During the financial year DIP payments of £187,000 were made to Directors and £63,000 was accrued in relation to the £12,490,000 distribution declared on 24 March 2016 (year ended 30 June 2015: DIP payments of £nil accruals of £nil).

As at 30 June 2016 £165,000, was retained from previous DIP payments in line with the terms of the DIP and will be paid to the Participating Directors at a later date (as at 30 June 2015: Retained DIP amount payable at a later date was £103,000).

Other than as detailed above, none of the Directors is entitled to any cash or non-cash benefits in kind, pensions, bonus or share scheme arrangements.

## 10 Other operating expenses

| | Year ended 30 June 2016 £'000 | Year ended 30 June 2015 £'000 |
|---|---|---|
| Administration expenses - TEP Investment Companies | **170** | 263 |
| Legal and professional fees | **364** | 431 |
| Directors' fees (see note 9, *Directors' fees*) | **150** | 201 |
| D&O insurance | **30** | 30 |
| Directors' Incentive Plan (see note 9, *Directors' fees*) | **250** | - |
| Audit and other assurance fees* | **85** | 105 |
| Other expenses | **209** | 539 |
| **Total other operating expenses** | **1,258** | 1,569 |

* Audit and other assurance fees for the financial year includes £22,000 (year ended 30 June 2015: £26,000) in relation to the 31 December 2015 interim audit and Group reporting services provided to the Company.

## 11 Taxation

During the financial year and under the current system of taxation in the Isle of Man, the Company is subject to income tax at a rate of 0% (year ended 30 June 2015: 0%).

## 12 Cash and cash equivalents

| | As at 30 June 2016 £'000 | As at 30 June 2015 £'000 |
|---|---|---|
| Short term fixed deposits | **-** | 6,154 |
| Current accounts with banks | **3,426** | 3,667 |
| **Total cash and cash equivalents** | **3,426** | 9,821 |

## 13 Trade and other receivables

| | As at 30 June 2016 £'000 | As at 30 June 2015 £'000 |
|---|---|---|
| Trade receivables | **16** | 46 |
| Prepayments | **31** | 31 |
| **Total trade and other receivables** | **47** | 77 |

## 14 Trade and other payables

| | As at 30 June 2016 £'000 | As at 30 June 2015 £'000 |
|---|---|---|
| Accrued expenses | **242** | 266 |
| Trade payables | **446** | 1,189 |
| **Total trade and other payables** | **688** | 1,455 |

# Notes to the Financial Statements for the year ended 30 June 2016 (continued)

## 15 NAV per Share and earnings/(loss) per Share

The NAV per Share is calculated by dividing the net assets attributable to the Shareholders by the number of Shares in issue at as 30 June 2016 and 30 June 2015 respectively.

### 15.1 NAV per Share

| | As at 30 June 2016 | As at 30 June 2015 |
|---|---|---|
| Net assets (£'000) | **15,782** | 26,581 |
| Shares in issue ('000) | **249,800** | 249,800 |
| **NAV per Share (in pence)** | **6.32** | 10.64 |

### 15.2 Earnings/(loss) per Share

#### (a) Basic

The basic earnings/(loss) per Share is calculated by dividing the earnings/(loss) attributable to the Shareholders by the weighted average number of Shares in issue during the financial year.

| | Year ended 30 June 2016 | Year ended 30 June 2015 |
|---|---|---|
| Earnings/(loss) for the year (£'000) | **1,691** | (11,281) |
| Weighted average number of Shares in issue ('000) | **249,800** | 249,800 |
| **Basic earnings/(loss) per Share (in pence)** | **0.68** | (4.52) |

#### (b) Diluted

Diluted earnings per Share is calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. As at 30 June 2016 and 30 June 2015 the Company had no dilutive potential Shares.

## 16 Share capital

The total number of authorised and issued Shares at 30 June 2016 and 30 June 2015 together with their rights is explained below.

| | As at 30 June 2016 (Number '000) | As at 30 June 2016 £'000 | As at 30 June 2015 (Number '000) | As at 30 June 2015 £'000 |
|---|---|---|---|---|
| Authorised<br>Shares of £0.01 par value | **460,000** | **4,600** | 460,000 | 4,600 |
| Issued and fully paid<br>Shares of £0.01 par value | **249,800** | **2,498** | 249,800 | 2,498 |

All issued Shares of 249,800,202 are fully paid, and each Share carries the right to one vote. Shareholders are entitled to receive notice of, and vote at general meetings of the Company.

## 17 Reserves

The following table explains the nature and purpose of each reserve within equity.

| Reserve | Description and purpose |
|---|---|
| Share premium | Amount subscribed for Share capital in excess of nominal value, less Share issue costs. |
| Capital redemption reserve | The capital redemption reserve is a reserve into which amounts are transferred following the redemption or purchase of Shares. The amounts included in this reserve represent transfers from retained deficits. |
| Distributable reserves | Cumulative net realised and unrealised losses recognised in the Statement of Comprehensive Income which are distributable. |

Under the Isle of Man Companies Act 2006 the amounts held within the share premium and the capital redemption reserves are distributable, therefore the equity contained within these reserves was transferred to distributable reserves during the financial year.

## 18 Distributions paid and declared

On 24 March 2016 the Company declared a distribution to Shareholders of £12,490,000. The distribution was paid on 24 April 2016 and financed from the share premium account. No distributions were declared or paid during the year ended 30 June 2015.

## 19 Provision for litigation costs

As at 30 June 2016 no provision has been made for outstanding costs in relation to the litigation involving six ERPAs. At the reporting date included in trade and other payables, £68,000 (as at 30 June 2015: £nil) was accrued for final litigation costs. See note 21, *Contingent liabilities*. The movement during the year ended 30 June 2016 is detailed below:

| | **Year ended 30 June 2016 £'000** | **Year ended 30 June 2015 £'000** |
|---|---|---|
| Provision brought forward | 1,401 | 1,023 |
| Provision used during the year | (360) | (1,439) |
| Provision (reversed)/increased during the year | (1,041) | 1,817 |
| **Closing balance** | **-** | **1,401** |

## 20 Related-party transactions

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. The Directors, including certain Directors of TEP Investment Companies who meet the definition of "key management personnel" in IAS 24 are considered to be related parties.

### 20.1 Directors

Directors' fees, the DIP and other transactions with the Directors during the financial year are explained in note 8, *Investment Services and Administration fees*.

Philip Scales was a Director throughout the year. Mr Scales is a Director of FIM and has a beneficial ownership interest in FIM. During the financial year FIM received fees of £227,000 (year ended 30 June 2015: £227,000). FIM also received reimbursements for out of pocket expenses. Administration fees are explained in note 8, *Investment Services and Administration fees*.

### 20.2 TEP Investment Companies

*TEP (Renewables Holding) Limited*

The Company entered into a Fees and Expenses Agreement with TEP (Renewables Holding) Limited ("TEP Renewables") on 6 December 2010. Under the terms of the agreement the Company will reimburse TEP Renewables for any 'agreed company expenses'. During the financial year fees and expenses reimbursed by the Company to TEP Renewables amounted to €61,000 (year ended 30 June 2015: €55,000).

On 6 December 2010 the Company entered into a Total Return Swap Agreement ("TRS") in the amount of €10,000,000 with TEP Renewables. The TRS is for a period of 20 years with a termination date of 6 December 2030 or such earlier date as may be specified by written notice by TEP Renewables to the Company. Under the terms of the TRS, TEP Renewables, after receipt of proper instruction from the Company will make, where practical, investments in target entities. On termination of the TRS any amounts in the cash account from the TRS or investments made must be paid to the Company by TEP Renewables. During the financial year £4,983,000 cash was received from TEP Renewables by way of a repayment through the TRS (year ended 30 June 2015: £nil).

*Billiter Participações Ltda*

During the year the Company advanced £132,000 (30 June 2015: £195,000) to Billiter Participações Ltda to cover its on-going operating expenses. The sums advanced are not repayable. No agreement exists between the Company and Billiter Participações Ltda regarding the payment of its on-going operating expenses, and the Company is under no obligation to pay these expenses.

*TEP (Carbon Holdings) Limited*

During the financial year the Company received £8,000 (year ended 30 June 2015: £nil) in relation to CERs sold to TEP (Carbon Holdings) Limited. This receipt is repayable on demand to TEP (Carbon Holdings) Limited.

### 20 Related-party transactions (continued)

#### 20.2 TEP Investment Companies (continued)

*Trading Emissions Limited*

On 15 July 2016 Trading Emissions Limited (“TEL”) was placed into liquidation, TEL’s cash balance of £13,000 was paid to the Company in full during the year ended 30 June 2016 (30 June 2015: £nil). £9,000 of the cash received was for the repayment of shareholder loans and the remaining £4,000 was a return on investment. During the year ended 30 June 2016 an agreement was entered into between the Company and TEL whereby the Company would cover any of TEL’s future costs, which are expected to be incurred solely in relation to TEL’s liquidation. Costs covered by the Company under this agreement during the financial year amounted to £6,000 (year-ended 30 June 2015: £nil).

*TEP (Solar Holdings) Limited*

During the financial year the Company received cash of £981,000 from TEP (Solar Holdings) Limited ("TEP Solar”) by way of a return on investment (year ended 30 June 2015: £nil).

### 21 Contingent liabilities

In March and June 2014, the Company received notices of arbitration in respect of claims that challenge the amendments that had been made to, in total, six ERPAs, each between the Company and a project company owned by Yunnan Dianneng (Group) Holding Co. Ltd (“Dianneng”).

All five of the arbitration processes in respect of the six claims made against the Company by Dianneng have now concluded or terminated. On 30 June 2016, the Company reached a final settlement in respect of all of the arbitrations and all six ERPAs were terminated. No financial consideration was paid or received.

The Company is party to several fixed priced ERPAs, which the Company considers to have lapsed, terminated, or the projects are unviable or non-operational. No provision has been made for potential liabilities arising from these contracts because the Board has assessed the likelihood of any liabilities as being remote.

### 22 Subsequent Events

*Trading Emissions Limited*

On 15 July 2016 TEL was placed into liquidation; see note 20, *Related-party transactions.*

*TEP (Solar Holdings) Limited*

On 1 September 2016 TEP Solar executed a Sales and Purchase Agreement ("SPA") with a member of the Sonnedix group ("Sonnedix") in respect of the sale of its entire interest in two Italian subsidiaries, Etuno Srl and Solar Energy Italia 6 Srl, which were ultimately wholly owned by the Company.

The aggregate net proceeds from the sale of the companies, after allowing for transaction costs, are estimated to be €8,552,000. Under the terms of the SPA, completion and receipt of the sales proceeds are subject to various conditions precedent being fulfilled by TEP Solar no later than 14 December 2016. Of the payment by Sonnedix at completion, €3,000,000 will be deposited in escrow, to be released to TEP Solar as to €1,000,000 on the first anniversary after completion and the remaining €2,000,000 on the second anniversary after completion, subject to no claims having been received pursuant to indemnities provided by TEP Solar customary for this type of transaction.