HAZEL RENEWABLE ENERGY VCT2 PLC

REPORT & ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2013

HAZEL CAPITAL

SHAREHOLDER INFORMATION

Forthcoming dividends

		Date of payment	Record date	Pence per share
Special				
Ordinary Share	Special interim y/end 30 Sept 2014	28 February 2014	14 February 2014	7.3p
'A' Share	Special interim y/end 30 Sept 2014	28 February 2014	14 February 2014	3.7p
				11.0p
Final				
Ordinary	Final y/end 30 Sept 2013	28 March 2014	7 March 2014	5.0p

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 Registrars, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am 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).

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 (30 January 2014)	84.0p per share	0.1p 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

28 February 2014	Payment of special dividends
25 March 2014	Annual General Meeting
28 March 2014	Payment of final dividends
May 2014	Announcement of half yearly financial results

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.capitaregistrars.com and click on "Shareholders and employees".

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COMPANY INFORMATION

Registered number	07378395
Directors	Peter Wisher (Chairman) Alexander Hambro Christian Yates Gareth Owen
Company Secretary and Registered Office	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
Investment Manager	Hazel Capital LLP 59 Gloucester Place London W1U 8JH Tel: 020 3434 1010 www.hazelcapital.com
Administration Manager	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN 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 Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30 a.m. to 5:30 p.m. Monday to Friday) www.capitaregistrars.com
Solicitors	Howard Kennedy 19 Cavendish Square London W1A 2AW
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 Report of the Directors on pages 16 and 17.

FINANCIAL HIGHLIGHTS

	Unaudited 31 December 2013 Pence	Audited Year End 30 September 2013 Pence	Audited Year End 30 September 2012 Pence
Net asset value per Ordinary Share	123.1	98.8	94.6
Net asset value per 'A' Share	0.1	0.1	0.1
Dividends paid	8.5	8.5	3.5
Total return per Ordinary Share and 'A' Share	131.7	107.4	98.2

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 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. Fund managers that he has advised include STAR Capital, Sand Aire Private Equity, Lennox Investment Management and Prospect Investment Management Limited. In addition to his private equity activities, Alex is chairman of Judges Scientific plc, Benchmark Holdings plc and is a non-executive director of Octopus Eclipse VCT plc.

Gareth Owen

Gareth Owen has 12 years of experience executing structured transactions across a variety of different projects and joined Hazel Capital LLP in 2011. Prior to that, Gareth worked at Barclays Capital within Barclays Natural Resource Investments, Deutsche Bank in the Structured Transaction Group and Greenwich NatWest in infrastructure project finance. He has an MBA from Imperial College Business School (Distinction) and holds an MSc of Engineering Project Management and a BEng of Civil Engineering from the University of Manchester.

All the Directors are non-executive and, with the exception of Gareth Owen, are independent of the Investment Manager. Following his resignations from Hazel Capital LLP, the Board considers Christian Yates to be independent.

CHAIRMAN'S STATEMENT

I am pleased to present the Company's third annual report. Following major investing activity in the first two years, the Company is now effectively fully invested. This has allowed the Board to seek out ways of enhancing value for Shareholders within the existing portfolio.

During the year, the Investment Manager identified an opportunity to enhance value significantly through the acquisition of additional stakes in a number of existing ground-mounted solar investments. Combined with these acquisitions was a refinancing of the Company's portfolio of investments, structured in a way that the increased risk involved in taking on additional debt is more than offset by the additional projected cashflows from the investments. This transaction completed in December and has resulted in a significant uplift in net asset value (NAV) and an immediate cash inflow into the Company to allow the declaration of a special dividend.

Venture capital investments

At the year end, the Company held a portfolio of 23 investments with a total value of £22.5 million. There was one main addition during the year, being a further investment in Ayshford Solar (Holding) Limited of £2.3 million. There were also a number of loan stock redemptions, which produced total proceeds of £2.8 million and partly financed the new investment in Ayshford Solar.

At the year end, the Board undertook a review of all investment valuations. This has resulted in uplifts in respect of several of the solar investments.

The ground mounted solar investments performed steadily throughout the year and have now established reliable track records. This has supported a total increase in value of £2.5 million at the year end for the investee companies holding this type of asset (AEE Renewables UK 26 Limited, AEE Renewables UK 3 Limited, Beechgrove Solar Limited, New Era Energy Limited, South Marston Solar Limited and Vicarage Solar Limited, Ayshford Solar (Holding) Limited and Owl Lodge (Holding) Limited)).

In addition, the valuations of a number of the Company's rooftop solar investments have also been uplifted. With much of the risk now eliminated from these investments and steady performance now being achieved, Hewas Solar Limited and St. Columb Solar Limited were increased in value by £641,000.

As part of the review of investments, the Board identified two investments that have been performing poorly and have considered it prudent to fully provide against both of them. The first is Quiet Revolution Limited where a provision has been made of £618,000. This was prompted by a further fundraising requirement which the Company was not prepared to support. The Company retains a shareholding following the fundraising but the future of Quiet Revolution Limited remains uncertain. The second provision is £100,000 against loans made available to Lime Technology Limited where interest is now overdue, and there is doubt over the recoverability of the principal.

Over the year, the net unrealised gains on investments was £2.4 million.

Net asset value and results

At 30 September 2013, the NAV per Ordinary Share stood at 98.8p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 98.9p. This represents an increase of 9.2p (9.7%) over the year (after adjusting for dividends paid during the year of 5.0p per share).

The profit on ordinary activities after taxation for the year was £2,077,000, comprising a loss of £158,000 on the revenue account and profit of £2,235,000 on the capital account.

December 2013 refinancing transaction

The refinancing transaction was described in the Circular sent to Shareholders in November and consisted of the acquisition of additional shares in the six ground-mounted solar investments such that the Company now effectively holds 50% stakes in these businesses (with the other 50% being held by Hazel Renewable Energy VCT1 plc). The transaction also involved the introduction of intermediate holding companies (Lunar 1 Limited and Lunar 2 Limited), which drew down borrowings of £66m at an attractive rate partly to fund the acquisitions.

The transaction has allowed the ground-mounted solar project companies to repay £2.1 million of existing loan notes to the VCT.

The primary benefit of the transaction is access to significantly enhanced future cash flows, which the Board feels more than offsets the limited additional risk of financial leverage.

December 2013 refinancing transaction (continued)

Following the transaction, the valuations of the Lunar companies and the other companies involved in the transaction have been reviewed and the Board has concluded that the transaction has resulted in an estimated uplift of £5.6 million across these investments, equivalent to 24.6p per Ordinary Share.

At 31 December 2013, the unaudited NAV per Ordinary Share stood at 123.1p and per 'A' Share at 0.1p. Total Return for a combined holding of one Ordinary Share and one 'A' Share was 131.7p.

Dividends

As a result of the transaction described above, the VCT has had a significant level of cash returned from the investee companies after the year end. The Board intends to distribute the majority of these funds to Shareholders and is proposing special dividends as follows:

Special interim in respect of the year ended 30 September 2014:

Ordinary Shares	7.3p
'A' Shares	3.7p
Total	11.0p

These dividends will be paid on 28 February 2014 to Shareholders on the register at 14 February 2014.

Additionally the Board is also proposing final dividends in respect of the year end 30 September 2013 as follows:

Final in respect of the year ended 30 Sept 2013:

Ordinary Shares	5.0p
'A' Shares	nil

The final dividends will be subject to Shareholder approval at the AGM on 25 March 2014 and will be paid on 28 March 2014 to Shareholders on the register at 7 March 2014.

The 'A' Share structure facilitates the payment of an incentive fee to members of the management team, by virtue of the fact that one third of the 'A' Shares were issued to members of the Management Team outside the offers for subscription. The apportionment of dividends between the Ordinary and 'A' Shares is determined by rules set out in the Company's Articles and the original fundraising prospectus. The above results in dividends of £420,000 being paid on the Management 'A' Shares.

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.

Annual General Meeting

The Company's third AGM will be held at 59 Gloucester Place, London W1U 8JH at 11.05 a.m. on 25 March 2014.

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.

Outlook

The refinancing transaction in December has been a significant development for the Company. The Board recognises the substantial amount of work undertaken by the Management Team and congratulates them on this achievement which, for an acceptable level of financial risk, unlocks funds that can be returned to Shareholders now and also provides the prospect of enhanced dividends for Shareholders in the future.

Looking forward, much of the Manager's work will be on continued close monitoring of the investments to ensure that the underlying projects keep producing the expected returns. In the case of the small numbers of investments which have faced some difficulties, work will continue to seek satisfactory resolutions. Although not without some risk, overall we expect the portfolio to continue to generate very satisfactory returns for Shareholders.

Peter Wisher
Chairman

31 January 2014

INVESTMENT MANAGER'S REPORT

Introduction

We are pleased to be able to report that the year ended 30 September 2013 was very positive and active for Hazel Capital LLP as Investment Manager for Hazel Renewable Energy VCT2 plc. We are delighted to say that we have been able to develop the portfolio to a position where the Company now effectively owns and operates a set of operational assets which have reliable output and exceed our targeted yield.

Overall Portfolio and Operational Review

At the year end, the portfolio comprised 23 companies of which 19 companies were operational and held stakes in 15 underlying projects.

Operationally, the eleven solar projects (4 rooftop and 7 ground-mounted) are performing in line or above expectations. In contrast, and as reported in our report last year, our 4 wind project SPVs have mostly underperformed. We are determined to continue to drive better profitability from all investments, which we believe is possible by having more granular and timely information, making a myriad of small changes to the physical set up of certain projects and by improving response times.

Overall, the portfolio is yielding above the expectations we set for ourselves at the Company's launch and we have increased the value of many of the investments at the year end. This is despite a more volatile regulatory environment which, as expressed below, has dramatically impacted the fortunes of some of our counterparties.

While much of the news from the portfolio has been positive, the significant tariff reductions for new projects in the last 3 years has had heavy impact on the industry and has hit developers in all areas of the market.

One of the 4 solar installers we have worked with went into liquidation in May 2013. This has affected the management of Gloucester Wind Ltd in terms of transitioning paperwork and ongoing operations and maintenance ("O&M"). A replacement O&M contractor has now been brought in and we fully expect this investment to generate its targeted rate of return.

The small wind market has been hit particularly hard with demand for and installations of small wind turbines falling to 82% in 2013 compared to the previous year. As a result of this, the developer of the bulk of our small wind installations, Windcrop Ltd, went into administration in July 2013. This impacts the investments in HRE Willow Ltd, Small Wind Generation Ltd, Tumblewind Limited and Minsmere Power Ltd, which have been underperforming.

Every crisis presents an opportunity and a proactive approach from the underlying manufacturers of the turbines has allowed us to source competitive O&M quotes and to run inspections of all sites to identify reasons for their underperformance and then attempt to resolve them. We are still hopeful that we can lift the returns of the Windcrop fleet closer to expected levels.

We have also held one investment in the form of a non-qualifying loan (of £600,000) to Quiet Revolution Ltd, another small wind developer and manufacturer; an investment made to generate a pipeline of small wind projects The Company has faced difficulties and required further funding during the year which we chose not to support. As a result, our loan was converted into equity, which we have valued at nil at the year end.

Finally, we have made a full provision of £100,000 against our investment in Lime Technology Limited, the sustainable building product developer, where progress has been disappointing.

Despite these provisions, the net overall increase in the valuation of the portfolio over the year was £2.4 million, generally reflecting the maturing state of the underlying projects.

Since the year end we have been able to carry out a significant refinancing of the 6 larger solar parks and acquisition of those shares that the Company did not already own. This is described in more detail below.

FIT Refinancing Transaction

Since the year end, we have been able to carry out a significant refinancing involving the six investments which hold stakes in the ground-mounted solar parks and the acquisition of additional shares in those companies.

The six FIT-earning companies (AEE Renewables UK 26 Ltd, AEE Renewables UK 3 Ltd, Beechgrove Solar Ltd, New Era Energy Ltd, South Marston Solar Ltd and Vicarage Solar Ltd) were offered debt funding with attractive terms. This offer was not attractive to the other shareholders in these companies who preferred an exit for tax reasons and so there was an opportunity for the Company and Hazel Renewable Energy VCT1 plc to acquire the other shareholders' stakes by taking up the debt offer themselves. The transaction was undertaken by the introduction of intermediate holding companies, Lunar 1 Ltd and Lunar 2 Ltd (together the "Lunar Companies"). The Lunar Companies issued a bond to lenders totalling £66 million, which was largely used to acquire the shares of the other investors.

FIT Refinancing Transaction (continued)

Following this transaction:

- The Company, along with Hazel Renewable Energy VCT1 plc, now effectively wholly owns the six companies involved in the transaction (which total 20.4MW) having previously owned between 15% and 39.2% of the larger sites (of 4 to 5MW sites) and 90% of the two smallest sites (of 0.6 to 0.7MW each).
- There is presently £66m of borrowings in the Lunar Companies which own these six projects.
- The value of these companies arrived at by discounting the future cashflows at a WACC (weighted average cost of capital) of 8%, results in an increase in valuation of the Company's investments of £5.6m.
- The main contributors to the increase in valuation include the cost synergies derived from bringing these investments together, continued operational improvements of the assets and the benefits derived from the favourable bond terms agreed to complete the purchase of what are now the wholly owned subsidiaries of the VCT's investment in Lunar.

We are delighted to announce that this transaction has resulted in a further uplift in NAV between the 30 September 2013 year end and the 31 December 2013 of 24.2p, taking the NAV of a combined holding of one Ordinary Share and one 'A' Share to 123.2p and the Total Return of a combined holding to 131.7p.

Further Transactions

While the Investment Manager has no immediate opportunities to add value by further refinancing of other project companies or any other corporate transaction, we will continue to assess incremental opportunities as they present themselves.

Outlook

The refinancing transaction has allowed us to unlock significant value from an already strong solar portfolio. We expect to see continued steady performance from the majority of projects, along with improvements from some of the underperforming assets, and believe that these will provide income to the Company to allow an attractive level of dividends to be paid to Shareholders well into the future.

Ben Guest
Chief Investment Officer
Hazel Capital LLP

31 January 2014

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments were held at 30 September 2013:

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
Qualifying and part-qualifying investments				
AEE Renewables UK 3 Limited*	3,125	3,150	25	13.7%
Ayshford Solar (Holding) Limited	2,716	2,999	283	13.0%
AEE Renewables UK 26 Limited*	1,145	1,928	439	8.4%
Hewas Solar Limited*	1,125	1,624	391	7.1%
South Marston Solar Limited*	952	1,515	563	6.6%
Beechgrove Solar Limited	906	1,369	463	5.9%
New Energy Era Limited	884	1,342	366	5.8%
St. Columb Solar Limited*	735	1,236	250	5.4%
Vicarage Solar Limited	871	1,041	170	4.5%
Gloucester Wind Limited	1,000	1,000	-	4.3%
Minsmere Power Limited	975	975	-	4.2%
Small Wind Generation Limited	975	975	-	4.2%
Penhale Solar Limited	900	900	-	3.9%
HRE Willow Limited	875	875	-	3.8%
Tumblewind Limited	850	850	-	3.7%
Owl Lodge Solar (Holding) Limited	80	260	180	1.1%
Causilgey Solar (Holding) Limited	248	226	(22)	1.0%
Higher Tregarne Solar (Holding) Limited	243	224	(19)	1.0%
Yonder Netherton Solar (Holding) Limited	5	5	-	0.0%
Sunhazel UK Limited	1	1	-	0.0%
	18,611	22,495	3,089	97.6%
Non-qualifying investments				
ZW Parsonage Limited	15	15	-	0.1%
Quiet Revolution Limited	618	-	(618)	0.0%
Lime Technology Limited	100	-	(100)	0.0%
	733	15	(718)	0.1%
	19,344	22,510	2,371	97.7%
Cash at bank and in hand		537		2.3%
Total investments		23,047		100.0%

* Part-qualifying investment

All venture capital investments are incorporated in England and Wales.

Hazel Renewable Energy VCT1, 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 2013

ADDITIONS

	Cost £'000
Qualifying investments	
Ayshford Solar (Holding) Limited	2,265
Non-qualifying investments	
Quiet Revolution Solar Limited	18
	2,283

DISPOSALS

	Cost £'000	Valuation at 30/09/12 £'000	Proceeds £'000	Profit vs cost £'000	Realised gain £'000
Qualifying investments					
Owl Lodge Solar (Holding) Limited	464	464	464	-	-
St. Columb Solar Limited*	200	200	200	-	-
South Marston Solar Limited*	158	158	158	-	-
Higher Tregarne Solar (Holding) Limited	125	125	125	-	-
Causilgey Solar (Holding) Limited	101	101	101	-	-
Penhale Solar Limited	100	100	100	-	-
Beechgrove Solar Limited	94	94	94	-	-
Tumblewind Limited	62	62	62	-	-
	1,304	1,304	1,304	-	-
Non-qualifying investments					
AEE Renewables UK 26 Limited	650	650	650	-	-
AEE Renewables UK 3 Limited	375	375	375	-	-
Hewas Solar Limited	237	237	237	-	-
ZW Parsonage Limited	235	235	235	-	-
	1,497	1,497	1,497	-	-
	2,801	2,801	2,801	-	-

* Part-qualifying investment

The basis of valuation for the largest investments is set out on pages 9 to 11.

All venture capital investments are incorporated in England and Wales.

REVIEW OF INVESTMENTS (continued)

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

AEE Renewables UK 3 Limited

Cost at 30/09/13:	£3,125,000	Valuation at 30/09/13:	£3,150,000
Cost at 30/09/12:	£3,500,000	Valuation at 30/09/12:	£3,500,000
Date of first investment:	Jun 2011	Valuation method:	Cost as reviewed for impairment
Investment comprises:			
Ordinary shares:	£100,200	Proportion of equity held:	19.7%
Loan stock:	£899,800	Proportion of loan stock held:	50%
Loan facility:	£2,125,000	Proportion of loan facility held:	50%
Summary financial information from statutory accounts: 30 April 2012		Turnover:	£643,026
		Operating loss:	(£491,138)
		Net liabilities:	(£339,773)

AEE Renewables UK 3 Limited owns a solar farm located in Sutton Benger, Wiltshire. The project is accredited under the feed-in tariff regime, has a total installed capacity of 5MW and the lease is held with a local farmer. The company has entered into a comprehensive fixed term O&M agreement.

Ayshford Solar (Holding) Limited

Cost at 30/09/13:	£2,716,000	Valuation at 30/09/13:	£2,999,000
Cost at 30/09/12:	£451,000	Valuation at 30/09/12:	£451,000
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:	£2,447,000	Proportion of loan stock held:	36.38%
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 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.

AEE Renewables UK 26 Limited

Cost at 30/09/13:	£1,144,600	Valuation at 30/09/13:	£1,928,000
Cost at 30/09/12:	£1,795,000	Valuation at 30/09/12:	£2,139,000
Date of first investment:	Jun 2011	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£1,144,600	Proportion of equity held:	10.2%
Summary financial information from statutory accounts: 30 April 2012		Turnover:	£598,061
		Operating loss:	(£710,631)
		Net assets:	£9,096,397

AEE Renewables UK 26 Limited owns a solar farm located in Bradford-on-Avon, Wiltshire. The project is accredited under the feed-in tariff regime, has a total installed capacity of 5MW and the lease is held with a local farmer. The company has entered into a comprehensive fixed term O&M agreement.

Hewas Solar Limited

Cost at 30/09/13:	£1,125,000	Valuation at 30/09/13:	£1,624,000
Cost at 30/09/12:	£1,362,500	Valuation at 30/09/12:	£1,470,000
Date of first investment:	Aug 2011	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	50%
Loan stock:	£125,000	Proportion of loan stock held:	50%
Summary financial information from statutory accounts: 30 April 2012		Turnover:	£80,898
		Operating loss:	(£6,294)
		Net assets:	£1,979,185

Hewas Solar Limited owns a portfolio of roof-mounted solar assets located on housing stock owned by a housing association. The company has financed the capital costs of installing equipment and in return will receive the feed-in tariff 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.

REVIEW OF INVESTMENTS (continued)

South Marston Solar Limited

Cost at 30/09/13:	£952,500	Valuation at 30/09/13:	£1,515,000
Cost at 30/09/12:	£1,110,000	Valuation at 30/09/12:	£1,110,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£111,000	Proportion of equity held:	7.5%
Loan stock:	£841,500	Proportion of loan stock held:	8.9%
Summary financial information from statutory accounts: 30 April 2013		Turnover:	£nil
		Operating loss:	(£262)
		Net assets:	£1,471,794

South Marston Solar Limited owns a solar farm located just outside Swindon, Wiltshire. The project is accredited under the feed-in tariff regime, has a total installed capacity of 5MW and the lease is held with a local farmer. The company has entered into a comprehensive fixed term O&M agreement.

Beechgrove Solar Limited

Cost at 30/09/13:	£906,000	Valuation at 30/09/13:	£1,369,000
Cost at 30/09/12:	£1,000,000	Valuation at 30/09/12:	£1,000,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£100,000	Proportion of equity held:	7.8%
Loan stock:	£806,000	Proportion of loan stock held:	8.1%
Summary financial information from statutory accounts: 30 April 2013		Turnover:	£nil
		Operating loss:	(£235)
		Net assets:	£1,270,708

Beechgrove Solar Limited owns a solar farm located near Hawkchurch, Devon. The project is accredited under the feed-in tariff regime, has a total installed capacity of 4MW and the lease is held with a local farmer. The company has entered into a comprehensive fixed term O&M agreement.

New Energy Era Limited

Cost at 30/09/13:	£883,700	Valuation at 30/09/13:	£1,342,000
Cost at 30/09/12:	£883,700	Valuation at 30/09/12:	£976,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£883,700	Proportion of equity held:	45%
Summary financial information from statutory accounts: 30 April 2012		Turnover:	£129,282
		Operating profit:	£34,821
		Net assets:	£1,795,600

New Energy Era Limited owns a solar farm located just outside Shipton under Wychwood, Oxfordshire. The project is accredited under the feed-in tariff 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.

St. Columb Solar Limited

Cost at 30/09/13:	£735,000	Valuation at 30/09/13:	£1,236,000
Cost at 30/09/12:	£935,000	Valuation at 30/09/12:	£1,186,000
Date of first investment:	Sept 2011	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£650,000	Proportion of equity held:	45.6%
Loan stock:	£85,000	Proportion of loan stock held:	50.0%
Summary financial information from statutory accounts: 30 April 2012		Turnover:	£18,953
		Operating loss:	(£30,146)
		Net assets:	£1,281,556

St. Columb Solar Limited owns a portfolio of roof-mounted solar assets located on housing stock owned by housing associations. The company has financed the capital costs of installing equipment and in return will receive the feed-in tariff 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)

Vicarage Solar Limited

Cost at 30/09/13:	£871,000	Valuation at 30/09/13:	£1,041,000
Cost at 30/09/12:	£871,000	Valuation at 30/09/12:	£871,000
Date of first investment:	March 2012	Valuation method:	Discounted Cash Flow
Investment comprises:			
Ordinary shares:	£871,000	Proportion of equity held:	45.0%
Summary financial information from statutory accounts: 30 April 2013		Turnover:	£nil
		Operating loss:	(£3,490)
		Net assets:	£1,931,519

Vicarage Solar Limited is a holding company which owns 100% of the share capital of ZW Parsonage Limited. ZW Parsonage Limited owns a solar farm with a capacity of 0.64MW which is located outside Ilminster, Somerset.

Gloucester Wind Limited

Cost at 30/09/13:	£999,500	Valuation at 30/09/13:	£999,500
Cost at 30/09/12:	£999,500	Valuation at 30/09/12:	£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 has financed the capital costs of installing equipment and in return will receive the feed-in tariff income. Home owners are able to use the electricity generated by the installations free of charge. Roof-top installations commenced in June 2012 and are now approaching completion. The company has entered into a fixed term O&M agreement with the installer.

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.

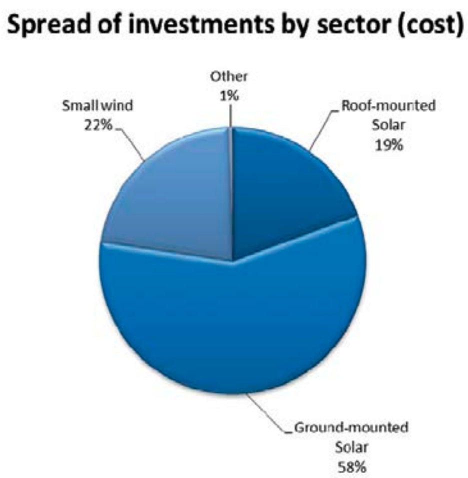
Summary of loan stock interest income

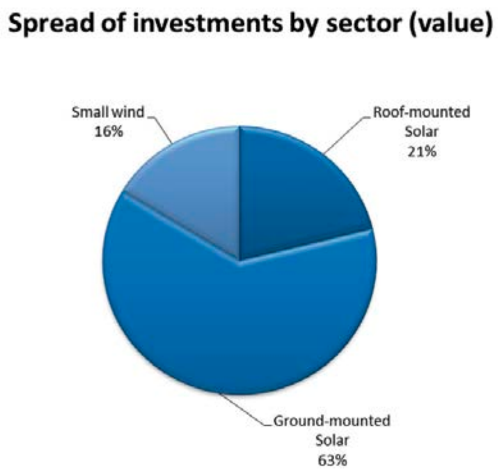
	£'000
Loan stock interest receivable in the period	
AEE Renewables UK 3 Limited	256
Ayshford Solar (Holding) Limited	-
Hewas Solar Limited	17
AEE Renewables UK 26 Limited	10
South Marston Solar Limited	-
St. Columb Solar Limited	14
Beechgrove Solar Limited	-
New Energy Era Limited	-
Gloucester Wind Limited	-
Minsmere Power Limited	11
Other	70
	378

REVIEW OF INVESTMENTS (continued)

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 2013) is as follows:





Analysis of investments by type

The allocation of the funds compared to the target split based on cost is summarised as follows:

	Actual portfolio split at 30 September 2013	Target portfolio split at 30 September 2013
VCT qualifying investments		
Loans to qualifying companies	25%	50%
Ordinary shares in qualifying companies	62%	40%
Total	87%	90%
Non-qualifying investments (including cash at bank)	13%	10%
Total	100%	100%

STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 30 September 2013. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Principal objectives and strategy

The Company's principal objective is to provide shareholders with an attractive level of tax-free capital gains and income generated from a portfolio of renewable energy investments.

The Company's strategy for achieving this objective is 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 which are supported by Government subsidies and;
- comply with the VCT regulations to enable Shareholders to retain the initial income tax relief and ongoing tax reliefs.

The detailed investment policy adopted by the Company is set out in the Report of the Directors on pages 16 and 17.

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 Venture Capital Trust to ensure that its shareholders can benefit from tax reliefs available.

Business review and developments

The Company's business review and developments during the year are set out in the Chairman's Statement, 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.

The Company has four non-executive Directors, each of whom is male. The Company has no employees.

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 2013 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, credit and liquidity risks, are summarised within note 17 to the financial statements.

The Company, as a fully listed company on the London Stock Exchange and as a Venture Capital Trust, 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 Services 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.

STRATEGIC REPORT

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 is set out on Page 21.

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.

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:
10 Lower Grosvenor Place
London SW1W 0EN

31 January 2014

REPORT OF THE DIRECTORS

The Directors present the third Annual Report and Accounts of the Company for the year ended 30 September 2013.

Share capital

At the year end, the Company had in issue 22,793,330 Ordinary Shares and 34,189,992 '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 11 March 2013, 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 25 March 2014.

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	2,077	9.1p	-

The Board is proposing to pay a final dividend for the year ended 30 September 2013 of 5.0p per Ordinary Share. Subject to Shareholder approval, the final dividend will be payable on 28 March 2014 to Shareholders on the register at 7 March 2014.

The Board has also declared interim dividends in respect of the year ending 30 September 2014 of 7.3p per Ordinary Share and 3.7p per 'A' Share payable. These dividends will be paid on 28 February 2014 to Shareholders on the register at 14 February 2014.

Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2013 and at the date of this report were as follows:

Directors		As at the date of this report	As at the year ended 30 Sept 2013
Peter Wisher	Ord Shares	20,800	20,800
	'A' Shares	20,800	20,800
Alexander	Ord Shares	15,600	15,600
Hambro	'A' Shares	15,600	15,600
Christian Yates	Ord Shares	10,500	10,500
	'A' Shares	2,606,896	2,606,896
Gareth Owen	Ord Shares	-	-
	'A' Shares	2,896,969	2,896,969

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 Gareth Owen, 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. Gareth Owen was appointed on 31 May 2012 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.

Investment policy

On 16 December 2013 a revised Investment policy was approved by Shareholders and is as follows:

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. The Company will also invest in Lunar 1 Limited (Lunar 1) and Lunar 2 Limited (Lunar 2) and, possibly also in a new intermediate holding company set up by the Company, Lunar 3 Limited (Lunar 3), which are investment companies and do not in their own right fall under this investment strategy, however the Company intends that Lunar 1, Lunar 2 and (if applicable) Lunar 3 will invest in companies that will meet this investment strategy. 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 will invest at least 70% of its funds in VCT qualifying investments. Initially, whilst suitable qualifying investments are being identified, the funds are held as a selection of deposits, institutional money market funds and/or short term fixed income securities. Progressively, this portfolio will be realised in order to fund investments in 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.

It is expected that once 70% of funds raised have been invested in qualifying investments, the Company intends to 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 per cent 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.

The Company's investment in Lunar 1, Lunar 2 and (if applicable) Lunar 3 will not exceed 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.

Investment policy (continued)

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 including Lunar 1, Lunar 2 and (if applicable) Lunar 3 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.

The Company intends that Lunar 1, Lunar 2 and (if applicable) Lunar 3 will follow 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 intends that Lunar 1, Lunar 2 and (if applicable) Lunar 3 will borrow 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 2013, the Company has the ability to borrow £3.2 million and has borrowings of £524,000 (2012: £nil).

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.

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 6 December 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.

Annual running costs cap

The annual running costs for the year are set 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.

Performance incentive

The structure of the 'A' Shares, whereby the Management owns one third of the 'A' Shares in issue, 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 5p 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 100p.

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
NAV	N/A	>100p	>100p
Hurdle	Not met	Met	Met
Allocation:			
Shareholders	99.97%	80%	70%
Management	0.03%	20%	30%

As the hurdle has not been met for the year ended 30 September 2013, no performance incentive is due.

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 13
1. To ensure that, by and from 1 October 2013, the Company holds at least 70% of its investments in qualifying companies;	81.7%
2. To ensure that, by and from 1 October 2013, 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";	65.0%
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, by and from 1 October 2011, the Company's income for each financial year is derived wholly or mainly from shares and securities;	97.8%
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

Auditor

As a result of PKF (UK) LLP entering into a business combination with BDO LLP on 28 March 2013, PKF (UK) LLP resigned as auditor of the Company on 5 June 2013 and BDO LLP was appointed to fill the casual vacancy.

Substantial interests

As at 30 September 2013, 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 third Annual General Meeting ("AGM") will be held at 59 Gloucester Place, London W1U 8JH at 11:05 a.m. on 25 March 2014. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

REPORT OF THE DIRECTORS **(continued)**

Directors' responsibilities

The Directors are responsible for preparing 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, Strategic Report, Investment Manager's Report, Review of Investments 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.

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 (www.frc.org.uk) is shown on page 24.

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

Grant Whitehouse
Secretary of Hazel Renewable Energy VCT2 plc

Company number: 07378395

Registered office:
10 Lower Grosvenor Place
London SW1W 0EN

31 January 2014

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 2013.

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. A resolution to approve this report will be put to Shareholders at the Annual General Meeting to be held on 25 March 2014.

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 25 to 27.

Directors' remuneration (audited)

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

	Current annual fee £	Year ended 30/09/13 £	Year ended 30/09/12 £
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	15,000	Nil	Nil
	65,000	50,000	50,000

No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

2013/2014 remuneration

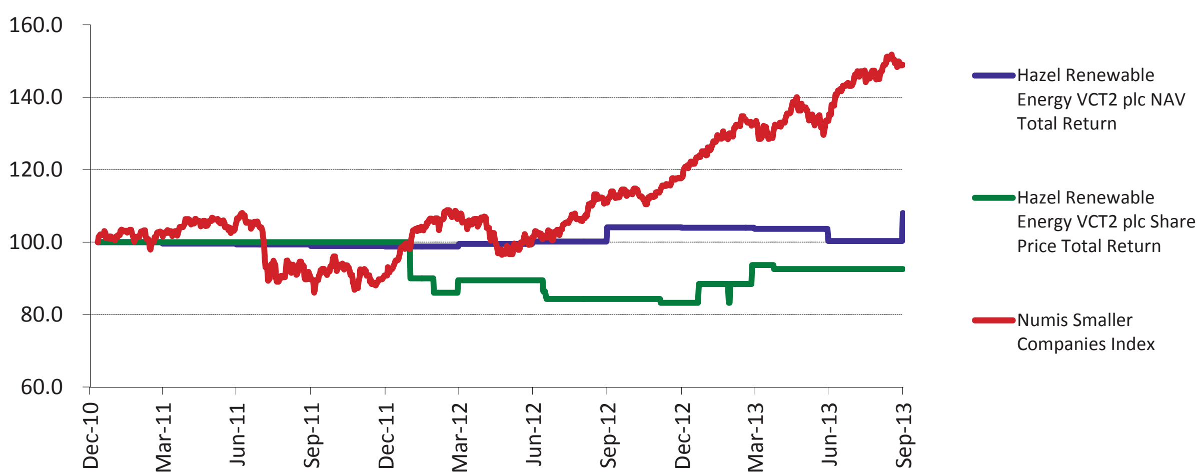
The remuneration levels for the forthcoming year for the Directors of Hazel Renewable Energy VCT2 plc are expected to be at the current annual fee levels as shown in the table below.

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.

Peformance chart



DIRECTORS' REMUNERATION REPORT

Report on Remuneration Policy

Below is the Company's remuneration policy. Shareholders will be asked to vote on this policy at the Annual General Meeting ("AGM") on 25 March 2014. Subject to Shareholder approval this policy will apply 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 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).
(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

Each of the Directors, with the exception of Gareth Owen, 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. Gareth Owen was appointed on 31 May 2012 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.

Performance incentive fees

The structure of '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 is also a Director and Christian Yates who is a Director and former member of the Management Team. As the hurdle has not been met, no fee is due to be paid for the year ended 30 September 2013.

Policy on loss of office payments

The Company's policy in respect of loss of office payments is to consider each situation as it arises on its own merits.

Illustrations of application of remuneration policy

The Company has no executive directors and is therefore not presenting an illustration of the application of the remuneration policy

Employment conditions elsewhere in the Company

As the Company does not have any employees, it is not relevant to take account of employment conditions elsewhere in the Company in setting the directors' remuneration policy.

Views of Shareholders on remuneration policy

The Board receives feedback from Shareholders from time to time via direct correspondence, telephone calls and at the AGM. The Remuneration Committee will take accounts of any comments in respect of the remuneration policy when it undertakes its regular review the Company's policy.

By order of the Board

Grant Whitehouse
Company Secretary
10 Lower Grosvenor Place
London SW1W 0EN

31 January 2014

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 15.

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.

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.

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 part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation, the audit feedback documentation and from correspondence and discussions with the engagement partner of BDO LLP. Based on the assurance obtained, the Committee has recommended to Shareholders that BDO LLP be re-appointed as Auditor for the forthcoming year.

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.

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** (2 held)	**Remuneration Committee meetings** (1 held)
Peter Wisher	5	2	1
Alexander Hambro	5	2	1
Christian Yates	5	2	-
Gareth Owen	5	n/a	n/a

No 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 20, 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 third 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 26.

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.

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 13 and 14. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 30 and the Report of the Directors on page 17.

In addition, note 17 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 pages 15 and 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 2013 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
10 Lower Grosvenor Place
London SW1W 0EN

31 January 2014

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

We have audited the financial statements of Hazel Renewable Energy VCT2 plc (the "company") for the year ended 30 September 2013 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement and an overview of the scope of our audit

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- The carrying value of unquoted investments, which is a key accounting estimate which requires the exercise of considerable judgement and where there is an inherent risk of management override arising from the Investment Manager, who is remunerated based on the net asset value of the company.

  We challenged the assumptions inherent in the Investment Manager's valuation of unquoted investments, including, where appropriate, revenue and earnings estimates, PE ratios, discount factors, cash flow projections and sensitivity analyses, and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements. We also considered wider economic and commercial factors that, in our judgement, could impact on the valuation of unquoted investments and we considered whether there was any permanent diminution in value in investments held that should be reported as realised losses.

  We noted that the assessment of the unquoted valuations and whether losses in value are permanent (and therefore realised) is highly subjective. However, our audit procedures included, amongst others, reviewing the recent published trading statements for the unquoted investments and, for a sample of investments, considering the period over which significant falls in value below cost arose, as well as the apparent reasons and whether they were likely to be permanent.

- Revenue recognition, which is a presumed risk under International Standards on Auditing (UK & Ireland), including the completeness, existence and presentation of receipts from investments.

  We considered the controls relating to revenue recognition and undertook analytical and other substantive testing over investment income including checking the categorisation of funds received from investee companies between revenue and capital.

- Compliance with the required tests to meet status as a qualifying VCT.

  We reviewed the monitoring procedures in place to confirm compliance with the relevant criteria for the company to maintain its status as a qualifying VCT and considered whether there were any other matters arising from our audit that would impact on the VCT status tests.

The Audit Committee's consideration of these judgements is set out on page 22.

Purpose of this report

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.

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

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, 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 Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as 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. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £400,000. In determining this, we based our assessment on a percentage of gross assets which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £300,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £400,000 for the financial statements as a whole.

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, 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. In this context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net realised returns of the company. We determined materiality for this area to be £62,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £12,000, 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 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 22 to 24 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.

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)

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, 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern;
- 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; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

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

31 January 2014

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

INCOME STATEMENT
for the year ended 30 September 2013

	Note	Year ended 30 Sept 2013 Revenue £'000	Capital £'000	Total £'000	Year ended 30 Sept 2012 Revenue £'000	Capital £'000	Total £'000
Income	2	386	-	386	481	-	481
Net gain on investments	9	-	2,371	2,371	-	1,051	1,051
		386	2,371	2,757	481	1,051	1,532
Investment management fees	3	(314)	(104)	(418)	(302)	(101)	(403)
Other expenses	4	(230)	(32)	(262)	(241)	(5)	(246)
Profit/(loss) on ordinary activities before tax		(158)	2,235	2,077	(62)	945	883
Tax on ordinary activities	6	-	-	-	-	-	-
Profit/(loss) attributable to equity shareholders		(158)	2,235	2,077	(62)	945	883
Basic and diluted (loss)/profit per share:							
Ordinary Share	8	(0.7p)	9.8p	9.1p	(0.2p)	4.3p	4.1p
'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 2013 £'000	Year ended 30 September 2012 £'000
Opening Shareholders' funds		21,607	19,445
Proceeds from share issue	12	-	2,123
Share issue costs	12	-	(117)
Profit for the year		2,077	883
Dividend paid	7	(1,139)	(727)
Closing Shareholders' funds		22,545	21,607

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

BALANCE SHEET
as at 30 September 2013

	Note	£'000	2013 £'000	£'000	2012 £'000
Fixed assets					
Investments	9		22,510		20,657
Current assets					
Debtors	10	175		450	
Cash at bank and in hand	16	537		630	
		712		1,080	
Creditors: amounts falling due within one year	11	(677)		(130)	
Net current assets			35		950
Net assets			22,545		21,607
Capital and reserves					
Called up Ordinary Share capital	12		23		23
Called up 'A' Share capital	12		34		34
Share premium account	13		2,001		2,001
Special reserve	13		17,721		18,860
Revaluation reserve	13		3,166		795
Capital reserve - realised	13		(35)		101
Revenue reserve	13		(365)		(207)
Total equity shareholders' funds			22,545		21,607
Basic and diluted net asset value per share					
Ordinary Share	14		98.8p		94.6p
'A' Share	14		0.1p		0.1p

The financial statements of Hazel Renewable Energy VCT2 plc on pages 28 to 43 were approved and authorised for issue by the Board of Directors on 31 January 2014 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 2013

	Note	Year ended 30 September 2013 £'000	Year ended 30 September 2012 £'000
Net cash inflow/(outflow) from operating activities	15	528	(509)
Capital expenditure			
Purchase of investments	9	(2,283)	(11,625)
Proceeds from disposal of investments	9	2,801	3,062
Net cash inflow/(outflow) from capital expenditure		518	(8,563)
Dividends paid	7	(1,139)	(727)
Net cash outflow before financing		(93)	(9,799)
Financing			
Proceeds from Ordinary Share issue	12	-	2,123
Proceeds from 'A' Share issue	12	-	1
Share issue costs	12	-	(117)
Net cash inflow from financing		-	2,007
Decrease in cash	16	(93)	(7,792)

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

NOTES TO THE ACCOUNTS

for the year ended 30 September 2013

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 certain financial instruments measured at fair value.

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

Presentation of income statement

In order to better reflect the activities of a Venture Capital Trust 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 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 Venture Capital Trust 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. Deferred taxation is not discounted.

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 2013 £'000	Year ended 30 September 2012 £'000
Income from investments		
Loan stock interest	378	432
Other income		
Bank interest	8	49
	386	481

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 Sept 2013			Year ended 30 Sept 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fees	314	104	418	302	101	403

4. Other expenses

	Year ended 30 Sept 2013			Year ended 30 Sept 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Administration services	35	-	35	42	-	42
Trail commission	90	-	90	86	-	86
Directors' remuneration	52	-	52	47	-	47
Social security costs	3	-	3	3	-	3
Auditor's remuneration for audit	20	-	20	17	-	17
Auditor's remuneration for non-audit services (taxation)	1	-	1	5	-	5
VAT rebate	(10)	-	(10)	-	-	-
Incidental capital expenses	-	32	32	-	5	5
Other	39	-	39	41	-	41
	230	32	262	241	5	246

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 20.

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 2013 £'000	Year ended 30 September 2012 £'000
(a)	**Tax charge for the year**		
	UK corporation tax at 23.5% (2012: 25.0%)	-	-
	Charge for the year	-	-
(b)	**Factors affecting tax charge for the year**		
	Return on ordinary activities before taxation	2,077	883
	Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 23.5% (2012: 25.0%)	488	221
	Effects of:		
	Gains on investments	(557)	(263)
	Expenses disallowed for tax purposes	24	23
	Losses available to carry forward	45	19
	Current tax charge	-	-

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £371,000 (2012:£178,000). The associated deferred tax asset of £87,000 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 Sept 2013			Year ended 30 Sept 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid						
2012 Final Ordinary – 5.0p	-	1,139	1,139	-	-	-
2011 Final Ordinary – 3.5p	-	-	-	-	727	727
	-	1,139	1,139	-	727	727
Proposed						
2013 Final Ordinary – 5.0p	-	1,139	1,139	-	-	-
2014 Interim Ordinary – 7.3p	-	1,664	1,664	-	-	-
2014 Interim 'A' share – 3.7p	-	1,265	1,265	-	-	-
2012 Final Ordinary – 5.0p	-	-	-	-	1,139	1,139
	-	4,068	4,068	-	1,139	1,139

8. Basic and diluted return 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 2013	Ordinary Shares	22,793,328	(158)	2,232
	'A' Shares	34,189,992	-	3
Year ended 30 September 2012	Ordinary Shares	21,776,774	(62)	945
	'A' Shares	32,665,086	-	-

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

9. Fixed assets – investments

	2013 Unquoted investments £'000	2012 Unquoted investments £'000
Opening cost at 1 October 2012	19,862	11,043
Unrealised gains as at 1 October 2012	795	-
Opening fair value at 1 October 2012	20,657	11,043
Movement in the year:		
Purchased at cost	2,283	11,625
Disposals - proceeds	(2,801)	(3,062)
- realised gains on disposals	-	256
Unrealised gains in the income statement	2,371	795
Closing fair value at 30 September 2013	22,510	20,657
Closing cost at 30 September 2013	19,344	19,862
Unrealised gains at 30 September 2013	3,166	795
Closing fair value at 30 September 2013	22,510	20,657

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	2013 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2012 £'000
Unquoted loan notes	-	-	7,975	7,975	-	-	9,286	9,286
Preference shares	-	-	-	-	-	-	-	-
Unquoted equity	-	-	14,535	14,535	-	-	11,371	11,371
	-	-	22,510	22,510	-	-	20,657	20,657

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. There were no other transfers between levels during the year.

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

	Unquoted loan notes £'000	Preference shares £'000	Unquoted equity £'000	Total £'000
Balance at 30 September 2012	9,286	-	11,371	20,657
Movements in the income statement:				
Unrealised (losses)/gains in the income statement	(100)	(618)	3,089	2,371
Realised gains/(losses) in the income statement	-	-	-	-
	9,186	(618)	14,460	23,028
Purchases at cost	2,265	18	-	2,283
Sales proceeds	(2,801)	-	-	(2,801)
Unquoted loan stock converted to preference shares	(600)	600	-	-
Reclassification	(75)	-	75	-
Balance at 30 September 2013	7,975	-	14,535	22,510

9. Fixed assets – investments (continued)

The Board and the Investment Manager believe that the valuations as at 30 September 2013 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 £500,000 to the value of the unquoted investments for an upside scenario and an overall decrease of £450,000 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 40.

Investments which are reaching maturity or have an established level of maintainable earnings are now 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

	2013 £'000	2012 £'000
Prepayments and accrued income	175	449
Other debtors	-	1
	175	450

11. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Taxation and social security	3	3
Accruals and deferred income	150	127
Short term borrowings	524	-
	677	130

12. Called up share capital

	2013 £'000	2012 £'000
Allotted, called up and fully-paid:		
22,793,330 (2012: 22,793,330) Ordinary Shares of 0.1p each	23	23
34,189,992 (2012: 34,189,992) 'A' Shares of 0.1p each	34	34
	57	57

The Company's capital is managed in accordance with its investment policy as shown in the Report of the Directors, in pursuit of its principal investment objectives as stated on pages 16 and 17. 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.

No shares were issued during the year. For the year ended 30 September 2012, between 2 April 2012 and 5 April 2012, 2,022,158 Ordinary Shares were issued at 104.9p per share, 2,022,158 'A' Shares were issued at 0.1p per share and 1,011,079 Management 'A' Shares (known as the "Management 'A' Shares") were issued at 0.1p per share pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £2,123,000 which excludes issue costs of £117,000.

12. Called up share capital (continued)

The holders of Ordinary Shares and 'A' Shares shall have rights as regards 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 5p 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.

13. Reserves

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 1 October 2012	2,001	18,860	795	101	(207)
Expenses capitalised	-	-	-	(136)	-
Gains on investments	-	-	2,371	-	-
Loss for the year	-	-	-	-	(158)
Dividend paid	-	(1,139)	-	-	-
At 30 September 2013	2,001	17,721	3,166	(35)	(365)

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 £760,000 (2012:£nil) which are included in the Revaluation reserve. At 30 September 2013, distributable reserves were £16,561,000 (2012: £18,754,000).

14. Basic and diluted net asset value per share

	Shares in issue 2013	Shares in issue 2012	2013 Net asset value per share	2013 Net asset value £'000	2012 Net asset value per share	2012 Net asset value £000
Ordinary Shares	22,793,330	22,793,330	**98.8**	22,511	**94.6**	21,573
'A' Shares	34,189,992	34,189,992	**0.1**	34	**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 12.

As the Company has not issued any convertible shares or share options, there is no dilutive 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 or per 'A' Share.

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

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	2,077	883
Gains on investments	(2,371)	(1,051)
Decrease/(increase) in debtors	275	(343)
Increase in creditors	547	2
Net cash inflow/(outflow) from operating activities and returns on investments	528	(509)

16. Reconciliation of net cash flow to movement in net funds

	Net funds at 1 October 2012 £'000	Cash flows £'000	Net debt at 30 September 2013 £'000
Cash at bank and in hand	630	(93)	537
Debt due within one year	-	(524)	(524)
	630	(617)	13

17. 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 being cash deposits and short term debtors 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

17. Financial instruments (continued)

Investment price risk

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 2013, the unquoted portfolio was valued at £22,510,000 (2012: £20,657,000)

The Company's unlisted investments are all in renewable energy projects with predetermined expected returns. As a result, variations in share prices are unlikely to have a significant impact on valuations of the unquoted investments. A 10% movement in the valuations of all of the unquoted investments held by the Company would have an effect as follows:

10% movement in unquoted investment valuations		**2013**		**2012**
	Impact on net assets £'000	**Impact on NAV per share pence**	**Impact on net assets £'000**	**Impact on NAV per share pence**
Unquoted investments	2,251	9.9p	2,066	9.0p

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 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 liquidity fund investments and certain loan note investments; and
- "No interest rate" assets do not attract interest and comprise equity investments, certain loan note investments, loans and receivables (excluding cash at bank) and other financial liabilities.

	Average interest rate	**Average period until maturity**	**2013 £'000**	**2012 £'000**
Fixed rate	4.0%	1,264 days	7,960	7,686
Variable rate	7.9%	509 days	15	1,600
Floating rate	1.1%		537	630
No interest rate			14,033	11,691
			22,545	21,607

17. Financial instruments (continued)

Interest rate risk (continued)

The Company monitors the level of income received from fixed and floating 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 total return before taxation for the year by £5,400. 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:

	2013 £'000	**2012 £'000**
Investments in loan stocks	7,975	9,286
Cash and cash equivalents	537	630
Interest, dividends and other receivables	175	450
	8,687	10,366

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.

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 are directly attributable to changes in credit risk.

17. 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 £153,000 (2012: £130,000) and has low short term loans from investee companies being £524,000 (2012: £nil) 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 2013 as analysed by the expected maturity date is as follows:

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

Of the loan stock classified as "past due" above £3,025,000 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 the 30 September 2013 and is thus was in arrears. Since 30 September 2013 the interest on the loan note has been received.

As at 30 September 2012	**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	1,946	-	-	1,740	1,800	5,486
Past due loan stock	300	-	-	3,500	-	3,800
	2,246	-	-	5,240	1,800	9,286

18. 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. At 30 September 2013 the Company had short term loans from investee companies of £524,000. 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.

19. Contingencies, guarantees and financial commitments

At 30 September 2013, the Company had no contingencies, guarantees or financial commitments.

20. Controlling party and related party transactions

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

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 2013 £418,000 (2012: £403,000) was payable to Hazel Capital LLP in respect of these services. At the year end there was no balance owing to Hazel Capital LLP.

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 2013, this amounted to £90,000 (2012: £86,000), all of which is outstanding.

Hazel Renewable Energy VCT1 plc is a company of which Hazel Capital LLP is also the Investment Manager. At the year end the Company was owed £nil (2012: £1,998) by Hazel Renewable Energy VCT1 plc in relation to interest received on cash deposits during the fundraising. This amount is included in other debtors.

21. Post Balance Sheet Event

On 18 December 2013, along with its sister company Hazel Renewable Energy VCT1 plc, the Company undertook a reorganisation of six of its investee companies (AEE Renewables UK 26 Limited, AEE Renewables UK 3 Limited, Beechgrove Solar Limited, New Era Energy Limited, South Marston Solar Limited and Vicarage Solar Limited), whereby additional stakes in each company were acquired from third parties and two holding companies, Lunar 1 Limited and Lunar 2 Limited were put in place. This allowed the drawdown of borrowings from a third party of £66 million which has the potential to substantially enhance cash flows attributable to the Company over the life of the underlying projects. The Board estimates that the transaction results in an uplift in value of these investments totalling £5.6 million, equivalent to 24.6p per Ordinary Share.

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

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of Hazel Renewable Energy VCT2 plc will be held at 59 Gloucester Place, London W1U 8JH at 11.05 a.m. on 25 March 2014 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 of the Directors and Accounts of the Company for the period ended 30 September 2013 together with the report of the Auditor thereon.

2. To approve the Directors' Remuneration Report and Remuneration Policy.

3. To approve the payment of a final dividend of 5p per Ordinary Share.

4. 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.

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

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

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

8. To re-elect as Director, Gareth Owen, who retires and, being eligible, offers himself for re-election.

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

9. 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 £2,280 (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 £3,419 (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;

NOTICE OF THE THIRD ANNUAL GENERAL MEETING OF HAZEL RENEWABLE ENERGY VCT2 PLC **(continued)**

Special Resolutions

10. 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;

11. 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 3,396,206 Ordinary Shares and 5,094,309 ‘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

Grant Whitehouse
Company Secretary

Registered Office
10 Lower Grosvenor Place
London SW1W 0EN

31 January 2014

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, 10 Lower Grosvenor Place, London SW1W 0EN 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, 10 Lower Grosvenor Place, London SW1W 0EN. 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 21 March 2014 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 21 March 2014 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 31 January 2014, the Company's issued share capital comprised 22,793,330 Ordinary Shares and 34,189,992 'A' Shares and the total number of voting rights in the Company were 22,827,519,992. The website referred to above 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.