HAZEL RENEWABLE ENERGY VCT2 PLC

HALF-YEARLY REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2016

HAZEL CAPITAL

SHAREHOLDER INFORMATION

Performance summary

	31 Mar 2016 Pence	30 Sep 2015 Pence	31 Mar 2015 Pence
Net asset value per Ordinary Share	116.6	117.3	115.0
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative dividends per Ordinary Share	29.5	29.5	24.5
Total return per Ordinary Share and 'A' Share	146.2	146.9	139.6

Share prices

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

	Ordinary Shares	'A' Shares
TIDM codes	HR2O	HR2A
Latest share price 31 May 2016:	111.5p	5.05p

Dividends

Year end	Date payable/paid	Pence per share
Forthcoming dividend		
2016 Interim	16 September 2016	5.0
Historic dividends		
Ordinary Shares		
2015 Interim	18 September 2015	5.0
2013 Final	28 March 2014	5.0
2013 Special	28 February 2014	7.3
2012 Final	28 March 2013	5.0
2011 Final	30 March 2012	3.5
'A' Shares		
2013 Special	28 February 2014	3.7
		29.5

Dividends are paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account and did not complete these details on their original application form can complete a mandate form for this purpose. Forms can be obtained from Capita Asset Services, whose contact details are shown on the back cover.

Shareholder information is continued on the inside back cover

CHAIRMAN'S STATEMENT

I present the Company's half-yearly report for the six months ended 31 March 2016.

There have been a number of significant developments during the period. In terms of the portfolio, the Investment Adviser completed a further major refinancing transaction. There have also been discussions with some Shareholders and their advisers about the future of the Company, a Board change, and, consequently, the B Share Offer for Subscription was withdrawn.

Investments

At the period end, the Company held a portfolio of 15 investments with a value of £30.1 million which were spread across the ground mounted solar, roof mounted solar and small wind sectors.

As mentioned above, two ROC-based ground mounted solar projects and a large number of residential rooftop solar installations were refinanced. The funds raised under the transaction of £6.8 million were partly used to acquire minority interests in some existing portfolio companies (£1.85 million) and the remainder has been kept within the portfolio companies (Ayshford Solar Holding Limited, Hewas Solar Limited and St Columb Solar Limited). Some of these funds have since been employed in new opportunities, including a £500,000 investment in Charge Point Services Limited, which provides services for charging electric vehicles.

Overall the portfolio companies have continued to perform in line with expectation and no adjustments have been made to the valuations at the period end.

Further detail on the investments is provided in the Investment Manager's report on pages 3 to 5.

Net asset value and results

At 31 March 2016, the net asset value ("NAV") per Ordinary Share stood at 116.6p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 116.7p. This represents a small decrease of 0.7p (0.6%) since 30 September 2015 and arises as a result of the VCT running costs exceeding income from the investment portfolio during the period when solar irradiation is at its lowest in the annual cycle.

Total Return (total NAV plus cumulative dividends paid to date) stands 146.2p for a holding of one Ordinary Share and one 'A' Share, compared to the cost for subscribers in the original share offer, net of income tax relief, of 70.0p. This makes the Company, along with its sister company, the best performing new VCT or VCT share class launched since the 2008/9 tax year in terms of Total Return.

The loss on ordinary activities after taxation for the period as shown in the Income Statement was £170,000.

Dividends

In line with the Company's policy a dividend of 5.0p per Ordinary Share will be paid on 16 September 2016 to Shareholders on the register at 19 August 2016.

Share buybacks

The Company operates a policy of buying in its own shares that become available in the market at approximately a 5% discount to the latest published NAV (subject to regulatory and liquidity restrictions).

No shares were purchased in the period.

CHAIRMAN'S STATEMENT (continued)

AGM

Prior to the Annual General Meeting that took place on 7 March 2016, the Company had a number of communications with several Shareholders and their advisers. These Shareholders were of the view that a detailed portfolio valuation exercise was required in order to determine the most appropriate strategy for the future of the Company.

The Company received a significant number of proxy votes against several AGM resolutions, including the re-election of a majority of the Board. On legal advice, the Company took steps to ensure that it continued to have a valid Board composition following the AGM. Accordingly some resolutions were withdrawn and Alex Hambro and Bozkurt Aydinoglu agreed to step down as non-executive directors.

I would like to thank both Alex and Bozkurt for the considerable contributions they have made as a non-executive directors during the period of their appointments. I look forward to continuing to work with Bozkurt in his ongoing role as partner of Hazel Capital, the Company's Investment Adviser.

B Share Offer

As Shareholders will be aware, the Company launched a new Offer for Subscription for a new B Share class in February 2016. As with the AGM, a significant number of Shareholders also submitted proxy forms indicating that they were not supportive of proceeding with the B Share offer and the Board therefore decided to withdraw the offer prior to the General Meeting.

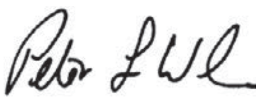
Future Strategy

The Board intends to put a "continuation vote" to Shareholders in the near future. The discussions described above have made it clear that a number of Shareholders would like to see a detailed valuation exercise undertaken that would allow the Company to present a number of clear options for the future of the Company to Shareholders. These options might involve the possibility of undertaking a tender offer to buy in a significant number of shares, a restructuring of the Company, a winding up of the Company or a combination of these.

The Board has considered these views and has now commenced the process of seeking to appoint an independent valuer to provide a report that will allow the Board to present options to Shareholders as described above.

Outlook

The coming months will be heavily focussed on work that will determine the future of the Company. We anticipate that the valuation process will take several months to complete and will culminate in a circular being sent to Shareholders setting out options and attempting to obtain a consensus from the whole Shareholder base. The circular will also include a resolution as to whether the Company should continue as a VCT in the long term.



Peter Wisher
Chairman
1 June 2016

INVESTMENT MANAGER'S REPORT

We are pleased with the overall performance of the portfolio in the half year ended 31 March 2016. This is despite the portfolio facing the most challenging weather conditions we have observed so far, resulting in lower than expected energy production across the solar assets which constitute over 90% of the portfolio in terms of Net Asset Value (NAV) contribution.

Specifically, energy production was lower year on year by between 4% and 6% with the impact concentrated in October and November 2015 when the weather was particularly poor. We are relieved by the fact that production in this period accounts for less than 10% of annual output, and a good month in the summer season would be sufficient to redress the effect over the full year. Independent of the weather effects, the actual operational performance of the entire portfolio has been good and no major outages have taken place.

A much fretted-over topic in renewable energy at the moment is the low power price environment. The collapse in commodity prices, increasing energy efficiency and economic growth that has remained at modest levels at best has brought electricity prices down by over 40% compared to three years ago.

The impact of this on the portfolio is limited as over 75% of the NAV is concentrated in projects remunerated under the Feed-in-Tariff ("FIT") regime where over 90% of revenues are fixed. Furthermore, the larger of our two solar projects that are remunerated under the Renewable Obligation Certificate ("ROC") regime and therefore have significant exposure to electricity prices is benefitting from an electricity sale contract signed at a time when power prices were over eighty percent higher than today's levels. The higher prices are locked in for another year and a half.

We had undertaken a number of initiatives to reduce operational costs in the portfolio last year. We are continuing to reap the rewards of these initiates with further savings expected in the years ahead due to the competitive environment in operations and maintenance ("O&M") services. We expect to cut O&M costs by half or more from next year for the FIT - remunerated ground-mounted sites as these sites come off their five year contracts.

The most notable development for the portfolio was the successful completion of Project Surya. The transaction involved the refinancing of a segment of the portfolio consisting of two ground-mounted solar projects remunerated under the ROC regime and around 1,200 small scale solar installations located on the roofs of properties owned by Housing Associations in Northern England, Wales and Scotland.

The debt was priced on 24 February 2016 at the very attractive rate of 1.54% plus RPI and the deal documentation was signed on 25 February, with financial close occurring on 2 March. The low rate that has been achieved, even after taking transaction costs and reserving requirements into account, is as much a function of competition amongst lenders that have become comfortable with the risk profile of solar assets, as the historically low risk-free interest rates prevalent in the market.

We view the detailed due diligence that has been carried out by the advisers to the Lender as a useful technical and legal review process that shareholders, as owners of the equity, can benefit from, as well as an opportunity to negotiate better terms with contractors. For example, the review concluded that the assets were performing well, however useful technical recommendations were made that will lead to better performance and reduced outages in the future. Most of these have already been implemented with the remainder expected to take place over the summer months.

O&M as well as insurance contracts have been updated to reflect current market standards and renegotiated to incorporate more stringent requirements on counterparties. The O&M contractor that was engaged to service the rooftop-based assets in Northern England and Wales was unable to meet these increased requirements and were replaced, at no additional cost, by Anesco, with whom we already have a successful working relationship on other rooftop-based assets on two of the smallest ground-mounted solar sites in the portfolio.

Investment Strategy and Valuations

As a result of the Project Surya transaction, all of the ground-mounted solar assets in the portfolio as well as around 70% (by capacity) of the rooftop-based assets have now been refinanced. These account for close to 90% of the Net Asset Value of the portfolio.

The transaction raised £6.8 million of gross proceeds.

Prior to the transaction, the VCT was fully invested, and the primary motivation for carrying out the transaction was to increase portfolio returns by redeploying transaction proceeds into new investments yielding substantially in excess of the interest rate of the debt. At the same time as we were working on the refinancing transaction we built a pipeline of new investment opportunities.

The first transaction we implemented was the purchase of the shares the VCTs did not own (circa 28%) in Ayshford Solar Holdings Limited, which through its subsidiary owns the 5.5MW Ayshford Court solar project, for £1.2 million. We are particularly pleased with this investment into a project that we know very well and which has been performing in excess of expectations.

We also implemented a £500,000 investment in Charge Point Services Limited a provider of software (session management, billing, diagnostics and monitoring) and services for electrical vehicle charging stations that was agreed in November pending the closing of the refinancing transaction.

We also used circa £125,000 in a lease prepayment transaction with a landlord at one of the FIT remunerated sites.

We have since been instructed not to make any further investment recommendations by the Board pending the outcome of the valuation process and the review of the future strategy described in the Chairman's Statement.

Not putting all the financing proceeds to work in the short term will drag down the incremental cash returns we had modelled from reinvestment of the refinancing proceeds.

INVESTMENT MANAGER'S REPORT (continued)

Investment Strategy and Valuations (continued)

We are of course working to keep certain opportunities alive so that new investments could be implemented once the outcome of the continuation vote is known.

The UK government has ended subsidies for all new large solar power plants that did not have planning permission as of July 2015. These investments have been progressively disallowed for new VCT investments in any case. However, the careful structuring we have carried out, which has kept refinancing proceeds in previously approved project SPVs would enable us to deploy funds into solar investment opportunities.

Finally, after conducting a review of the portfolio we have recommended that there are no adjustments to any of the investment valuations at this time.

We have observed that hurdle rates for renewable generation assets have broadly remained the same or drifted down slightly depending on the type of asset since the last year end. However, asset prices have been impacted by the low electricity price environment that we referred to earlier. As the portfolio only has limited exposure to electricity prices we believe the two forces cancel each other out, and it is too early to measure the impact of the operational improvements that may yield from the implementation of the recommendations that came from the refinancing transaction.

We look forward to the next half year and building on the progress we achieved in the six months ended 31 March 2016.

Ben Guest
Chief Investment Officer
Hazel Capital LLP

1 June 2016

UNAUDITED SUMMARISED BALANCE SHEET

as at 31 March 2016

	31 Mar 2016 £'000	31 Mar 2015 £'000	30 Sep 2015 £'000
Fixed assets			
Investments	30,071	29,958	30,656
Current assets			
Debtors (including accrued income)	452	394	362
Cash at bank and in hand	21	46	16
	473	440	378
Creditors: amounts falling due within one year	(96)	(654)	(624)
Net current assets/(liabilities)	377	(214)	(246)
Total assets less net current assets/(liabilities)	30,448	29,744	30,410
Creditors: amounts falling due after more than one year	(1,730)	(1,412)	(1,522)
Net assets	28,718	28,332	28,888
Capital and reserves			
Called up share capital	62	62	62
Share premium	3,985	3,985	3,985
Special reserve	12,402	13,632	12,402
Revaluation reserve	14,096	12,427	14,090
Capital reserve - realised	(913)	(865)	(841)
Revenue reserve	(914)	(909)	(810)
Equity shareholders' funds	28,718	28,332	28,888
Net asset value per Ordinary Share	**116.6p**	**115.0p**	**117.3p**
Net asset value per 'A' Share	**0.1p**	**0.1p**	**0.1p**
	116.7p	**115.1p**	**117.4p**

STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2016

	Called up share capital £'000	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000	Total £'000
Six months ended 31 March 2015							
At 30 September 2014	62	3,985	13,632	12,127	(794)	(685)	28,327
Gains on investments	-	-	-	300	-	-	300
Expenses capitalised	-	-	-	-	(71)	-	(71)
Retained revenue	-	-	-	-	-	(224)	(224)
At 31 March 2015	62	3,985	13,632	12,427	(865)	(909)	28,332
Year ended 30 September 2015							
At 30 September 2014	62	3,985	13,632	12,127	(794)	(685)	28,327
Gains on investments	-	-	-	1,936	121	-	2,057
Expenses capitalised	-	-		-	(141)	-	(141)
Retained revenue	-	-		-	-	(125)	(125)
Transfer between reserves	-	-		27	(27)	-	-
Dividend paid	-	-	(1,230)	-	-	-	(1,230)
At 30 September 2015	62	3,985	12,402	14,090	(841)	(810)	28,888
Six months ended 31 March 2016							
At 30 September 2015	62	3,985	12,402	14,090	(841)	(810)	28,888
Gains on investments	-	-	-	6	-	-	6
Expenses capitalised	-	-	-	-	(72)	-	(72)
Retained revenue	-	-	-	-	-	(104)	(104)
At 31 March 2016	62	3,985	12,402	14,096	(913)	(914)	28,718

UNAUDITED INCOME STATEMENT

for the six months ended 31 March 2016

	Six months ended 31 Mar 2016			Six months ended 31 Mar 2015			Year ended 30 Sep 2015
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	267	-	267	126	-	126	580
Gains on investments	-	6	6	-	300	300	2,057
	267	6	273	126	300	426	2,637
Investment management fees	(216)	(72)	(288)	(212)	(71)	(283)	(565)
Other expenses	(155)	-	(155)	(138)	-	(138)	(281)
(Loss)/return on ordinary activities before taxation	(104)	(66)	(170)	(224)	229	5	1,791
Tax on total comprehensive income and ordinary activities	-	-	-	-	-	-	-
(Loss)/return attributable to equity shareholders	(104)	(66)	(170)	(224)	229	5	1,791
Return per Ordinary Share	**(0.4p)**	**(0.3p)**	**(0.7p)**	**(0.9p)**	**0.9p**	**0.0p**	**7.3p**
Return per 'A' Share	-	-	-	-	-	-	-

The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS102"). The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 by the Association of Investment Companies ("AIC SORP").

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

UNAUDITED CASH FLOW STATEMENT

for the six months ended 31 March 2016

	Note	31 Mar 2016 £'000	31 Mar 2015 £'000	30 Sep 2015 £'000
Net cash outflow from operating activities	**1**	(328)	(613)	(482)
Cash flows from investing activities				
Purchase of investments		(558)	-	-
Sale of investments		1,148	145	1,203
Net cash inflow from investing activities		590	145	1,203
Net cash inflow/(outflow) before financing activities		262	(468)	721
Cash flows from financing activities				
Equity dividends paid		-	-	(1,230)
Long term loans		(257)	351	362
Net cash (outflow)/inflow from financing activities		(257)	351	(868)
Increase/(decrease) in cash	**2**	5	(117)	(147)

Notes to the cash flow statement:

1 Cash (outflow)/inflow from operating activities			
(Loss)/return on ordinary activities before taxation	(170)	5	1,791
Gains on investments	(6)	(300)	(2,057)
Increase in other debtors	(90)	(250)	(218)
(Decrease)/increase in other creditors	(62)	(68)	2
Net cash outflow from operating activities	(328)	(613)	(482)
2 Analysis of net funds			
Beginning of period	16	163	163
Net cash inflow/(outflow)	5	(117)	(147)
End of period	21	46	16

SUMMARY OF INVESTMENT PORTFOLIO

as at 31 March 2016

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
Qualifying and partially qualifying investments				
Lunar 2 Limited*	2,976	12,202	-	40.5%
Ayshford Solar (Holding) Limited*	2,480	3,571	-	11.9%
Lunar 1 Limited*	124	2,076	-	6.9%
Hewas Solar Limited	1,000	1,748	-	5.8%
New Energy Era Limited	884	1,369	-	4.5%
St Columb Solar Limited	650	1,361	-	4.5%
Vicarage Solar Limited	871	1,181	-	3.9%
Tumblewind Limited	1,438	1,165	-	3.9%
Penhale Solar Limited	825	1,075	-	3.6%
Gloucester Wind Limited	1,000	1,041	-	3.5%
Minsmere Power Limited	975	920	-	3.0%
HRE Willow Limited	875	780	-	2.6%
Small Wind Generation Limited	975	682	-	2.3%
Sunhazel UK Limited	1	-	-	0.0%
	15,074	29,171	-	96.9%
Non qualifying investments				
AEE Renewables UK 3 Limited	900	900	-	3.0%
	900	900	-	3.0%
	15,974	30,071	-	99.9%
Cash at bank and in hand		21		0.1%
Total investments		30,092		100.0%

* Part-qualifying investment

SUMMARY OF INVESTMENT MOVEMENTS

as at 31 March 2016

Additions

	Cost £'000
Qualifying investments	
Ayshford Solar (Holding) Limited	558

Disposals

	Cost £'000	Valuation at 30 Sept 2015 £'000	Disposal proceeds £'000	Total gain against cost £'000	Realised gain in period £'000
Qualifying and partially qualifying investments					
Tumblewind Limited	1,010	1,010	1,010	-	-
Ayshford Solar (Holding) Limited*	65	59	65	-	6
St Columb Solar Limited	58	58	58	-	-
	1,133	1,127	1,133	-	6
Non-qualifying investments					
ZW Parsonage Limited	15	15	15	-	-
	15	15	15	-	-
	1,148	1,142	1,148	-	6

* Part-qualifying investment

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. General information

Hazel Renewable Energy VCT2 plc ("the Company") is a venture capital trust established under the legislation introduced in the Finance Act 1995 and is domiciled in the United Kingdom and incorporated in England and Wales.

2. Accounting policies - Basis of accounting

The Company has prepared its financial statements under FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and in accordance with the Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued by the Association of Investment Companies ("AIC") revised November 2014.

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

This is the first year in which the Financial Statements have been prepared under FRS 102, however it has not been necessary to restate comparatives as the treatment previously applied aligns with the requirements of FRS 102. As a result, there are no reconciling differences between the previous financial reporting framework and the current financial reporting framework and the comparative figures represent the position under both current and previous financial reporting frameworks.

The financial statements are presented in Sterling (£).

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 return on ordinary activities 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 FRS 102 sections 11 and 12.

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:

2. Accounting policies - Basis of accounting (continued)

Investments (continued)

- 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 and FRS 102 sections 14 and 15 that does not require portfolio investments, where the interest held is greater than 20%, to be accounted for using the equity method of accounting.

Income

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

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

Expenses

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

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

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

2. Accounting policies - Basis of accounting (continued)

Taxation

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

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

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

Other debtors, other creditors and loan notes

Other debtors (including accrued income), other creditors and loan notes (other than those held as part of the investment portfolio) 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.

3. All revenue and capital items in the Income Statement derive from continuing operations.

4. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.

5. Net asset value per share at the period end has been calculated on 24,603,158 Ordinary Shares and 36,904,733 'A' Shares, being the number of shares in issue at the period end.

6. Return per share for the period has been calculated on 24,603,158 Ordinary Shares and 36,904,733 'A' Shares, being the weighted average number of shares in issue during the period.

7. Dividends

		Period ended 31 Mar 2016		Year ended 30 Sep 2015
	Revenue £'000	Capital £'000	Total £'000	Total £'000
Paid in period				
2015 Interim Ordinary – 5.0p	-	-	-	1,230
	-	-	-	1,230
Forthcoming dividends				
2016 Interim Ordinary – 5.0p	-	1,230	1,230	-
	-	1,230	1,230	-

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

8. Reserves

	Period ended 31 Mar 2016 £'000	Year ended 30 Sept 2015 £'000
Share premium reserve	3,985	3,985
Special reserve	12,402	12,402
Revaluation reserve	14,096	14,090
Capital reserve-realised	(913)	(841)
Revenue reserve	(914)	(810)
	28,656	28,826

The Revenue reserve, Capital reserve - realised and Special reserve are distributable reserves. The distributable reserve is reduced by unrealised holding losses of £814,000 which are included in the Revaluation reserve. Distributable reserves at 31 March 2016 were £9,761,000.

9. Investments

The fair value of investments is determined using the detailed accounting policy as shown in note 2.

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

Level a Reflects financial instruments quoted in an active market;

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

Level c i) Reflects financial instruments that use valuation techniques that are based on observable market data.

ii) Reflects financial instruments that use valuation techniques that are not based on observable market data (unquoted equity investments and loan note investments).

	Level a £'000	Level b £'000	Level c (ii) £'000	31 Mar 2016 £'000	Level a £'000	Level b £'000	Level c (ii) £'000	30 Sep 2015 £'000
Loan notes	-	-	5,192	5,192	-	-	6,334	6,334
Unquoted equity	-	-	24,879	24,879	-	-	24,322	24,322
	-	-	30,071	30,071	-	-	30,656	30,656

10. Risks and uncertainties

Under the Disclosure and Transparency Directive, the Board is required in the Company's half-year results to report on principal risks and uncertainties facing the Company over the remainder of the financial year.

The Board has concluded that the key risks facing the Company over the remainder of the financial period are as follows:

10. Risks and uncertainties (continued)

(i) investment risk associated with investing in small and immature businesses;
(ii) market risk in respect of the various assets held by the investee companies; and
(iii) failure to maintain approval as a VCT.

In order to make VCT qualifying investments, the Company has to invest in small businesses which are often immature. The Investment Manager follows a rigorous process in vetting and careful structuring of new investments and, after an investment is made, close monitoring of the business. The Manager also seeks to diversify the portfolio to some extent by holding investments which operate in various sectors. The Board is satisfied with this approach.

The Company's compliance with the VCT regulations is continually monitored by the Administration Manager, who reports regularly to the Board on the current position. The Company has appointed Philip Hare & Associates LLP, who will work closely with the Investment Manager and provide regular reviews and advice in this area. The Board considers that this approach reduces the risk of a breach of the VCT regulations to a minimal level.

11. Going concern

The Directors have reviewed the Company's financial resources at the period end and conclude that the Company is well placed to manage its business risks.

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the Board believes 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.

12. The unaudited financial statements set out herein do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been delivered to the Registrar of Companies.

13. The Directors confirm that, to the best of their knowledge, the half-yearly financial statements have been prepared in accordance with the "Statement: Half-Yearly Financial Reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by:

a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

14. Copies of the Half-Yearly Report will be sent to Shareholders shortly. Further copies can be obtained from the Company's registered office or can be downloaded from www.downing.co.uk.

SHAREHOLDER INFORMATION (continued)

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. If you are considering selling your shares or wish to buy shares in the secondary market, please contact the Company's Corporate Broker, Panmure Gordon (UK) Limited ("Panmure"). Panmure can be contacted as follows:

Chris Lloyd
0207 886 2716
chris.lloyd@panmure.com

Paul Nolan
0207 886 2717
paul.nolan@panmure.com

Downing LLP is able to provide details of close periods and the price at which the Company has bought in shares. Contact details are shown on the back cover of this document.

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 Asset Services, under the signature of the registered holder.

Other information for Shareholders

Up to date Company information (including company announcements, 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 number shown on the back cover or visit Capita's website at **www.capitaassetservices.com** and click on "Products and services" and then "Shareholders".

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