HAZEL RENEWABLE ENERGY VCT2 PLC

REPORT & ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2014

HAZEL CAPITAL

SHAREHOLDER INFORMATION

Share price

The Company's share prices can be found in various financial websites with the following TIDM/EPIC codes:

	Ordinary Shares	'A' Shares
TIDM/EPIC codes	HR2O	HR2A
Latest share price (26 January 2015)	97.5p per share	5.025p per share

Selling shares

The Company operates a policy of buying its own shares for cancellation as they become available. The Company is only able to make market purchases of shares, so Shareholders will need to use a stockbroker to sell any shares. Disposing of shares is likely to have significant tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision. Shareholders who wish to sell should contact Downing LLP, who will be able to provide up-to-date details. Downing LLP can be contacted on 020 7416 7780.

Financial calendar

9 March 2015	Annual General Meeting
May 2015	Announcement of half yearly financial results
September 2015	Annual dividend paid

Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, and did not complete these details on their original application form can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Capita Asset Services, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 9:00am to 5:30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can also be downloaded from Capita's website (see below).

Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Capita Registrars, under the signature of the registered holder.

Other information for Shareholders

Up-to-date Company information (including financial statements, share prices and dividend history) may be obtained from Downing's website at:

www.downing.co.uk

If you have any queries regarding your shareholding in Hazel Renewable Energy VCT2 plc, please contact the registrar on the above number or visit Capita's website at www.capitaassetservices.com and click on "Products and services" and then "Shareholders".

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COMPANY INFORMATION

Registered number	07378395
Directors	Peter Wisher (Chairman) Alexander Hambro Christian Yates Bozkurt Aydinoglu (Appointed 15/12/2014) Gareth Owen (Resigned 15/12/2014)
Company Secretary and Registered Office	Grant Whitehouse Ergon House Horseferry Road London SW1P 2AL
Investment Manager	Hazel Capital LLP 2nd Floor 227 Shepherds Bush Road London W6 7AS Tel: 020 3434 1010 www.hazelcapital.com
Administration Manager	Downing LLP Ergon House Horseferry Road London SW1P 2AL Tel: 020 7416 7780 www.downing.co.uk
Auditor	BDO LLP 55 Baker Street London W1U 7EU
VCT status advisers	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Registrars	Capita Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 9:00 a.m. to 5:30 p.m. Monday to Friday) www.capitaassetservices.com
Solicitors	Howard Kennedy 1 London Bridge London SE1 9BG
Bankers	Royal Bank of Scotland plc London Victoria Branch 119/121 Victoria Street London SW1E 6RA

INVESTMENT OBJECTIVES

Hazel Renewable Energy VCT2 plc is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives are to:

- invest in a portfolio of Venture Capital Investments, primarily in the UK and EU, that specialise in long term renewable energy projects and energy developers;
- maximise tax free capital gains and income to Shareholders from dividends and capital distributions; and
- maintain VCT status to enable Shareholders to retain their 30% income tax relief on investment.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 14 and 15.

FINANCIAL HIGHLIGHTS

	Audited Year End 30 September 2014 Pence	Audited Year End 30 September 2013 Pence
Net asset value per Ordinary Share	115.0	98.8
Net asset value per 'A' Share	0.1	0.1
Cumulative Dividends paid	24.5	8.5
Total return per Ordinary Share and 'A' Share	139.6	107.4

DIRECTORS

Peter Wisher (Chairman) is currently Managing Director and owner of Milland Partnership Limited, a consulting company that provides financial training to the international banking sector and strategic advice to growing companies. He is chairman of Angel Publicity and has a background in senior operating positions in service related businesses. Previous positions include Chief Operating Officer of Carbon Leadership LLP and Baines Gwinner Limited, Finance Director of Pauline Hyde Limited and 10 years at merchant bank, Charterhouse, latterly as head of mergers and acquisitions.

Christian Yates was closely involved in establishing both Hazel Renewable Energy VCTs in 2010 whilst a Partner at Hazel Capital LLP from 2009 to 2012. Having started his career in financial services in 1988 he has worked for a number of investment houses holding senior positions at Bear Stearns Asset Management, Julius Baer, Chase Asset Management and Lazard Asset Management. Whilst his focus has been on building and managing businesses he has gained broad investment experience across many asset classes including private equity, hedge funds, infrastructure and real estate. He remains active, both as an investor and developer, in the field of renewable energy. He is now a private equity investor and Director of and Adviser to SMEs and funds covering a number of sectors including real estate, energy, natural resources and emerging technology. He also sits on the advisory board of a UK wealth manager.

Alexander Hambro has been in the private equity industry for 23 years during which time he has acted as a principal investor, manager and sponsor of private equity and venture capital teams. Alex managed the venture capital and private equity fund investment portfolio for Hambros plc, prior to its sale to Société Générale in 1998. He is chairman of Crescent Capital, a Belfast-based venture capital fund manager and an independent consultant for a number of private equity and venture capital fund management groups and family office investors, advising them on the establishment of alternative investment funds and investment strategies. In addition to his private equity activities, Alex is chairman of Judges Scientific plc, Benchmark Holdings plc and Octopus Eclipse VCT plc.

Bozkurt Aydinoglu has been a partner of Hazel LLP since 2008. He focuses on asset management, transaction execution, commercial negotiations and general management. Bozkurt has been exclusively focused on the clean energy industry since 2002 as an entrepreneur and investor. He co-founded New Energy Finance, the industry's leading research and information service, which was sold to Bloomberg in 2009, and has wide experience of investing in the industry across asset classes. Bozkurt dedicated the first nine years of his career to capital raising, advisory and asset management work in the telecommunications and technology industries. He trained and developed his financial analysis, transactional and commercial skills working for Nomura, Salomon Brothers (now part of Citigroup), Deloitte and Touche and Groupe Arnault. He is an electrical engineer by educational background, having received his MSc from Imperial College, London.

All the Directors are non-executive and, with the exception of Bozkurt Aydinoglu, are independent of the Investment Manager.

CHAIRMAN'S STATEMENT

I am pleased to present the Company's fourth annual report. It has been an eventful and very positive year for your Company with a major refinancing, a significant new investment and a top-up fundraising all successfully completed, as well as the payment of a special dividend.

Investment portfolio

At the year end, the Company held a portfolio of 21 investments with a total value of £29.8 million.

The major event in the portfolio during the year was the £66 million refinancing of ground-mounted solar projects held by six existing portfolio companies. The transaction was undertaken along with the sister company, Hazel Renewable Energy VCT1 plc, and involved the reorganisation of those companies and the purchase of additional shares in the portfolio companies previously held by third parties. The end result is that these companies are now 100% owned by the Company and its sister company Hazel Renewable Energy VCT1 plc.

There was also one main new addition to the portfolio during the year, being the acquisition of Priory Farm, a 3.2MW ground-mounted solar project in July 2014. This was acquired by existing portfolio company, Tumblewind Limited, into which a further investment of £1,684,000 was made.

In addition to the above, there was some further portfolio activity during the year in the form of loan stock redemptions, which produced total proceeds of £2.7 million.

At the year end, the Board has again undertaken a review of all the investment valuations. The Board is generally very pleased with the performance of the underlying assets, which in most cases has been in line with or ahead of expectations. This has resulted in uplifts in value in several of the solar investments.

The investments in Lunar 1 Limited and Lunar 2 Limited have been increased by £1.8 million and £5.2 million respectively. These uplifts have resulted from anticipated increases in future cash flows from these investments following the transaction and an adjustment of the discount rate applied to these cash flows to reflect current market conditions.

Uplifts have also been recognised in six other solar companies; Ayshford Solar (Holdings) Limited, Tumblewind Limited, Hewas Solar Limited, St Columb Solar Limited and Vicarage Solar Limited totalling £1.4 million. These uplifts in value result from continued good performance from the underlying assets and a similar adjustment to the discount rate used as above.

Overall the portfolio showed net unrealised gains over the year of £8.3 million, equivalent to 33.7p per Ordinary Share.

Top-up share offer

The Company successfully completed a top-up offer in March 2014 with its sister company, Hazel Renewable Energy VCT1 plc. The fundraising was fully subscribed and raised gross proceeds of approximately £2.0 million for each VCT.

Net asset value and results

At 30 September 2014, the NAV per Ordinary Share stood at 115.0p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 115.1p. This represents an increase of 32.2p (32.6%) over the year (after adjusting for dividends paid during the year of 16.0p per share). Total dividends paid to date for a combined holding of one Ordinary Share and one 'A' Share stand at 24.5p. Taking into account the initial income tax relief, Shareholders who invested under the original Offer for Subscription have now already had returns of 54.5p on their original £1 investment.

The profit on ordinary activities after taxation for the year was £7,882,000, comprising a loss of £320,000 on the revenue account and profit of £8,202,000 on the capital account.

Dividends

Dividends paid during the year ended 30 September 2014 are summarised as follows:

Payment date	Type	Ords Shares	'A' Shares	Total
28 March 2014	Final Y/e 30 Sep 2013	5.0p	-	5.0p
28 Feb 2014	Special Y/e 30 Sep 2014	7.3p	3.7p	11.0p

The Board has reviewed the dividend policy and has identified a mismatch between the current policy and the Company's cash flows. This has become more significant since the refinancing transaction that took place in December 2013. A majority of the income generated by the Company's investments arises during the summer months as a result of the greater irradiation hours during that period. The Board recognises that the Manager's ability to manage the Company's cash in an efficient manner would be enhanced should the Company's annual dividend be payable at a point in the seasonal cycle after some of the income from the peak electricity generation period has been received.

Dividends (continued)

The Board has therefore decided that, in future, the Company will pay its annual dividend in September each year rather than March as has been the case in previous years. The Board intends to pay the next annual dividend in September 2015. The target for dividend level remains at 5.0p per Ordinary Share.

The Board acknowledges that this change of policy effectively means a delay in the payment of the final dividend for the year ended 30 September 2014 that would have otherwise been paid in March 2015. However, the Board feels that the special dividend totalling 11.0p for a combined holding of one Ordinary Share and one 'A' Share which was paid during the financial year compensates for this delay.

The Board expect to announce the payment date of the annual dividend with the release of the Half Yearly Report in May.

Annual General Meeting

The Company's fourth AGM will be held at 2nd Floor, 227 Shepherds Bush Road, London W6 7AS at 11.05 a.m. on 9 March 2015.

Three items of special business will be proposed at the AGM; a resolution seeking approval for the Company to be able to buy its own shares as described above and two items in connection with the authority to issue shares. Notice of the meeting is at the end of this document.

Board changes

The Board is pleased to announce that on 15 December 2014 Bozkurt Aydinoglu joined the Board as a non-executive Director and representative of Hazel Capital LLP, the Company's Investment Manager. He will take over from Gareth Owen, who on the same date stepped down as a non-executive Director of the Company. Gareth has been a Director of the Company since May 2012 and, in that time, made a considerable contribution to the Company.

Bozkurt joined Hazel Capital LLP in 2008 as a Partner and Head of Investments, having previously worked in funding and advising companies in the telecommunications and technology industries. In his role at Hazel Capital LLP, he oversees deal origination and transactional due diligence for all of Hazel's clean energy infrastructure businesses. He has exclusively focused on the clean energy sector since 2002 and has extensive knowledge of and experience in the renewable energy sector.

My fellow directors and I believe Bozkurt will be a valuable addition to the VCT Board and wish Gareth well as he continues as part of the Management Team.

Outlook

The coming year is likely to be less eventful than the one just passed, however we expect that the Investment Manager will continue to be busy. A significant level of work is now being undertaken on improving the operational efficiency of the underlying projects and, in particular, in seeking to reduce running costs of the investee companies. Some progress has been made to date and we believe there may be opportunities for further improvements.

The portfolio still has a number of projects that could be refinanced. The Board is encouraging the Manager to explore possible opportunities which have the potential to release further value.

In conclusion, the Board is very satisfied with the developments of the last year and believes that the Company is well placed to continue to deliver attractive results for Shareholders in the future.

Peter Wisher
Chairman

26 January 2015

INVESTMENT MANAGER'S REPORT

Introduction

The year ending 30 September 2014 has been an important year for Hazel Renewable Energy VCT2 plc. It has been notable for the value creation resulting from the acquisition (along with the sister VCT company, Hazel Renewable Energy VCT1 plc) of the entire share capital of the six ground-mounted solar assets acquired in 2011 and 2012 and the return of much of this incremental value to Shareholders by way of a special dividend. The Company also completed a successful investment of top-up funds raised into a 3.2MW ground-mounted solar project in Norfolk, as well as working through the year with the implementation of a plan to restore the performance of the small-wind portfolio.

Overall Portfolio and Operational Review

At the end of the year, the portfolio consisted for the most part of 16 underlying projects held through 13 portfolio companies which are all either entirely or majority-owned by the Company and its sister VCT. Another 8 companies held by the VCTs are non-operational, either as a result of having achieved exits for their assets or by virtue of being dormant.

Eleven of the twelve solar projects (eight ground-mounted and four rooftop ones) which account for close to 70% of capital invested, continued to perform in line or above expectations. The performance of Priory Farm (owned by Tumblewind Limited), the 3.2MW ground-mounted asset acquired in July, has also been pleasing with actual output being higher than modelled at the time of the acquisition. The one exception is the solar rooftop portfolio held in Gloucester Wind Limited (a c£1 million investment), which has suffered as a result of the original developer going into administration in April 2013. However, we have selected an O&M contractor at a competitive price that will seek to improve performance of the portfolio, which we are confident is possible.

Across our ground-mounted solar farms, the more sophisticated monitoring systems installed at the beginning of summer 2014 have proved to be an invaluable tool, as a result of the more timely and granular information that they provide on the performance of each asset.

On the revenue side, we encourage the investee companies to continuously search for opportunities to improve the price at which we sell the power we generate, either through renewing Power Purchase Agreements (PPAs) at better prices once those in force expire, or through direct sales to power consumers (aka direct PPAs), which is a focus for the team in 2015. Another opportunity that the investee companies evaluated was the installation of energy storage solutions (read large batteries) on our sites in order to shift and smooth our electricity output to improve the electricity price that could be achieved. However, for the time being this does not seem to be a cost-effective or fully reliable solution. As the cost of batteries declines, this may well change.

From a cost perspective, in the past year we have initiated some steps in seeking to reduce the running costs of the projects. We hope to start seeing the results of this in the coming months.

Also from a cost perspective, we are confident our O&M contract costs will fall sharply once our contracts come up for renewal. We have already taken the opportunity to do this at Ayshford Court solar farm this year. Similarly when the six project Apollo project O&M contracts come up for renewal, savings from this will contribute to around a 0.4p per share dividend increase from 2017.

For 'Project Lunar' (the debt structure secured on the now wholly-owned six FIT solar projects) we have met our obligations to the lender including payment milestones, ongoing pre-funding of reserves and observing all covenants and conditions subsequent to funding. One key, near term aspect of this transaction has been the need to fund various reserves required by the lender. Until fully funded, which will take till the end of 2018, these reserves (the largest being the Debt Service Reserve Account) reduce our cash flow from these projects. Once funded, this effect goes away. Of course at the end of the debt repayment in 20 years' time, the largest remaining value creator in this structure kicks in (the main one – the exceptional dividend – having already taken place) with the c£18 million invested by the VCTs into these solar projects earning over £8 million (16.3p per Ordinary Share) in 2034, and over £11 million (22.4p per Ordinary Share) in both 2035 and 2036 according to our estimates (assuming 2% RPI on average) as a result of no more debt servicing requirements and the unwinding of all the reserves.

Our small wind turbine portfolio held within HRE Willow Limited, Small Wind Generation Limited, Tumblewind Limited and Minsmere Power Limited had been lagging in terms of performance. The developer Windcrop Limited had agreed to provide compensation for underperforming assets but their bankruptcy removed this protection. In the year ending 30 September 2014 we have taken important steps towards addressing the underperformance by appointing Britwind, a division of Ecotricity, as O&M Contractor with the additional role of carrying out repairs and adjustments where necessary to the physical structures.

Overall Portfolio and Operational Review (continued)

We now have access to high quality data on the performance of each individual wind turbine via an online portal and can see that these efforts are already producing results. In the next few weeks, we are aiming to restore the performance of the assets, to levels that can deliver the 10%-plus yields that had originally been modelled, assuming the wind resource performs as modelled (which is not within our control).

Portfolio Valuation

The NAV of the Company has increased from 98.9p to 115.1p for a combined holding of one Ordinary and one 'A' Share (or from 107.4p to 139.6p if dividends already paid are taken into account). This has come about primarily as a result of the value created by the FIT refinancing transaction, covered in last year's report, but also as a result of market prices for renewable power generation assets rising. The assets that were initially bought targeting average hurdle rates of 9% to 11% are now valued at 6.5% to 7.5%, reflecting the larger number of participants who are keen to own these fixed-income type assets in an environment where interest rates are at historical lows. In the valuation exercise that we carried out we used a discount rate of 7.5%.

Notable Events in the Year

In July 2014, an acquisition of the 3.228MW Priory Solar Farm project remunerated under the UK ROC regime, the same regime under which the Ayshford Court solar asset is remunerated, was completed. Tumblewind Limited was used as the acquisition vehicle for the purpose of maximising the use of qualifying capital. The project was purchased post connection to the grid (29 March 2014) from the engineering firm that built it. We were able to purchase the asset at an attractive price as a result of having funds readily available to deploy as a result of the top-up we completed in March. The history of operations is limited but the data indicates that the asset is performing well ahead of expectations.

Outlook

The fund is now completely invested. We are pleased that the investments took place when hurdle rates were substantially higher than they are now.

Our current focus will be on improving the performance of the assets and thus the overall yield of the fund. As covered under the operational review we have several avenues to achieve this outcome. We may also look at taking advantage of investor interest in these fixed-income type assets and historically low interest rates, to free-up capital tied up in the ground and roof-mounted solar assets that can either be returned to shareholders or re-invested into new projects that we will opportunistically source.

As always, we are very happy to hear from our investors if they have any questions or comments.

Ben Guest
Chief Investment Officer
Hazel Capital LLP

26 January 2015

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments were held at 30 September 2014:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
Qualifying and part-qualifying investments				
Lunar 2 Limited*	2,976	9,947	5,217	33.2%
Ayshford Solar (Holding) Limited	2,247	3,065	536	10.2%
Tumblewind Limited*	2,534	2,856	322	9.5%
Lunar 1 Limited*	124	2,043	1,837	6.8%
Hewas Solar Limited	1,000	1,672	173	5.6%
St. Columb Solar Limited	722	1,388	166	4.6%
New Energy Era Limited	884	1,304	(38)	4.4%
Vicarage Solar Limited	871	1,204	162	4.0%
Minsmere Power Limited	975	1,009	34	3.4%
Gloucester Wind Limited	1,000	1,000	-	3.3%
Small Wind Generation Limited	975	975	-	3.3%
Penhale Solar Limited	900	900	-	3.0%
HRE Willow Limited	875	875	-	2.9%
Owl Lodge Solar (Holding) Limited	80	249	(12)	0.8%
Higher Tregarne Solar (Holding) Limited	243	216	(7)	0.7%
Causilgey Solar (Holding) Limited	248	184	(41)	0.6%
Yonder Netherton Solar (Holding) Limited	5	-	(5)	0.0%
Sunhazel UK Limited	1	-	(1)	0.0%
	16,660	28,887	8,343	96.3%
Non-qualifying investments				
AEE Renewables UK 3 Limited	900	900	-	3.0%
ZW Parsonage Limited	15	15	-	0.1%
Lime Technology Limited	100	-	-	0.0%
	1,015	915	-	3.1%
	17,675	29,802	8,343	99.4%
Cash at bank and in hand		163		0.6%
Total investments		29,965		100.0%

* Part-qualifying investment

All venture capital investments are incorporated in England and Wales.

Hazel Renewable Energy VCT1 plc, of which Hazel Capital LLP is the Investment Manager, holds the same investments as above.

REVIEW OF INVESTMENTS (continued)

Investment movements for the year ended 30 September 2014

ADDITIONS

	Cost £'000
Non-qualifying investments	
Tumblewind Limited	1,684
	1,684

DISPOSALS

	Cost £'000	Valuation at 30 September 2013 £'000	Proceeds £'000	Loss vs cost £'000	Realised gain £'000
Qualifying investments					
Ayshford Solar (Holding) Limited	469	469	469	-	-
St. Columb Solar Limited	13	13	13	-	-
Beechgrove Solar Limited	3	3	3	-	-
	485	485	485	-	-
Non-qualifying investments					
AEE Renewables UK 3 Limited	2,125	2,125	2,125	-	-
Hewas Solar Limited	125	125	125	-	-
Quiet Revolution Limited	618	-	-	(618)	-
	2,868	2,250	2,250	(618)	-
	3,353	2,735	2,735	(618)	-

The basis of valuation for the largest investments is set out on pages 9 to 12.

All venture capital investments are incorporated in England and Wales.

Further details of the ten largest investments (by value):

Lunar 2 Limited

Cost at 30/09/14:	£2,976,000	Valuation at 30/09/14:	£9,947,000
Cost at 30/09/13:	n/a	Valuation at 30/09/13:	n/a
Date of first investment:	Dec 2013	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£1,331,000	Proportion of equity held:	50 %
Loan stock:	£1,645,000	Proportion of loan stock held:	50 %

Summary financial information from statutory accounts: None filed

Lunar 2 Limited fully owns the holding companies South Marston Solar Ltd., Beechgrove Solar Ltd. and 10% of Vicarage Solar Ltd. These companies own ground-mounted solar farm projects of 5MW (near Swindon), 4MW (near Hawkchurch) and 0.64MW (Ilminster, Somerset) respectively.

Ayshford Solar (Holding) Limited

Cost at 30/09/14:	£2,247,000	Valuation at 30/09/14:	£3,065,000
Cost at 30/09/13:	£2,716,000	Valuation at 30/09/13*:	£2,999,000
Date of first investment:	Mar 2012	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£269,000	Proportion of equity held:	36.27%
Loan stock:	£1,978,000	Proportion of loan stock held:	34.11%
Summary financial information from statutory accounts: 30 April 2013		Turnover:	£7,171
		Operating loss:	(£5,485)
		Net assets:	£601,026

Ayshford Solar (Holding) Limited owns a ground-mounted solar farm located near Tiverton, Devon. The project is accredited under the ROC regime, has a total installed capacity of 5.4MW and the lease is held with a local farmer. The company has entered into a comprehensive fixed term O&M agreement.

Tumblewind Limited

Cost at 30/09/14:	£2,534,000	Valuation at 30/09/14:	£2,856,000
Cost at 30/09/13:	£850,000	Valuation at 30/09/13:	£850,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow & Cost
Investment comprises:			
Ordinary shares:	£790,000	Proportion of equity held:	50%
Loan stock:	£1,743,885	Proportion of loan stock held:	50%
Summary financial information from statutory accounts: 30 April 2013		Turnover:	£52,490
		Operating Loss:	(£138,307)
		Net assets:	£1,445,959

Tumblewind Limited owns a 66.5kW portfolio of wind turbines located on largely farmer-owned sites located throughout East Anglia. Each project is a single or multiple turbine site which has its own distinct equipment location agreement, planning permission and Feed in Tarrif (FIT) accreditation (through MCS). The developer, Windcrop Limited, offered a complete turnkey solution where they developed, built and commissioned each site. The land owner is entitled to free electricity produced by the turbines with Tumblewind Limited collecting both the FIT and Export revenue for any surplus that the land owner does not consume. Windcrop Limited is in administration and Evance (now Britwind) has taken over the O&M. On 29 July 2014 Tumblewind bought Priory Farm Solar Farm Limited that owns a solar project of 3.228MW located close to Lowestoft. The project was built and commissioned by Ideemsun Energy GmbH, a German EPC.

REVIEW OF INVESTMENTS (continued)

Lunar 1 Limited

Cost at 30/09/14:	£124,000	Valuation at 30/09/14:	£2,043,000
Cost at 30/09/13:	n/a	Valuation at 30/09/13:	n/a
Date of first investment:	Dec 2013	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£124,000	Proportion of equity held:	5%

Summary financial information from statutory accounts: None filed

Lunar 1 Limited fully owns the holding companies AEE Renewables UK 3 Ltd., AEE Renewables UK 26 Ltd. and 10% of New Energy Era Ltd. These companies own the FiT accredited ground-mounted solar farm projects of 5MW (Wiltshire), 5MW (Wiltshire) and 0.7MW (Oxfordshire) respectively.

Hewas Solar Limited

Cost at 30/09/14:	£999,999	Valuation at 30/09/14:	£1,672,000
Cost at 30/09/13:	£1,125,000	Valuation at 30/09/13:	£1,624,000
Date of first investment:	Aug 2011	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£999,999	Proportion of equity held:	50%

Summary financial information from statutory accounts: 30 April 2013	Turnover:	£282,891
	Operating loss:	(£122,607)
	Net assets:	£2,041,595

Hewas Solar Limited owns a portfolio of roof-mounted solar assets located on housing stock owned by a housing association. The company financed the capital costs of installing equipment and in return receives the FIT income. Residents of the housing associations are able to use the electricity generated by the installations free of charge. Roof-top installations were undertaken during November and December 2011. The company has entered into a fixed term O&M agreement with the installer, Strategic Energy Limited.

St. Columb Solar Limited

Cost at 30/09/14:	£722,000	Valuation at 30/09/14:	£1,388,000
Cost at 30/09/13:	£735,000	Valuation at 30/09/13:	£1,236,000
Date of first investment:	Sep 2011	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£649,999	Proportion of equity held:	50%
Loan stock:	£72,500	Proportion of loan stock held:	50%

Summary financial information from statutory accounts: 30 April 2013	Turnover:	£145,154
	Operating profit:	£50,479
	Net assets:	£1,419,334

St. Columb Solar Limited owns a portfolio of roof-mounted solar assets located on housing stock owned by housing associations. The company financed the capital costs of installing equipment and in return receives the FIT income. Residents of the housing associations are able to use the electricity generated by the installations free of charge. Roof-top installations commenced in November 2011 and the vast majority were completed before the tariff reduction became effective in March 2012. The company has entered into a fixed term O&M agreement with the installer, Strategic Energy Limited.

REVIEW OF INVESTMENTS (continued)

New Energy Era Limited

Cost at 30/09/14:	£884,000	Valuation at 30/09/14:	£1,304,000
Cost at 30/09/13:	£883,700	Valuation at 30/09/13*:	£1,342,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow

Investment comprises:

Ordinary shares:	£883,728	Proportion of equity held:	45%

Summary financial information from statutory accounts: 30 April 2013	Turnover:	£254,838
	Operating profit:	£154,675
	Net assets:	£1,917,708

New Energy Era Limited owns a solar farm located just outside Shipton under Wychwood, Oxfordshire. The project is accredited under the FIT regime and has a total installed capacity of c.727kWp. The lease is held with a local landowner who developed the project, and who remains a minority shareholder. The company has entered into a comprehensive fixed term O&M agreement.

Vicarage Solar Limited

Cost at 30/09/14:	£871,000	Valuation at 30/09/14:	£ 1,204,000
Cost at 30/09/13:	£871,000	Valuation at 30/09/13*:	£1,041,000
Date of first investment:	Mar 2012	Valuation method:	Discounted Cash Flow

Investment comprises:

Ordinary shares:	£871,006	Proportion of equity held:	45%

Summary financial information from statutory accounts: 30 April 2013	Turnover:	£0
	Operating loss:	(£3,490)
	Net assets:	£1,931,519

Vicarage Solar Limited is a holding company which owns 90% of the share capital of ZW Parsonage Limited (the remainder is owned by Lunar 2 Limited). ZW Parsonage Limited owns a solar farm with a capacity of 0.64MW which is located outside Ilminster, Somerset.

Minsmere Power Limited

Cost at 30/09/14:	£975,000	Valuation at 30/09/14:	£1,009,000
Cost at 30/09/13:	£975,000	Valuation at 30/09/13:	£975,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow

Investment comprises:

Ordinary shares:	£840,000	Proportion of equity held:	50%
Loan stock:	£135,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts: 30 April 2013	Turnover:	£108,571
	Operating loss:	(£8,317)
	Net liabilities:	(£1,648,285)

Minsmere Power Limited owns a portfolio of 69 small wind turbines located on domestic sites located throughout Norfolk. The land owner is entitled to free electricity produced by the turbines with Minsmere Power Limited collecting the FITs for the generation of the electricity and the export tariff of any electricity unused by the home. Due to Windcrop's administration, the company has not fully deployed its cash balance. To address this, the company also owns 252kWp of rooftop solar assets installed on housing association properties located near Glasgow. The housing association receives free electricity generated by the solar modules and the company collects FIT and export revenue. Evance (now Ecotricity) has taken over O&M.

REVIEW OF INVESTMENTS (continued)

Gloucester Wind Limited

Cost at 30/09/14:	£999,500	Valuation at 30/09/14:	£999,500
Cost at 30/09/13:	£999,500	Valuation at 30/09/13:	£999,500
Date of first investment:	Apr 2012	Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£799,600	Proportion of equity held:	50%
Loan stock:	£199,900	Proportion of loan stock held:	50%
Summary financial information from statutory accounts: 30 April 2013		Turnover:	£92,305
		Operating loss:	(£53,413)
		Net assets:	£1,554,760

Gloucester Wind Limited owns a portfolio of roof-mounted solar assets located on residential housing stock across the UK. The company financed the capital costs of installing equipment and is receiving the FIT income in return. Home owners are able to use the electricity generated by the installations free of charge. Roof-top installations commenced in June 2012 and were completed over the subsequent 6 months. However, the developer's bankruptcy in April 2013 uncovered several issues with the portfolio that are continuing to be investigated. An O&M agreement with a new counterparty that will shortly be entered into will accelerate the complete restoration of the portfolio.

Note: The proportion of equity held in each investment also represents the level of voting rights held by the Company in respect of the investment.

*The 30/09/13 valuation figures for New Energy Era Limited and Vicarage Solar Limited are based on a 50% proportion of equity. However, the 30/09/2014 figures for these companies have been based on lower equity % amounts (as currently held and indicated in the table).

REVIEW OF INVESTMENTS (continued)

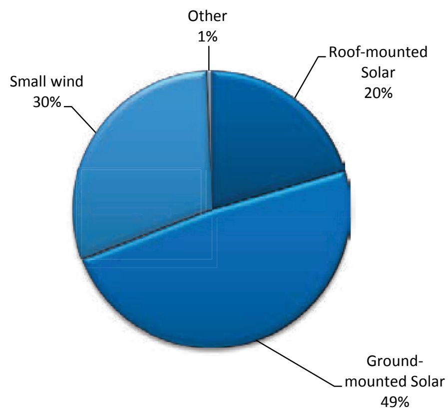
Summary of loan stock interest income

	£'000
Loan stock interest receivable in the period	
Tumblewind Limited	33
Hewas Solar Limited	9
St. Columb Solar Limited	5
Minsmere Power Limited	11
Other	121
	179

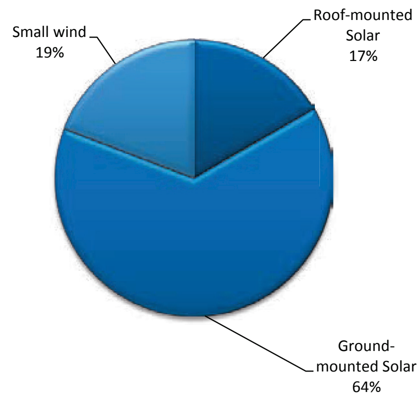
Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 30 September 2014) is as follows:

Spread of investments by sector (cost)



Spread of investments by sector (value)



Analysis of investments by type

The allocation of the funds based on cost is summarised as follows:

	Actual portfolio split at 30 September 2014
VCT qualifying investments	
Loans to qualifying companies	24%
Ordinary shares in qualifying companies	60%
Total	84%
Non-qualifying investments (including cash at bank)	16%
Total	100%

STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 30 September 2014. The Board have prepared this report in accordance with the Companies Act 2006.

Business model

The business acts as an investment company, investing in a portfolio of businesses within the renewable energy sector. The Company operates as a VCT to ensure that its Shareholders can benefit from tax reliefs available.

Investment management and administration fees

Hazel Capital LLP provides investment management services to the Company at a fee equivalent to 2% of net assets per annum. The agreement is for a minimum term of six years, effective from 20 October 2010, with a twelve month notice period on either side thereafter.

The Board has reviewed the services provided and conclude that it is satisfied with Hazel Capital LLP's strategy, approach and procedures in providing investment management services to the Company. The Directors have therefore agreed that the continuing appointment of Hazel Capital LLP as Investment Manager remains in the best interests of Shareholders.

Downing LLP provides administration services to the Company for a fee of £35,000 (plus VAT, if applicable) per annum. The agreement is for a minimum term of six years, effective from 20 October 2010, with a twelve month notice period on either side thereafter.

Investment policy

General

The Company's objectives are to maximise tax free capital gains and income to Shareholders from dividends and capital distributions by investing the Company's funds in:

- a portfolio of VCT qualifying investments, primarily being in UK and EU based unquoted companies that specialise in long term renewable energy projects and energy developers; and
- a range of non-qualifying investments, comprised from a selection of cash deposits, fixed income funds, securities and secured loans and which will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated). In addition, as the portfolio of VCT qualifying investments will involve smaller start-up companies, non-qualifying loans could be made to these companies to negate the need to borrow from banks and, therefore, undermine the companies' security within the conditions imposed on all VCTs under current and future VCT legislation applicable to the Company.

Investment strategy

The Company seeks to invest in companies it is believed are materially de-risked and will provide Shareholders with a reliable source of tax free income and maximise the potential for capital preservation. Investee companies generally reflect the following criteria:

- a well-defined business plan and ability to demonstrate strong demand for its products and services;
- products or services which are cash generative;
- objectives of management and Shareholders which are similarly aligned;
- adequate capital resources or access to further resources to achieve the targets set out in its business plan;
- high calibre management teams;
- companies where the Manager believes there are reasonable prospects of an exit, either through a trade sale or flotation in the medium term; and
- a focus on small and long term renewable energy projects that utilise proven technology and qualify for the highest possible long term government guaranteed subsidies.

Asset allocation

The Company aims to hold at least 70% of its funds in VCT qualifying investments.

Although under VCT legislation the Company must have 70% of its funds invested in qualifying investments within three years, the Company intends to invest up to 90%. Accordingly, the Company's maximum exposure to qualifying investments will be 90%. The Company intends to retain the remaining funds in non-qualifying investments to fund the annual running costs of the Company, to reduce the risk profile of the overall portfolio of its fund and to provide investments which can be realised to fund any follow-on investments in the investee companies.

Now that 70% of funds raised have been invested in qualifying investments, it is expected that the Company shall hold at least eight investments to provide diversification and risk protection. In relation to the Company, no single investment (including most loans to investee companies) will represent more than 15% of the aggregate net asset value of its fund save where such investment is in an investee company which has acquired or is to acquire, whether directly or indirectly, securities in the following companies: AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

Investment policy (continued)

The Company's investment in Lunar 1 Limited and Lunar 2 Limited has, at the time of investment, not exceeded 33% of the aggregate net asset value of its fund and its direct or indirect investment in each of AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited will not individually represent more than 17% of the aggregate net asset value of its fund.

Risk diversification

The structure of the Company's funds, and its investment strategies, have been designed to reduce risk as much as possible.

The main risk management features include:

- portfolio of investee companies – the Company seeks to invest in at least eight different companies, thereby reducing the potential impact of poor performance by any individual investment;
- monitoring of investee companies – the Manager will closely monitor the performance of all the investments made by the Company in order to identify any issues and to enable necessary corrective action to be taken; and
- the Company will ensure that it has sufficient influence over the management of the business of the investee companies, in particular, through rights contained in the relevant investment agreements and other Shareholder/constitutional documents.

In respect of Lunar 1 Limited and Lunar 2 Limited the Company has followed the above risk diversification strategy with regard to their investments in AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

Gearing

It is not intended that the Company will borrow. However, the Company will have the ability to borrow up to 15% of its net asset value save that this limit shall not apply to any loan monies used to facilitate the acquisition by the Company, whether directly or indirectly, of any shares or securities in the following companies: AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

The Company has ensured that Lunar 1 Limited and Lunar 2 Limited has borrowed no more than 90% of their respective net asset values to facilitate the acquisition, whether directly or indirectly, of any shares or securities in the following companies: AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited, South Marston Solar Limited, Beechgrove Solar Limited, New Energy Era Limited and Vicarage Solar Limited.

As at 30 September 2014, the Company has the ability to borrow £4.2 million and has borrowings of £1.6 million (2013: £524,000).

Listing rules

In accordance with the Listing Rules:

(i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;

(ii) the Company must not conduct any trading activity which is significant in the context of the Company; and

(iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 ITA.

Business review and developments

The Company launched the Offer for Subscription in March 2014 which was fully subscribed and raised gross proceeds of approximately £2.0 million.

The Company has also invested in Lunar 1 Limited (Lunar 1) and Lunar 2 Limited (Lunar 2), which are investment companies and do not in their own right fall under this investment strategy, however the Company intends that Lunar 1 and Lunar 2 will invest in companies that will meet this investment strategy.

During the year to 30 September 2014, the investments held increased in value by £8,343,000 and gains arising on investment realisations totalled £nil.

Business review and developments (continued)

Income over expenditure for the year resulted in a net loss, after accounting for capital expenses, of £461,000.

The total return for the year was £7,882,000 (2013: £2,077,000). Net assets at the year-end were £28.3 million (2013: £22.5 million). Dividends paid during the year totalled £4,069,000 (2013: £1,139,000).

The Company's business review and developments during the year are reviewed further out in the Strategic Report, Investment Manager's Report, and the Review of Investments.

The Directors initially obtained provisional approval for the Company to act as a Venture Capital Trust from HM Revenue & Customs. The Directors consider that the Company has continued to conduct its affairs in a manner such that it complies with Part 6 of the Income Tax Act 2007.

Directors and senior management

The Company has four non-executive Directors, each of whom is male. The Company has no employees, the same was true of the previous year.

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives. The Board believes the Company's key performance indicators are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share.

The position of the Company's Net Asset Value Total Return at 30 September 2014 is on page 2.

In addition, the Board considers the Company's performance in relation to other VCTs.

Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, investment valuation, credit and liquidity risks, are summarised within note 18 to the financial statements.

The Company, as a fully listed company on the London Stock Exchange and as a VCT, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority, and the Companies Act 2006, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

In addition to these risks, the Company invests in a sector which is currently subject to regular government review of policy which can significantly impact on the Company's investment strategy.

The Board reviews and agrees policies for managing each of these risks. They receive quarterly reports from the Manager which monitors the compliance of these risks, and places reliance on the Manager to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial year.

Director's remuneration

It is a requirement under The Companies Act 2006 for Shareholders to vote on the Directors remuneration every three years, or sooner if the Company wants to make changes to the policy. The Directors remuneration policy for the three year period from 1 October 2014 is set out on page 21.

Annual running costs cap

The annual running costs for the year are capped at 3.5% of net assets; any excess will either be paid by the Investment Manager or refunded by way of a reduction of the Investment Manager's fees. Annual Running Costs for the year to 30 September 2014 were less than 3.5% of net assets.

Performance incentive

The structure of the 'A' Shares, whereby Management owns one third of the 'A' Shares in issue (known as the "Management 'A' Shares"), acts as a performance incentive mechanism. 'A' Share dividends will be increased if, at the end of each year, the hurdle is met, which is illustrated below:

i) Shareholders who invested under the offer for subscription receive a dividend of at least 5.0p per Ordinary Share at the end of the financial period; and
ii) one Ordinary Share and one 'A' Share has a combined net asset value of at least 100.0p.

The performance incentive is calculated each year and is not based on cumulative dividends paid.

A summary of how proceeds are allocated between Shareholders and Management, before and after the hurdle is met, and as dividends per Ordinary Share increase is as follows:

Hurdle criteria:			
Annual dividend per Ordinary Share	0-5p	5-10p	>10p
Combined NAV	N/A	>100p	>100p
Hurdle	Not met	Met	Met
Allocation:			
Shareholders	99.97%	80%	70%
Management	0.03%	20%	30%

STRATEGIC REPORT (continued)

Performance incentive (continued)

The interim dividends paid on 28 February 2014 triggered the payment of an 'A' share dividend of 3.7p per 'A' share, which equated to a payment of £422,000 being paid on the Management 'A' shares.

Trail commission

The Company has an agreement to pay trail commission annually to Hazel Capital LLP, in connection to the funds raised under the offer for subscription. This is calculated at 0.4% of the net assets of the Company at each year end. Out of these funds Hazel Capital LLP is liable to pay trail commission to financial intermediaries.

VCT status

The Company has retained PricewaterhouseCoopers LLP ("PwC") to advise it on compliance with VCT requirements, including evaluation of investment opportunities as appropriate and regular review of the portfolio. Although PwC works closely with the Investment Manager, they report directly to the Board.

Compliance with the VCT regulations for the year under review is summarised as follows:

	Position at the year ended 30 Sep 14
1. To ensure that the Company holds at least 70% of its investments in qualifying companies;	89.9%
2. To ensure that at least 30% (70% in the case of funds raised after 6 April 2011) of the Company's qualifying investments are held in "eligible shares";	68.5%
3. At least 10% of each investment in a qualifying company is held in eligible shares;	Complied
4. No investment constitutes more than 15% of the Company's portfolio;	Complied
5. To ensure that the Company's income for each financial year is derived wholly or mainly from shares and securities;	95.7%
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and	Complied
7. Prior to 6 April 2012, a maximum unit size of £1 million in each VCT qualifying investment (per tax year).	Complied

The Directors, with the help of the Investment Manager, actively monitor and ensure the investee companies have less than £5 million state backed financing in a 12 month period listed in order to remain compliance with the VCT regulations.

Share buybacks

The Company operates a share buyback policy whereby, subject to liquidity, the rules of the London Stock Exchange, the UK Listing Authority and applicable VCT legislation, it will make market purchases of its own shares that become available in the market at a price equivalent to a 10% discount to the most recently published NAV.

A special resolution to continue this policy is proposed for the forthcoming AGM.

No shares were bought back during the year.

Greenhouse Emissions

Whilst as a UK quoted company the VCT is required to report on its Greenhouse Gas (GHG) Emissions, as it outsources all of its activities and does not have any physical assets, property, employees or operations, it is not responsible for any direct emissions.

Environmental, social and human rights policy

The Company seeks to conduct its affairs responsibly. Where appropriate, the Board and Investment Manager take environmental, social and human rights factors into consideration when making investment decisions.

Future prospects

The Company's future prospects are set out in the Chairman's Statement and Investment Manager's Report.

By order of the Board

Grant Whitehouse
Secretary of Hazel Renewable Energy VCT2 plc
Company number: 07378395

Registered office:
Ergon House
Horseferry Road
London SW1P 2AL

26 January 2015

REPORT OF THE DIRECTORS

The Directors present the fourth Annual Report and Accounts of the Company for the year ended 30 September 2014.

Share capital

At the year end, the Company had in issue 24,603,158 Ordinary Shares and 36,904,733 'A' Shares. There are no other share classes in issue.

All shares have voting rights; each Ordinary Share has 1,000 votes and each 'A' Share has one vote. Where there is a resolution in respect of a variation of the rights of 'A' Shareholders or a Takeover Offer, the voting rights of the 'A' Shares rank pari-passu with those of Ordinary Shares.

The Company operates a share buyback policy whereby, subject to liquidity, the rules of both the London Stock Exchange and the UK Listing Authority and applicable VCT legislation, and except in the first year after being established, it is intended that the Company will make market purchases of its own shares, up to a maximum number of shares equivalent to 14.9% of the total number of each class of issued shares from time to time.

The Board intends to operate a policy of purchasing shares in the market at a price equivalent to the Company's most recently published NAV, at the time of purchase, less a discount of at least 10%.

At the Annual General Meeting ("AGM") that took place on 25 March 2014, the Company was authorised to make market purchases of its Ordinary Shares and 'A' Shares, up to a limit of 3,396,206 Ordinary Shares and 5,094,309 'A' Shares which represented approximately 14.9% of the issued Ordinary Share capital and 'A' Share capital at the date of the AGM. At the current date, authority remains for 3,396,206 Ordinary Shares and 5,094,309 'A' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 9 March 2015.

The minimum price which may be paid for an Ordinary Share or an 'A' Share is 0.1p, exclusive of all expenses, and the maximum price which may be paid for an Ordinary Share or an 'A' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations.

Results and dividends

	£'000	Pence per Ord Share	Pence per 'A' Share
Profit for the period	7,882	33.3p	-

Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2014 and at the date of this report were as follows:

Directors		As at the date of this report	As at the year ended 30 Sep 2014
Peter Wisher	Ord Shares	20,800	20,800
	'A' Shares	20,800	20,800
Alexander Hambro	Ord Shares	15,600	15,600
	'A' Shares	15,600	15,600
Christian Yates	Ord Shares	19,673	19,673
	'A' Shares	2,616,069	2,616,069
Gareth Owen	Ord Shares	n/a	-
	'A' Shares	n/a	2,229,264
Bozkurt Aydinoglu	Ord Shares	-	-
	'A' Shares	2,688,331	n/a

Bozkurt Aydinoglu was appointed as director on 15 December 2014. On the same date Gareth Owen resigned as director.

In line with the Articles of Association, all the Directors are to retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 2, together with the results for the period to date, in order to support the resolutions to re-appoint all four Directors.

Each of the Directors, with the exception of Bozkurt Aydinoglu, entered into a letter of appointment with the Company dated 20 October 2010. These agreements are for a period of twelve months and thereafter are terminable on three months' notice by either side. Bozkurt Aydinoglu was appointed on 15 December 2014 and his agreement is terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

Insurance cover
Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors.

Auditor
A resolution proposing the reappointment of BDO LLP will be submitted at the AGM.

Substantial interests
As at 30 September 2014, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital.

Annual General Meeting
The Company's fourth Annual General Meeting ("AGM") will be held at 2nd Floor, 227 Shepherds Bush Road, London W6 7AS at 11:05 a.m. on 9 March 2015. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities
The Directors are responsible for preparing the Strategic Report, the Report of the Directors, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors' statement pursuant to the Disclosure and Transparency Rules
Each of the Directors, whose names and functions are listed on page 2, confirms that, to the best of each person's knowledge:

- the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice and the 2009 Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- that the management report, comprising the Chairman's Statement, Investment Manager's Report, Review of Investments, Strategic Report, and Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Website publication
The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the website of the Administration Manager (www.downing.co.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

REPORT OF THE DIRECTORS (continued)

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2012 (www.frc.org.uk) is shown on page 25.

Other matters

Information in respect of greenhouse emissions which is normally disclosed within the Report of the Directors has been disclosed within the Strategic Report on page 17.

Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board

G Whitehouse

Grant Whitehouse
Secretary of Hazel Renewable Energy VCT2 plc

Company number: 07378395

Registered office:
Ergon House
Horseferry Road
London SW1P 2AL

26 January 2015

DIRECTORS' REMUNERATION REPORT

Annual Statement of the Remuneration Committee

There have been no changes to the Director's remuneration and no major decisions regarding the remuneration policy during the year ended 30 September 2014.

Report on Remuneration Policy

Below is the Company's remuneration policy. This policy applies from 1 October 2014. Shareholders must vote on the remuneration policy every three years, or sooner if the Company want to make changes to the policy.

The Company's policy on Directors' remuneration is to seek to remunerate Board members at a level appropriate for the time commitment required and degree of responsibility involved and to ensure that such remuneration is in line with general market rates. Non-executive Directors will not be entitled to any performance related pay or incentive (other than by virtue of also being a member of the Management Team).

Initial Directors' remuneration levels were set in the Company's prospectus and there has been no change to those levels to date.

Directors' remuneration is also subject to the Company's Articles of Association which provide that:

(i) The aggregate fees will not exceed £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time); and
(ii) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

Agreement for services

Information in respect of the Directors agreements has been disclosed within the Report of the Directors on page 18.

Performance incentive fees

The structure of 'A' Shares, whereby Management owns one third of the 'A' shares in issue (known as the "Management 'A' Shares"), enables a payment, by way of a distribution of income, of the performance incentive fees to the Management Team, including Gareth Owen who was a Director during the year and Christian Yates who is a Director and former member of the Management Team. A dividend of 3.7p per 'A' share was paid on 28 February 2014, which equated to a payment of £82,000 on the Management 'A' shares held by Gareth Owen and £96,000 on the Management 'A' shares held by Christian Yates.

Annual Report on Remuneration

The Board have prepared this report in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) and the Companies Act 2006.
Under the requirements of Section 497 of the Companies Act 2006, the Company's Auditor is required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 26 to 29.

Directors' remuneration (audited)

Directors' remuneration for the Company for the year under review was as follows:

	Current annual fee	Year ended 30/09/14	Year ended 30/09/13
	£	£	£
Peter Wisher	20,000	20,000	20,000
Alexander Hambro	15,000	15,000	15,000
Christian Yates	15,000	15,000	15,000
Gareth Owen	Nil	15,000	Nil
	50,000	65,000	50,000

No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director other than £82,000 to Gareth Owen and £96,000 to Christian Yates in respect of performance incentive fees referred to above. The Company does not have any share options in place.

2014/2015 remuneration

The remuneration levels for the forthcoming year for the Directors of Hazel Renewable Energy VCT2 plc are expected to be as follows:

	Year ended 30/09/15	Year ended 30/09/14
	£	£
Peter Wisher	20,000	20,000
Alexander Hambro	15,000	15,000
Christian Yates	15,000	15,000
Bozkurt Aydinoglu	15,000	n/a
Gareth Owen	n/a	15,000
	65,000	65,000

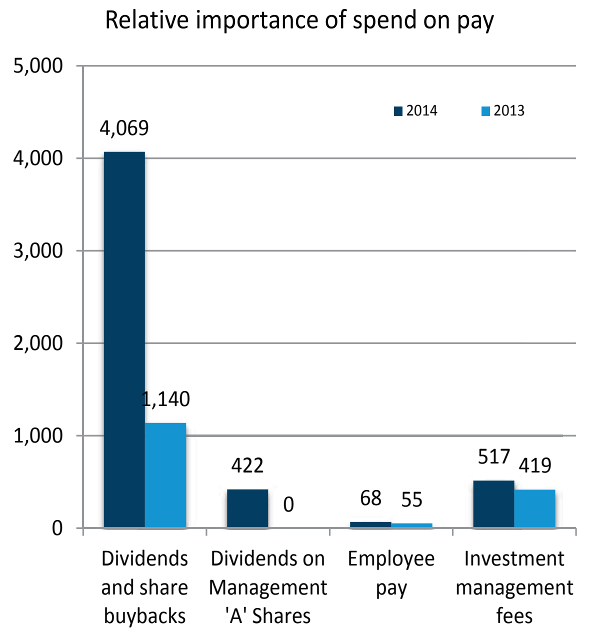
Statement of voting at AGM

At the AGM on 25 March 2014, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	100%
Against	0%
Withheld	nil votes

Relative importance of spend on pay

The difference in actual spend between 30 September 2014 and 30 September 2013 on remuneration for all employees in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the tabular graph below:



Performance graph

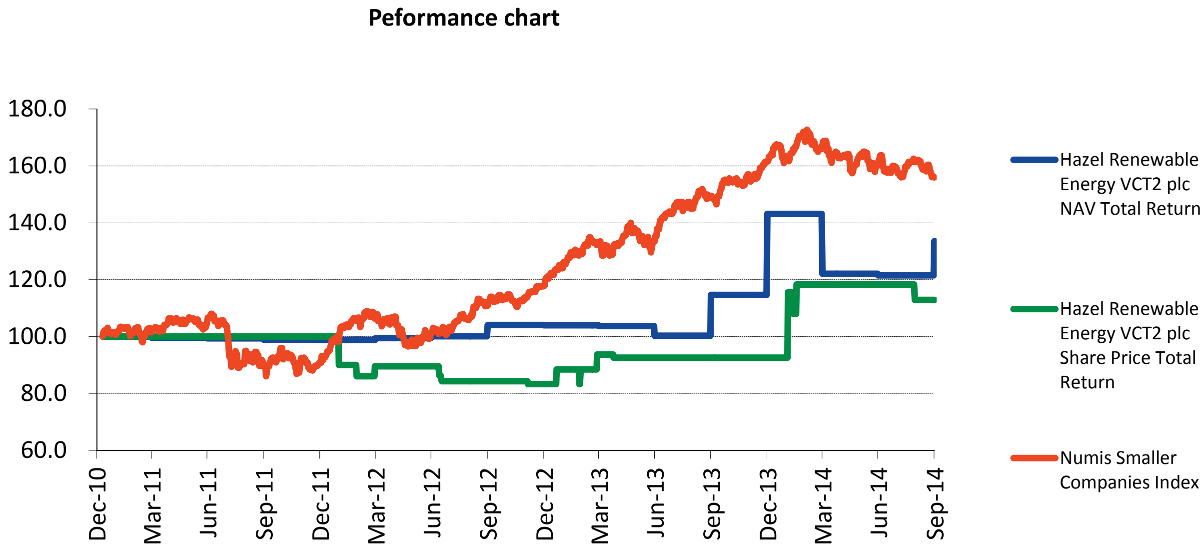
The graph below represents the Company's performance over the reporting periods since the Company's Ordinary Shares and 'A' Shares were first listed on the London Stock Exchange, and shows share price total return and net asset value total return performance on a dividends reinvested basis. All series are rebased to 100 at 10 January 2011, being the date the Company's shares were listed.

The Numis Smaller Companies Index has been chosen as a comparison as it is a publicly available broad equity index which focuses on smaller companies and is therefore more relevant than most other publicly available indices.

By order of the Board

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

26 January 2015



CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued in September 2012, being the principles of good governance and the code of best practice, as set out in Section 1 of the UK Corporate Governance Code annexed to the Listing Rules of the Financial Conduct Authority.

The Board

The Company has a Board comprising four non-executive Directors. The Chairman is Peter Wisher. The Company has not appointed a senior independent director. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 2.

In accordance with company policy all of the Directors are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Investment Manager; making decisions concerning the acquisition or disposal of investments; and reviewing, annually, the terms of engagement of all third party advisers (including the Investment Manager and Administration Manager).

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested by the Chairman, in advance of each Board meeting.

Peter Wisher, Alexander Hambro and Christian Yates are the sole members of the Audit, the Remuneration and the Nomination Committees. The Chairman of each Committee is Alexander Hambro. The Audit Committee normally meets twice yearly, and the Remuneration and Nomination Committees meet as required. All Committees have defined terms of reference and duties.

The Board has authority to make market purchases of the Company's own shares. This authority to purchase up to 14.9% of the Company's issued share capital was granted at the last AGM. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 18.

Audit Committee

The Audit Committee has defined terms of reference and duties. It is responsible for reviewing the half-year and annual accounts before they are presented to the Board, the terms of appointment of the Auditor, together with their remuneration, as well as a full review of the effectiveness of the Company's internal control and risk management systems.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Manager, for presentation within the half-yearly and annual accounts.

The Committee also takes into consideration, comments on matters regarding valuation, revenue recognition and disclosures arising from the Report to the Audit Committee as part of the finalisation process for the Annual Accounts.

The Audit Committee met twice during the year. The Committee reviewed the internal financial controls and concluded that they were appropriate. They also considered the need for an internal audit function and concluded that, due to the size of the Company, this would not be an appropriate function.

As the Company has no staff, other than the Directors, there are no procedures in place in respect of C3.4 of the UK Corporate Governance Code relating to whistle blowing. The Audit Committee understands that the Investment Manager and Administration Manager have whistle blowing procedures in place.

External auditor

The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit and confirms their status on independence.

The Committee confirms that the two main areas of risk for the period under review are the carrying value of investments and revenue recognition. The Committee's consideration of these matters is set out above.

External auditor (continued)
Any non-audit services provided by the Auditor are reviewed and approved by the Committee prior to being undertaken to ensure that auditor objectivity and independence is safeguarded. During the year BDO LLP undertook the role as sponsors for a fee of £48,000 in connection with the circular published on 22 November 2013 by the Company. With the exception of this, as well as tax compliance services and review procedures in relation to the manager's assessment of the added value of the Lunar transaction, the auditor has not provided any other non-audit services. The Audit Committee evaluated the appropriateness of the auditor to undertake this work and were satisfied that the auditor was best placed to carry out the work and did not impact on their independence.

The Committee after taking into consideration comments from the Investment Manager and Administration Manager, regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend to the Board either the re-appointment or removal of the auditors.

Following assurances received from the Managers at the completion of the audit for the period ended 30 September 2014, and taking discussions held with the engagement Partner at BDO LLP into consideration, the Committee has recommended they be reappointed at the forthcoming AGM.

Board and Committee meetings
The following table sets out the Directors' attendance at the Board and Committee meetings during the year:

	Board meetings attended (5 held)	**Audit Committee meetings attended** (2 held)
Peter Wisher	5	2
Alexander Hambro	5	2
Christian Yates	5	2
Gareth Owen	5	n/a

No Remuneration or Nomination Committee meetings were held in the year.

Remuneration Committee
The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 21, and this is subject to Shareholder approval.

Nomination Committee
The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Committee meets as and when appropriate.

Relations with Shareholders
Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the period, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Manager and the Board are available to answer any questions a Shareholder may have. Separate resolutions are proposed at the AGM on each substantially separate issue. The Administration Manager collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the UK Corporate Governance Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the fourth AGM and proxy form can be found at the end of these financial statements.

The terms of reference of the Committees and the conditions of appointment of non-executive Directors are available to Shareholders on request.

Financial reporting
The Directors' responsibilities statement for preparing the accounts is set out in the Report of the Directors on page 19 and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 27.

Internal control
The Board has adopted an Internal Control Manual ("Manual") for which it is responsible, which has been compiled in order to comply with the UK Corporate Governance Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

CORPORATE GOVERNANCE **(continued)**

Internal control (continued)

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and they review the effectiveness of the Manual, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the year.

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company (including the Financial Reporting Process) to the following advisers:

Investment Management	Hazel Capital LLP
Administration	Downing LLP

Anti-bribery policy

The Company operates an anti-bribery policy to ensure that it meets its responsibilities arising from the Bribery Act 2010. This policy can be found on the website maintained by Downing LLP at www.downing.co.uk.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 and 4, the Investment Manager's Report on pages 5 and 6 and the Strategic Report on pages 14 to 17. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 32.

In addition, note 18 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources at the year end and holds a diversified portfolio of investments. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they believe that the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial statements.

Share capital

The Company has two classes of share capital: Ordinary Shares and 'A' Shares. The rights and obligations attached to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on page 18 of the Report of the Directors.

Compliance statement

The Listing Rules require the Board to report on compliance with the 52 UK Corporate Governance Code provisions throughout the accounting period. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 30 September 2014 with the provisions set out in Section 1 of the UK Corporate Governance Code.

a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the AGM. (B.4.1. B.4.2, E.1.1)

b) Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)

c) Non-executive Directors' contracts are on a three month rolling notice following an initial one year fixed term, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion this does not make a substantive difference to the circumstances of the Company. (B.2.3)

d) As the Company has no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)

G Whitehouse

Grant Whitehouse
Company Secretary
Ergon House
Horseferry Road
London SW1P 2AL

26 January 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAZEL RENEWABLE ENERGY VCT2 PLC

Our opinion on the financial statements

In our opinion the Hazel Renewable Energy VCT2 plc financial statements for the year ended 30 September 2014, which have been prepared by the directors in accordance with applicable law and United Kingdom Accounting Standards (together "UK GAAP"):

- give a true and fair view of the state of the company's affairs as at 30 September 2014 and of the company's profit for the year then ended;
- have been properly prepared in accordance with UK GAAP; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

What our opinion covers

Our audit opinion on the financial statements covers the:

- Income Statement;
- Reconciliation of Movements in Shareholders' Funds;
- Balance Sheet;
- Cash Flow Statement; and
- related notes

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's (FRC) website at www.frc.org.uk/auditscopeukprivate

Our approach

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Manager and Administrator and, the overall control environment. Based on this understanding we assessed those aspects of the company's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response:

Risk area	Audit response
Valuation of investments: Valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the company.	The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The majority of investments are valued using an appropriately tailored discounted cashflow model. For a sample of such investments held, our audit procedures included: • reviewing and challenging the assumptions inherent in the discounted cashflow model by comparison to current operational and appropriate benchmark data; • assessing the appropriateness of the discount rates applied in the model with reference to recent market data for comparable assets; • testing the integrity of each model by using computer assisted audit techniques; • assessing the appropriateness of the discount rates applied in the model with reference to recent market data for comparable assets; and • assessing the impact of estimation uncertainty concerning these assumptions and the completeness of associated disclosures in the financial statements.

Our approach (continued)

Risk area	Audit response
Valuation of investment (continued)	For the remaining investments, cost is reviewed for impairment which is typically used as an approximation of fair value. For a sample of these investments we considered the appropriateness of this methodology by considering the proximity of the acquisition to the year end, if appropriate, or the operational performance of the investee company. Where such investments were loans, we also considered wider economic and commercial factors that, in our judgement, could impact on the recoverability and valuation of those loans. For all investments sampled, we developed our own point estimate where alternative assumptions could reasonably be applied and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.
Revenue recognition: Revenue consists of loan stock interest, dividends receivable from investee companies and interest earned on cash balances. Revenue recognition is a presumed risk under International Standards on Auditing (UK & Ireland).	• we evaluated the controls relating to revenue recognition and we developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid; • we considered whether the accounting policy had been applied correctly by management in determining provisions against income where recovery is considered doubtful, considering management information relevant to the ability of the investee company to service the loan and the reasons for any arrears of loan interest; • we also reviewed the recognition and classification of any accrued income, considering the appropriateness of the classification of income between revenue and capital in the Income Statement; and • we also tested dividends receivable to cash received, as well as to supporting documentation and management accounts of the investee companies.

The Audit Committee's consideration of these key issues is set out on page 23.

Respective responsibilities of directors and auditor

As explained more fully in the Report of the Directors, the Directors are responsible for the preparation of the financial statements and for being satisfied that they 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 FRC's Ethical Standards for Auditors.

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated on page 28.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAZEL RENEWABLE ENERGY VCT2 PLC (continued)

Materiality in context (continued)

Materiality measure	Purpose	Key considerations and benchmarks	£
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view.	• The value of net assets • The level of judgement inherent in the valuation • The range of reasonable alternative valuation	650,000
Specific materiality – classes of transactions and balances which impact on net realised returns	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	• Level of gross expenditure	80,000

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £15,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 24 and 25 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAZEL RENEWABLE ENERGY VCT2 PLC (continued)

Matters on which we are required to report by exception (continued)

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 25, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

BDO LLP

Rhodri Whitlock (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

26 January 2015
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

INCOME STATEMENT

for the year ended 30 September 2014

	Note	Year ended 30 September 2014 Revenue £'000	Year ended 30 September 2014 Capital £'000	Year ended 30 September 2014 Total £'000	Year ended 30 September 2013 Revenue £'000	Year ended 30 September 2013 Capital £'000	Year ended 30 September 2013 Total £'000
Income	2	370	-	370	386	-	386
Gain on investments	9	-	8,343	8,343	-	2,371	2,371
		370	8,343	8,713	386	2,371	2,757
Investment management fees	3	(388)	(129)	(517)	(314)	(104)	(418)
Other expenses	4	(302)	(12)	(314)	(230)	(32)	(262)
Profit/(loss) on ordinary activities before tax		(320)	8,202	7,882	(158)	2,235	2,077
Tax on ordinary activities	6	-	-	-	-	-	-
Profit/(loss) attributable to equity shareholders		(320)	8,202	7,882	(158)	2,235	2,077
Basic and diluted earnings per share:							
Ordinary Share	8	(1.4p)	34.7p	33.3p	(0.7p)	9.8p	9.1p
'A' Share	8	-	-	-	-	-	-

All Revenue and Capital items in the above statement derive from continuing operations. The total column within the Income Statement represents the profit and loss account of the Company. No operations were acquired or discontinued during the year.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement noted above.

Other than revaluation movements arising on investments held at fair value through profit or loss, there were no differences between the profit or loss as stated above and historical cost.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Note	Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000
Opening Shareholders' funds		22,545	21,607
Proceeds from share issue	13	2,067	-
Share issue costs	13	(98)	-
Profit for the year		7,882	2,077
Dividend paid	7	(4,069)	(1,139)
Closing Shareholders' funds		28,327	22,545

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

BALANCE SHEET
as at 30 September 2014

	Note	£'000	2014 £'000	£'000	2013 £'000
Fixed assets					
Investments	9		29,802		22,510
Current assets					
Debtors	10	144		175	
Cash at bank and in hand	17	163		537	
		307		712	
Creditors: amounts falling due within one year	11	(682)		(677)	
Net current liabilities/assets			(375)		35
Total Assets less net current liabilities/assets			29,427		22,545
Creditors: amounts falling due after more than one year	12	(1,100)		-	
Net assets			28,327		22,545
Capital and reserves					
Called up Ordinary Share capital	13		25		23
Called up 'A' Share capital	13		37		34
Share premium account	14		3,985		2,001
Special reserve	14		13,632		17,721
Revaluation reserve	14		12,127		3,166
Capital reserve - realised	14		(794)		(35)
Revenue reserve	14		(685)		(365)
Total Shareholders' funds			28,327		22,545
Basic and diluted net asset value per share					
Ordinary Share	15		115.0p		98.8p
'A' Share	15		0.1p		0.1p

The financial statements of Hazel Renewable Energy VCT2 plc on pages 30 to 47 were approved and authorised for issue by the Board of Directors on 26 January 2015 and were signed on its behalf by:

Peter Wisher
Chairman
Company number: 07378395

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

CASH FLOW STATEMENT

for the year ended 30 September 2014

	Note	Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000
Net cash (outflow)/inflow from operating activities and returns on investments	16	(424)	528
Capital expenditure			
Purchase of investments	9	(1,684)	(2,283)
Proceeds from disposal of investments	9	2,735	2,801
Net cash inflow from capital expenditure		1,051	518
Dividends paid	7	(4,069)	(1,139)
Net cash outflow before financing		(3,442)	(93)
Financing			
Proceeds from Ordinary Share issue	13	2,062	-
Proceeds from 'A' Share issue	13	4	-
Long term loans	12	1,100	-
Share issue costs	13	(98)	-
Net cash inflow from financing		3,068	-
Decrease in cash	17	(374)	(93)

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

NOTES TO THE ACCOUNTS
for the year ended 30 September 2014

1. Accounting policies

Basis of accounting

The Company has prepared its financial statements under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" revised January 2009 ("SORP").

The financial statements are prepared under the historical cost convention except for fixed asset investments which are measured at fair value.

The Company implements new Financial Reporting Standards ("FRS") issued by the Financial Reporting Council when they become effective.

Presentation of income statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

Investments

All investments are designated as "fair value through profit or loss" assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company's documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEV") together with FRS26.

For unquoted investments, fair value is established by using the IPEV guidelines. The valuation methodologies for unquoted entities used by the IPEV to ascertain the fair value of an investment are as follows:

- Price of recent investment;
- Multiples;
- Net assets;
- Discounted cash flows or earnings (of underlying business);
- Discounted cash flows (from the investment); and
- Industry valuation benchmarks.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

Gains and losses arising from changes in fair value are included in the Income Statement for the year as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership or liquidation, or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

It is not the Company's policy to exercise controlling influence over investee companies. Therefore, the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP that does not require portfolio investments to be accounted for using the equity method of accounting.

1. Accounting policies (continued)

Income

Dividend income from investments is recognised when the Shareholders' rights to receive payment have been established, normally the ex-dividend date.

Interest income is accrued on a time apportionment basis, by reference to the principal sum outstanding and at the effective interest rate applicable and only where there is reasonable certainty of collection in the foreseeable future.

Expenses

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Income Statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment; and
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted a policy of charging 75% of the investment management fees to the revenue account and 25% to the capital account to reflect the Board's estimated split of investment returns which will be achieved by the Company over the long term.

Taxation

The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate, using the Company's effective rate of tax for the accounting period.

Due to the Company's status as a VCT and the continued intention to meet the conditions required to comply with Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

Deferred taxation, which is not discounted, is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts.

Other debtors, other creditors and loan notes

Other debtors (including accrued income), other creditors and loan notes (other than those held as part of the investment portfolio as set out in note 9) are included within the accounts at amortised cost.

Issue costs

Issue costs in relation to the shares issued for each share class have been deducted from the share premium account.

2. Income

	Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000
Income from investments		
Loan stock interest	179	378
Dividend Income	175	-
	354	378
Other income		
Bank interest	16	8
	370	386

3. Investment management fees

The management fee, which is charged quarterly to the Company, is based on 2% of the net assets as at the previous quarter end.

	Year ended 30 September 2014			Year ended 30 September 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fees	388	129	517	314	104	418

4. Other expenses

	Year ended 30 September 2014			Year ended 30 September 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Administration services	35	-	35	35	-	35
Trail commission	113	-	113	90	-	90
Directors' remuneration	65	-	65	52	-	52
Social security costs	3	-	3	3	-	3
Auditor's remuneration for audit	20	-	20	20	-	20
Auditor's remuneration for non-audit services (taxation compliance)	2	-	2	1	-	1
Auditor's remuneration for non-audit services (limited assurance review)	19	-	19	-	-	-
VAT rebate	-	-	-	(10)	-	(10)
Incidental capital expenses	-	12	12	-	32	32
Other	45	-	45	39	-	39
	302	12	314	230	32	262

The annual running costs of the Company for the year are subject to a cap of 3.5% of net assets of the Company, which was not breached during the year under review.

5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 21.

The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in note 4 above. No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

6. Tax on ordinary activities

	Year ended 30 September 2014 £'000	Year ended 30 September 2013 £'000
(a) Tax charge for the year		
UK corporation tax at 22.0% (2013: 23.5%)	-	-
Charge for the year	-	-
(b) Factors affecting tax charge for the year		
Profit on ordinary activities before taxation	7,882	2,077
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 22.0% (2013: 23.5%)	1,734	488
Effects of:		
Gains on investments	(1,835)	(557)
Expenses disallowed for tax purposes	27	24
Losses available to carry forward	74	45
Current tax charge	-	-

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £686,000 (2013: £371,000). The associated deferred tax asset of £151,000 has not been recognised due to the fact that it is unlikely that the excess management fees will be set off against future taxable profits in the foreseeable future.

7. Dividends

	Year ended 30 September 2014			Year ended 30 September 2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid						
2014 Interim Ordinary – 7.3p	-	1,665	1,665	-	-	-
2014 Interim 'A' share – 3.7p	-	1,265	1,265	-	-	-
2013 Final Ordinary – 5.0p	-	1,139	1,139	-	-	-
2012 Final Ordinary – 5.0p	-	-	-	-	1,139	1,139
	-	4,069	4,069	-	1,139	1,139
Proposed						
2014 Interim Ordinary – 7.3p	-	-	-	-	1,664	1,664
2014 Interim 'A' share – 3.7p	-	-	-	-	1,265	1,265
2013 Final Ordinary – 5.0p	-	-	-	-	1,139	1,139
	-	-	-	-	4,068	4,068

8. Basic and diluted earnings per share

(Loss)/profit per share is calculated on the following:		Weighted average number of shares in issue	Revenue loss £'000	Capital return £'000
Year ended 30 September 2014	Ordinary Shares	23,614,754	(320)	8,190
	'A' Shares	35,422,130	-	12
Year ended 30 September 2013	Ordinary Shares	22,793,328	(158)	2,232
	'A' Shares	34,189,992	-	3

As the Company has not issued any convertible securities or share options, there is no dilutive effect on earnings per Ordinary Share or 'A' Share. The earnings per share disclosed therefore represents both the basic and diluted return per Ordinary Share or 'A' Share.

9. Fixed assets – investments

	2014 Unquoted investments £'000	2013 Unquoted investments £'000
Opening cost at 1 October 2013	19,344	19,862
Unrealised gains as at 1 October 2013	3,166	795
Opening fair value at 1 October 2013	22,510	20,657
Movement in the year:		
Purchased at cost	1,684	2,283
Disposals - proceeds	(2,735)	(2,801)
- realised gains on disposals	-	-
Unrealised gains in the income statement	8,343	2,371
Closing fair value at 30 September 2014	29,802	22,510
Closing cost at 30 September 2014	17,675	19,344
Unrealised gains at 30 September 2014	12,127	3,166
Closing fair value at 30 September 2014	29,802	22,510

9. Fixed assets – investments (continued)

The Company has categorised its financial instruments using the fair value hierarchy as follows:

Level 1 Reflects financial instruments quoted in an active market;

Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and

Level 3 Reflects financial instruments with inputs that are not based on observable market data (unquoted equity investments and loan note investments).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2014 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2013 £'000
Unquoted loan notes	-	-	6,924	6,924	-	-	7,975	7,975
Unquoted equity	-	-	22,878	22,878	-	-	14,535	14,535
	-	-	29,802	29,802	-	-	22,510	22,510

During the year to 30 September 2014 there were no transfers between levels. During the year to 30 September 2013 a holding of 600,000 unquoted loan notes, costing £600,000, were converted at par into preference shares and £75,000 of unquoted loan notes were reclassified as unquoted equity.

Reconciliation of fair value for Level 3 financial instruments held at the year end:

	Unquoted loan notes £'000	Unquoted equity £'000	Total £'000
Balance at 30 September 2013	7,975	14,535	22,510
Movements in the income statement:			
Unrealised gains in the income statement	-	8,343	8,343
	-	8,343	8,343
Additions at cost	1,684	-	1,684
Sales proceeds	(2,735)	-	(2,735)
Balance at 30 September 2014	6,924	22,878	29,802

The Board and the Investment Manager believe that the valuations as at 30 September 2014 reflect the most appropriate assumptions at the date, giving due regard to all information available from each investee company. There is an element of judgment in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to certain of the VCT's investments. FRS 29 requires disclosure to be made if changing one or more of the assumptions used in valuing investments would result in a significant change in the fair value of the investments. The portfolio has been reviewed and both downside and upside alternative assumptions of a 0.5% movement in the discount rate has been identified. These result in an overall increase of £2,033,000 to the value of the unquoted investments for an upside scenario and an overall decrease of £2,170,000 to the value of the unquoted investments for a downside scenario. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown on page 43.

Investments which are reaching maturity or have an established level of maintainable earnings are valued on a discounted cash flow basis. Additions and those investments which have not yet established an acceptable level of maintainable earnings continue to be held at cost reviewed for impairment or at net asset value as appropriate.

10. Debtors

	2014 £'000	2013 £'000
Prepayments and accrued income	144	175
	144	175

11. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Short term borrowings	524	524
Taxation and social security	3	3
Accruals and deferred income	155	150
	682	677

12. Creditors: amounts falling due after more than one year

	2014 £'000	2013 £'000
Other loans	1,100	-
	1,100	-

Borrowings are repayable as follows:	2014 £'000	2013 £'000
After five years	1,100	-
	1,100	-

The loan is interest free and is due to be repaid on 17 December 2043; however the Company may prepay the whole or any part of the loan at any time up to the repayment date.

13. Called up share capital:

	2014 £'000	2013 £'000
Allotted, called up and fully-paid:		
24,603,158 (2013: 22,793,330) Ordinary Shares of 0.1p each	25	23
36,904,733 (2013: 34,189,992) 'A' Shares of 0.1p each	37	34
	62	57

The Company's capital is managed in accordance with its investment policy as shown in the Strategic Report, in pursuit of its principal investment objectives as stated on pages 14 and 15. There has been no significant change in the objectives, policies or processes for managing capital from the previous period.

The Company has the authority to buy back shares as described in the Report of the Directors. No shares were repurchased during the year.

For the year ended 30 September 2014, between 4 April 2014 and 27 May 2014, 1,809,828 Ordinary Shares were issued at an average price of 114.0p per share, 1,809,828 'A' Shares were issued at 0.1p per share and 904,913 'A' Shares were issued to the Management Team (known as "Management 'A' Shares") at 0.1p per share pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £1,969,000 net of issue costs of £98,000. No shares were issued during the year ended 30 September 2013.

13. Called up share capital (continued)

The holders of Ordinary Shares and 'A' Shares shall have rights as regards to dividends and any other distributions or a return of capital (otherwise than on a market purchase by the Company of any of its shares) which shall be applied on the following basis:

1) Unless and until Ordinary Shareholders receive a dividend of at least 5.0p per Ordinary Share and one Ordinary Share and one 'A' Share has a combined net asset value of 100p (the Hurdle), distributions will be made as to 99.9% to Ordinary Shares and 0.1% to 'A' Shares;
2) After (and to the extent that) the Hurdle has been met, and subject to point 3 below, the balance of such amounts shall be applied as to 40% to Ordinary Shares and 60% to 'A' Shares; and
3) Any amount of a dividend which, but for the entitlement of 'A' Shares pursuant to point 2 above, would have been in excess of 10p per Ordinary Share in any year shall be applied as to 10% to Ordinary Shares and 90% to 'A' Shares.

If, on the date on which a dividend is to be declared on the Ordinary Shares, the amount of any dividend which would have been payable to the 'A' Shares (the ''A' Dividend Amount'), together with any previous amounts which were not paid as a result of this clause (the ''A' Share Entitlement'), would together:

a) in aggregate be less than £5,000; or
b) be less than an amount being equivalent to 0.25p per 'A' Share

then the 'A' Dividend amount shall not be declared and paid, but shall be aggregated with any 'A' Share Entitlement and retained by the Company until either threshold is reached. No interest shall accrue on any 'A' Share Entitlement.

The Company does not have any externally imposed capital requirements.

14. Reserves

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 1 October 2013	2,001	17,721	3,166	(35)	(365)
Issue of new shares	2,062	-	-	-	-
Share issue costs	(78)	(20)	-	-	-
Expenses capitalised	-	-	-	(141)	-
Gains on investments	-	-	8,343	-	-
Transfer between reserves	-	-	618	(618)	-
Loss for the year	-	-	-	-	(320)
Dividend paid	-	(4,069)	-	-	-
At 30 September 2014	3,985	13,632	12,127	(794)	(685)

The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay dividends. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. The distributable reserve is reduced by unrealised holding losses of £196,000 (2013: £760,000) which are included in the Revaluation reserve. At 30 September 2014, distributable reserves were £11,957,000 (2013: £16,561,000).

15. Basic and diluted net asset value per share

	Shares in issue 2014	Shares in issue 2013	2014 Net asset value per share	2014 Net asset value £'000	2013 Net asset value per share	2013 Net asset value £000
Ordinary Shares	24,603,159	22,793,330	**115.0**	28,290	**98.8**	22,511
'A' Shares	36,904,733	34,189,992	**0.1**	37	**0.1**	34

The Directors allocate the assets and liabilities of the Company between the Ordinary Shares and 'A' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights as described in note 13.

As the Company has not issued any convertible shares or share options, there is no dilutive effect on net asset value per Ordinary Share or per 'A' Share. The net asset value per share disclosed therefore represents both the basic and diluted net asset value per Ordinary Share and per 'A' Share.

16. Reconciliation of return on ordinary activities before taxation to net cash flow from operating activities

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	7,882	2,077
Gains on investments	(8,343)	(2,371)
Decrease in debtors	32	275
Increase in creditors	5	547
Net cash (outflow)/inflow from operating activities and returns on investments	(424)	528

17. Reconciliation of net cash flow to movement in net debt

	Net funds at 1 October 2013 £'000	Cash flows £'000	Net debt at 30 September 2014 £'000
Cash at bank and in hand	537	(374)	163
Debt due within one year	(524)	-	(524)
Debt due in more than one year	-	(1,100)	(1,100)
	13	(1,474)	(1,461)

18. Financial instruments

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in unquoted companies, loans and receivables consisting of short term debtors, cash deposits and financial liabilities being creditors arising from its operations. The main purpose of these financial instruments is to generate cashflow and revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 1. The composition of the investments is set out in note 9.

Loans and receivables and other financial liabilities, as set out in the balance sheet, are stated at amortised cost which the Directors consider is equivalent to fair value.

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The principal financial risks arising from the Company's operations are:

- Investment risks;
- Credit risk; and
- Liquidity risk.

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company was expected to be exposed to over the year and there have also been no significant changes to the policies for managing those risks during the year.

The risk management policies used by the Company in respect of the principal financial risks and a review of the financial instruments held at the year end are provided below:

Investment risks

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these investment risks is a fundamental part of investment activities undertaken by the Investment Manager and overseen by the Board. The Manager monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information and attendance at investee company board meetings. This enables the Manager to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

The key investment risks to which the Company is exposed are:

- Investment price risk
- Interest rate risk

18. Financial instruments (continued)

Investment price risk

The Company's investments which comprise of both equity and debt financial instruments in unquoted investments are all in renewable energy projects with predetermined expected returns. Consequently, the investment price risk arises from uncertainty about the future prices and valuations of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through changes in the fair value of unquoted investments that it holds.

At 30 September 2014, the unquoted portfolio was valued at £29,802,000 (2013: £22,510,000). Given the nature of financial instruments, variations in share prices are unlikely to have a significant impact on valuations of the unquoted investments. Having regard to the variability of key inputs into the Company's valuation model, a 10% spread of movement in the valuations of all of the unquoted investments is considered reasonable, the effect of which is quantified below:

10% movement in unquoted investment valuations

	2014		2013	
	Impact on net assets £'000	Impact on NAV per share pence	Impact on net assets £'000	Impact on NAV per share pence
Unquoted investments	2,980	12.1p	2,251	9.9p

The sensitivity analysis for unquoted valuations above assumes that each of the sub-categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall movement of 10%. Shareholders should note that equal correlation between these sub-categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to market price risk in isolation.

Interest rate risk

The Company accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The Company receives interest on its cash deposits at a rate agreed with its bankers. Investments in loan stock attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

There are four categories in respect of interest which are attributable to the financial instruments held by the Company as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments and preference shares;
- "Variable rate" assets represent investments with predetermined interest rates that vary at set dates in accordance with loan note agreements;
- "Floating rate" assets predominantly bear interest at rates linked to The Bank of England base rate or LIBOR and comprise cash at bank; and
- "No interest rate" assets do not attract interest and comprise equity investments, certain loan note investments, loans and receivables and other financial liabilities.

	Average interest rate	Average period until maturity	2014 £'000	2013 £'000
Fixed rate	2.7%	1,835 days	6,909	7,960
Variable rate	1.0%	327 days	15	15
Floating rate	0.5%		163	537
No interest rate			21,240	14,033
			28,327	22,545

18. Financial instruments (continued)

Interest rate risk (continued)

The Company monitors the level of income received from fixed and floating or variable rate assets and, if appropriate, may make adjustments to the allocation between the categories, in particular, should this be required to ensure compliance with the VCT regulations.

It is estimated that an increase of 1% in interest rates would have increased profit before tax for the year by £1,630. As the Bank of England base rate stood at 0.5% per annum throughout the year, it is not believed that a reduction from this level is likely.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits and debtors. Credit risk relating to loan stock investee companies is considered to be part of market risk.

The Company's financial assets that are exposed to credit risk are summarised as follows:

	2014 £'000	2013 £'000
Investments in loan stocks	6,924	7,975
Cash and cash equivalents	163	537
Interest, dividends and other receivables	144	175
	7,231	8,687

The Manager manages credit risk in respect of loan stock with a similar approach as described under "Investment risks" above. Similarly the management of credit risk associated interest, dividends and other receivables is covered within the investment management procedures. The level of security is a key means of managing credit risk. Additionally, the risk is mitigated by the security of the assets in the underlying investee companies.

Cash is held by the Royal Bank of Scotland plc which is an A-rated financial institution and also ultimately part-owned by the UK Government. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the year that is directly attributable to changes in credit risk. Any balances that are past due are disclosed further under liquidity risk.

There have been no changes in fair value during the year that are directly attributable to changes in credit risk.

18. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors being £158,000 (2013: £153,000) and has low loans from investee companies being £1,624,000 (2013: £524,000) the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the Investment Manager in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

Although the Company's investments are not held to meet the Company's liquidity requirements, the table below shows an analysis of the assets, highlighting the length of time that it could take the Company to realise its assets if it were required to do so.

The carrying value of loan stock investments held at fair value through the profit and loss account at 30 September 2014 as analysed by the expected maturity date is as follows:

As at 30 September 2014	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	87	-	630	3,623	1,684	6,024
Past due loan stock	-	900	-	-	-	900
	87	900	630	3,623	1,684	6,924

Of the loan stock classified as "past due" above, £900,000 relates to the principal of loan notes where, although the principal remains within the term, the investee company was not fully servicing the interest obligations under the loan note at 30 September 2014 and thus was in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due falls within the banding of one to two years past due. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

As at 30 September 2013	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	225	-	-	4,725	-	4,950
Past due loan stock	-	-	3,025	-	-	3,025
	225	-	3,025	4,725	-	7,975

19. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to provide an adequate return to Shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

As the Investment Policy implies, the Board would consider levels of gearing. As at 30 September 2014 the Company had loans from investee companies of £1,624,000. It regards the net assets of the Company as the Company's capital, as the level of liabilities are small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

20. Contingencies, guarantees and financial commitments

At 30 September 2014, the Company had no contingencies, guarantees or financial commitments.

21. Controlling party and related party transactions

In the opinion of the Directors there is no immediate or ultimate controlling party.

Hazel Capital LLP is regarded as a related party as Bozkurt Aydinoglu is a director of the VCT and a controlling partner in Hazel Capital LLP.

Hazel Capital LLP acted as promoter for the Ordinary Share Top Up offer launched in March 2014. Hazel Capital LLP received 5.5% of the gross proceeds of the offer, out of which it paid the costs of the offer including initial commissions. The fees in the year amounted to £56,700. No issue costs were due or outstanding at the year end.

Hazel Capital LLP also provides investment management services to the Company. Details of the agreement with Hazel Capital LLP are included within note 3. During the year ended 30 September 2014, £517,000 (2013: £418,000) was payable to Hazel Capital LLP in respect of these services. At the year end there was no balance owing to Hazel Capital LLP (2013: nil).

In accordance with the prospectus and the Investment Management agreement, Hazel Capital LLP receives trail commission of 0.4% of the net assets of the Company at the year end, out of which it pays trail commission to financial intermediaries. As at 30 September 2014, this amounted to £113,000 (2013: £90,000), all of which is outstanding and included in accruals and deferred income under Creditors.

NOTICE OF THE FOURTH ANNUAL GENERAL MEETING OF HAZEL RENEWABLE ENERGY VCT2 PLC

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of Hazel Renewable Energy VCT2 plc will be held at 2nd Floor, 227 Shepherd Bush Road, London, W6 7AS at 11:05 a.m. on 9 March 2015 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Report and Accounts for the year ended 30 September 2014 together with the Report of the Auditor thereon.

2. To approve the Directors' Remuneration Report.

3. To re-appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine their remuneration.

4. To re-elect as Director, Peter Wisher, who retires and, being eligible, offers himself for re-election.

5. To re-elect as Director, Alexander Hambro, who retires and, being eligible, offers himself for re-election.

6. To re-elect as Director, Christian Yates, who retires and, being eligible, offers himself for re-election.

7. To re-elect as Director, Bozkurt Aydinoglu, who retires and, being eligible, offers himself for re-election.

As **Special Business**, to consider and, if thought fit, pass the following resolutions:

8. THAT, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot:

    (i) Ordinary Shares or to grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to an aggregate nominal amount of £2,460 (representing approximately 10% of the Ordinary Share capital in issue at today's date);

    (ii) 'A' Shares or to grant rights to subscribe for or to convert any security into 'A' Shares in the Company up to an aggregate nominal amount of £3,690 (representing approximately 10% of the 'A' Share capital in issue at today's date);

    this authority to expire at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or rights to be granted to subscribe for or to convert any security into shares in the Company after such expiry and all previous authorities given by the Directors in accordance with Section 551 of the Act be and are hereby revoked, provided that such revocation shall not have retrospective effect;

Special Resolutions

9. THAT, the Directors be and are hereby empowered, during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in general meeting), pursuant to Section 570 of the Act, to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority given in accordance with Section 551 of the Act, pursuant to resolution 8 above, as if Section 561(1) of the Act did not apply to any such allotment but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired;

10. THAT, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 0.1p each ("Ordinary Shares") and 'A' Shares of 0.1p each ("'A' Shares") in the capital of the Company provided that:

    (i) the maximum number of Ordinary Shares hereby authorised to be purchased is 3,665,870 Ordinary Shares and 5,498,805 'A' Shares representing approximately 14.9% of the issued Ordinary Share capital and 14.9% of the issued 'A' Share capital of the Company;

    (ii) the minimum price which may be paid for an Ordinary Share or 'A' Share is 0.1p, exclusive of all expenses;

    (iii) the maximum price which may be paid for an Ordinary Share or 'A' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the relevant share as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the share is contracted to be purchased; and

    (iv) the Company may validly make a contract to purchase its own Ordinary Shares or 'A' Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares or 'A' Shares in pursuance of any such contract;

    and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution or on the expiry of 15 months from the passing of the resolution, whichever is the earlier.

By order of the Board

GWhitehouse

Grant Whitehouse
Company Secretary

Registered Office
Ergon House
Horseferry Road
London SW1P 2AL
26 January 2015

Notes

(a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:

- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

(b) To be valid, a Form of Proxy and the Power of Attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Ergon House, Horseferry Road, London SW1P 2AL or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

(c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:

- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, Ergon House, Horseferry Road, London SW1P 2AL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
- by sending an e-mail to proxy@downing.co.uk.

In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 11.05 a.m. on 5 March 2015 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 11.05 a.m. on 5 March 2015 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

(g) As at 9:00 a.m. on 26 January 2015, the Company's issued share capital comprised 24,603,159 Ordinary Shares and 36,904,733 'A' Shares and the total number of voting rights in the Company were 24,640,063. The website referred to on page 50 will include information on the number of shares and voting rights.

(h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

(k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.

(l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.