Octopus Apollo VCT plc
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INSERT DATE

Dear Shareholder,

With net assets of £152 million at 31 July 2016, Octopus Apollo VCT is one of the largest VCTs in the UK, bringing numerous benefits to both our shareholders and the smaller companies we back. Apollo aims to provide investors with regular tax-free dividends through its portfolio of established UK smaller companies and by making new investments in younger companies with a proven commercial track record.

Over the two decades since VCTs were introduced, successive governments have shown continued support for the scheme, but have adjusted the rules surrounding VCT investment to ensure that VCT money continues to be directed where it is needed the most. As investors will be aware, over the last 18 months, the Government has enacted significant changes to the rules surrounding VCT investments. For Apollo, the changes will have no impact on the existing portfolio; however, new investments will have to be made in companies that are less than seven years on from their first commercial sale, which is typically younger than has previously been the case. Apollo has also historically benefited from the Manager's expertise in the energy sector, with energy generating assets of approximately £24 million in the portfolio today. Since April 2016, no further investments in energy generation have been permitted.

While these new rules create more complexity for the Manager to deal with, we remain confident in the investment team's ability to find suitable companies for Apollo’s mandate, with attractive positions in their markets and a good commercial track record. It is against this backdrop that the Board has announced that it intends to raise a further £20 million under a new share offer. The Manager will continue to invest via a combination of both debt and equity, with the aim of allowing Apollo to receive a regular income from loan interest and repayments that enable the VCT to pay investors regular tax-free dividends. By investing in a company’s debt, as well as its shares, there is a greater chance that Apollo will get some or all of its money back if a business doesn’t succeed. The equity holding also allows the VCT to benefit from capital growth if the underlying companies perform well.

All VCTs invest in smaller, unquoted or AIM listed companies that can fall or rise in value more sharply than their larger counterparts. Within the bounds of VCT legislation, the Company aims to invest in more established, profitable VCT-qualifying companies.

The Manager typically looks for the following attributes when making a new investment:

- An established and successful management team with a strong track record at the company
- A proven commercial track record
- A broad customer base and high levels of repeat business
- A competitive advantage over competitors that reduces the possibility of losing customers

At the point of investment most of the companies Apollo supports are already generating profits, but require funding to unlock further growth. These companies could be seen as more reliable prospects than companies at an even earlier stage, which are yet to develop a diverse customer base or predictable revenue streams.

However because VCTs invest in smaller companies, they are considered high risk and can be more difficult to sell than larger companies. The value of an investment, and any income from it, can fall or rise and investors may not get back the full amount they invest.

As well as producing investment returns, Apollo’s portfolio is also actively aiding the growth of UK smaller companies, a key factor in the Government’s continued support of the VCT industry. The Board believes that the portfolio is well positioned to continue delivering a regular stream of tax-free dividends to those investors able to take a long-term view on investing in well-run UK smaller companies. Please note tax treatment depends on individual circumstances and may change in the future. Tax reliefs also depend on the VCT maintaining its VCT-qualifying status.

The Merger

Octopus Eclipse VCT plc was launched in March 2004 and over time has evolved to have a similar investment mandate to that of Apollo. When launched, it made sense to have several separate VCTs investing alongside one another due to the VCT rules in force at the time. Today, the rationale for having multiple small VCTs has disappeared and changes to Merger Regulations in September 2004 allowed VCTs to merge without affecting their VCT status. Since then, a number of VCTs have taken advantage of the new regulations to create larger, more efficient VCTs.

In common with most companies, VCTs have a number of fixed costs that they have to incur as part of their day-to-day activities. As public companies, VCTs are subject to listing costs, registrar costs, and audit costs, as well as the costs of their non-executive directors, all of which would be more efficient being split across a larger asset base. In addition to the cost savings, having a larger VCT with a more diverse set of holdings gives the Manager more flexibility on how it manages the portfolio within the VCT rules as well as enhancing the ability of the enlarged Company to find high quality new investments, raise funds, pay dividends and support buybacks in the future.

With the above in mind, the Boards are pleased to announce that they have entered into discussions to consider a merger of the Companies to create a single, larger VCT with the intention of improving shareholder value. If approved by shareholders, the merger will result in a larger VCT that will be one of the biggest in the UK, targeting an annual tax-free 5% dividend yield.

Octopus Apollo VCT Performance

The diverse portfolio of investee companies continues to perform well and the Company has a strong track record of converting investment performance into tax-free dividends for investors. It is important to note however that past performance is not a reliable indicator of future results. Since 31 January 2016, the Manager has delivered on a number of strong exits, returning around £26.8 million back to the Company. These include Callstream, Project Tristar, SCM World, CSL Dualcom and Atlantic Screen International, and have enabled the Company to announce a special dividend of 16.5p per share, in addition to the regular dividend of 2.5p per share, to be paid on 2 December 2016. The full five year performance history is shown below:

Year to 31 July	2012	2013	2014	2015	2016
Annual total return (includes dividends)	6.7%	0.9%	5.3%	2.0%	2.3%

The performance information above shows the total return of Apollo for the last five years to 31 July. The annual total return is calculated from the movement in Net Asset Value (NAV) over the year to 31 July, with any dividends paid over that year then added back. The revised figure is divided by the NAV at the start of that year to get the annual total return. Performance shown is net of all ongoing fees and costs.

Dividends and dividend Policy

Following payment of the special dividend on 2 December 2016, it is expected that the NAV per share of the VCT will fall. The intention of the Board is to continue targeting payment of an annual 5% dividend yield, as has been the case since the merger of the four Apollo VCTs in September 2012. Based on the reduced NAV per share, we expect a 5% dividend yield to equate to an annual payment of roughly 3p per share, distributed to shareholders through two 1.5p dividends. This is a reduction from the current 5p per share per year, but will maintain the target of 5% dividend yield per year.

I would like to thank all of our existing Shareholders for their enduring support of Octopus Apollo VCT and the UK's small businesses. I look forward to meeting you at the General Meeting in December.

Yours sincerely

Murray Steele
Chairman
Octopus Apollo VCT plc

Important Information

When considering the new Apollo share offer, investors should remember that any subscription for shares should be based on information in the prospectus, which is available at octopusinvestments.com/apollo.