



HAZEL RENEWABLE ENERGY VCT2 PLC

REPORT & ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2017

SHAREHOLDER INFORMATION

Share price

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

	Ordinary Shares	'A' Shares
TIDM/EPIC codes	HR2O	HR2A
Latest share price (8 January 2018)	106.5p per share	5.05p 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. 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

Financial calendar

21 March 2018	Annual General Meeting
May 2018	Announcement of half yearly financial results
September 2018	Annual dividend paid

Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, and did not complete these details on their original application form can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Link Asset Services, on 0871 664 0300 (calls cost 12p per minute plus network extras, lines open 9:00 a.m. to 5:30 p.m. 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 Link's website (see below).

Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Link Asset Services, 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 Link's website at www.linkassetservices.com and then click on "Shareholders".

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COMPANY INFORMATION

Registered number	07378395
Directors	Christian Yates (Chairman) Matthew Evans Giles Clark
Company Secretary and Registered Office	Grant Whitehouse 6 th Floor, St. Magnus House 3 Lower Thames Street London EC3R 6HD
Investment Adviser	Gresham House Asset Management Limited 5 Cheapside London EC2V 6AA Tel: 020 3837 6270 www.greshamhouse.com
Administration Manager	Downing LLP 6 th Floor, St. Magnus House 3 Lower Thames Street London EC3R 6HD Tel: 020 7416 7780 www.downing.co.uk
Auditor	BDO LLP 55 Baker Street London W1U 7EU
VCT status advisers	Philip Hare & Associates LLP Staples Inn London WC1V 7QH
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0300 (calls cost 12p per minute plus network extras, lines open 9:00 a.m. to 5:30 p.m. Monday to Friday) www.linkassetsservices.com
Solicitors	Howard Kennedy 1 London Bridge London SE1 9BG
Bankers	Royal Bank of Scotland plc London Victoria Branch 119/121 Victoria Street London SW1E 6RA
Corporate Broker	Panmure Gordon (UK) Limited One New Change London EC4M 9AF

INVESTMENT OBJECTIVES

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

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

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 15 to 17.

FINANCIAL HIGHLIGHTS

	Audited Year End 30 September 2017 Pence	Audited Year End 30 September 2016 Pence
Net asset value per Ordinary Share	114.9	117.3
Net asset value per 'A' Share	0.1	0.1
Cumulative Dividends paid	39.5	34.5
Total return per Ordinary Share and 'A' Share	<u>154.5</u>	<u>151.9</u>

DIRECTORS

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

Matthew Evans was a founding partner of LGT Vestra in 2007, where he ran the ventures team, focusing on renewables, unlisted commercial property and private equity investments. Prior to that, Matthew ran the financial planning department at PwC in London. More recently, Matthew founded CH1 Investment Partners, which provides bespoke investment solutions to high net worth, professional and sophisticated investors. Matthew is also a director of several other businesses, including Longhedge Renewables, Lake District Biogas Limited and Osprey Solar.

Giles Clark has worked on solar projects across Europe since 2006, focusing on UK projects since 2010. In 2006, he co-founded SunRay Renewable Energy, where he was CFO, developing large utility scale solar projects across Southern Europe. SunRay had built a pipeline of 1.4GWp of projects by the time it was acquired by SunPower Corporation for \$277 million in 2010. From 2013 to 2016 Giles was a founding shareholder and Chairman of Solstice Renewables which developed and sold 100 MWp of ground mounted solar farms in the UK. From 2013 to 2017 Giles was the founder and CEO of Primrose Solar which acquired and built 253 MW of ground mounted solar farms in the UK. The completed projects were sold in 2016 to Bluefield, Greencoat and Equitix. Giles has a BA in PPE from Oxford and an MBA from the London Business School.

All the Directors are Non-executive and are independent of the Investment Adviser.

CHAIRMAN'S STATEMENT

I present the Annual Report for Hazel Renewable Energy VCT2 plc for the year ended 30 September 2017, my first as Chairman of the Company.

As Shareholders will be aware, it has been a busy year for your Company. In recent months, the Board has agreed a reorganisation of the Company, with Gresham House Asset Management Limited formally taking over as Investment Adviser. The new arrangements bring a number of benefits which the Board believes will deliver enhanced value to Shareholders. We are looking forward to working with the new team as the Company enters the next stage of its life.

Investment portfolio

There were no changes to the investment portfolio during the year. At the year end, the Company held a portfolio of 16 investments with a total value of £31.4 million.

As usual, the Board has reviewed the investment valuations at the year end and made adjustments to the fair values. Despite lower than expected irradiation during the year which impacted the solar investments, other factors have offset this resulting in a net unrealised gain of £992,000.

Net asset value and results

At 30 September 2017, the Net Asset Value ("NAV") per Ordinary Share stood at 114.9p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 115.0p. This represents an increase of 2.6p (2.2%) over the year, after adjusting for dividends paid during the year of 5.0p per Ordinary share. Total dividends paid to date for a combined holding of one Ordinary Share and one 'A' Share stand at 39.5p. Total Return (NAV plus cumulative dividends paid to date) now stands at 154.5p, compared to the cost to investors in the initial fundraising of £1.00 or 70.0p net of income tax relief.

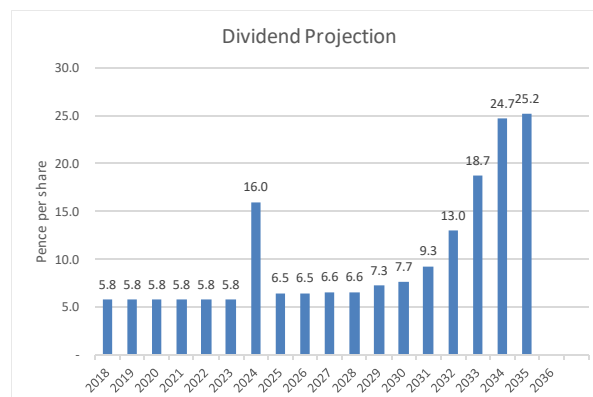
The profit on ordinary activities after taxation for the year was £652,000, comprising a revenue loss of £243,000 and a capital gain of £895,000 as shown in the Income Statement.

Dividends

The Company normally pays its annual dividend in September each year. A dividend of 5.0p per Ordinary Share was paid on 15 September 2017.

The Company's general dividend policy is to distribute surplus funds generate by the underlying investments, subject to maintaining an appropriate cash reserve within the Company to meet anticipated future requirements.

In respect of future dividends, the Investment Adviser has projected future returns from the underlying investments. These are summarised as follows:



The chart shows the funds projected to be available for dividends in future years. It should be noted that the projections do not make allowance for any funds that may be used for share buybacks and any performance incentive that may become payable. The projections are based on standard irradiation and other climactic assumptions. Actual conditions may, of course, vary which could result in a different outcome.

Share Buybacks

The Company has introduced a revised policy of buying in shares that become available in the market at a 2% discount to NAV. Shareholders who wish to sell their shares will need to do so via a stockbroker. The Company has engaged Panmure Gordon (UK) Limited ("Panmure") as its Corporate Broker. Panmure can provide guidance on the timing and likely price of buybacks. Contact details for Panmure can be found on the inside cover of the Annual Report.

No 'Ordinary' Shares or 'A' Shares were purchased during the year.

Board composition

In July, Peter Wisher resigned as a non-executive Director and Chairman of the Company due to ill health. I am sad to report that Peter has since passed away. Peter was Chairman since the Company's launch in 2010 and presided over a period that delivered solid returns to Shareholders. Peter's presence as a colleague and friend is greatly missed and our thoughts are with his family and friends.

Following Peter's resignation, I agreed to take over as Chairman. Subsequently Giles Clark has joined the Board as a non-executive director. Giles has significant experience in the solar energy sector and acted as a consultant for the Company in the recent review. Giles brings additional skills to the Board and, we believe, will be a significant asset.

CHAIRMAN'S STATEMENT (continued)

Investment Adviser

As mentioned above, Gresham House Asset Management Limited ("GHAM") has now been appointed as Investment Adviser to the Company, and our sister Company, Hazel Renewable Energy VCT1 plc ("Hazel 1). GHAM is part of AIM-quoted specialist asset manager, Gresham House plc.

GHAM acquired the business of Hazel capital LLP on 31 October 2017 so the Company now benefits from continuity of the key investment executives plus the enhanced resources of a larger group. As part of the new arrangements, the Board also secured a reduced advisory fee. The Board looks forward to working with GHAM and believes that the new structure can deliver enhanced returns to Shareholders in due course.

Amendment to the Articles of Association

The VCT's investments are mostly in companies which were set up to develop and operate renewable energy assets. In some cases, these companies have not yet generated enough profits to fully offset the set-up costs and, as a result, do not yet have distributable reserves even though they are now generating surplus cash. Funds from these investee companies have, in some cases, been paid up to the VCT by way of loans. In due course, it is expected that these loans will be cancelled by the declaration of dividends from the investee company once distributable reserves are available.

Article 106.1 restricts the Company from borrowing from non-group companies a sum in excess of 15% of the net assets of the Company. As currently drafted, loans from investee companies are included in this calculation. The Directors believe that it was not intended that such loans be included within this restriction and propose to extend the definition of "Group" in the articles to include investee companies. Resolution 6 will be proposed as a special resolution at the forthcoming AGM seeking to make this amendment to the articles. The Board recommends voting in favour of this resolution to allow the Company to continue to have flexibility in transferring surplus cash from the investee companies to the Company as required.

Annual General Meeting

The Company's seventh AGM will be held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 11:05 a.m. on 21 March 2018.

Four items of special business will be proposed as follows:

- one resolution seeking authority to undertake share buybacks
- two resolutions seeking authority to allow the Directors to allot shares and disapply pre-emption rights in respect of those shares (including shares held in treasury); and
- one resolution to approve the amendment to the Articles of Association as described above.

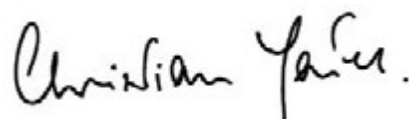
Outlook

The recent Budget by Her Majesty's Government announced a number of further changes to the VCT regulations. As the Company is effectively fully invested, the Board does not believe the new regulations will have an impact on returns from the existing portfolio. The new regulations do however place further restrictions on the types of new investments that VCTs are able to make in future and will have an influence on any plans that the Company might develop in respect of new investment activity.

The Board has also considered the potential impact of the UK leaving the European Union. With almost all of the Company's funds employed in renewable energy assets in the UK, the Board do not consider that any impact of this will be significant for the Company.

In terms of the existing portfolio, over the next year, the investment advisory team will continue close monitoring of and, where possible, seek to further achieve running costs savings and improved efficiency from the current assets.

I look forward to updating Shareholders in my statement with the Half yearly report to 31 March 2018 which is expected to be published in July 2018.



Christian Yates
Chairman

9 January 2018

INVESTMENT ADVISER'S REPORT

Introduction

We would like to thank the shareholders for supporting the reorganisation of the company and appointing Gresham House Asset Management Limited as Investment Adviser. We look forward to sustaining and enhancing the impressive investment returns that have been achieved since inception in 2009. We are pleased to report that the portfolio of assets owned by Hazel Renewable Energy VCT2 plc ("the Company") extended its multi-year period of solid performance in the year ending 30 September 2017. This was achieved in spite of a significant headwind in the form of adverse weather conditions faced by all owners of solar generation assets in the UK.

The portfolio was fully invested at the beginning of the year. Although there were surplus proceeds from the refinancing carried out in March 2016, the need to allow for all potential outcomes of the reorganisation of the Company meant that these funds were maintained in cash.

The focus in the year was to generate as much yield as possible from the portfolio, and to reduce risk to revenues over multiple years by building in resilience through a new spare parts strategy and negotiating better insurance terms.

Overall, the Company owns a well-diversified portfolio of assets of high build quality. The ground-mounted sites and the solar installations located on the roofs of residential properties owned by housing associations across the UK have performed well over the years and account for circa ninety percent of the cashflows and therefore the value. The small wind turbine portfolio and to a lesser extent the small portfolio solar installations located on the roofs of privately-owned houses and schools have performed less well over the years, although the latter has done better than expected in the past year.

Overall Portfolio and Operational Review

We have set out below the framework we use to analyse the performance of the portfolio of assets in this report. We base our analysis on three key factors: The first are macro level factors and include inflation, wholesale power prices, variable components of subsidies for renewable energy generation and climactic conditions. The Investment Adviser has no control over this set of factors. The second category covers the technical performance of an asset in terms of energy generation for a given level of macro risk factors. The third category covers costs. The Investment Adviser has much more control over the second and third categories.

Starting with macro factors, inflation, a parameter that the portfolio is very sensitive to (as a result of inflation-linked power subsidies) steadily increased through the year. RPI (Retail Price Inflation) increased from 2.0% to 3.9% over the year. The substantially higher level is yet to be reflected in the tariffs as adjustments become effective in April, however this increase is a very positive development for the portfolio since each 1% increase in valuation, adds circa £100,000 to portfolio revenues.

Climactic conditions however were unfavourable. The amount of solar irradiation falling on the solar panels showed a marked decline from prior years. For the six ground-mounted solar power plants remunerated by Feed-in-Tariffs (FiTs) that account for around 70% of the value of the portfolio, irradiation fell 5.5% short of forecasts. Each 1% movement in irradiation for this portfolio results in a £80,000 movement in revenues. For the two ground-mounted sites remunerated by Renewable Obligation Certificates (ROCs), irradiation came in line with forecasts due to one of the parks being located on the East Anglia coast which typically experiences different weather patterns than Central and Western England where the other parks are located.

Unlike the case with the ground-mounted sites where pyranometers are installed to measure irradiation, we do not have the ability to measure irradiation at the roof-mounted solar installations as installing pyranometers is not cost effective.

INVESTMENT ADVISER'S REPORT (continued)

Overall Portfolio and Operational Review (continued)

It is extremely difficult to forecast irradiation on a year-by-year basis. Conditions have been poor in the last two years and we hope that a reversion-to-mean effect manifests itself in the next year.

Power prices drifted down moderately throughout the year, however the portfolio's very low exposure to power prices (less than 5% of revenues are currently from variable tariffs) means that this has a very modest impact.

Moving on to the second category, the technical performance of the assets. We are pleased to report that the ground-mounted asset base that accounts for 79% of the portfolio value, performed in line with expectations despite the fact that we raised these expectations during the year. Performance would however have come in better had there not been an outage of three weeks duration at the point at which one of the ground-mounted sites connects to the electricity grid. We expect to be partially compensated for this outage through contractual terms in our Operations and Maintenance Agreement.

Outages that occur in the summer where energy generation is highest can result in a significant revenue loss and we looked at ways in which we can minimise the probability and magnitude of such losses. We renegotiated our insurance policies for the ground-mounted assets taking advantage of more competition and substantially better terms available in the insurance market, and are pleased to report that the excess (deductible) is now ten days as opposed to twenty-five days for allowable claims. We have also reviewed our spare parts strategy for both the ground-mounted and rooftop-mounted solar installations to improve the lead times of potential repairs and have ordered an additional stock of spare parts that have long delivery times but negligible obsolescence risk.

The reduced risk profile has helped us in our decision to reduce the discount rate for the ground-mounted solar sites remunerated by FiTs by 25 basis points.

The roof-mounted solar asset portfolio that accounts for circa 12% of the overall valuation performed slightly ahead of expectations. Generation was 1% better than forecast.

An area of the portfolio that experienced a significant underperformance is the small wind portfolio. This portfolio accounts for around 10% of the overall value of the portfolio. We were hopeful that the small uplift we experienced in performance in the prior year would continue, however the opposite has happened.

Around a third of the portfolio consists of Chinese-made Huaying HY-5 wind turbines, some of which experienced significant technical and safety issues during the high wind conditions that prevailed in February. Britwind, the O&M Contractor, communicated that they would be unable to maintain these assets in the future due to the poor technical quality of the turbines and lack of support from the manufacturer, which invalidated our insurance coverage. This combined with the safety/public liability implications forced us to put the turbines on mechanical break.

One major disadvantage of this type of distributed asset is the difficulty of finding qualified and experienced Operations and Maintenance Contractors that can perform a decent quality service at a cost level that makes sense. We were nevertheless able to identify an engineer willing to perform these services and have tasked his firm with visiting and examining the installations and putting back in operation those turbines that are safe and unlikely to necessitate major repairs.

This has resulted in our decision to recommend a further impairment to the value of this element of the portfolio – it is now valued at circa half the original investment amount.

The third factor that determines performance is costs. Most of our work to reduce controllable costs was done in the prior year where we renegotiated our O&M and insurance contracts and achieved cost reductions of more than 50%. We also achieved savings in bookkeeping and accounting costs.

This year however, we suffered the impact of a significant increase in business rates. The Government decided to increase business rates by close to three times for ground-mounted solar farms that were built in the 2010 to 2012 period and therefore earned very high FiTs. The impact on the portfolio is an increase of £175,000 per year in the cost base once the taper period of three years to moderate the impact is over.

There is the potential of further reductions in O&M costs as prices in the UK become more aligned with those in Continental Europe, however the long-term nature of our O&M contracts (a requirement under the debt facility agreements) mean that we will not enjoy the benefits of such a realignment for several years to come.

We are now working on achieving cost reductions in ancillary areas such as electricity imports, communications, security and monitoring, however we do not expect these savings to amount to more than £10,000 per annum across the portfolios.

INVESTMENT ADVISER'S REPORT (continued)

Portfolio Valuation

As at 30 September 2017, the combined NAV and Total Return stood at 115.0p and 154.5p respectively, an increase of 2.6p after adjusting for dividends paid during the year of 5.0p. This year's increase, as was the case last year, has come from the increase in market prices for renewable generation assets which we have reflected in the lower (by 25 basis points) range we used to value the ground-mounted, FiT remunerated solar sites that account for circa 70% of the value of the portfolio.

In addition, our valuation assumptions incorporate a small increase in the generation forecast. It would be extremely unlucky for the current poor irradiation conditions to persist in the very long term and we have reduced the weighting of the current year in our forecasts.

There have been no changes to discount rates used for other assets in the portfolio or to inflation assumptions. Inflation has continued to increase during the year and RPI has come in as high as 3.9% (as opposed to our forecast for long term inflation of 3%) however we must take into account that this increase could prove to be very transient.

Similar to last year, a significant portion of the valuation (circa £10million in total with the Company's share being £5.0million – circa 18% of the valuation) is comprised of cash balances held by investee companies. Two thirds of this cash is held in reserves (for equipment replacement and debt service in the case of a significant breach of debt terms) that are mandatory under the debt facility agreements.

In the longer term the potential to capture residual value through the extension of leases beyond their 25-year term and upgrading the equipment using new technology with much better yields may arise. We witnessed this in another transaction relating to an asset outside the Company's portfolio. It is a given that subsidies will not be available and it is impossible to predict power prices so far out in the future but upgrade costs are also likely to be very low.

Other Developments

The Hazel Capital Team that has delivered market-leading performance in shareholder value is now proud to be part of Gresham House plc, a fast-growing publicly-quoted alternative asset manager. We believe these combined resources will be of great benefit to shareholders as they will have the same core investment team continuing to manage the portfolio as well as access to the wider Gresham House team's experience in alternative asset management and investor communication. On the latter point, Gresham House are working closely with trusted advisers, clients and industry experts to develop a best-in-class client portal, which will provide enhanced communication and high-quality reporting to investors. The objective is to provide all shareholders with secured access to the client portal during the first quarter of 2018.

Outlook

We will continue to target improvements in yield and reductions in risk across the portfolio, and evaluate incremental maintenance capex decisions that have the potential to generate high returns.

Should the opportunity occur to deploy the surplus cash proceeds held by investee companies as a result of the March 2016 refinancing, we will seek further investment opportunities such as the acquisition of small scale solar sites or adding energy storage to existing projects in a way that does not compromise the accreditation status.

Gresham House Asset Management Limited

9 January 2018

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments were held at 30 September 2017:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
Qualifying and part-qualifying investments				
Lunar 2 Limited*	2,976	15,322	1,843	48.7%
Ayshford Solar (Holding) Limited*	1,928	3,154	164	10.0%
Lunar 1 Limited*	125	2,121	(65)	6.7%
New Energy Era Limited	884	1,390	(99)	4.4%
Hewas Solar Limited	1,000	1,355	(6)	4.3%
Vicarage Solar Limited	871	1,215	(88)	3.9%
Tumblewind Limited*	1,401	1,144	(65)	3.6%
Gloucester Wind Limited	1,000	953	(200)	3.0%
Minsmere Power Limited	975	729	(321)	2.3%
HRE Willow Limited	875	726	(44)	2.3%
Penhale Solar Limited	825	725	(10)	2.3%
St Columb Solar Limited	650	673	(17)	2.1%
Chargepoint Services Limited	500	500	-	1.6%
Small Wind Generation Limited	975	483	(100)	1.5%
Sunhazel UK Limited	1	-	-	0.0%
	<u>14,986</u>	<u>30,490</u>	<u>992</u>	<u>96.7%</u>
Non-qualifying investments				
AEE Renewables UK 3 Limited	900	900	-	3.0%
	<u>900</u>	<u>900</u>	<u>-</u>	<u>3.0%</u>
	<u>15,886</u>	<u>31,390</u>	<u>992</u>	<u>99.7%</u>
Cash at bank and in hand		<u>88</u>		<u>0.3%</u>
Total investments		<u>31,478</u>		<u>100.0%</u>

* Part-qualifying investment

All venture capital investments are incorporated in England and Wales.

Hazel Renewable Energy VCT1 plc, of which Gresham House Asset Management Limited ("GHAM") is the Investment Adviser, holds the same investments as above.

REVIEW OF INVESTMENTS (continued)

Investment movements for the year ended 30 September 2017


DISPOSALS


	Cost £'000	Valuation at 30 September 2016 £'000	Proceeds £'000	Profit vs cost £'000	Realised Gain £'000
Qualifying and part-qualifying investments					
Ayshford Solar (Holdings) Limited	552	506	552	-	46
	552	506	552	-	46
Non-qualifying investments					
Tumblewind Limited	37	37	37	-	-
	37	37	37	-	-
	589	543	589	-	46

The basis of valuation for the largest investments is set out on pages 10 to 13.

REVIEW OF INVESTMENTS (continued)

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

Lunar 2 Limited	Cost at 30/09/17:	£2,976,000	Valuation at 30/09/17:	£15,322,000
	Cost at 30/09/16:	£2,976,000	Valuation at 30/09/16:	£13,479,000
	Date of first investment:	Dec 2013	Valuation method:	Discounted Cash Flow
Investment comprises:				
Ordinary shares:	£1,331,000	Proportion of equity held:	50%	
Loan stock:	£1,645,000	Proportion of loan stock held:	50%	
Summary financial information from statutory accounts: 30 April 2016			Turnover:	<i>£nil</i>
			Operating loss:	£7,711
			Net liabilities:	£487,018
<p>Lunar 2 Limited fully owns the holding companies South Marston Solar Limited and Beechgrove Solar Limited, and 10% of Vicarage Solar Limited. These companies own ground-mounted solar farm projects of 5MW (near Swindon), 4MW (near Hawkchurch) and 0.64MW (Ilminster, Somerset) respectively. Furthermore, Lunar 2 Limited owns 90% of Lunar 1 Limited and therefore its subsidiaries (AEE Renewables UK 3 Ltd. 90%, AEE Renewables UK 26 Ltd. 90% and New Energy Era 10%).</p>				

Ayshford Solar (Holding) Limited	Cost at 30/09/17:	£1,928,000	Valuation at 30/09/17:	£3,154,000
	Cost at 30/09/16:	£2,480,000	Valuation at 30/09/16:	£3,496,000
	Date of first investment:	Mar 2012	Valuation method:	Discounted Cash Flow
Investment comprises:				
Ordinary shares:	£827,000	Proportion of equity held:	50%	
Loan stock:	£1,101,000	Proportion of loan stock held:	50%	
Summary financial information from statutory accounts: 30 April 2016			Turnover:	£2,665
			Operating loss:	£3,042
			Net assets:	£710,247
<p>Ayshford Solar (Holding) Limited owns a ground-mounted solar farm (AEE Renewables UK 13 Limited) 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.</p>				

Lunar 1 Limited	Cost at 30/09/17:	£125,000	Valuation at 30/09/17:	£2,121,000
	Cost at 30/09/16:	£125,000	Valuation at 30/09/16:	£2,186,000
	Date of first investment:	Dec 2013	Valuation method:	Discounted Cash Flow
Investment comprises:				
Ordinary shares:	£125,000	Proportion of equity held:	5%	
Summary financial information from statutory accounts: 30 April 2016			Turnover:	<i>£nil</i>
			Operating Loss:	£6,415
			Net assets:	£112,049
<p>Lunar 1 Limited fully owns the holding companies AEE Renewables UK 3 Limited, AEE Renewables UK 26 Limited and 10% of New Energy Era Limited. These companies own the FIT accredited ground-mounted solar farm projects of 5MW (Wiltshire) and 0.7MW (Oxfordshire) respectively.</p>				

REVIEW OF INVESTMENTS (continued)

New Energy Era Limited



Cost at 30/09/17:	£884,000	Valuation at 30/09/17:	£1,390,000
Cost at 30/09/16:	£884,000	Valuation at 30/09/16:	£1,489,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£884,000	Proportion of equity held:	45%

Summary financial information from statutory accounts: 30 April 2016		Turnover:	£289,932
		Operating profit:	£166,352
		Net Assets:	£1,938,080

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

Hewas Solar Limited



Cost at 30/09/17:	£1,000,000	Valuation at 30/09/17:	£1,355,000
Cost at 30/09/16:	£1,000,000	Valuation at 30/09/16:	£1,361,000
Date of first investment:	Aug 2011	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£1,000,000	Proportion of equity held:	50%

Summary financial information from statutory accounts: 30 April 2016		Turnover:	£458,049
		Operating profit:	£222,468
		Net assets:	£1,999,999

Hewas Solar Limited owns a portfolio of roof-mounted solar assets located on housing stock owned by a housing association. The company financed the capital costs of installing equipment and in return receives the FIT income. Residents of the housing associations are able to use the electricity generated by the installations free of charge. Roof-top installations were undertaken during November and December 2011. The company has entered into a fixed term O&M agreement with the installer, Strategic Energy Limited. At the beginning of March 2016, Hewas Solar Limited bought a portfolio of 964.3kW of rooftop solar PV assets which are installed on 433 rooftops on housing association properties located in South Wales from Penhale Solar Limited.

Vicarage Solar Limited



Cost at 30/09/17:	£871,000	Valuation at 30/09/17:	£1,215,000
Cost at 30/09/16:	£871,000	Valuation at 30/09/16:	£1,303,000
Date of first investment:	Mar 2012	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£871,000	Proportion of equity held:	45%

Summary financial information from statutory accounts: 30 April 2016		Turnover:	<i>Nil</i>
		Operating loss:	£99
		Net assets:	£1,931,404

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

REVIEW OF INVESTMENTS (continued)

Tumblewind Limited



Cost at 30/09/17:	£1,401,000	Valuation at 30/09/17:	£1,144,000
Cost at 30/09/16:	£1,438,000	Valuation at 30/09/16:	£1,246,000
Date of first investment:	Nov 2011	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£790,000	Proportion of equity held:	50%
Loan stock:	£611,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts: 30 April 2016	Turnover:	£102,899
	Operating profit:	£46,809
	Net assets:	£1,388,441

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

Gloucester Wind Limited



Cost at 30/09/17:	£1,000,000	Valuation at 30/09/17:	£ 953,000
Cost at 30/09/16:	£1,000,000	Valuation at 30/09/16:	£ 1,153,000
Date of first investment:	Apr 2012	Valuation method:	Discounted Cash Flow

Investment comprises:			
Ordinary shares:	£800,000	Proportion of equity held:	50%
Loan stock:	£200,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts: 30 April 2016	Turnover:	£224,449
	Operating profit:	£28,686
	Net assets:	£1,658,195

Gloucester Wind Limited owns a portfolio of roof-mounted solar assets located on residential housing stock across the UK. The company financed the capital costs of installing equipment and is receiving the FiT income in return. Home owners are able to use the electricity generated by the installations free of charge. Roof-top installations commenced in June 2012 and were completed over the subsequent 6 months. However, the developer's bankruptcy in April 2013 uncovered several issues with the portfolio that are continuing to be investigated. An O&M agreement with Anesco was signed in February 2015, this has resolved the technical issues that were identified. The current focus is on bringing all property documentation up to date.

AEE Renewables UK 3 Limited



Cost at 30/09/17:	£900,000	Valuation at 30/09/17:	£900,000
Cost at 30/09/16:	£900,000	Valuation at 30/09/16:	£900,000
Date of first investment:	Apr 2010	Valuation method:	Cost as reviewed for impairment

Investment comprises:			
Loan stock:	£900,000	Proportion of loan stock held:	50%

Summary financial information from statutory accounts: 30 April 2016	Turnover:	£ 1,812,535
	Operating profit:	£ 1,134,899
	Net assets:	£ 1,189,687

AEE Renewables UK 3 Limited is a UK FiT accredited photovoltaic solar farm located in Sutton Benger, Wiltshire. The project has a total installed capacity of 4,983.84kW. The lease is held with a local cereal farmer. The project was developed through to planning permission and grid connection by AEE UK Limited. The project was built and commissioned by Graess GMBH. The extended installation was given Ofgem accreditation in February 2012.

REVIEW OF INVESTMENTS (continued)

Minsmere Power Limited



Cost at 30/09/17:	£975,000	Valuation at 30/09/17:	£729,000
Cost at 30/09/16:	£975,000	Valuation at 30/09/16:	£1,050,000
Date of first investment:	Nov 2011	Valuation method:	Cost as reviewed for impairment

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

Summary financial information from statutory accounts: 30 April 2016	Turnover:	£ 172,770
	Operating profit:	£ 45,276
	Net assets:	£ 2,522,284

Minsmere Power Limited owns a portfolio of 69 small scale 5kW wind turbines located on domestic sites throughout Norfolk. The land owner is entitled to free electricity produced by the turbines with Minsmere Power Limited collecting the FITs for the generation of the electricity and the export tariff of any electricity unused by the home. The Company also owned 252kWp of rooftop solar assets installed on 102 rooftops on housing association properties located near Glasgow, Scotland. These assets were sold to St. Columb Solar Limited at the beginning of March 2016.

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.

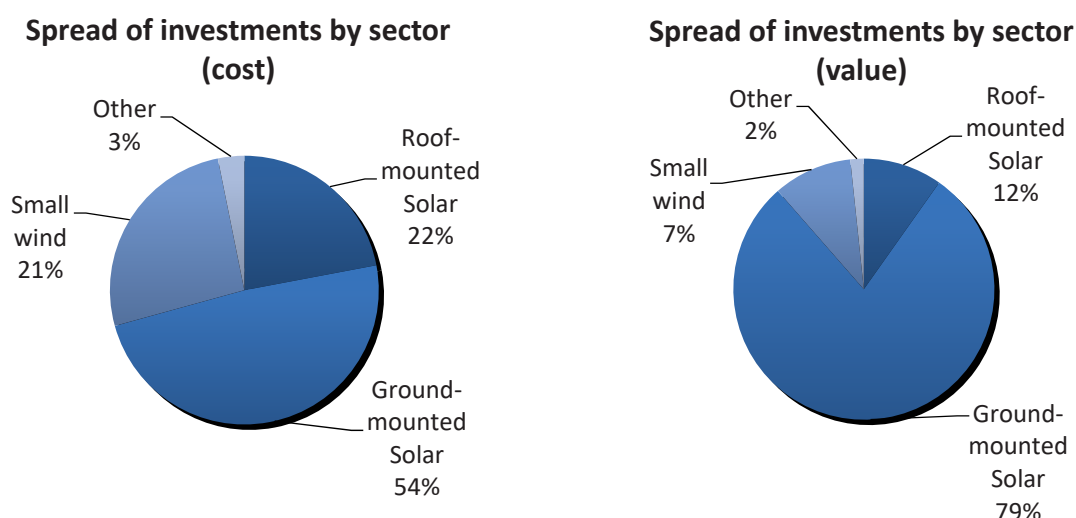
REVIEW OF INVESTMENTS (continued)

Summary of loan stock interest income

	£'000
Loan stock interest receivable in the period	
AEE Renewables UK 3 Limited	72
Tumblewind Limited	51
Chargepoint Services Limited	40
Minsmere Power Limited	11
Small Wind Generation Limited	11
	<u>185</u>

Analysis of investments by commercial sector

The split of the investment portfolio by sector (by cost and by value at 30 September 2017) is as follows:



Analysis of investments by type

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

	Actual portfolio split at 30 September 2017	Actual portfolio split at 30 September 2016
VCT qualifying investments		
Loans to qualifying companies	23.4%	26.1%
Ordinary shares in qualifying companies	54.2%	61.2%
Total	<u>77.6%</u>	<u>87.3%</u>
Non-qualifying investments (including cash at bank)	22.4%	12.7%
Total	<u>100.0%</u>	<u>100.0%</u>

STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 30 September 2017. The Board have prepared this report in accordance with the Companies Act 2006.

Business model

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

Investment advisory and administration fees

Hazel Capital LLP (“Hazel Capital”) has provided investment advisory services to the Company at a fee equivalent to 2% of net assets per annum, since its launch. The agreement with Hazel Capital was for a minimum term of six years, effective from 20 October 2010, with a twelve month notice period on either side thereafter.

In May 2017, Gresham House plc (“Gresham House”), an AIM-quoted specialist asset management group, announced plans to acquire Hazel Capital. In light of the acquisition, which completed on 31 October 2017, the Board engaged directly with senior management at Gresham House to ensure that the requirements of Shareholders were clearly set out. As part of the negotiations with Gresham House, the Board has agreed a reduction in the investment advisory fee percentage from 2.0% to 1.4% for the first year, followed by a further reduction to 1.15% thereafter.

The Board has reviewed the services to be provided by Gresham House Asset Management Limited (“GHAM”), a wholly owned subsidiary of Gresham House plc, and has concluded that it is satisfied with the strategy, approach and procedures which are to be implemented in providing investment advisory services to the Company.

As detailed in the Shareholder circular, published by the Company on 16 October 2017, Downing LLP will continue to provide administration services to the Company for a revised fee of £40,000 (plus VAT, if applicable). This represents an increase of £5,000 (plus VAT, if applicable) or 14% on a fee which had previously been held at £35,000 since the inception of the Company.

Further to this, the Board has also agreed an additional one off fee to Downing LLP of £15,000, as a result of the additional work undertaken by the Company Secretary and other Downing LLP staff in evaluating the various options available to the Company, in the process of the Board arriving at the Gresham House proposals.

The Gresham House proposals were unanimously agreed by Shareholders at the General Meeting on 7 November 2017.

Investment policy

General

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

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

Investment strategy

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

- a well-defined business plan and ability to demonstrate strong demand for its products and services;
- products or services which are cash generative;
- objectives of management and Shareholders which are similarly aligned;
- adequate capital resources or access to further resources to achieve the targets set out in its business plan;
- high calibre management teams;
- companies where the Adviser 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.

STRATEGIC REPORT (continued)

Investment policy (continued)

Asset allocation

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

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

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

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

Risk diversification

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

The main risk management features include:

- portfolio of investee companies – the Company seeks to invest in at least eight different companies, thereby reducing the potential impact of poor performance by any individual investment;
- monitoring of investee companies – the Adviser will closely monitor the performance of all the investments made by the Company in order to identify any issues and to enable necessary corrective action to be taken; and

- the Company will ensure that it has sufficient influence over the management of the business of the investee companies, in particular, through rights contained in the relevant investment agreements and other Shareholder/constitutional documents.

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

Gearing

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

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

As at 30 September 2017, the Company had the ability to borrow £4.0 million and has borrowings of £3.7 million (2016: £2.4 million). However, the borrowings currently shown on the Balance Sheet represent amounts owed to investee companies and the Board expects such amounts to be repaid in the future by way of dividends from these companies. As a result, the Board are seeking shareholder approval for an amendment to the articles, in order to exclude borrowings from investee companies from the calculation of the 15% borrowing restriction.

STRATEGIC REPORT (continued)

Investment policy (continued)

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 of the Income Tax Act.

The above Listing Rules have been complied with for the year ended 30 September 2017.

Business review and developments

The Company's business review and developments during the year are set out in the Chairman's Statement, Investment Adviser's Report, and the Review of Investments.

During the year to 30 September 2017, the investments held increased in value by £992,000 and gains arising on investment realisations totalled £46,000.

Income over expenditure for the year resulted in a net loss, after accounting for capital expenses, of £386,000.

The total profit for the year was £652,000 (2016: £1,219,000). Net assets at the year-end were £28.2 million (2016: £28.8 million). Dividends paid during the year totalled £1,225,000 (2016: £1,226,000).

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

Directors and senior management

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

Key performance indicators

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

The position of the Company's Net Asset Value Total Return at 30 September 2017 is on page 2.

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

Principal risks and uncertainties

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

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

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

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

Viability statement

In accordance with C.2.1 and C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors have carried out a robust assessment of the principal risks facing the Company that would threaten its business model, future performance, solvency or liquidity, and have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for a period of three years from the balance sheet date as developments are considered to be reasonably foreseeable over this period.

STRATEGIC REPORT (continued)

Viability statement (continued)

The three year review considers the principal risks facing the Company which are summarised within Note 18 as well as the Company's cash flows, dividend cover and VCT monitoring compliance over the period.

The three year review makes assumptions about the level of investment activity, expenditure, dividends and share buybacks.

The Directors believe that the Company is well placed to manage its business risks successfully. Based on the results, the Board confirms that, taking into account the Company's current position and subject to the principal risks faced by the business, the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least three years from the balance sheet date.

Directors' remuneration

It is a requirement under The Companies Act 2006 for Shareholders to vote on the Directors' remuneration every three years, or sooner if the Company wants to make changes to the policy. The Directors' remuneration policy for the three year period from 1 October 2017 is set out on page 23.

Annual running costs cap

The annual running costs for the year are capped at 3.5% of net assets; any excess will either be paid by the Investment Adviser or refunded by way of a reduction of the Investment Adviser's fees. Annual Running Costs for the year to 30 September 2017 were less than 3.5% of net assets.

Performance incentive

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

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

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

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

Hurdle criteria:

Annual dividend per			
Ordinary Share	0-5p	5-10p	>10p
Combined NAV Hurdle	N/A	>100p	>100p

Allocation:

Shareholders	99.97%	80%	70%
Management	0.03%	20%	30%

Although the NAV hurdle has been met, the dividends paid were equal to the dividend hurdle of 5.0p. As a result, no performance incentive is due in respect of the year ended 30 September 2017.

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. The trail commission will be payable to Hazel Capital LLP until the earlier of (i) the sixth anniversary of the closing of the Offers and (ii) the Investment Advisory Agreement being terminated.

STRATEGIC REPORT (continued)

VCT status

The Company has reappointed Philip Hare & Associates LLP (“Philip Hare”) to advise it on compliance with VCT requirements, including evaluation of investment opportunities as appropriate and regular review of the portfolio. Although Philip Hare works closely with the Investment Adviser, 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 17
1. To ensure that the Company holds at least 70% of its investments in qualifying companies;	82.5%
2. To ensure that at least 30% (70% in the case of funds raised after 6 April 2011) of the Company’s qualifying investments are held in “eligible shares”;	72.5%
3. At least 10% of each investment in a qualifying company is held in eligible shares;	Complied
4. No investment constitutes more than 15% of the Company’s portfolio;	Complied
5. To ensure that the Company’s income for each financial year is derived wholly or mainly from shares and securities;	100%
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and	Complied
7. Prior to 6 April 2012, a maximum unit size of £1 million in each VCT qualifying investment (per tax year).	Complied

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

Share buybacks

The Company operates a revised 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 2% discount to the most recently published NAV.

No ‘Ordinary’ Shares or ‘A’ Shares were purchased during the year.

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

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 Adviser take environmental, social and human rights factors into consideration when making investment decisions.

Future prospects

The Board’s assessment of the outlook and future strategy of the Company are set out in the Chairman’s Statement and Investment Adviser’s Report.

Events after the end of the reporting period

At the General Meeting at 10:45am on 7 November 2017, held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD, Shareholders voted unanimously in favour of the proposals for the reorganisation of the Company, as detailed in the Shareholder circular dated 16 October 2017. Further details are set out above, in addition to the Chairman’s Statement, the Investment Adviser’s report, the Report of The Directors, the Directors’ Remuneration Report and Note 22 to the Financial Statements.

By order of the Board



Grant Whitehouse

Company Secretary

Company number: 07378395

Registered office:

6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

9 January 2018

REPORT OF THE DIRECTORS

The Directors present the seventh Annual Report and Accounts of the Company for the year ended 30 September 2017.

The Corporate Governance Report on pages 25 to 27 forms part of this report.

Share capital

At the year end, the Company had in issue 24,504,858 Ordinary Shares and 36,799,133 '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 approximately 2%.

At the Annual General Meeting ("AGM") that took place on 13 March 2017, the Company was authorised to make market purchases of its Ordinary Shares and 'A' Shares, up to a limit of 3,651,224 Ordinary Shares and 5,483,071 '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 3,651,224 Ordinary Shares and 5,483,071 'A' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 21 March 2018.

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.

Substantial interests

As at 30 September 2017, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital.

Results and dividends

	£'000	Pence per Ord Share	Pence per 'A' Share
Profit for the period	<u>652</u>	<u>2.6p</u>	<u>-</u>
<i>Dividends paid</i>			
2017 Interim	<u>1,225</u>	<u>5.0p</u>	<u>-</u>

Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2017 and at the date of this report were as follows:

Directors		As at the date of this report	As at 30 Sep 2017	As at 30 Sep 2016
Peter Wisher ¹	Ord 'A'	n/a n/a	n/a n/a	20,800 20,800
Christian Yates	Ord 'A'	19,673 2,616,069	19,673 2,616,069	19,673 2,616,069
Matthew Evans ²	Ord 'A'	n/a n/a	n/a n/a	n/a n/a
Giles Clark ³	Ord 'A'	n/a n/a	n/a n/a	n/a n/a

¹Peter Wisher retired as director on 28 July 2017.

²Matthew Evans was appointed as a director on 31 January 2017.

³Giles Clark was appointed as a director on 7 November 2017.

Christian Yates was last re-elected at the AGM that took place in March 2015. In accordance with the Articles of Association, Christian Yates is required to retire and offer himself for reappointment at the forthcoming AGM. Matthew Evans was appointed to fill a casual vacancy on 31 January 2017 and was subsequently re-elected at the 2017 AGM. Giles Clark was appointed on 7 November 2017 and will retire at the forthcoming AGM and stand for re-election.

Christian Yates signed a letter of appointment with the Company dated 20 October 2010. Matthew Evans and Giles Clark signed similar letters dated 31 January 2017 and 7 November 2017 respectively. These agreements are for a period of twelve months and thereafter are 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.

Auditor

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

REPORT OF THE DIRECTORS (continued)

Substantial interests

As at 30 September 2017, 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 seventh Annual General Meeting ("AGM") will be held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 11:05 a.m. on 21 March 2018. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102). 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 Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' published in November 2014 give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- that the management report, comprising the Chairman's Statement, Investment Adviser's Report, Review of Investments, Strategic Report, and Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Insurance cover

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

Website publication

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

REPORT OF THE DIRECTORS (continued)

Corporate governance

The Company's Corporate Governance statement and compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code April 2016 (www.frc.org.uk) is shown on pages 25 to 27.

Other matters

Information in respect of risk management and risk diversification has been disclosed within the Strategic Report on pages 16 and 17.

Information in respect of greenhouse emissions which is normally disclosed within the Report of the Directors has been disclosed within the Strategic Report on page 19.

Events after the end of the reporting period

At the General Meeting at 10:45am on 7 November 2017, held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD, Shareholders voted unanimously in favour of the proposals for the reorganisation of the Company, thereby allowing the two companies to continue to operate together. The details of the proposals were outlined in the Shareholder circular published on 16 October 2017, as well as in the letter to Shareholders dated 17 October 2017. Further details are set out above, in addition to the Chairman's Statement, the Investment Adviser's report, the Strategic Report, the Directors' Remuneration Report and Note 22 to the Financial Statements.

Statement as to disclosure of information to the 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

Company Secretary

Company number: 07378395

Registered office:

6th Floor, St. Magnus House

3 Lower Thames Street

London EC3R 6HD

9 January 2018

DIRECTORS' REMUNERATION REPORT

Annual Statement of the Remuneration Committee

The changes to the Directors' remuneration are outlined in this report. No major decisions regarding the remuneration policy have been made, other than the Board changes.

Report on Remuneration Policy

Below is the Company's remuneration policy. This policy applies from 1 October 2017. Shareholders must vote on the remuneration policy every three years, or sooner if the Company want to make changes to the policy. The policy was last approved by Shareholders at the 2017 AGM.

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).

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

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

Agreement for services

Information in respect of the Directors' agreements has been disclosed within the Report of the Directors on page 20.

Performance incentive fees

The structure of 'A' Shares, whereby Management (being partners and staff of the Investment Adviser) owns one third of the 'A' shares in issue (known as the "Management 'A' Shares"), enables a payment, by way of a distribution of income, of the performance incentive fees to the Management Team, including 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 2017.

Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2016, 30 September 2017 and at the date of this report are disclosed within the Report of the Directors on page 20.

Annual Report on Remuneration

The Board have prepared this report in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) and the Companies Act 2006.

Under the requirements of Section 497 of the Companies Act 2006, the Company's Auditor is required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on pages 28 to 32.

Directors' remuneration (audited)

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

	Current annual fee (excluding VAT) £	Year ended 30/09/17 £	Year ended 30/09/16 £
Christian Yates	25,000	48,400	15,000
Matthew Evans ¹	20,000	9,958	n/a
Giles Clark ²	20,000	-	-
Peter Wisher ³	N/A	26,685	20,000
Alexander Hambro ⁴	N/A	-	15,000
Bozkurt Aydinoglu ⁴	N/A	-	15,000
	65,000	85,043	65,000

¹Matthew Evans was appointed as a Director on 31 January 2017.

²Giles Clark was appointed as a Director on 7 November 2017.

³Peter Wisher retired as a Director on 28 July 2017.

⁴Bozkurt Aydinoglu and Alexander Hambro resigned as Directors on 7 March 2016.

As set out in the Shareholder circular published on 16 October 2017, with effect from 7 November 2017, the basic annual fees of the Directors have been increased from £20,000 to £25,000 for the Chairman, and from £15,000 to £20,000 for the other Non-Executive Directors.

Furthermore, in view of the significant additional work involved in evaluating the various options and arriving at the Gresham House proposals, the Board has agreed to pay one off additional fees to Christian Yates and Matthew Evans, of £25,000 (exclusive of VAT) and £10,000 (excluding NI) respectively.

DIRECTORS' REMUNERATION REPORT (continued)

Directors' remuneration (audited) (continued)

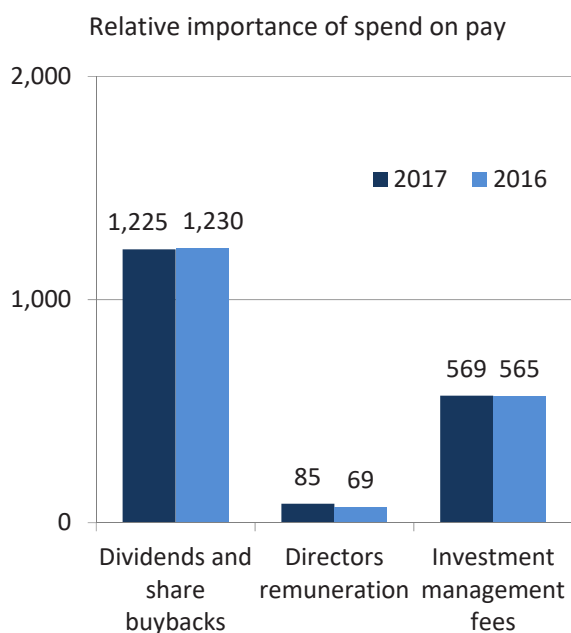
No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

2017/2018 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 level, as shown in the table on page 20.

Relative importance of spend on pay

The difference in actual spend between 30 September 2017 and 30 September 2016 on remuneration for all employees in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the tabular graph below.



Statement of voting at AGM

At the AGM on 13 March 2017, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	99.61%
Against	0.39%
Withheld	nil

At the 2017 AGM, when the remuneration policy was last put to a shareholder vote, 99.6% voted for the resolution, showing significant shareholder support.

Performance graph

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

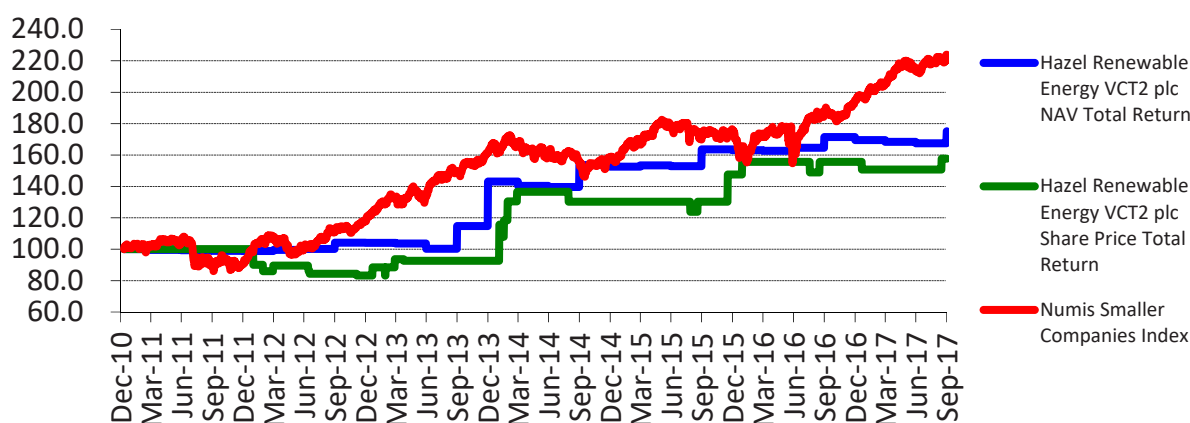
The Numis Smaller Companies Index has been chosen as a comparison as it is a publicly available broad equity index which focuses on smaller companies and is therefore more relevant than most other publicly available indices.

By order of the Board

Grant Whitehouse
Company Secretary
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

9 January 2018

Performance chart



CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued in April 2016, 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 three Non-executive Directors. The Chairman is Christian Yates. 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.

Christian Yates was last re-elected at the AGM that took place in March 2015. In accordance with the Articles of Association, Christian Yates is required to retire and offer himself for reappointment at the forthcoming AGM. Matthew Evans was appointed on 31 January 2017 and was subsequently re-elected at the 2017 AGM. Giles Clark was appointed on 7 November 2017 and will retire at the forthcoming AGM and stand for re-election.

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 Adviser; making decisions concerning the acquisition or disposal of investments; and reviewing, annually, the terms of engagement of all third party advisers (including the Investment Adviser 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.

Christian Yates, Matthew Evans and Giles Clark are currently the sole members of the Audit, the Remuneration and the Nomination Committees. The Chairman of the Remuneration and Nomination Committees is Matthew Evans and Giles Clark is the Chairman of the Audit Committee. 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 in Note 14 to the financial statements.

Audit Committee

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

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

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

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

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

External auditor

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

The Committee confirms that the main area of risk for the period under review is the carrying value of investments. The Committee's consideration of this matter is set out above.

CORPORATE GOVERNANCE (continued)

External auditor (continued)

The Company's auditor has historically provided corporation tax compliance services, however the provision of such services ceased following the year ended 30 September 2016. The Auditor, may, however, continue to perform ad-hoc work at the request of the Board. The Committee recognises the requirement for the tax computation to be prepared annually and the appointment of a new corporate tax agent will be assessed by the Board in due course.

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

Following assurances received from the Adviser at the completion of the audit for the period ended 30 September 2017, and taking discussions held with the engagement Partner at BDO LLP into consideration, the Committee has recommended they be reappointed at the forthcoming AGM.

Board and Committee meetings

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

	Board meetings attended (5 held)	Audit Committee meetings attended (2 held)	Nomination Committee meetings attended (1 held)
Peter Wisher ¹	4	2	1
Christian Yates	5	2	1
Matthew Evans ²	4	1	n/a

¹Retired 28 July 2017

²Appointed 31 January 2017

No Remuneration 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 23.

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.

Matthew Evans was appointed as a Director on 31 January 2017. Giles Clark was appointed as a Director on 7 November 2017. Peter Wisher retired as a Director on 28 July 2017.

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 Adviser 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 seventh 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 21 and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 32.

Internal control

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

CORPORATE GOVERNANCE (continued)

Internal control (continued)

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

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

Investment Adviser	Gresham House Asset Management Limited
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 Adviser's Report on pages 5 to 7 and the Strategic Report on pages 15 to 19. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 36.

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

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

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

Share capital

The Company has two classes of share capital: Ordinary Shares and 'A' Shares. The rights and obligations attached to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on page 20 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 2017 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)



Grant Whitehouse

Company Secretary
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

9 January 2018

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

Opinion on financial statements

We have audited the financial statements of Hazel Renewable Energy VCT2 Plc (the 'company') for the year ended 30 September 2017 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 17 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on pages 17 and 18 in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 27 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 17 and 18 in the annual report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

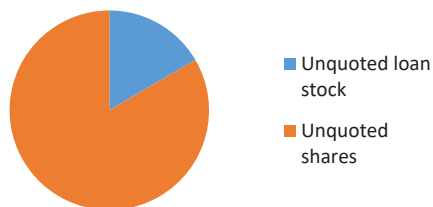
Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Valuation of investments

The valuation of investments in the underlying portfolio was the risk that had the greatest impact on our audit strategy and scope, including the allocation of resources in the audit. The Audit Committee’s consideration of this key matter is set out on page 25.



A breakdown of the investment portfolio by nature of instrument is shown above.

Risk description

The valuation of investments is a highly subjective accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the company.

100% of the underlying investment portfolio is represented by unquoted equity and loan stock.

How our audit addressed the risk

In respect of the unquoted equity investments valued using discounted cash flow models, we performed the following specific procedures:

- Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation (“IPEV”) Guidelines
- re-performed the calculations which underpinned the valuations
- verified key inputs to the valuation to independent information
- Used spreadsheet analysis tools to assess the integrity of the valuation models and track changes to inputs or structure
- Challenged the Investment Manager regarding significant judgements made
- Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation
- Challenged the appropriateness of the selection and application of key assumptions in the model to available industry data and consulting with our internal valuations specialists
- Considered the accuracy of forecasting by comparing previous forecasts to actual results

For unquoted loan stock we performed the following:

- Vouched to loan agreements and verified the terms of the loan
- Considered wider economic and commercial factors that, in our opinion, could impact on the recoverability and fair value of the loan
- Considered the carrying value of the loan with regard to the “unit of account” concept.

For unquoted equity investments valued at cost and reviewed for impairment we considered the appropriateness of this methodology by reviewing the operational performance of the investee company to determine whether this is an approximation of fair value.

For key assumptions in the valuation models, we considered the appropriateness of the assumption and whether alternative reasonable assumptions could have been applied. We considered each assumption in isolation as well as in conjunction with other assumptions and the valuation as a whole. Where appropriate, we sensitised the valuations where other reasonable alternative assumptions could have been applied. We also considered the completeness and clarity of disclosures regarding the range of reasonable alternative assumptions in the financial statements.

Based on procedures performed we concluded that the valuation of the investment portfolio was considered to be within an acceptable range.

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

Our application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements as a whole.

The application of these key considerations gives rise to two levels of materiality for the Company, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Basis and Key considerations	Quantum 2017 (£)	Quantum 2016 (£)
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view	Based on 2% of net asset value <ul style="list-style-type: none"> The value of investment The level of judgement inherent in the valuation The range of reasonable alternative valuations 	630,000	610,000
Specific materiality – classes of transactions and balances which impact on the realised return	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	<ul style="list-style-type: none"> 10% of 3 year average of revenue profit (i.e excluding unrealised valuation movements) 	110,000	180,000

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.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the company's activities, the key functions undertaken on behalf of the Board by the Investment Manager and Administrator and the overall control environment. Based on this understanding we assessed those aspects of the company's financial statements which were most likely to give rise to a material misstatement.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Other information (continued)

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 21 - the statement given by the directors that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 25 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 27 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit, the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 21, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit was performed using the materiality thresholds outlined elsewhere in this report. We have therefore tested all classes of transactions, account balances and disclosures at or in excess of these thresholds. Consequently, we consider it unlikely that there will be any undetected fraud with an impact exceeding our materiality thresholds. It is possible that there are undetected instances of fraud whose impact is below these thresholds.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following a recommendation of the audit committee we were appointed by the company at the Annual General Meeting held on 9 March 2017 to audit the financial statements for the year ended 30 September 2017 and subsequent periods. Our total period of uninterrupted appointment is seven years covering financial periods from our initial appointment to 30 September 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.



Vanessa-Jayne Bradley (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

9 January 2018

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

INCOME STATEMENT

for the year ended 30 September 2017

	Note	Year ended 30 September 2017			Year ended 30 September 2016		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	3	492	-	492	1,784	-	1,784
Gain on investments	10	-	1,038	1,038	-	376	376
		492	1,038	1,530	1,784	376	2,160
Investment advisory fees	4	(427)	(143)	(570)	(432)	(144)	(576)
Other expenses	5	(308)	-	(308)	(293)	(72)	(365)
(Loss)/profit on ordinary activities before tax		(243)	895	652	1,059	160	1,219
Tax on total comprehensive income and ordinary activities	7	-	-	-	-	-	-
(Loss)/profit for the year and total comprehensive income		(243)	895	652	1,059	160	1,219
Basic and diluted earnings per share:							
Ordinary Share	9	(1.0p)	3.6p	2.6p	4.3p	0.6p	4.9p
'A' Share	9	-	-	-	-	-	-

All Revenue and Capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year. The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS 102"). 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").

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

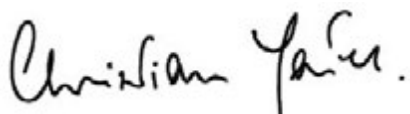
The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

as at 30 September 2017

	Note	£'000	2017 £'000	£'000	2016 £'000
Fixed assets					
Investments	10		31,390		30,941
Current assets					
Debtors	11	447		420	
Cash at bank and in hand		<u>88</u>		<u>4</u>	
		535		424	
Creditors: amounts falling due within one year	12	<u>(68)</u>		<u>(161)</u>	
Net current assets			<u>467</u>		<u>263</u>
Total Assets less net current assets			<u>31,857</u>		<u>31,204</u>
Creditors: amounts falling due after more than one year	13	<u>(3,660)</u>		<u>(2,434)</u>	
Net assets			<u>28,197</u>		<u>28,770</u>
Capital and reserves					
Called up Ordinary Share capital	14		25		25
Called up 'A' Share capital	14		37		37
Share premium account	15		3,985		3,985
Special reserve	15		9,840		11,065
Revaluation reserve	15		15,504		14,466
Capital reserve - realised	15		(1,200)		(1,057)
Revenue reserve	15		<u>6</u>		<u>249</u>
Total Shareholders' funds			<u>28,197</u>		<u>28,770</u>
Basic and diluted net asset value per share					
Ordinary Share	16		114.9p		117.3p
'A' Share	16		0.1p		0.1p

The financial statements of Hazel Renewable Energy VCT2 plc on pages 33 to 49 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



Christian Yates
Chairman
Company number: 07378395

9 January 2018

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

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 September 2017

	Called up share capital £'000	Share Premium Account £'000	Special Reserve £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000	Total £'000
Year ended 30 September 2016							
At 30 September 2015	62	3,985	12,402	14,090	(841)	(810)	28,888
Total comprehensive income	-	-	-	370	(210)	1,059	1,219
<i>Transactions with owners</i>							
Dividend paid	-	-	(1,226)	-	-	-	(1,226)
Repurchase and cancellation of own shares	-	-	(111)	-	-	-	(111)
Transfer between reserves	-	-	-	6	(6)	-	-
At 30 September 2016	62	3,985	11,065	14,466	(1,057)	249	28,770
Total comprehensive income	-	-	-	992	(97)	(243)	652
<i>Transactions with owners</i>							
Dividends Paid	-	-	(1,225)	-	-	-	(1,225)
Transfer between reserves	-	-	-	46	(46)	-	-
At 30 September 2017	62	3,985	9,840	15,504	(1,200)	6	28,197

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

CASH FLOW STATEMENT

for the year ended 30 September 2017

	Note	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Net cash (outflow)/inflow from operating activities	17	<u>(504)</u>	<u>786</u>
Cash flows from investing activities			
Purchase of investments	10	-	(1,057)
Proceeds from disposal of investments	10	<u>589</u>	<u>1,148</u>
Net cash inflow from investing activities		<u>589</u>	<u>91</u>
Net cash inflow before financing activities		85	877
Cash flows from financing activities			
Equity dividends paid	8	(1,225)	(1,226)
Long term loans		1,224	448
Purchase of own shares		-	(111)
Net cash outflow from financing activities		<u>(1)</u>	<u>(889)</u>
Net increase/(decrease) in cash		4	(12)
Cash and cash equivalents at start of year		<u>84</u>	<u>16</u>
Cash and cash equivalents at end of year		<u><u>88</u></u>	<u><u>4</u></u>
Cash and cash equivalents comprise			
Cash at bank and in hand		<u>88</u>	<u>4</u>
Total cash and cash equivalents		<u><u>88</u></u>	<u><u>4</u></u>

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

NOTES TO THE ACCOUNTS

for the year ended 30 September 2017

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 “Financial Statements of Investment Trust Companies and Venture Capital Trusts” issued by the Association of Investment Companies (“AIC”) revised November 2014 (“SORP”) as well as the Companies Act 2006.

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

The financial statements are presented in Sterling (£).

Presentation of income statement

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

Investments

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

- 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 to be accounted for using the equity method of accounting.

NOTES TO THE ACCOUNTS (continued)

for the year ended 30 September 2017

2. Accounting policies (continued)

Income

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

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

Expenses

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

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

Taxation

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

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

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

Other debtors, other creditors and loan notes

Other debtors (including accrued income), other creditors and loan notes (other than those held as part of the investment portfolio as set out in Note 10) 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. Income

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
Income from investments		
Loan stock interest	185	198
Dividend Income	307	1,586
	<u>492</u>	<u>1,784</u>
Other income		
Bank interest	-	-
	<u>492</u>	<u>1,784</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

4. Investment advisory fees

The investment advisory fees for the year ended 30 September 2017, which were charged quarterly to the Company, were based on 2% of the net assets as at the previous quarter end.

	Year ended 30 September 2017			Year ended 30 September 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment advisory fees	427	143	570	432	144	576

Details of the revised fee arrangements, now in place between the Company and Gresham House Asset Management Limited, are shown in Note 22.

5. Other expenses

	Year ended 30 September 2017			Year ended 30 September 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Administration services	35	-	35	35	-	35
Trail commission	17	-	17	115	-	115
Directors' remuneration	75	-	75	47	-	47
Social security costs	10	-	10	14	-	14
Auditor's remuneration for audit	21	-	21	20	-	20
Auditor's remuneration for non-audit services (taxation compliance)	-	-	-	3	-	3
Other	150	-	150	59	72	131
	<u>308</u>	<u>-</u>	<u>308</u>	<u>293</u>	<u>72</u>	<u>365</u>

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.

6. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 23.

The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in Note 5 above. No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

7. Tax on ordinary activities

	Year ended 30 September 2017 £'000	Year ended 30 September 2016 £'000
(a) Tax charge for the year		
UK corporation tax at 19.5% (2016:20.0%)	-	-
Charge for the year	<u>-</u>	<u>-</u>
(b) Factors affecting tax charge for the year		
Profit on ordinary activities before taxation	<u>652</u>	<u>1,219</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 19.5% (2016: 20.0%)	127	244
Effects of:		
UK dividend income	(61)	(317)
Gains on investments	(202)	(75)
Expenses disallowed for tax purposes	17	14
Excess management expenses on which deferred tax not recognised.	<u>119</u>	<u>134</u>
Current tax charge	<u>-</u>	<u>-</u>

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £2,946,000 (2016: £2,339,000). The associated deferred tax asset of £501,000 (2016: £398,000) 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.

8. Dividends

	Year ended 30 September 2017			Year ended 30 September 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid						
2017 Interim Ordinary – 5.0p	-	1,225	1,225	-	-	-
2016 Interim Ordinary – 5.0p	-	-	-	-	1,226	1,226
	<u>-</u>	<u>1,225</u>	<u>1,225</u>	<u>-</u>	<u>1,226</u>	<u>1,226</u>

9. Basic and diluted earnings per share

		Weighted average number of shares in issue	Revenue (loss)/ return £'000	per share	Capital (loss)/ return £'000	per share
Profit/(loss) per share is calculated on the following:						
Year ended 30 September 2017	Ordinary Shares	24,504,858	(24)	(1.0)	89	3.6
	'A' Shares	36,799,133	(1)	-	1	-
Year ended 30 September 2016	Ordinary Shares	24,576,029	1,057	4.3	160	0.6
	'A' Shares	36,875,592	2	-	-	-

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

10. Fixed assets – investments

	2017	2016
	Unquoted	Unquoted
	investments	investments
	£'000	£'000
Opening cost at 1 October 2016	16,475	16,565
Unrealised gains as at 1 October 2016	14,466	14,091
Opening fair value at 1 October 2016	<u>30,941</u>	<u>30,656</u>
Movement in the year:		
Purchased at cost	-	1,057
Disposals - proceeds	(589)	(1,148)
- realised gains on disposals	46	6
Unrealised gains in the income statement	992	370
Closing fair value at 30 September 2017	<u>31,390</u>	<u>30,941</u>
Closing cost at 30 September 2017	15,886	16,475
Unrealised gains at 30 September 2017	15,504	14,466
Closing fair value at 30 September 2017	<u>31,390</u>	<u>30,941</u>

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 with inputs that are not based on observable market data (unquoted equity investments and loan note investments);
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	Level b	Level c (ii)	2017	Level a	Level b	Level c (ii)	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unquoted loan notes	-	-	5,203	5,203	-	-	5,641	5,641
Unquoted equity	-	-	26,187	26,187	-	-	25,300	25,300
	<u>-</u>	<u>-</u>	<u>31,390</u>	<u>31,390</u>	<u>-</u>	<u>-</u>	<u>30,941</u>	<u>30,941</u>

During the year to 30 September 2017 and 30 September 2016 there were no transfers between levels.

Reconciliation of fair value for Level c (ii) financial instruments held at the year end:

	Unquoted	Unquoted	Total
	loan notes	equity	Total
	£'000	£'000	£'000
Balance at 30 September 2016	5,641	25,300	30,941
<i>Movements in the income statement:</i>			
Unrealised gains in the income statement	105	887	992
Realised gains in the income statement	46	-	46
	<u>151</u>	<u>887</u>	<u>1,038</u>
Additions at cost	-	-	-
Sales proceeds	(589)	-	(589)
Balance at 30 September 2017	<u>5,203</u>	<u>26,187</u>	<u>31,390</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

10. Fixed assets – investments (continued)

FRS 102 sections 11 and 12 require disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative assumptions where this would result in a significant change in the fair value of the Level c (ii) investments. There is an element of judgement 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 some of the Company's investments.

Investments which are reaching maturity or have an established level of maintainable earnings are valued on a discounted cash flow basis. The basis of valuation of the investment was unchanged during the year.

The Board and the Investment Adviser believe that the valuation as at 30 September 2017 reflects the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Consequently, the variation in the spread of reasonable, possible, alternative valuations is likely to be within the range set out in Note 18.

11. Debtors

	2017	2016
	£'000	£'000
Prepayments and accrued income	447	420
	<u>447</u>	<u>420</u>

12. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Taxation and social security	-	2
Accruals and deferred income	68	159
	<u>68</u>	<u>161</u>

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

	2017	2016
	£'000	£'000
Other loans	3,660	2,434
	<u>3,660</u>	<u>2,434</u>
Borrowings are repayable as follows:	2017	2016
	£'000	£'000
Between two and five years	837	456
After more than five years	2,823	1,978
	<u>3,660</u>	<u>2,434</u>

Of the amounts due after more than one year, £2,823,000 (2016: £2,065,000) was due to Lunar 2 Limited. The loan is interest free and has a term that ends on 17 December 2043. £131,000 (2016: £65,000) was due to Hewas Solar Limited, £27,000 (2016: £27,000) was due to HRE Willow Limited, £75,000 (2016: £75,000) was due to Minsmere Power Limited, £495,000 (2016: £125,000) was due to Ayshford Solar (Holdings) Limited, £88,000 (2016: £77,000) was due to Gloucester Wind Limited and £21,000 (2016: £nil) was due to St Columb Solar Limited. All loans are interest free and, other than those due to Lunar 2 Limited, are repayable after 5 years from drawdown. However, the Company has the right to repay all or any part of the loans at any time.

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

14. Called up share capital

	2017	2016
	£'000	£'000
Allotted, called up and fully-paid:		
24,504,858 (2016: 24,504,858) Ordinary Shares of 0.1p each	25	25
36,799,133 (2016: 36,799,133) 'A' Shares of 0.1p each	37	37
	<u>62</u>	<u>62</u>

The Company's capital is managed in accordance with its investment policy as shown in the Strategic Report, in pursuit of its principal investment objectives as stated on pages 15 and 16. 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 'Ordinary' Shares or 'A' Shares were purchased and subsequently cancelled during the year.

No shares were issued during the year ended 30 September 2017 or for the year ended 30 September 2016.

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

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

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

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

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

The Company does not have any externally imposed capital requirements.

15. Reserves

	2017	2016
	£'000	£'000
Share premium account	3,985	3,985
Special reserve	9,840	11,065
Revaluation reserve	15,504	14,466
Capital reserve- realised	(1,200)	(1,057)
Revenue reserve	6	249
	<u>28,135</u>	<u>28,708</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

15. Reserves (continued)

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 £1,193,000 (2016: £932,000) which are included in the Revaluation reserve. At 30 September 2017, distributable reserves were £7,454,000 (2016: £9,325,000).

Share premium account

This reserve accounts for the difference between the prices at which shares are issued and the nominal value of the shares, less issue costs and transfers to the other distributable reserves.

Revaluation reserve

Increases and decreases in the valuation of investments held at the year end against cost are included in this reserve.

Capital reserve – realised

The following are disclosed in this reserve:

- gains and losses compared to cost on the realisation of investments; and
- expenses, together with the related taxation effect, charged in accordance with the above accounting policies.

Revenue reserve

This reserve accounts for movements from the revenue column of the Income Statement, the payment of dividends and other non-capital realised movements.

16. Basic and diluted net asset value per share

	Shares in issue		2017		2016	
	2017	2016	Net asset value per share	£'000	Net asset value per share	£000
Ordinary Shares	24,504,858	24,504,858	114.9	28,160	117.3	28,733
'A' Shares	36,799,133	36,799,133	0.1	37	0.1	37

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 14.

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

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

	2017 £'000	2016 £'000
Profit for the financial year	652	1,219
Gains on investments	(1,038)	(376)
Increase in debtors	(26)	(58)
(Decrease)/increase in creditors	(92)	1
Net cash (outflow)/inflow from operating activities	<u>(504)</u>	<u>786</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

18. Financial instruments

The Company held the following categories of financial instruments at 30 September 2017:

	Cost	2017	Cost	2016
	£'000	Value	£'000	Value
	£'000	£'000	£'000	£'000
Assets at fair value through profit or loss	15,886	31,390	16,475	30,941
Other financial assets	233	233	107	107
Cash at bank	88	88	4	4
Other loans	(3,660)	(3,660)	(2,434)	(2,434)
Total	12,547	28,051	14,152	28,618

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

The fair value of investments is determined using the detailed accounting policy as shown in Note 2. The composition of the investments is set out in Note 10.

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:

- Market 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:

Market 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 Adviser and overseen by the Board. The Adviser 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 Adviser 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; and
- Interest rate risk

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

18. Financial instruments (continued)

Investment price risk

The Company's investments which comprise of both equity and debt financial instruments in unquoted investments are all in renewable energy projects with predetermined expected returns. Consequently, the investment price risk arises from uncertainty about the future prices and valuations of financial instruments held in accordance with the Company's investment objectives which can be influenced by many macro factors such as changes in interest rates, electricity power prices and movements in inflation. 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 2017, the unquoted portfolio was valued at £31,390,000 (2016: £30,941,000). The key inputs to the valuation models are electricity power prices, inflation and discount factors. The Board considers that the most significant of these is discount factors and has undertaken some sensitivity analysis into the movement of these.

The analysis below is provided to illustrate the sensitivity of the fair value of investments to an individual input, while all other variables remain constant. The Board considers these changes in inputs to be within reasonable expected ranges. This is not intended to imply the likelihood of change or that possible changes in value would be restricted to this range. The possible effects are quantified below:

Input	Base case	Change in input	Change in fair value of investments £'000	Change in NAV per share pence
Discount rate	6.25% – 7.25%	+0.5%	(1,870)	(7.6)
		-0.5%	1,985	8.1
Inflation	3.0% – 3.2%	-0.5%	(2,142)	(8.7)
		+0.5%	2,172	8.9

Power prices

The Board has considered the potential impact of changes in power prices in the future and have concluded that the impact of any foreseeable increases or decreases will not be significant to the valuation of the portfolio as a substantial proportion of the total income generated by the portfolio is derived from Feed in Tariffs and Renewable Obligation Certificates.

Asset life

The Board has also considered the potential impact of changes to the anticipated lives of assets in the portfolio. Close to ninety percent of the Company's value is in assets refinanced by debt, and under the debt facility agreements, substantial reserves are in place for renewing key equipment as and when required. Furthermore, the underlying assets have leases that are valid for the lifetime of the Company and cannot be terminated early. Accordingly the Board does not consider that there will be any significant impact to investment valuations as a result of asset lives varying from those currently anticipated.

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. Where investments in loan stock attract interest, this is predominately charged at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

NOTES TO THE ACCOUNTS (continued)
for the year ended 30 September 2017

18. Financial instruments (continued)

Interest rate risk (continued)

There are three 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;
- “Floating rate” assets predominantly bear interest at rates linked to The Bank of England base rate or LIBOR and comprise cash at bank; and
- “No interest rate” assets do not attract interest and comprise equity investments, certain loan note investments, loans and receivables and other financial liabilities.

	Average interest rate	Average period until maturity	2017 £'000	2016 £'000
Fixed rate	8.2%	1,810 days	2,231	2,255
Floating rate	0%	n/a	88	4
No interest rate			25,732	26,359
			<u>28,051</u>	<u>28,618</u>

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 profit before tax for the year by £61. The Bank of England base rate increased from 0.25% per annum to 0.5% per annum on 2 November 2017. Any potential change in the base rate, at the current level, would have an immaterial impact on the net assets and total return of the Company.

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:

	2017 £'000	2016 £'000
Investments in loan stocks	5,203	5,641
Cash and cash equivalents	88	4
Interest, dividends and other receivables	301	420
	<u>5,592</u>	<u>6,065</u>

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

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

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

NOTES TO THE ACCOUNTS (continued)

for the year ended 30 September 2017

18. Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors being £68,000 (2016: £161,000) and has long term loans from investee companies (see Note 13 for an analysis of the repayment terms), which are expected to be repaid by future dividends from these companies, being £3,660,000 (2016: £2,434,000), the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the Investment Adviser 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 2016 as analysed by the expected maturity date is as follows:

As at 30 September 2017	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	3,646	-	-	450	551	4,647
Past due loan stock	556	-	-	-	-	556
	<u>4,202</u>	<u>-</u>	<u>-</u>	<u>450</u>	<u>551</u>	<u>5,203</u>

Of the loan stock classified as "past due" above, £556,000 related to the loan notes where the principal amount was less than one year past due. The Directors do not consider that the loan note itself has been impaired.

As at 30 September 2016	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	1,442	3,161	-	450	588	5,641
Past due loan stock	-	-	-	-	-	-
	<u>1,442</u>	<u>3,161</u>	<u>-</u>	<u>450</u>	<u>588</u>	<u>5,641</u>

19. Capital management

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

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

NOTES TO THE ACCOUNTS (continued)

for the year ended 30 September 2017

19. Capital management (continued)

As the Investment Policy implies, the Board would consider levels of gearing. As at 30 September 2017 the Company had loans from investee companies of £3,660,000 (2016: £2,434,000). It regards the net assets of the Company as the Company's capital, as the level of liabilities are small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

20. Contingencies, guarantees and financial commitments

At 30 September 2017, the Company had no contingencies, guarantees or financial commitments.

21. Controlling party and related party transactions

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

22. Events after the end of the reporting period

At the General Meeting at 10:45am on 7 November 2017, held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD, Shareholders voted unanimously in favour of the proposals for the reorganisation of the Company, as detailed in the Shareholder circular dated 16 October 2017.

The particulars of the proposals are set out below:

- Gresham House Asset Management Limited ("GHAM"), a wholly owned subsidiary of Gresham House plc, was appointed as the Investment Adviser;
- the investment advisory fee percentage is reduced from 2.0% of net assets per annum to 1.4% for the first year, followed by a further reduction to 1.15% thereafter;
- there will be an absolute cap on the fees charged to investee companies by the Investment Adviser;
- performance incentive arrangements will remain unchanged;
- the annual running costs cap will be reduced from 3.5% of net assets to 3.0% of net assets per annum;
- the buyback policy will be revised such that shares in the market will be repurchased at a discount of 2% to the latest published NAV. The previous policy set a discount of 5%.
- the notice period in respect of the agreement with the Investment Adviser will be reduced from 12 months to 9 months and Shareholder approval will no longer be required to initiate the notice period. The revised notice period cannot be activated within two years of the commencement date of the new Investment Advisory Agreement.

In addition to the above, the following changes, as also detailed in the Shareholder circular published on 16 October 2017, were agreed by the Board:

- Giles Clark was appointed as a Non-executive Director with effect from 7 November 2017;
- The fees payable to Downing LLP have increased from £35,000 to £40,000 per annum, with effect from 7 November 2017;
- The annual fees payable to the Chairman have increased from £20,000 to £25,000;
- The annual fees payable to the other Non-executive Directors have increased from £15,000 to £20,000.

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

NOTICE IS HEREBY GIVEN that the seventh Annual General Meeting of Hazel Renewable Energy VCT2 plc will be held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 11:05 a.m. on 21 March 2018 for the transaction of the following business:

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

1. To receive and adopt the Report and Accounts for the year ended 30 September 2017 together with the Report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To re-appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine their remuneration.
4. To re-elect as Director, Christian Yates, who retires and, being eligible, offers himself for re-election.
5. To re-elect as Director, Giles Clark, who retires and, being eligible, offers himself for re-election.

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

Special Resolution

6. To approve the amendment of the Articles of Association by way of the addition of the following wording to the definition of "Group": "or any company in which the company has a shareholding".

Ordinary Resolution

7. That, in substitution for all subsisting authorities to the extent unused, the Directors of the Company 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 shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £20,000, during the period commencing on the passing of this resolution and expiring on the fifth anniversary of the date of the passing of this resolution (unless previously revoked, varied, renewed 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 after such expiry and the Directors shall be entitled to allot shares or grant Rights pursuant to any such offers or agreements as if the power conferred by this resolution had not expired.

Special Resolution

8. That, subject to the passing of resolution 7 set out in the notice of this meeting and in substitution for all subsisting authorities to the extent unused, the Directors be and are hereby empowered, pursuant to sections 570 and 573 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority given pursuant to resolution 7 set out in the notice of this meeting, or by the way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such sale or allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount representing 30 per cent of the issued share capital of the Company (excluding treasury shares from time to time) which may be at a discount to NAV and in each case where such proceeds of issue may be used to purchase shares in the Company and the power conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting) or, if earlier, at the conclusion of the next annual general meeting, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors shall be entitled to allot equity securities pursuant to any such offers or agreements as if the power conferred by this resolution had not expired.

Special Resolution

9. 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 3,651,224 Ordinary Shares and 5,483,071 ‘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:
6th Floor
St. Magnus House
3 Lower Thames Street
London EC3R 6HD

9 January 2018

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, 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD 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 Downing LLP, 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD. 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 19 March 2018 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 19 March 2018 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 9 January 2018, the Company's issued share capital comprised 24,504,858 Ordinary Shares and 36,799,133 'A' Shares and the total number of voting rights in the Company were 24,541,657,133. Information regarding the number of shares and voting rights may be obtained from Downing's website, www.downing.co.uk.
- (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.

HAZEL RENEWABLE ENERGY VCT2 PLC

FORM OF PROXY

For use at the Annual General Meeting of the above named Company to be held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 11:05 a.m. on 21 March 2018.

I/We*..... (in BLOCK CAPITALS please)

of
 being the holder(s)* of Ordinary Shares of 0.1p each/ A Shares of 0.1p each in the above-named Company, hereby appoint the Chairman of the meeting (see Note 1)

or

of
 as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 11:05 a.m. on 21 March 2018 or at any adjournment thereof.

I/We* desire to vote on the resolutions as indicated in the appropriate column below. Please indicate with an "X" how you wish your vote to be cast.

Details of the resolutions are set out in the Notice of the Annual General Meeting.

ORDINARY BUSINESS

	FOR	AGAINST	WITHHELD
1. To receive and adopt the Directors' Report and Accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint the Auditor and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Christian Yates as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Giles Clark as a director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SPECIAL BUSINESS

6. To amend the Articles of Associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Company to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To disapply pre-emption rights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the Company to make market purchases of its shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s)*..... Date.....2018

* Delete as appropriate

PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED



NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the 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 Meeting in order to represent his appointer. A member entitled to attend and vote at the 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.
2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. 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, 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD 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.
5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.
6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.
7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
8. 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.

