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**Gresham House**  
*Specialist asset management*

**HAZEL RENEWABLE ENERGY VCT2 PLC**

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**REPORT & ACCOUNTS FOR THE YEAR  
ENDED 30 SEPTEMBER 2018**

## SHAREHOLDER INFORMATION

### Share price

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

	<b>Ordinary Shares</b>	<b>'A' Shares</b>
TIDM/EPIC codes	HR2O	HR2A
Latest share price (30 January 2019)	106.0p per share	5.05p per share

### Selling shares

The Company has a policy of buying Shares that become available in the market at a price approximately equivalent to a 2% discount to NAV. This policy is subject to liquidity and regulatory constraints. The Board reviews the buyback policy from time to time and may make changes if it considers that to be in the best interests of Shareholders as a whole.

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](mailto:chris.lloyd@panmure.com)

Paul Nolan  
0207 886 2717 [paul.nolan@panmure.com](mailto:paul.nolan@panmure.com)

### Financial calendar

6 March 2019	Annual General Meeting
May 2019	Announcement of half yearly financial results
December 2019	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) is available on the Investment Adviser's website at:

<https://newenergy.greshamhouse.com/funds/vcts-1-2/>

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](http://www.linkassetservices.com) and click on "Shareholders and Investors", followed by "Shareholder Services UK".

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## COMPANY INFORMATION

<b>Registered number</b>	07378395
<b>Directors</b>	Christian Yates (Chairman) Matthew Evans Giles Clark
<b>Company Secretary and Registered Office</b>	Grant Whitehouse 6 <sup>th</sup> Floor, St. Magnus House 3 Lower Thames Street London EC3R 6HD
<b>Investment Adviser</b>	Gresham House Asset Management Limited 5 Cheapside London EC2V 6AA Tel: 020 3837 6270 <a href="http://www.greshamhouse.com">www.greshamhouse.com</a>
<b>Administration Manager</b>	Downing LLP 6 <sup>th</sup> Floor, St. Magnus House 3 Lower Thames Street London EC3R 6HD Tel: 020 7416 7780 <a href="http://www.downing.co.uk">www.downing.co.uk</a>
<b>Auditor</b>	BDO LLP 55 Baker Street London W1U 7EU
<b>VCT status advisers</b>	Philip Hare & Associates LLP Staples Inn London WC1V 7QH
<b>Registrars</b>	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) <a href="http://www.linkassetsservices.com">www.linkassetsservices.com</a>
<b>Solicitors</b>	Howard Kennedy 1 London Bridge London SE1 9BG
<b>Bankers</b>	Royal Bank of Scotland plc London Victoria Branch 119/121 Victoria Street London SW1E 6RA
<b>Corporate Broker</b>	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 20 to 22.

## FINANCIAL HIGHLIGHTS

	30 September 2018	30 September 2017
	Pence	Pence
Net asset value per Ordinary Share	119.1	114.9
Net asset value per 'A' Share	0.1	0.1
Cumulative Dividends paid	39.5	39.5
Total return per Ordinary Share and 'A' Share	<u>158.7</u>	<u>154.5</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. Until recently he had been active, both as an investor and developer, in the field of renewable energy. Currently, he is concentrating on building a sizeable UK self-storage business with a focus on repurposing redundant buildings in urban conurbations. He is also a director of a Bristol and London based financial planner and wealth manager, has a small farming business and sits on the board of a military charity.

**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 LLP, 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.

## INVESTMENT ADVISER

Gresham House Asset Management Limited ("GHAM") is the Investment Adviser to Hazel Renewable Energy VCT2 plc (the "Company") and Hazel Renewable Energy VCT1 plc ("VCT1" and together the "Companies"). GHAM is owned by Gresham House plc, an AIM quoted specialist alternative asset manager providing funds, direct investments and tailored investment solutions, including co-investment across a range of highly differentiated alternative investment strategies. GHAM's expertise includes strategic public equity and private assets, forestry, renewable energy, housing and infrastructure.

Gresham House plc acquired the business of Hazel Capital LLP on 31 October 2017. As part of new arrangements within GHAM, the Companies sit within the Gresham House New Energy division, benefitting from continuity of key investment executives plus the enhanced resources of the larger group.

On 8 November 2018 Gresham House plc also announced plans to acquire Livingbridge VC LLP, which manages Baronsmead Venture Trust PLC and Baronsmead Second Venture Trust PLC.

## CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report of Hazel Renewable Energy VCT2 plc, which covers the year ended 30 September 2018.

As most Shareholders will be aware, with effect from November 2017 the Investment Advisory Agreement transferred to Gresham House Asset Management Limited. At the same time, Giles Clark, who was heavily involved in the reorganisation process in a consultative capacity, joined the Board as a Non-executive Director. Giles trained as an accountant and since 2006 has acted as an investor, developer and operator of large scale solar projects in Europe and the UK (see further details on page 2).

I was encouraged by the recent announcement that Gresham House has agreed to acquire the fund and investment management business of Livingbridge VC LLP that includes the two Baronsmead Venture Capital Trusts (VCTs). Founded in 1995, the Baronsmead brand is well known and respected within the VCT community for delivering consistent performance and strong governance.

Whilst the investment emphasis of the Hazel Capital Renewable Energy VCTs remains on renewable infrastructure, I expect there to be benefits to shareholders resulting from the deal. The addition of eight specialist investment and research professionals covering both public and private market opportunities will provide broader coverage and increased deal flow. Additional resource in the middle office at Gresham House should also lead to improved efficiency in performance analysis and reporting.

Over the last two years there have also been some significant changes to the VCTs regulations and, partly as a result of this, the Company decided to raise additional funds by way of two small top-up offers for subscription.

I am pleased to report that the underlying investment portfolio has been stable and has produced satisfactory results for the year. Although solar irradiation was strong during the summer months, some technical issues offset some of the performance gains that might otherwise have arisen from this year's sunny weather. However, the long-term outlook for the portfolio as a whole looks positive, with returns from the installed base of assets expected to continue to generate steady cash flows, resulting in an overall unrealised valuation uplift of £753,000.

### Board composition

The Board comprises three non-executive directors with a broad range of experience and we continue to work closely with the Board of the sister company, Hazel Renewable Energy VCT1 plc ("Hazel1").

The Board considers that the Company, together with Hazel1 and the Investment Adviser, is adequately resourced to continue to provide good returns for Shareholders over the foreseeable future.

### Investment portfolio

At the year end, the Company held a portfolio of 16 investments, which were valued at £30.6 million. There were no additions to the portfolio during the year, however two loan note investments were partially redeemed, and one loan note investment was fully redeemed, all at par.

The portfolio is analysed (by value) between the different types of assets as follows:

Ground-mounted Solar	81.6%
Rooftop Solar	11.1%
Small Wind	5.7%
Vehicle Charging	1.6%

The Board has reviewed the investment valuations at the year end and made a number of adjustments. Net unrealised gains on the portfolio totalled £753,000. This has been driven by favourable movements in some of the key inputs into the financial models of the underlying assets.

Further detail on the investment portfolio is provided in the Investment Advisor's Report on pages 6 to 12.

### Net asset value and results

At 30 September 2018, the Net Asset Value ("NAV") per Ordinary Share stood at 119.1p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 119.2p per "pair" of Shares. This represents an increase of 4.2p (3.7%) over the year.

Total dividends paid to date (including those paid in December 2018) for a combined holding of one Ordinary Share and one 'A' Share stand at 45.5p. Total Return (NAV plus cumulative dividends) stands at 158.7p, 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 £804,000, comprising a revenue profit of £112,000 and a capital gain of £692,000 as shown in the Income Statement on Page 40.

### Dividends

In recent years the Company has paid its annual dividend in September. In the Half Year Report, I announced that the Company plans to pay dividends in future in December as this better synchronises with the income generated by the assets held by the portfolio companies.

## CHAIRMAN'S STATEMENT (continued)

### Dividends (continued)

On 14 November 2018, the Board declared dividends in respect of the year ended 30 September 2018 of 5.4958p per Ordinary Share and 0.5042p per A Share. These dividends were paid on 14 December 2018 to Shareholders on the register at 23 November 2018.

### Fundraising activities

Changes to the VCT regulations over the last two years have created some challenges for your Company. You will recall that from April 2014 new investments in contract backed renewable energy projects are no longer eligible as qualifying VCT investments. Furthermore, with effect from 1 October 2019 for this Company, the required level of qualifying investments the VCT must hold will increase from 70% to 80%. The Board reviewed how this might best be achieved in the longer term and considered that a further fundraise, in order to invest in new qualifying investments, would be the most appropriate course of action.

In March 2018, the Company undertook a small top-up offer for subscription. This offer sold out very quickly raising £1.7 million for the Company and £2.5 million for Hazel1. In view of the level of demand a further top-up was launched in September. This offer also sold out in short time raising, £4.0 million alongside £3.2 million for Hazel1. For your Company, a total of 4,647,144 Ordinary and 5,684,428 'A' Shares were issued in respect of the offers.

These new funds provide the opportunity for the Company to consider making a small number of new VCT qualifying investments and provide the Company with some additional flexibility that will help it to maintain the new 80% qualification threshold.

It is envisaged that the new investments, which must meet all of the VCT regulations including the type of business, size, age and the risk to capital test, will be different from the assets in which the VCT is currently invested. As stated in the top up offer document, the Investment Advisor will be looking for companies within the clean technology space, which offer the prospect of maximising returns for Shareholders, through them having a good management team, an excellent business plan and significant growth potential. The VCT may also invest in companies quoted on AIM.

### Share Buybacks

The Board is aware that from time to time some Shareholders may wish to realise part or all of their investment and has therefore taken steps to try to ensure that there is a liquid market in the Company's shares.

During the period, the Company purchased a total of 2,466,228 Ordinary Shares at an average price of 112.6p per Share, and a total of 2,466,978 'A' Shares at an average price of 0.1p. These Shares are held in treasury.

The Company has a policy of buying Shares that become available in the market at a price approximately equivalent to a 2% discount to NAV. This policy is subject to liquidity and regulatory constraints. The Board reviews the buyback policy from time to time and may make changes if it considers that to be in the best interests of Shareholders as a whole.

Shareholders considering selling their Shares should contact the broker for the Company, whose details are shown on the Shareholder Information page.

### Change of name

Now that Hazel Capital LLP has been fully integrated into the Gresham House business, the Board believes that the logical next step is to change the name of the Company to Gresham House Renewable Energy VCT2 plc (and that of the sister Company to Gresham House Renewable Energy VCT1 plc).

A resolution to approve the change of name will be put to both sets of Shareholders at their respective forthcoming AGMs.

### Annual General Meeting

The Company's eighth AGM will be held at Gresham House's offices at Octagon Point, 5 Cheapside, London EC2V 6LP 12:20 p.m. on 6 March 2019.

Four items of special business will be proposed as follows:

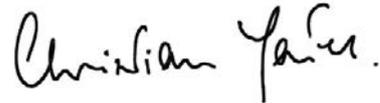
- one resolution seeking authority to undertake share buybacks;
- two resolutions seeking authority to allow the Directors to allot shares and disapply pre-emption rights in respect of those shares (including shares held in treasury); and
- one resolution seeking authority to change the name of the Company, to Gresham House Renewable Energy VCT2 plc.

## CHAIRMAN'S STATEMENT (continued)

### Outlook

Now that the changes to the Investment Advisory arrangements are behind us, over the coming year we will be seeking to leverage the additional resources that Gresham House brings to the Company, to ensure that the performance of the assets and Shareholder returns are optimised, while also ensuring that the Company comfortably maintains its VCT status and the accompanying tax benefits. Working closely with the Investment Adviser, the Board will also be seeking to invest the proceeds of the top up offers in attractive VCT qualifying assets.

I look forward to meeting those investors that are able to attend the forthcoming AGM in March. Meanwhile, I would encourage you to take a look at the Gresham House website ([newenergy.greshamhouse.com](http://newenergy.greshamhouse.com)) where you can find all of the information regarding the Company and where, from time to time, the Investment Adviser will be publishing updates on the performance of the VCT.



**Christian Yates**  
Chairman

31 January 2019

## INVESTMENT ADVISER'S REPORT

### Portfolio Highlights

The Investment Adviser is pleased to report that the portfolio of assets owned by Hazel Renewable Energy VCT2 plc performed in line with expectations in the year ending 30 September 2018. There were no full acquisitions or disposals to report in the period, however some loan note investments were partially repaid.

The Companies remain principally invested in a diversified portfolio of well-constructed renewable energy projects that access long-term UK government-backed Feed-in-Tariff (FIT) and Renewable Obligation Certificate (ROC) support mechanisms which provide revenues which are predominantly linked to the Retail Price Index (RPI).

The total generation capacity of assets owned by the Companies is 34.9MWp (see table below).

During the period from 1 April 2018 to 30 September 2018, the Company's Net Asset Value per share increased to 119.2p (30 September 2017: 115.0p) with the overall Net Asset Value at £30.7 million (30 September 2017: £28.2 million).

Portfolio revenues were 0.18% ahead of forecast for the year (8.3% below forecast in the year ending 30 September 2017). Revenues for all major segments of the portfolio came within 0.75% of the respective targets.

The performance in generation terms was 0.08% behind forecast in the period (6.2% below forecast in the year ending 30 September 2017).

The payment of an annual dividend of 6.0p (5.4965p per Ordinary Share and 0.5035p per A Share) was announced on 14 November, and this was paid on 14 December 2018.

£5.7m of additional funds were raised in 2018 via two Top-Up offers launched in February and September 2018. £1.7m and £4.0m were raised for the Company respectively. This is covered in more detail in the Chairman's Statement.

The funds raised allow the Company to make new qualifying investments. The criteria used to evaluate new investments will be consistent with the original mandate of maximising capital gains and income for shareholders and will complement the majority of the portfolio's core holdings of asset-backed renewable generation investments. Areas of current focus include cleantech hardware and software development, and companies providing services to the cleantech sector.

In addition to the above, the Boards may make a limited proportion of total funds raised available for share buybacks in accordance with the Company's Share buyback policy.

### Portfolio Composition

#### Portfolio Composition by Asset Type and Impact on NAV

Asset Type	MWp	Portfolio Value	% of Portfolio Value
Ground-mounted Solar (FIT)	20,291	£21,686,087	70.9%
Ground-mounted Solar (ROC)	8,699	£3,275,385	10.7%
Rooftop Solar	4,425	£3,388,544	11.1%
Wind Assets	1,465	£1,738,343	5.7%
Charge Point Services	-	£500,000	1.6%
Other	-	-	-
<b>TOTAL</b>	<b>34,880</b>	<b>£30,588,359</b>	<b>100.0%</b>

The 34.9MWp renewable energy projects in the portfolio generated 33,678,102 kilowatt-hours of electricity over the year, sufficient to meet the annual electricity consumption of c.9,730 homes.

## INVESTMENT ADVISER'S REPORT (continued)

### Portfolio Summary

The solar projects within the portfolio (ground and roof-mounted installations) which comprise 33.4MWp, accounted for 97.6% of the generation output performance. These assets delivered performance just shy of expectations (0.08% less) during the year (6.3% below in the year ending 30 September 2017). They accounted for 92.7% of the Investment Portfolio Value.

While overall output performance was broadly in line with our expectations, generation versus forecast levels varied significantly over the 12-month period. A gloomier than usual winter saw average performance across the ground and roof-mounted solar assets, followed by underperformance in the very wet spring months of March and April. A very bright summer brought robust output from May through July. Generation levels were in line with forecast levels in August and September.

The eight ground-mounted solar installations, which have a total generation capacity of 29.0MW, accounted for 87.0% of the electricity generated and this was just above (by 0.33%) forecasts (6.3% below in the year ending 30 September 2017). This segment accounts for 81.6% of the Investment Portfolio Value.

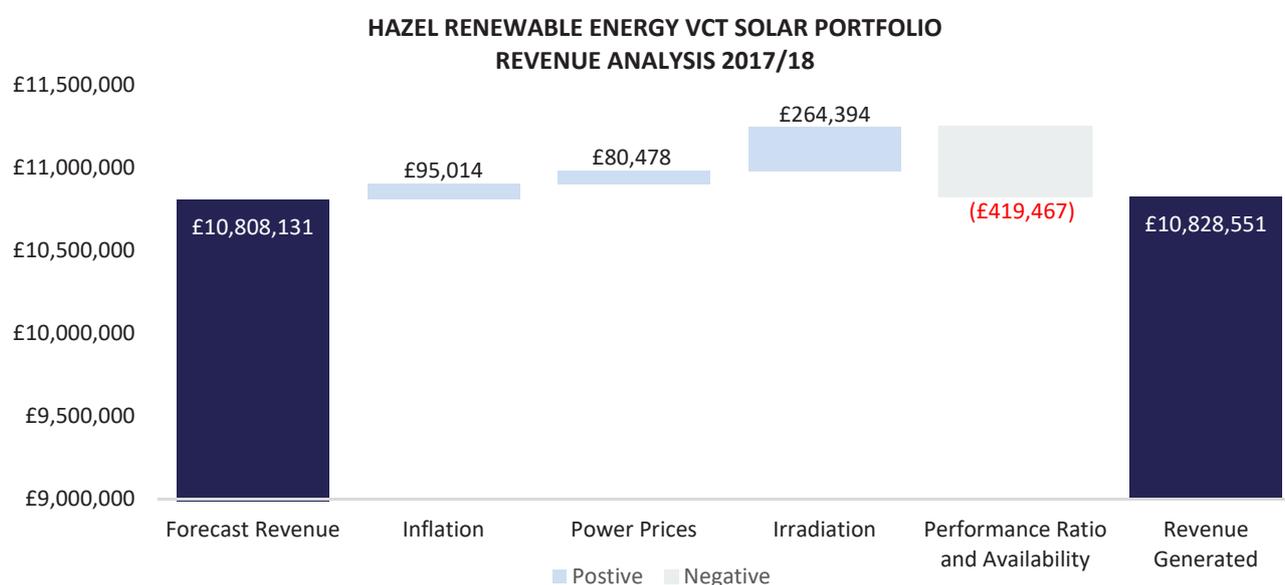
The roof-mounted solar asset portfolio which has capacity of 4.42MW, accounted for 11.1% of the Investment Portfolio Value and 10.6% of the total electricity generated. This was 3.4% below expectations (10.5% below in the year ending 30 September 2017).

The small wind turbines, which have total generation capacity of 1.47MW, accounted for 5.7% of the Investment Portfolio Value and 2.4% of the total electricity generated. This segment met expectations that were previously downgraded to account for the Huaying HY-5 turbines that were put on hold in spring 2017 due to mechanical problems.

In revenue terms, the electricity generated by the entire asset base earned £11.1 million in the year which was 0.18% ahead of forecasts. £10.8m of this amount was generated by the solar ground-mounted and rooftop assets and the remainder by the small wind turbine portfolio.

### Portfolio Revenues by Asset Type (£ Sterling)

Asset Type	Forecast Revenue	Actual Revenue	Revenue Performance
Ground-mounted Solar (FIT)	8,465,104	8,439,491	99.70%
Ground-mounted Solar (ROC)	1,183,971	1,238,383	104.60%
Rooftop Solar	1,159,056	1,150,676	99.28%
Wind Assets	275,565	275,565	100.00%
<b>TOTAL</b>	<b>11,083,696</b>	<b>11,104,115</b>	<b>100.18%</b>



## INVESTMENT ADVISER'S REPORT (continued)

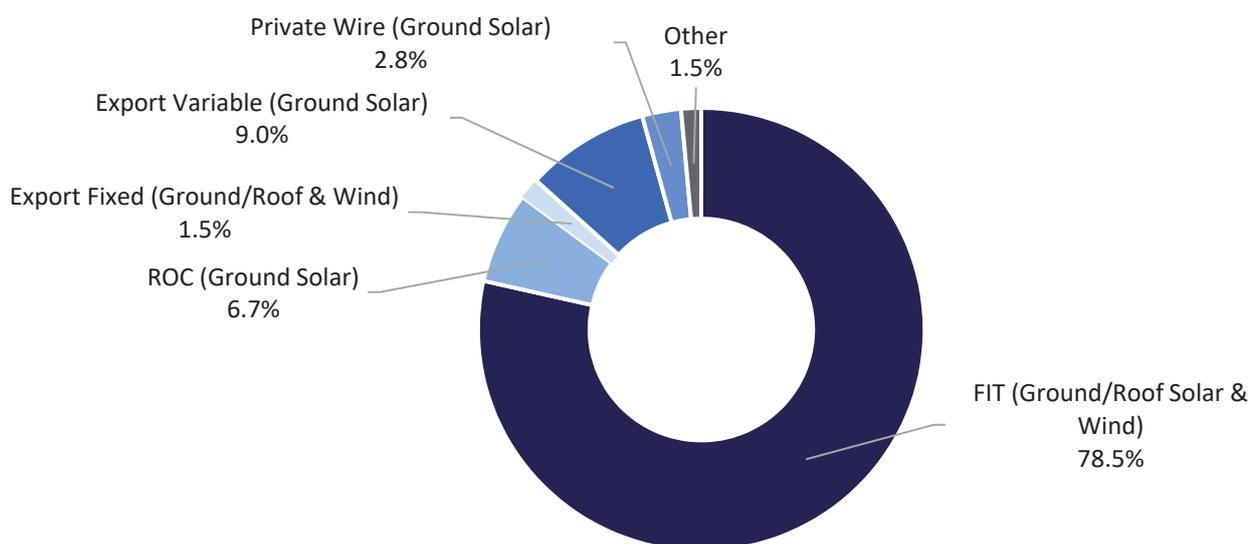
### Portfolio Summary (continued)

The portfolio benefited from higher than forecast inflation, power prices (including the recycling component of the Renewable Obligation Certificates (ROCs)) and irradiation, however surrendered much of the combined benefit to lost production from the heat effect and other technical factors.

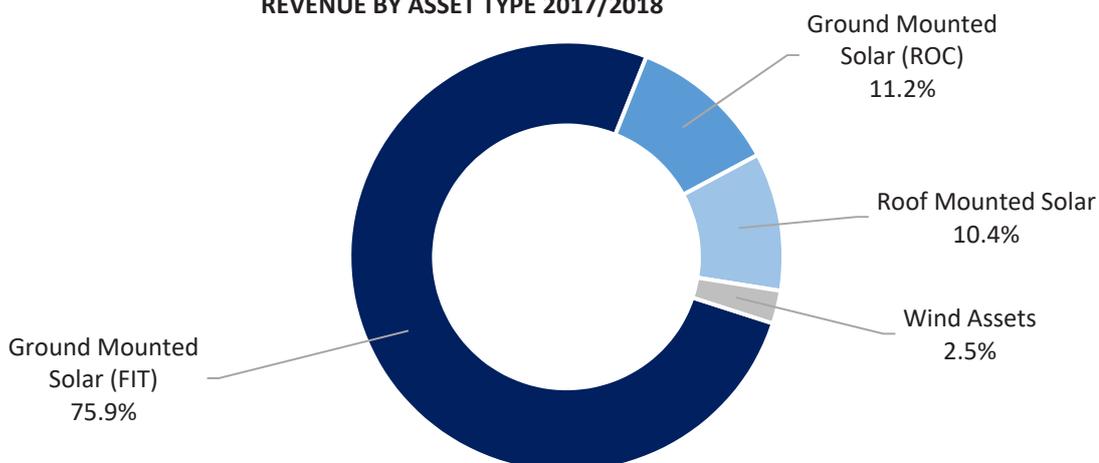
A kilowatt-hour (kWh) generated by a ground-mounted solar asset earned 33.0p on average, whereas a kWh generated by a wind turbine earned an average of 34.0p.

By asset type, 86.7% of revenues (being 78.5% FiT, 6.7% ROC, 1.5% Export Fixed as set out in the chart below) were RPI-linked while 9.0% came from the sale of power (Export Variable), of which 3.2% in absolute terms is under fixed-price contracts running until 2019.

**HAZEL RENEWABLE ENERGY VCT PORTFOLIO  
REVENUE BY SOURCE 2017/2018**



**HAZEL RENEWABLE ENERGY VCT PORTFOLIO  
REVENUE BY ASSET TYPE 2017/2018**



The FiT-remunerated ground-mounted solar assets that earn FiTs as well as income from the sale of power in the wholesale market, accounted for 75.9% of the portfolio level income, whereas the ROC-remunerated ground-mounted solar assets, that earn ROCs and variable export revenues, accounted for 11.2%, and the roof-mounted solar assets that earn FiTs and fixed export tariffs accounted for 10.4%.

## INVESTMENT ADVISER'S REPORT (continued)

### Overall Portfolio and Operational Review

The analysis of performance is based on three pillars. The first covers macro factors including inflation, power prices, variable components of subsidies and climactic conditions. The second category covers technical performance, and the third category covers costs.

#### Macro

Solar irradiation was 7.3% ahead of forecasts on a capacity-weighted basis, a welcome development after two years of poor sunshine. Project by project, measurements varied between 97.7% and 134.8% of forecast levels for the eight ground-mounted solar projects in the portfolio. Each 1% change, in absolute terms, in irradiation for this portfolio results in a £108,000 movement in revenues.

The portfolio's revenues were helped by inflation as both FiT and ROC payments are index-linked to the RPI. FiTs and ROCs increased in price by 4.1% on 1 April 2018. The RPI has drifted down from these levels over 2018, however it remains above the 3% level used in long-term forecasts. For every 1% increase, in absolute terms, in inflation, portfolio revenues rise by £96,000.

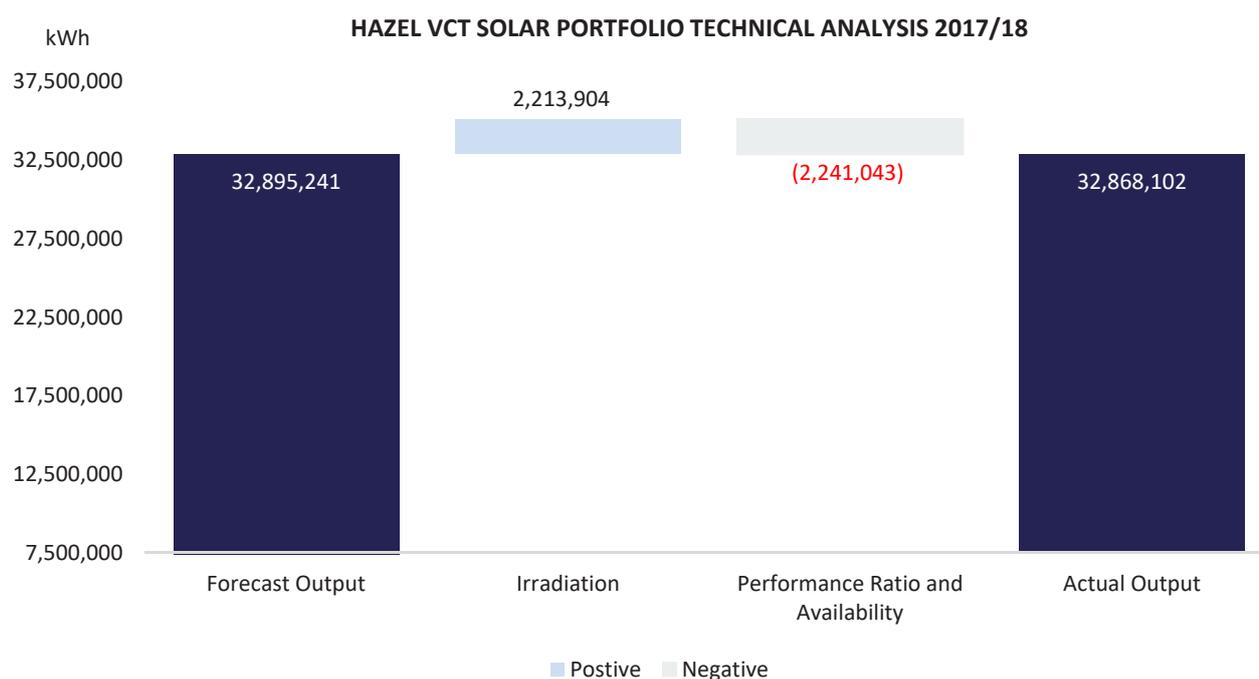
#### Technical Performance

The ground-mounted solar asset base achieved its target level of generation. The strong solar irradiation in the summer months was offset by the temporary but negative effect on panel performance of the high ambient temperatures on the surfaces of the solar panels. This effect is expected in solar power generation.

However, other technical factors such as the age of some of the components used in the projects, also prevented the ground-mounted solar asset base from benefitting from the strong solar irradiation.

#### Portfolio Technical Performance by Asset Type

Asset Type	Forecast Output	Actual Output	Technical Performance
Ground-mounted Solar (FIT)	20,657,691	20,116,689	97.38%
Ground-mounted Solar (ROC)	8,538,000	9,175,955	107.47%
Rooftop Solar	3,699,550	3,575,458	96.65%
Wind Assets	810,000	810,000	100.00%
<b>TOTAL</b>	<b>33,705,241</b>	<b>33,678,102</b>	<b>99.92%</b>



## INVESTMENT ADVISER'S REPORT (continued)

During the year a comprehensive technical review has been undertaken. This included a study to determine whether accelerating the replacement of inverters, (which would typically be replaced after 10 years), would achieve an attractive payback profile. The outcome led to a recommendation to proceed and any inverter replacement will be funded by the equipment replacement reserves (£2.4 million) already held as funded cash deposits within the debt facility for the six FiT-remunerated ground-mounted projects.

Generation of the rooftop solar portfolio was 3.4% lower than forecast. Work is ongoing to address known metering issues at certain installations at which access is difficult. Resolution of these issues is expected to lead to a recovery of 50% of the revenue shortfall.

The small wind portfolio performed in line with the reduced expectations following the poor performance from the start of these projects. Small wind accounts for 5.7% of the portfolio. Following initial inspections to determine the scale of the issue with the Huaying HY-5 turbines (92 of the 290 turbines in total), a programme of repair was initiated in the spring of this year and is progressing well. It was decided that only the installations where the incremental sum invested would generate a payback period of less than or equal to six years, would be repaired. This amounted to 67 of the 92. At the time of writing, 39% of the turbines had been repaired with the work expected to be completed in the spring.

### Operating costs

The third factor that determines performance is costs. The vast majority of the cost base is fixed and/or contracted and includes rent, business rates, and regular operations and maintenance (O&M) costs as the major categories.

During the year, the O&M contracts for the small Wychwood and Parsonage ground-mounted solar projects (1.4MW of capacity) were awarded to Silverstone Green Energy, a contractor that has been delivering a good service for two larger ground-mounted solar assets. This generated a 25% saving on those contracts, worth £4,460 per annum going forward.

There is the potential for 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 the O&M contracts (a requirement under the debt facility agreements) mean that we would not expect to receive the benefits of such a realignment until current contracts expire or can be renegotiated, the earliest of which is in seven years.

The main cost item that shows variability from year-to-year is repair and maintenance costs. These are closely monitored and compared with a budget that is set every year. Repair and maintenance spend involving solar panels and inverters, the key components of a solar project, is covered by the maintenance reserves totalling £2.6m that are in place for all the ground-mounted solar assets and for most of the roof-mounted solar assets.

In addition, there are some one-off costs that were not covered by reserves such as meter replacements and pigeon-proofing for the roof-mounted solar assets, and cable replacement for the ground-mounted assets. This cost was £70,000 above the £190,000 budget set for the year due to what are expected to be one-off repairs to the roof-mounted solar installations.

### Portfolio Valuation

The NAV of the Company has increased from 115.0p to 119.2p in the period from 1 October 2017 to 30 September 2018. The Total Return for the period has increased from 154.5p to 158.7p.

This year's increase in NAV principally resulted from a change in the discount rate used to value the FiT-remunerated ground-mounted solar assets from 7.0% on an unlevered<sup>1</sup> basis to 6.5% on a levered basis. The NAV impact of this change was £0.8m or 3.4p per share. By comparison the discount rate used to value the ROC-remunerated ground-mounted solar assets and FiT-remunerated roof-mounted solar assets within the portfolio on a levered basis is 6.75%.

The 25bp difference in the levered discount rates for the two FiT and ROC groups is accounted for by the lower level, in the medium to long term<sup>2</sup>, of exposure to wholesale power prices of the former (12%) compared to the latter (16%), and the fact that the latter includes roof-mounted solar assets which carry more inherent risks than ground-mounted solar assets.

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<sup>1</sup>The value of these assets was previously calculated on an unlevered basis with debt deducted.

<sup>2</sup>The exposure to power prices is negligible in the short term until the fixed-price period under the Power Purchase Agreements ("PPA") for the two ROC-remunerated solar projects expires in 2019.

## INVESTMENT ADVISER'S REPORT (continued)

### Portfolio Valuation (continued)

	30 Sep 2018 ('000)	Share of Portfolio Value	30 Sep 2017 ('000)	Share of Portfolio Value
FiT-remunerated ground-mounted solar projects	£21,686	70.9%	£20,948	66.7%
ROC-remunerated ground-mounted solar projects	£3,275	10.7%	£4,298	13.7%
Rooftop solar projects	£3,389	11.1%	£3,704	11.8%
Small wind turbines	£1,738	5.7%	£1,939	6.2%
ChargePoint Services	£500	1.6%	£500	1.6%
<b>TOTAL PORTFOLIO</b>	<b>£30,588</b>	<b>100%</b>	<b>£31,390</b>	<b>100%</b>
<i>Other net assets/(liabilities)</i>	£92		<b>£(3,193)</b>	
<b>TOTAL NAV</b>	<b>£30,680</b>		<b>£28,197</b>	
<b>NAV per share (Ordinary and A combined)</b>	<b>119.2p</b>		<b>115.0p</b>	

The low risk profile of the FiT-remunerated ground-mounted solar assets justifies this reduction of 50 basis points. Discount rates used in the market have moved down for these types of assets with a high proportion (88% for this portfolio) of fixed tariff revenues. Furthermore, the £2.1m in maintenance reserves, which at current market prices is sufficient to replace as much as 30% of the panels and inverters, and the £4.4m of cash, albeit restricted under the debt facilities, imply lower risk to future cashflows.

The Investment Adviser believes that the discount rates used for all the assets are consistent with what other owners of solar assets use while valuing their own portfolios, and its experience gained from selling similar assets in other areas of its business. The discount rate that purchasers of ground-mounted solar assets use varies according to the level of exposure to wholesale power prices and has been observed to be as low as 5 to 5.5% on a levered basis for FiT-remunerated ground mounted solar projects that were built in 2011.

Inflation as measured by the RPI remains above 3% and RPI has gone up as high as 4.1% in December 2017 (as opposed to our forecast for long-term inflation of 3%). However, this increase could prove to be very transient, given the currently heightened level of macroeconomic uncertainty.

Key assumptions for the revenues and operating costs of the projects remain the same as they were last year.

In the longer term, the potential to create additional value through the extension of land leases beyond their current 25-year term and through upgrading the equipment using improved technology with much better yields may arise.

### Outlook

The Investment Adviser will continue to target improvements in yield and reductions in risk across the portfolio, and to evaluate incremental maintenance capital expenditure and replacement decision where these can be justified in economic terms.

The Investment Adviser is conscious that the most valuable FiT assets in the portfolio are now over seven years old and will be monitoring them more closely to identify and replace or repair aging equipment before it can impact generation.

An emerging trend in the solar industry in the UK is the extension of leases beyond the 25 -year term that is customary across the solar asset base. The end of the lease term is still at least 18 years away, however many landowners are receptive to locking in rent for the longer term. Capital expenditure on upgrading the projects when the current leases expire is expected to generate yields in excess of six percent.

A key focus will be the deployment of funds raised under the Top-Up. As stated in the Top-Up prospectus, asset-backed renewable energy generation investments are no longer qualifying under current VCT rules.

## **INVESTMENT ADVISER'S REPORT (continued)**

### **Outlook (continued)**

The Investment Adviser is currently screening potential opportunities in order to identify investments in line with the Company's mandate. Consideration is being given to companies in the clean technology space that have already secured funding from Venture Capital firms, companies listed on the UK's AIM market and companies that are active in key areas of growth such as recycling and waste management, generation asset optimisation and information services.

The investment process will be enhanced by the acquisition by Gresham House Plc of the fund and investment management business of Livingbridge VC LLP which includes the two Baronsmead VCTs. The addition of eight specialist investment and research professionals covering both public and private market opportunities will provide broader coverage and increased deal flow when investing the top-up funds.

**Gresham House Asset Management Limited**

31 January 2019

## REVIEW OF INVESTMENTS

### Portfolio of investments

The following investments were held at 30 September 2018:

Qualifying and part-qualifying investments	Operating sites	Sector	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
Lunar 2 Limited*	South Marston, Beechgrove	Ground-mounted solar	2,976	15,937	615	47.4%
Lunar 1 Limited*	Kingston Farm, Lake Farm	Ground-mounted solar	125	2,605	483	7.7%
Ayshford Solar (Holding) Limited*	Ayshford Farm	Ground-mounted solar	1,348	2,168	(406)	6.4%
New Energy Era Limited	Wychwood Solar Farm	Ground-mounted solar	884	1,713	323	5.1%
Vicarage Solar Limited	Parsonage Farm	Ground-mounted solar	871	1,431	216	4.3%
Hewas Solar Limited	Hewas Solar	Roof Solar	1,000	1,217	(137)	3.6%
Tumblewind Limited*	Priority Farm	Small Wind/Solar	1,326	1,107	39	3.3%
Gloucester Wind Limited	Gloucester Wind	Roof Solar	1,000	1,047	95	3.1%
HRE Willow Limited	HRE Willow	Small Wind	875	874	148	2.6%
St Columb Solar Limited	St Columb Solar	Roof Solar	650	594	(79)	1.8%
Minsmere Power Limited	Minsmere	Small Wind/Solar	975	531	(199)	1.6%
Penhale Solar Limited	Penhale Solar	Roof Solar	825	530	(195)	1.6%
Chargepoint Services Limited		Vehicle Charging	500	500	-	1.5%
Small Wind Generation Limited	Small Wind Generation	Small Wind	975	334	(150)	1.0%
Sunhazel UK Limited		Roof Solar	1	-	-	0.0%
			<b>14,331</b>	<b>30,588</b>	<b>753</b>	<b>91.0%</b>
Cash at bank and in hand				<b>3,038</b>		<b>9.0%</b>
<b>Total investments</b>				<b>33,626</b>		<b>100.0%</b>

\* 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 2018

#### DISPOSALS

	Cost £'000	Valuation at 30 September 2017 £'000	Redemption of loan notes/sale proceeds £'000	Profit vs cost £'000	Realised Gain £'000
<b>VCT Qualifying investments</b>					
Ayshford Solar (Holdings) Limited	580	580	580	-	-
	<u>580</u>	<u>580</u>	<u>580</u>	<u>-</u>	<u>-</u>
<b>Non-qualifying investments</b>					
AEE Renewables UK 3 Limited ( <b>Note 1</b> )	900	900	900	-	-
Tumblewind Limited	75	75	75	-	-
	<u>975</u>	<u>975</u>	<u>975</u>	<u>-</u>	<u>-</u>
<b>Liquidation proceeds</b>					
Hemp Technology Limited ( <b>Note 2</b> )	-	-	33	33	33
	<u>1,555</u>	<u>1,555</u>	<u>1,588</u>	<u>33</u>	<u>33</u>

The basis of valuation for the largest investments is set out on pages 15 to 18.

**Note 1:** The loan note redemption proceeds of £900,000 were not received in cash by the Company and were instead used to repay a long-term loan balance between the Company and Lunar 2 Limited.

**Note 2:** The proceeds received were in connection with the liquidation of Hemp Technology Limited, a subsidiary of Lime Technology Limited, a company in which the VCT previously held a loan note investment. The amounts received were secured under a debenture between the VCT and the company. No further amounts are receivable.

## REVIEW OF INVESTMENTS (continued)

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

<b>Lunar 2 Limited</b> 	Cost at 30/09/18:	£2,976,000	Valuation at 30/09/18:	£15,937,000
	Cost at 30/09/17:	£2,976,000	Valuation at 30/09/17:	£15,322,000
	Date of first investment:	Dec 2013	Valuation method:	Discounted cash flows (business)
	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 2017		Turnover:	£nil
			Operating loss:	£4,000
			Net liabilities:	£1,424,000
	Lunar 2 Limited is a holding company of FIT remunerated ground-mounted solar farms of 5MW (Wiltshire), 4MW (near Hawkchurch) and 0.64MW (Ilminster, Somerset).			
<b>Lunar 1 Limited</b> 	Cost at 30/09/18:	£125,000	Valuation at 30/09/18:	£2,605,000
	Cost at 30/09/17:	£125,000	Valuation at 30/09/17:	£2,121,000
	Date of first investment:	Dec 2013	Valuation method:	Discounted cash flows (business)
	Investment comprises:			
	Ordinary shares:	£125,000	Proportion of equity held:	5%
	Summary financial information from statutory accounts: 30 April 2017		Turnover:	£nil
			Operating Loss:	£4,000
			Net liabilities:	£1,505,000
	Lunar 1 Limited is a holding company of FIT remunerated ground-mounted solar farms of 5MW (Wiltshire) and 0.7MW (Oxfordshire).			
<b>Ayshford Solar (Holding) Limited</b> 	Cost at 30/09/18:	£1,348,000	Valuation at 30/09/18:	£2,168,000
	Cost at 30/09/17:	£1,928,000	Valuation at 30/09/17:	£3,154,000
	Date of first investment:	Mar 2012	Valuation method:	Discounted cash flows (business)
	Investment comprises:			
	Ordinary shares:	£827,000	Proportion of equity held:	50%
	Loan stock:	£521,000	Proportion of loan stock held:	52%
	Summary financial information from statutory accounts: 30 April 2017		Turnover:	£2,000
			Operating loss:	£4,000
			Net assets:	£707,000
	Ayshford Solar (Holding) Limited owns a ROC remunerated ground-mounted solar farm of 5.5MW near Tiverton, Devon.			

## REVIEW OF INVESTMENTS (continued)

### New Energy Era Limited



Cost at 30/09/18:	£884,000	Valuation at 30/09/18:	£1,713,000
Cost at 30/09/17:	£884,000	Valuation at 30/09/17:	£1,390,000
Date of first investment:	Nov 2011	Valuation method:	Discounted cash flows (business)

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

Summary financial information from statutory accounts: 30 April 2017		Turnover:	£285,000
		Operating profit:	£159,000
		Net Assets:	£2,089,000

New Energy Era Limited owns a FiT remunerated solar farm of 0.7MW near Shipton-under-Wychwood, Oxfordshire.

### Vicarage Solar Limited



Cost at 30/09/18:	£871,000	Valuation at 30/09/18:	£1,431,000
Cost at 30/09/17:	£871,000	Valuation at 30/09/17:	£1,215,000
Date of first investment:	Mar 2012	Valuation method:	Discounted cash flows (business)

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

Summary financial information from statutory accounts: 30 April 2017		Turnover:	<i>£nil</i>
		Operating loss:	£93
		Net assets:	£1,931,000

Vicarage Solar Limited is the holding company of a FiT remunerated solar farm of 0.7MW near Ilminster, Somerset.

### Hewas Solar Limited



Cost at 30/09/18:	£1,000,000	Valuation at 30/09/18:	£1,217,000
Cost at 30/09/17:	£1,000,000	Valuation at 30/09/17:	£1,355,000
Date of first investment:	Aug 2011	Valuation method:	Discounted cash flows (business)

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

Summary financial information from statutory accounts: 30 April 2017		Turnover:	£547,000
		Operating profit:	£187,000
		Net assets:	£775,000

Hewas Solar Limited owns a portfolio of FiT remunerated roof-mounted solar assets located on housing stock owned by two housing associations. The total capacity of the solar assets owned by Hewas Solar Limited is 1,830kW.

## REVIEW OF INVESTMENTS (continued)

### Tumblewind Limited



Cost at 30/09/18:	£1,326,000	Valuation at 30/09/18:	£1,107,000
Cost at 30/09/17:	£1,401,000	Valuation at 30/09/17:	£1,144,000
Date of first investment:	Nov 2011	Valuation method:	Discounted cash flows (business)

Investment comprises:			
Ordinary shares:	£790,000	Proportion of equity held:	50%
Loan stock:	£536,000	Proportion of loan stock held:	55%

Summary financial information from statutory accounts: 30 April 2017		Turnover:	£56,000
		Operating loss:	£452,000
		Net assets:	£953,000

Tumblewind Limited owns a portfolio of FiT remunerated wind turbines on largely farmer-owned sites located throughout East Anglia. The total capacity of the wind assets owned by Tumblewind Limited is 305kW. Tumblewind also owns Priory Solar Farm Limited, which owns a ROC remunerated solar farm of 3.2MW near Lowestoft.

### Gloucester Wind Limited



Cost at 30/09/18:	£1,000,000	Valuation at 30/09/18:	£1,047,000
Cost at 30/09/17:	£1,000,000	Valuation at 30/09/17:	£953,000
Date of first investment:	Apr 2012	Valuation method:	Discounted cash flows (business)

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 2017		Turnover:	£191,000
		Operating profit:	£42,000
		Net assets:	£1,693,000

Gloucester Wind Limited owns a portfolio of FiT remunerated roof-mounted solar assets located on residential housing stock across the UK. The total capacity of the solar assets owned by Gloucester Wind Limited is 1,228kW.

### HRE Willow Limited



Cost at 30/09/18:	£875,000	Valuation at 30/09/18:	£874,000
Cost at 30/09/17:	£875,000	Valuation at 30/09/17:	£726,000
Date of first investment:	Jun 2011	Valuation method:	Discounted cash flows (business)

Investment comprises:			
Ordinary shares:	£875,000	Proportion of equity held:	50%

Summary financial information from statutory accounts: 30 April 2017		Turnover:	£112,000
		Operating loss:	£260,000
		Net assets:	£1,559,000

HRE Willow owns a portfolio of FiT remunerated wind turbines on largely farmer-owned sites located throughout East Anglia. The total capacity of the wind assets owned by Tumblewind Limited is 515kW.

## REVIEW OF INVESTMENTS (continued)

### St Columb Solar Limited



Cost at 30/09/18:	£650,000	Valuation at 30/09/18:	£594,000
Cost at 30/09/17:	£650,000	Valuation at 30/09/17:	£518,000
Date of first investment:	Sep 2011	Valuation method:	Discounted cash flows (business)

Investment comprises:			
Ordinary shares:	£650,000	Proportion of equity held:	50%

Summary financial information from statutory accounts: 30 April 2017		Turnover:	£289,000
		Operating profit:	£64,000
		Net assets:	£1,300,000

St Columb Solar Limited owns a portfolio of FiT remunerated roof-mounted solar assets located on housing stock owned by two housing associations. The total capacity of the solar assets owned by St Columb Solar Limited is 1,021 kW.

#### Explanatory notes

The summary financial information has been sourced from the statutory accounts of the underlying investee companies. The net asset/liability figures presented therefore do not approximate a valuation.

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)

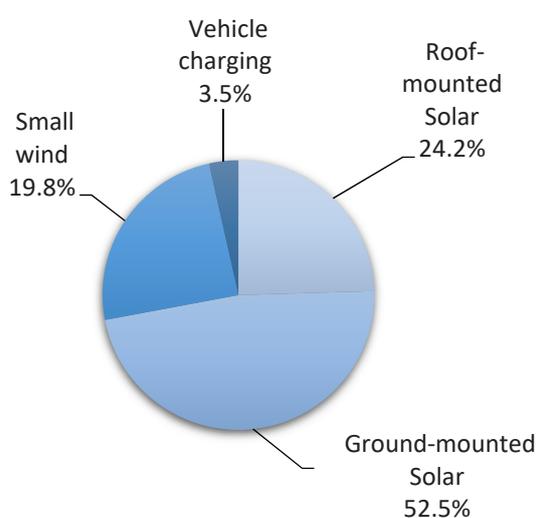
### Summary of loan stock interest income

	£'000
<b>Loan stock interest receivable in the period</b>	
AEE Renewables UK 3 Limited	64
Tumblewind Limited	46
Chargepoint Services Limited	41
Minsmere Power Limited	10
Small Wind Generation Limited	10
	<u>171</u>

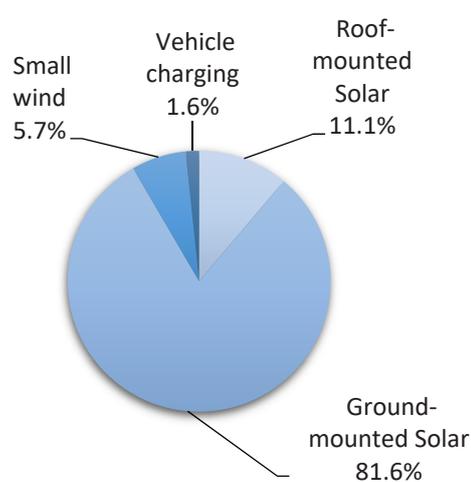
### Analysis of investments by commercial sector

The split of the investment portfolio by sector (by cost and by value at 30 September 2018) is as follows:

Spread of investments by sector (cost)



Spread of investments by sector (value)



### Analysis of investments by type

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

	Actual portfolio split at 30 September 2018	Actual portfolio split at 30 September 2017
<b>VCT Qualifying investments</b>		
Loans to qualifying companies	21.9%	23.4%
Ordinary shares in qualifying companies	59.8%	54.2%
<b>Total</b>	<u>81.7%</u>	<u>77.6%</u>
<b>Non-qualifying investments (including cash at bank)</b>	18.3%	22.4%
<b>Total</b>	<u>100.0%</u>	<u>100.0%</u>

The above table excludes funds raised under the recent Offers for Subscription, which are not yet included in the VCT Qualification test.

## STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 30 September 2018. 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.

### 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 2018, the investments held increased in value by £753,000 and gains arising on investment realisations totalled £33,000.

Income over expenditure for the year resulted in a net profit, after accounting for capital expenses, of £18,000.

The total profit for the year was £804,000 (2017: £652,000). Net assets at the year-end were £30.7 million (2017: £28.2 million). No dividends were paid during the year (2017: £1,225,000), due to the annual dividend now being paid in December each year, as outlined in the Half-Yearly Report to 31 March 2018.

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.

### Investment advisory and administration fees

Gresham House Asset Management Limited ("Gresham House") provides investment advisory services to the Company, at a fee equivalent to 1.4% of net assets for the twelve months to 6 November 2018, reducing to 1.15% thereafter. The agreement is for a minimum term of two years, effective from 7 November 2017, with a nine month notice period on either side thereafter.

The Board has reviewed the services to be provided by Gresham House 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.

Downing LLP provides administration services to the Company for a fee of £40,000 (plus VAT, if applicable) per annum. The agreement, as varied with effect from 7 November 2017, is for a minimum term of six years, effective from 20 October 2010, with a twelve month notice period on either side thereafter.

### Trail commission

Historically the Company had an agreement to pay trail commission annually to Hazel Capital LLP, in connection with the funds raised under the Offers for subscription. This was calculated at 0.4% of the net assets of the Company at each year end. Out of these funds Hazel Capital LLP was liable to pay trail commission to financial intermediaries. The trail commission was 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. Upon the appointment of Gresham House as Investment Adviser on 7 November 2017, the agreement with Hazel Capital LLP was terminated and no further trail commission is payable by the Company as a result.

Pursuant to historic financial intermediary arrangements with Hazel Capital LLP, Haibun Partners LLP ("Haibun"), of which Stuart Knight (Director of Hazel Renewable Energy VCT1 plc) is a Designated Member, and CH1 Investment Partners LLP ("CH1"), of which Matthew Evans is a Designated Member, will continue to receive trail commission from Gresham House Asset Management Limited. The trail commission payable is equal to 0.15% of the net asset value of the Shares issued by the Company and its sister company, Hazel Renewable Energy VCT1 plc ("Hazel1"), to Haibun and CH1 clients under each of the 2010, 2012 and 2014 Offers. The amounts payable to Haibun and CH1 by Gresham House Asset Management, in aggregate across both the Company and Hazel1, are as follows:

	Year ended 30 September 2018		
	Haibun	CH1	Total
	£	£	£
<b>2010 Offer</b>	24,600	34,100	58,700
<b>2012 Offer</b>	3,200	2,400	5,600
<b>2014 Offer</b>	1,400	2,800	4,200
<b>Total</b>	<b>29,200</b>	<b>39,300</b>	<b>68,500</b>

### 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

## STRATEGIC REPORT (continued)

### Investment policy (continued)

#### General (continued)

- 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.

#### Asset allocation

The Company must hold at least 70% (rising to 80% from 1 October 2019) of its funds in VCT qualifying investments, although aims to maintain a level of up to 90%. Accordingly, the Company's maximum exposure to qualifying investments will be 90%. The Company intends to retain the remaining funds in non-qualifying investments to fund the annual running costs of the Company, to reduce the risk profile of the overall portfolio of its fund and to provide investments which can be realised to fund any follow-on investments in the investee companies.

It is expected that 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 did not exceed 33% (at the time of investment) 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 did not individually represent more than 17% (at the time of investment) 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.

## STRATEGIC REPORT (continued)

### Investment policy (continued)

#### 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 entities: 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 entities: 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 long-term creditors shown on the Balance Sheet represent amounts owed to investee companies, which the Board expect to be repaid in the future by way of dividends from these companies. Following the 2018 AGM the articles of the Company were amended such that amounts borrowed from investee companies are now excluded from the calculation of the 15% borrowing restriction.

As at 30 September 2018, the Company had the ability to borrow £4.5 million in accordance with the articles, however the Company had actual borrowings of £nil million. As at 30 September 2017 the Company had borrowings from investee companies of £3.7m, which were, at the time, factored into the calculation of the 15% restriction.

#### 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 Listing Rules have been complied with for the year ended 30 September 2018.

### Directors and senior management

The Company has three Non-executive Directors, each of whom is male. The Company has no employees.

### Key performance indicators

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

The position of the Company's Net Asset Value Total Return as at 30 September 2018 is shown on page 2. A Summary of dividends per Share is shown on page 47.

### Brexit

There continues to be uncertainty surrounding Brexit, which has deflated Sterling thus far, and has the potential to impose restrictions on the free movement of people and goods. However, as the Company has, to date, invested solely in UK assets which generate revenues from contracts with parties based in the UK, the Board and Manager believe that, subject to major economic disruption taking place, the potential impact of Brexit on the Company is limited.

### 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 17 to the financial statements.

Note 17 includes an analysis of the sensitivity of valuation of the portfolio to changes in each of the key inputs to the valuation model.

Other principal risks faced by the Company have been assessed by the Board and grouped into the key categories outlined below:

- Underperformance;
- Loss of VCT status;
- VCT Regulations
- Regulatory and compliance;
- Operational; and
- Economic, political and other external factors.

### Schedule of principal risks

The other principal risks faced by the Company, along with the steps taken to mitigate these risks, are shown in the table overleaf.

## STRATEGIC REPORT (continued)

### Principal risks and uncertainties (continued)

#### Schedule of principal risks (continued)

Principal Risk	Context	Specific risks	Possible impact	Mitigation
<b>Investment Performance</b>	The Company holds investments in unquoted UK businesses in the renewable energy sector.	Poor investment decisions or strategy or poor monitoring, management and realisation of investments.	Reduction in the NAV of the Company and the inability of the Company to pay dividends.	The Investment Adviser has significant experience in the renewable energy sector. The Investment Adviser also actively manages the portfolio, engaging reputable and experienced Operations and Maintenance (O&M) contractors. The Board regularly reviews the performance of the portfolio, alongside the Board of the sister Company.
<b>Loss of VCT status</b>	The Company must maintain continued compliance with the VCT Regulations, which prescribe a number of tests and conditions.	Breach of any of the rules could result in the loss of VCT status.	The loss of VCT status would result in dividends becoming taxable and new Shareholders losing their initial tax relief.	The VCT Qualification is actively monitored by the Investment Adviser and the Administrator, who liaise with the designated VCT Status Adviser, Philip Hare. Philip Hare produces twice yearly reports for the Board.
<b>VCT Regulations</b>	In recent years, the changes to VCT Regulations have narrowed the breadth of permitted investments.	Increasing difficulty for the Company in making new Qualifying investments.	The Company is not able to make new Qualifying investments.	Both the Investment Adviser and the Administrator closely monitor developments and attend AIC conferences. The VCT Status Adviser also has significant experience in this field and works closely with HMRC.  Further commentary on VCT Status is provided on page 25.
<b>Regulatory and compliance</b>	As a listed entity, the Company is subject to the UK Listing Rules and related regulations.	Any breaches of relevant regulations could result in suspension of trading in the Company's shares or financial penalties.	Reduction in the NAV of the Company due to financial penalties and a suspension of trading in its Shares, also leading to loss of VCT status.	The Company Secretary and Administrator have a long history of acting for VCTs. The Board, Investment Adviser and Administrator also employ the services of reputable lawyers, auditors and other advisers to ensure continued compliance with its regulatory obligations.
<b>Operational</b>	The Company relies on the Investment Adviser, Administration Manager and other third parties to provide many of its services. At the portfolio level, this includes the O&M contractors managing the various sites.	Inferior provision of these services, thereby leading to inadequate systems and controls or inefficient management of the Company's assets and its reporting requirements.	Errors in Shareholder records, incorrect mailings, misuse of data, non-compliance with key legislation, loss of assets, breach of legal duties and inadequate financial reporting.	The Company, the Investment Adviser and the Administrator engage experienced and reputable service providers, the performance of which is reviewed on an annual basis. At the portfolio level, technical reviews and studies are conducted on the assets as appropriate. The Audit Committee reviews the Internal Control and Corporate Governance Manual and on an annual basis.
<b>Economic, political and other external factors</b>	The Company's investments are heavily exposed to the Feed in Tariff (FiT) and Renewable Obligation Certificate (ROC) regimes.  There continues to be a great deal of uncertainty surrounding Brexit.	Retrospective changes to the regimes.  Brexit causes major economic disruption.	A significant negative impact on performance.  The investment portfolio could be impacted by changes in inflation.	The Investment Adviser and Board members closely monitor policy developments. However, the UK Government has a general policy of not introducing retrospective legislation.  The Investment Adviser and Board regularly review the consolidated model and its inputs.

## STRATEGIC REPORT (continued)

### Viability statement

In accordance with C.2.1 and C.2.2 of the 2016 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 five years from the balance sheet date as developments are considered to be reasonably foreseeable over this period. This is also the minimum recommended holding period for new investors.

The five-year review considers the principal risks facing the Company, summarised on the previous page, as well as the Company's cash flows and VCT monitoring compliance over the period. The five-year review also makes assumptions about new investment activity, expenditure, dividends and Share buybacks.

The Board is satisfied that the underlying assets held by the SPVs have been built to a sufficient quality and there are no indications that the assets will degrade substantially over the period. It is also considered highly unlikely that the portfolio would suffer from such poor irradiation and severe degradation that it would be unable to generate income over the period. Asset life, along with the other inputs to the valuation model, are discussed further in Note 17.

The Board also noted that the SPVs have very good debt cover and that there are significant cash reserves at both the SPV and VCT level.

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 five 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 29.

### Annual running costs cap

The annual running costs for the year are capped at 3.0% 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 2018 were less than 3.0% 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	99.99%	80%	70%
Management	0.03%	20%	30%

As the NAV hurdle has been met and the interim dividend to be paid on 14 December 2018 exceeds the dividend hurdle, Management will receive a Performance Incentive in respect of the year ended 30 September 2018. The Performance Incentive is equivalent to 0.2528p per Ordinary Share, or approximately £65,000.

Pursuant to historic financial intermediary arrangements with Hazel Capital LLP, Haibun Partners LLP ("Haibun"), of which Stuart Knight (Director of Hazel Renewable Energy VCT1 plc) is a Designated Member, and CH1 Investment Partners LLP ("CH1"), of which Matthew Evans is a Designated Member, will receive a proportion of the Performance Incentive payments made to Management by the Company and its sister company, Hazel Renewable Energy VCT1 plc ("Hazel1"). Haibun and CH1 will share equally an amount equal to approximately 8.0% of the Performance Incentive paid to Management in respect of the "Management 'A' Shares" issued by the Company and Hazel1 in connection with the Ordinary Shares issued to Haibun and CH1 clients under the 2010, 2012 and 2014 Offers. The agreements were put in place prior to the appointment of Matthew Evans and Stuart Knight as Directors of the Company and Hazel1 respectively.

## 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:

	<b>Position at the year ended 30 Sep 18</b>
1. To ensure that the Company holds at least 70% (80% from 1 October 2019) of its investments in qualifying companies;	81.95%
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";	86.60%
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.

### VCT regulations

The Government's Autumn 2017 budget outlined further changes to the VCT regulations resulting from the "Patient Capital Review". The Board has assessed the impact of such changes, and considers the following are of the greatest significance to the Company:

- With effect from 1 October 2019, the proportion of VCT funds that must be held in qualifying holdings will increase from 70% to 80%; and
- At least 30% of the proceeds from October 2018 Share issues, along with those of any future Share issues, must be invested in qualifying companies within 12 months.

The Boards of the Company and Hazel1 are working together, alongside the Investment Adviser, to meet the new requirements. The Board feels that the plans in place, as outlined in the Chairman's Statement, mean that the Companies are well placed to meet these criteria in advance of their respective deadlines.

### Share buybacks

The Company has a policy of buying Shares that become available in the market at a price approximately equivalent to a 2% discount to NAV. This policy is subject to liquidity and regulatory constraints. The Board reviews the buyback policy from time to time and may make changes if it considers that to be in the best interests of Shareholders as a whole.

During the year the Company purchased a total of 2,466,228 Ordinary Shares at an average price of 112.6p per Share, and a total of 2,466,978 'A' Shares at an average price of 0.1p. These Shares are held in treasury.

A special resolution to renew the authority to repurchase Shares 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.

By order of the Board



### Grant Whitehouse

Company Secretary  
Company number: 07378395

Registered office:  
6<sup>th</sup> Floor, St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

31 January 2019

## REPORT OF THE DIRECTORS

The Directors present the eighth Annual Report and Accounts of the Company for the year ended 30 September 2018.

The Corporate Governance Report on pages 31 to 33 forms part of this report.

### Share capital

At the year end, the Company had in issue 24,865,637 Ordinary Shares and 37,159,162 '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 has a policy of buying Shares that become available in the market at a price approximately equivalent to a 2% discount to NAV. This policy is subject to liquidity and regulatory constraints. The Board reviews the buyback policy from time to time and may make changes if it considers that to be in the best interests of Shareholders as a whole.

Pursuant to the articles and subject to a special resolution, Company is able to 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.

At the Annual General Meeting ("AGM") that took place on 21 March 2018, the Company was authorised to make market purchases of its Ordinary Shares and 'A' Shares, up to a limit of 3,316,990 Ordinary Shares and 5,148,725 '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 850,762 Ordinary Shares and 2,681,747 'A' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 6 March 2019.

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 2018, and the date of this report, the Company had been notified of two Shareholders with a beneficial interest exceeding 3% of the issued Ordinary Share capital. Neither Shareholder is considered a related party of the Company.

### Results and dividends

	£'000	Pence per Ord Share	Pence per 'A' Share
Profit for the year	804	3.4p	-
<i>Dividend - 14 December 2018</i>			
2018 Interim	1,668	5.4958p	0.5042p

### Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2018 and at the date of this report were as follows:

Directors		As at the date of this report	As at 30 Sep 2018	As at 30 Sep 2017
Christian Yates	Ord	19,673	19,673	19,673
	'A'	2,616,069	2,616,069	2,616,069
Matthew Evans	Ord	-	-	-
	'A'	-	-	-
Giles Clark <sup>1</sup>	Ord	-	-	n/a
	'A'	-	-	n/a

<sup>1</sup>Giles Clark was appointed as a director on 7 November 2017.

Christian Yates was appointed as a Director in October 2010 and was last re-elected at the AGM that took place in March 2018. 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 was subsequently re-elected at the 2018 AGM.

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 were for a period of three years 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)

### Annual General Meeting

The Company's eighth Annual General Meeting ("AGM") will be held at Octagon Point, 5 Cheapside, London EC2V 6AA at 12:20 p.m. on 6 March 2019. 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 Investment Adviser (<https://newenergy.greshamhouse.com/funds/vcts-1-2/>) 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](http://www.frc.org.uk)) is shown on page 33.

### Other matters

Information in respect of risk management and risk diversification has been disclosed within the Strategic Report on pages 21 to 23.

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 25.

### Events after the end of the reporting period

On 23 October 2018 the Company issued 752,759 Ordinary Shares at an average price of 123.6p and 752,759 'A' Shares at an average price of 0.1p.

On 24 October 2018 the Company issued 1,067,378 Ordinary Shares at an average price of 123.7p and 2,104,662 'A' Shares at an average price of 0.1p.

Following the period end the Company paid dividends in respect of the year ended 30 September 2018, of 5.4958p per Ordinary Share and 0.5042p per A Share. These dividends were paid on 14 December 2018 to Shareholders on the register at 23 November 2018.

### 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:  
6<sup>th</sup> Floor, St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

31 January 2019

## 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 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 26.

### Performance Incentive

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 to the Management Team. As the hurdle will be exceeded, following the payment of the interim dividend on 14 December 2018, a Performance Incentive equivalent to 0.2528p per Ordinary Share will be paid to Management through the 'A' Share dividend.

Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2017, 30 September 2018 and at the date of this report are disclosed within the Report of the Directors on page 26.

### 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 34 to 39.

### Directors' remuneration (audited)

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

	Current annual fee (excluding VAT) £	Year ended 30/09/18 £	Year ended 30/09/17 £
Christian Yates	25,000	24,497	40,833
Matthew Evans <sup>1</sup>	20,000	29,497	9,958
Giles Clark <sup>2</sup>	20,000	17,989	-
Peter Wisher <sup>3</sup>	N/A	N/A	26,685
	<u>65,000</u>	<u>71,983</u>	<u>77,476</u>

<sup>1</sup>Matthew Evans was appointed as a Director on 31 January 2017.

<sup>2</sup>Giles Clark was appointed as a Director on 7 November 2017.

<sup>3</sup>Peter Wisher retired as a Director on 28 July 2017.

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 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 agreed, during the year ended 30 September 2017, to pay one-off additional fees to Christian Yates and Matthew Evans of £25,000 (exclusive of VAT) and £10,000 (excluding NI) respectively. The fee payable to Christian Yates was paid during the year ended 30 September 2017 and the fee payable to Matthew Evans was paid during the year ended 30 September 2018.

As noted on Page 2, Christian Yates is a former Partner of Hazel Capital LLP and therefore holds 2,596,396 "Management 'A' Shares". By virtue of this holding, Christian Yates will receive approximately £13,000 of the total Performance Incentive payable to Management.

## DIRECTORS' REMUNERATION REPORT (continued)

### Directors' remuneration (audited) (continued)

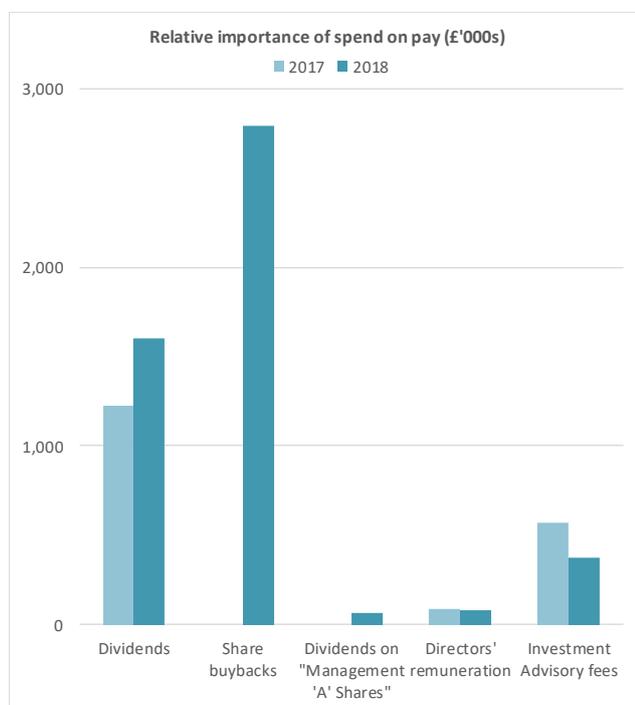
No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

### 2018/2019 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 29.

### Relative importance of spend on pay

The difference in actual spend between 30 September 2018 and 30 September 2017 on Directors' remuneration in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the adjacent chart.



### Statement of voting at AGM

At the AGM on 21 March 2018, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

In favour	100%
Against	nil votes
Withheld	nil votes

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.

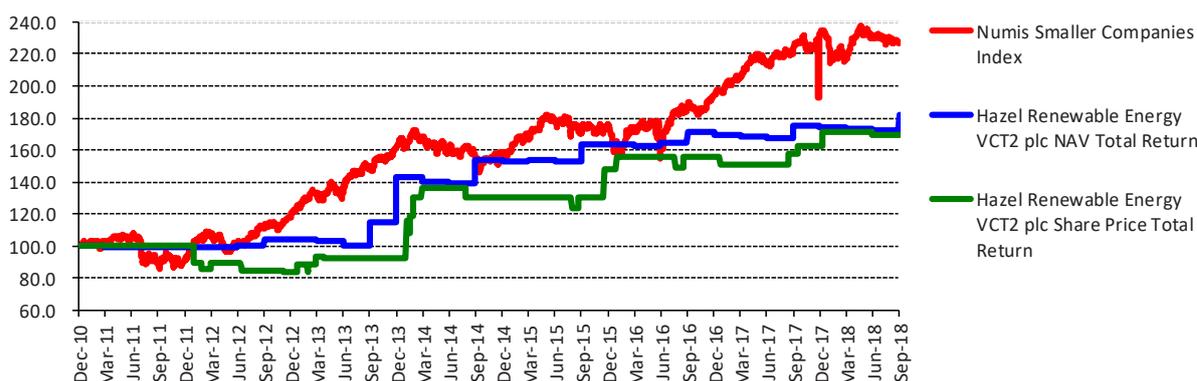
The Numis Smaller Companies Index has been chosen as a comparison as it is a publicly available broad equity index which focuses on smaller companies and is therefore more relevant than most other publicly available indices.

By order of the Board

**Grant Whitehouse**  
Company Secretary  
6<sup>th</sup> Floor, St. Magnus House  
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London EC3R 6HD

31 January 2019

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 was subsequently re-elected at the 2018 AGM.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Investment 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 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 no longer provides corporation tax compliance services to the Company. The Auditor may continue to perform ad-hoc work at the request of the Board, if permitted by the ethical standards.

The Committee recognises the requirement for the tax computation to be prepared annually and therefore appointed Lubbock Fine as tax agent during the year ended 30 September 2018.

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 2018, 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:

	<b>Board meetings attended</b> (10 held)	<b>Audit Committee meetings attended</b> (2 held)	<b>Nomination Committee meetings attended</b> (none held)
Christian Yates	10	1	-
Matthew Evans	8	-	-
Giles Clark <sup>1</sup>	9	1	n/a

<sup>1</sup>Appointed 7 November 2017

No Remuneration or Nomination Committee meetings were held in the year. The Nomination Committee meeting in which Giles Clark was appointed a Director took place during the year ended 30 September 2017.

### 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 29.

### 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. Before any appointment is made by the Board, the Committee shall evaluate the balance of skills, knowledge and experience, and consider candidates on merit, against objective criteria, and with due regard for the benefits of diversity on the Board. The Nomination Committee conducted an internal review of the Board and its Committees during the year ended 30 September 2018.

### 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 eighth 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 27 and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 38.

### 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
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Administration	Downing LLP
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### 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](http://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 to 5, the Investment Adviser's Report on pages 6 to 12 and the Strategic Report on pages 20 to 25. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 43.

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 26 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 2018 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  
6<sup>th</sup> Floor, St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

31 January 2019

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

## Opinion

We have audited the financial statements of Hazel Renewable Energy VCT2 Plc (the 'company') for the year ended 30 September 2018, 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 in the United Kingdom 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 group and the parent 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 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement 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 group and the parent 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 in the annual report as to how they have assessed the prospects of the group, 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 group 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.

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

### 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, including 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.

The valuation of investments in the underlying renewables portfolio was the risk that had the greatest impact on our audit strategy and scope, including the allocation of resources in the audit.

Risk description	How our audit addressed the risk
<p>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.</p> <p>100% of the underlying investment portfolio is represented by unquoted equity and loan stock.</p>	<p>In respect of the equity investments valued using discounted cash flow models, we performed the following specific procedures:</p> <ul style="list-style-type: none"> <li>• Used spreadsheet analysis tools to assess the integrity of the valuation models and track changes to inputs or structure</li> <li>• Agreed power price forecasts to independent reports</li> <li>• For all investments we analysed changes in significant assumptions compared with assumptions audited in previous periods and vouched these to independent evidence including available industry data</li> <li>• Challenged the appropriateness of the selection and application of key assumptions in the model including the discount factor, inflation, asset life, energy yield and power price applied by benchmarking to available industry data and consulting with our internal valuations specialists</li> <li>• Agreed cash and other net assets to bank statements and investee company management accounts</li> <li>• Considered the accuracy of forecasting by comparing previous forecasts to actual results</li> </ul> <p>For loan investments we performed the following:</p> <ul style="list-style-type: none"> <li>• Vouched to loan agreements and verified the terms of the loan</li> <li>• Considered wider economic and commercial factors that, in our opinion could impact on the recoverability and fair value of the loan</li> <li>• Considered the carrying value of the loan with regard to the "unit of account" concept.</li> </ul> <p>For each of the 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.</p> <p>Based on our procedures performed we concluded that the valuation of the investment portfolio was considered to be within an acceptable range.</p>

## 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 quantum of the materiality level applied during our audit is tabulated below.

Materiality measure	Purpose	Basis and Key considerations	2018 Quantum (£)	2017 Quantum (£)
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view	Based on 2% of the portfolio value: <ul style="list-style-type: none"> <li>The nature of the investment portfolio and the level of judgement inherent in the valuation</li> <li>The range of reasonable alternative valuations</li> </ul>	£580,000	£630,000

In the prior year audit, two levels of materiality were applied on the basis that the financial statement materiality level was too high to apply to items impacting on revenue return. The level of material applied to items impacting on revenue return was £110,000. For the current year, we have applied one materiality level for the entirety of our audit, but note profit and loss items that are material to the users of the accounts by nature, these being loan stock income, dividend income and the management fee, have been tested in their entirety.

Performance materiality is application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment together with our assessment of the company's overall control environment, our judgment was that overall performance materiality for the company should be 75% (2017: 75%) of materiality, namely £435,000 (2017: £472,500).

We agreed with the Audit Committee that we would report to the Audit 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

We carried out a full scope audit. Our audit approach was developed by obtaining an understanding of the Company's activities and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of investments which have a high level of estimation uncertainty involved in determining the unquoted investment valuations.

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

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the SORP and FRS 102. We also considered the Company's qualification as a VCT under UK tax legislation as any breach of this would lead to the company losing various deductions and exemptions from corporation tax.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- review of minutes of board meetings throughout the period; and
- considering the effectiveness of control environment in monitoring compliance with laws and regulations

There are inherent limitations in the audit procedures described above and the further removed noncompliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

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** – 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 group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting**– 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**– 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.

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

### 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
- the strategic report and the directors' report 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 group and parent 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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, 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Following the recommendation of the audit committee, we were appointed by the Audit Committee on 5<sup>th</sup> September 2018 to audit the financial statements for the year ending 30<sup>th</sup> September 2018 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ending 30 September 2011 to 30 September 2018.

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

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

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

### Use of our report

This report is made solely to the parent 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 parent 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 parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Handwritten signature in black ink that reads "BDO LLP".

**Vanessa-Jayne Bradley** (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor

London

United Kingdom

31 January 2019

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

## INCOME STATEMENT

for the year ended 30 September 2018

	Note	Year ended 30 September 2018			Year ended 30 September 2017		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	3	771	-	771	492	-	492
Gain on investments	10	-	786	786	-	1,038	1,038
		771	786	1,557	492	1,038	1,530
Investment advisory fees	4	(283)	(94)	(377)	(427)	(143)	(570)
Other expenses	5	(376)	-	(376)	(308)	-	(308)
<b>Profit/(loss) on ordinary activities before tax</b>		112	692	804	(243)	895	652
Tax on total comprehensive income and ordinary activities	7	-	-	-	-	-	-
<b>Profit/(loss) for the year and total comprehensive income</b>		112	692	804	(243)	895	652
<b>Basic and diluted earnings per share:</b>							
<b>Ordinary Share</b>	9	0.5p	2.9p	3.4p	(1.0p)	3.6p	2.6p
<b>'A' Share</b>	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 (updated in February 2018) 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.

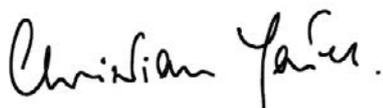
The accompanying notes form an integral part of these financial statements.

## BALANCE SHEET

as at 30 September 2018

	Note	£'000	2018 £'000	£'000	2017 £'000
<b>Fixed assets</b>					
Investments	10		30,588		31,390
<b>Current assets</b>					
Debtors	11	274		447	
Cash at bank and in hand		<u>3,038</u>		<u>88</u>	
		3,312		535	
<b>Creditors: amounts falling due within one year</b>	12	<u>(113)</u>		<u>(68)</u>	
<b>Net current assets</b>			<u>3,199</u>		467
<b>Creditors: amounts falling due after more than one year</b>	13	<u>(3,107)</u>		<u>(3,660)</u>	
<b>Net assets</b>			<u>30,680</u>		<u>28,197</u>
<b>Capital and reserves</b>					
Called up Ordinary Share capital	14		28		25
Called up 'A' Share capital	14		40		37
Share premium account	15		7,531		3,985
Treasury Shares	15		(2,792)		-
Funds held in respect of Shares not yet allotted	15		1,035		-
Special reserve	15		9,724		9,840
Revaluation reserve	15		16,257		15,504
Capital reserve - realised	15		(1,261)		(1,200)
Revenue reserve	15		<u>118</u>		<u>6</u>
<b>Total Shareholders' funds</b>			<u>30,680</u>		<u>28,197</u>
<b>Basic and diluted net asset value per share</b>					
<b>Ordinary Share</b>	16		119.1p		114.9p
<b>'A' Share</b>	16		0.1p		0.1p

The financial statements of Hazel Renewable Energy VCT2 plc on pages 40 to 57 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



**Christian Yates**  
Chairman  
Company number: 07378395

31 January 2019

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

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 30 September 2018

	Called up share capital £'000	Share Premium Account £'000	Treasury Shares £'000	Funds held in respect of Shares not yet allotted £'000	Special Reserve £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000	Total £'000
<b>At 30 September 2016</b>	62	3,985	-	-	11,065	14,466	(1,057)	249	28,770
Total comprehensive income	-	-	-	-	-	992	(97)	(243)	652
<i>Transactions with owners</i>									
Dividend Paid	-	-	-	-	(1,225)	-	-	-	(1,225)
Transfer between Reserves	-	-	-	-	-	46	(46)	-	-
<b>At 30 September 2017</b>	<b>62</b>	<b>3,985</b>	<b>-</b>	<b>-</b>	<b>9,840</b>	<b>15,504</b>	<b>(1,200)</b>	<b>6</b>	<b>28,197</b>
Total comprehensive income	-	-	-	-	-	753	(61)	112	804
<i>Transactions with owners</i>									
Repurchase of Shares	-	-	(2,792)	-	-	-	-	-	(2,792)
Issue of Shares	6	3,546	-	-	(116)	-	-	-	3,436
Unallotted Shares	-	-	-	1,035	-	-	-	-	1,035
<b>At 30 September 2018</b>	<b>68</b>	<b>7,531</b>	<b>(2,792)</b>	<b>1,035</b>	<b>9,724</b>	<b>16,257</b>	<b>(1,261)</b>	<b>118</b>	<b>30,680</b>

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

## CASH FLOW STATEMENT

for the year ended 30 September 2018

	Note	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
<b>Cash flows from operating activities</b>			
Profit for the financial year		804	652
Gains on investments		(786)	(1,038)
Decrease/(increase) in debtors		174	(26)
Decrease in creditors		(16)	(92)
<b>Net cash (outflow)/inflow from operating activities</b>		<u>176</u>	<u>(504)</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments/loan note redemptions		<u>688</u>	<u>589</u>
<b>Net cash inflow from investing activities</b>		<u>688</u>	<u>589</u>
<b>Net cash inflow before financing activities</b>		864	85
<b>Cash flows from financing activities</b>			
Equity dividends paid	8	-	(1,225)
Long term loans		347	1,224
Issue of Shares		3,496	-
Funds held in respect of Shares not yet allotted		1,035	-
Purchase of own shares		(2,792)	-
<b>Net cash inflow/(outflow) from financing activities</b>		<u>2,086</u>	<u>(1)</u>
<b>Net increase in cash</b>		2,950	4
Cash and cash equivalents at start of year		<u>88</u>	<u>84</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>3,038</u></u>	<u><u>88</u></u>
<b>Cash and cash equivalents comprise</b>			
Cash at bank and in hand		<u>3,038</u>	<u>88</u>
<b>Total cash and cash equivalents</b>		<u><u>3,038</u></u>	<u><u>88</u></u>

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

## NOTES TO THE ACCOUNTS

### for the year ended 30 September 2018

#### 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”) in November 2014 and revised in February 2018 (“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, 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 2018

#### 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 special reserve.

#### 3. Income

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
<b>Income from investments</b>		
Loan stock interest	171	185
Dividend Income	600	307
	<u>771</u>	<u>492</u>
<b>Other income</b>		
Bank interest	-	-
	<u>771</u>	<u>492</u>

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**4. Investment advisory fees**

The investment advisory fees for the year ended 30 September 2018, which were charged quarterly to the Company, were based on 1.4% of the net assets as at the previous quarter end.

	Year ended 30 September 2018			Year ended 30 September 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment advisory fees	283	94	377	427	143	570

With effect from 7 November 2017, the Investment Advisory fee percentage was reduced from 2.0% of net assets per annum to 1.4%, for the period to 6 November 2018. With effect from 7 November 2018, the Investment Advisory fee has reduced further, to 1.15% of net assets per annum.

**5. Other expenses**

	Year ended 30 September 2018			Year ended 30 September 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Administration services	55	-	55	35	-	35
Trail commission	119	-	119	17	-	17
Directors' remuneration	72	-	72	77	-	77
VAT and Social security costs	8	-	8	8	-	8
Auditor's remuneration for audit	25	-	25	21	-	21
Other	97	-	97	150	-	150
	376	-	376	308	-	308

The annual running costs of the Company for the year are subject to a cap of 3.0% 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 29.

The Company had no employees during the year. Costs in respect of the Directors 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 2018

**7. Tax on ordinary activities**

	Year ended 30 September 2018 £'000	Year ended 30 September 2017 £'000
<b>(a) Tax charge for the year</b>		
UK corporation tax at 19.0% (2017: 19.5%)	-	-
<b>Charge for the year</b>	<u>-</u>	<u>-</u>
<b>(b) Factors affecting tax charge for the year</b>		
Profit on ordinary activities before taxation	<u>804</u>	<u>652</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 19.0% (2017: 19.5%)	153	127
Effects of:		
UK dividend income	(114)	(61)
Gains on investments	(150)	(202)
Expenses disallowed for tax purposes	1	17
Excess management expenses on which deferred tax not recognised.	<u>110</u>	<u>119</u>
<b>Current tax charge</b>	<u>-</u>	<u>-</u>

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £3,523,000 (2017: £2,946,000). The associated deferred tax asset of £599,000 (2017: £501,000) 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 2018			Year ended 30 September 2017		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Payable</b>						
2018 Interim Ordinary – 5.4958p	99	1,367	1,466	-	-	-
2018 Interim A – 0.5042p	-	202	202	-	-	-
<b>Paid</b>						
2017 Interim Ordinary – 5.0p	-	-	-	-	1,225	1,225
	<u>99</u>	<u>1,569</u>	<u>1,668</u>	<u>-</u>	<u>1,225</u>	<u>1,225</u>

The Interim 2018 dividends will be paid on 14 December 2018, to Shareholders on the register as at 23 November 2018.

**9. Basic and diluted earnings per share**

		Weighted average number of shares in issue	Revenue		Capital	
			(loss)/ return £'000	Pence per share	(loss)/ return £'000	Pence per share
Profit/(loss) per share is calculated on the following:						
Year ended 30 September 2018	Ordinary Shares	23,617,077	112	0.5	692	2.9
	'A' Shares	35,906,871	-	-	-	-
Year ended 30 September 2017	Ordinary Shares	24,504,858	(25)	(1.0)	89	3.6
	'A' Shares	36,799,133	-	-	-	-

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 2018**

**10. Fixed assets – investments**

	<b>2018</b>	<b>2017</b>
	<b>Unquoted</b>	<b>Unquoted</b>
	<b>investments</b>	<b>investments</b>
	<b>£'000</b>	<b>£'000</b>
Opening cost at 1 October 2017	15,886	16,475
Unrealised gains as at 1 October 2017	15,504	14,466
<b>Opening fair value at 1 October 2017</b>	<u>31,390</u>	<u>30,941</u>
<b>Movement in the year:</b>		
Purchased at cost	-	-
Disposals proceeds/redemption of loan notes	(1,588)	(589)
Realised gains on disposals	33	46
Unrealised gains in the income statement	753	992
<b>Closing fair value at 30 September 2018</b>	<u>30,588</u>	<u>31,390</u>
Closing cost at 30 September 2018	14,331	15,886
Unrealised gains at 30 September 2018	16,257	15,504
<b>Closing fair value at 30 September 2018</b>	<u>30,588</u>	<u>31,390</u>

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

- Level 1 Reflects financial instruments quoted in an active market;
- Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and
- Level 3 Reflects financial instruments that use valuation techniques that are not based on observable market data (unquoted equity investments and loan note investments).

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Unquoted loan notes	-	-	2,756	2,756	-	-	5,203	5,203
Unquoted equity	-	-	27,832	27,832	-	-	26,187	26,187
	<u>-</u>	<u>-</u>	<u>30,588</u>	<u>30,588</u>	<u>-</u>	<u>-</u>	<u>31,390</u>	<u>31,390</u>

During the year to 30 September 2018 and 30 September 2017 there were no transfers between levels.

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

	<b>Unquoted</b>	<b>Unquoted</b>	<b>Total</b>
	<b>loan notes</b>	<b>equity</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 30 September 2017	5,203	26,187	31,390
<i>Movements in the income statement:</i>			
Unrealised (losses)/gains in the income statement	(892)	1,645	753
Realised gains in the income statement	-	33	33
	<u>(892)</u>	<u>1,678</u>	<u>786</u>
Additions at cost	-	-	-
Sales proceeds/redemption of loan notes	(1,555)	(33)	(1,588)
Balance at 30 September 2018	<u>2,756</u>	<u>27,832</u>	<u>30,588</u>

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**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 3 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. This was also the case in the prior year.

The Board and the Investment Adviser believe that the valuation as at 30 September 2018 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 17.

**11. Debtors**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Prepayments and accrued income	<u>274</u>	<u>447</u>
	<u>274</u>	<u>447</u>

**12. Creditors: amounts falling due within one year**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Taxation and social security	-	-
Accruals and deferred income	<u>113</u>	<u>68</u>
	<u>113</u>	<u>68</u>

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Other loans	<u>3,107</u>	<u>3,660</u>
	<u>3,107</u>	<u>3,660</u>

The balance of other loans is made up of amounts borrowed from the underlying portfolio companies. An analysis of the maturity dates of each of the loans is shown on the next page. Whilst each loan has an applicable repayment date, the Company has the right to repay all or any part of the loans at any time. All loans are interest free.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**13. Creditors:** amounts falling due after more than one year (continued)

Creditors falling due after more than one year are repayable as follows:

<b>Investee company</b>	<b>Repayment date</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
HRE Willow Limited	23 September 2021	-	27
		-	27
Minsmere Power Limited	12 September 2021	-	75
		-	75
Gloucester Wind Limited	12 September 2021	-	78
	5 April 2022	-	10
		-	88
Hewas Solar Limited	7 September 2020	65	65
	30 April 2021	66	66
		131	131
St Columb Solar Limited	30 April 2021	21	21
	2 February 2023	40	-
		61	21
Ayshford Solar (Holding) Limited	23 September 2021	-	125
	13 October 2021	-	20
	11 September 2022	-	300
	28 September 2022	-	50
		-	495
<b>Amounts repayable in up to five years</b>		<b>192</b>	<b>837</b>
Lunar 2 Limited	17 December 2043	2,915	2,823
<b>Amounts repayable after more than five years</b>		<b>2,915</b>	<b>2,823</b>
<b>Other loans</b>		<b>3,107</b>	<b>3,660</b>

On 31 December 2018 the loan note investment of £1,645,000 made in Lunar 2 Limited was repaid and the proceeds were used to make repayments in respect of the loan balance due to Lunar 2 Limited.

On 4 January 2019 the Company made further loan repayments of £500,000 to Lunar 2 Limited.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**14. Called up share capital**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Allotted, called up and fully-paid:</b>		
24,865,637 (2017: 24,504,858) Ordinary Shares of 0.1p each	28	25
37,159,162 (2017: 36,799,133) 'A' Shares of 0.1p each	40	37
	<u>68</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 20 to 22. 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. During the year ended 30 September 2018 the Company repurchased 2,466,228 Ordinary Shares and 2,466,978 'A' Shares at an average price, per combined holding, of 112.7p. These shares are currently held in treasury.

During the year ended 30 September 2018 the Company issued 2,827,007 Ordinary Shares at an average price of 125.5p and 2,827,007 'A' Shares at an average price of 0.1p. No shares were issued during the year ended 30 September 2017.

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.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**15. Reserves**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Share premium account	7,531	3,985
Treasury shares	(2,792)	-
Funds held in respect of shares not yet allotted	1,035	-
Special reserve	9,724	9,840
Revaluation reserve	16,257	15,504
Capital reserve- realised	(1,261)	(1,200)
Revenue reserve	118	6
	<u>30,612</u>	<u>28,135</u>

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 £1,259,000 (2017: £1,193,000) which are included in the Revaluation reserve. At 30 September 2018, distributable reserves were £7,323,000 (2017: £7,454,000).

*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.

*Treasury shares*

This reserve represents the aggregate consideration paid for the Shares repurchased during the year ended 30 September 2018.

*Funds held in respect of Shares not yet allotted*

This reserve represents cash value of Shares which were due to be issued by the Company as at the Balance Sheet date.

*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**

	<b>Shares in issue</b>		<b>2018</b>		<b>2017</b>	
	<b>2018</b>	<b>2017</b>	<b>Net asset value*</b>	<b>£'000</b>	<b>Net asset value</b>	<b>£'000</b>
			<b>per share</b>		<b>per share</b>	
Ordinary Shares	24,865,637	24,504,858	119.1	29,608	114.9	28,160
'A' Shares	37,159,162	36,799,133	0.1	37	0.1	37

\*Excluding funds held in respect of Shares not yet allotted.

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.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**16. Basic and diluted net asset value per share (continued)**

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. Financial instruments**

The Company held the following categories of financial instruments at 30 September 2018:

	<b>Cost</b>	<b>2018</b>	<b>Cost</b>	<b>2017</b>
	<b>£'000</b>	<b>Value</b>	<b>£'000</b>	<b>Value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Assets at fair value through profit or loss	14,331	30,588	15,886	31,390
Other financial assets	152	152	233	233
Cash at bank	3,038	3,038	88	88
Other loans	(3,107)	(3,107)	(3,660)	(3,660)
<b>Total</b>	<b>14,414</b>	<b>30,671</b>	<b>12,547</b>	<b>28,051</b>

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.

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 operating sites across several 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 2018

#### 17. 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 2018, the unquoted portfolio was valued at £30,588,000 (2017: £31,390,000). The key inputs to the valuation model are discount rates, inflation, irradiation, degradation, power prices and asset life. The Board has undertaken some sensitivity analysis into the effects of fluctuations in these inputs.

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%	(1,060)	(4.0)
		-0.5%	1,129	4.2
Inflation	3.0% – 3.2%	+0.5%	1,122	4.2
		-0.5%	(1,182)	(4.4)
Irradiation	785 – 1,270kWh/m <sup>2</sup>	+1.0%	684	2.6
		-1.0%	(685)	(2.6)
Degradation	0.3% – 0.4%	+0.1%	(671)	(2.5)
		-0.1%	680	2.5
Power prices	£40 – £60/MWh	+10.0%	1,390	5.2
		-10.0%	(1,390)	(5.2)

##### *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, which cannot be terminated early, and any extensions to the leases would require further planning permission. Accordingly, the Board does not consider it appropriate to disclose a sensitivity analysis in respect of asset life.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**17. Financial instruments (continued)**

**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.

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	2018 £'000	2017 £'000
Fixed rate	8.2%	4,676 days	743	2,231
Floating rate	0%		3,038	88
No interest rate			26,890	25,732
			<u>30,671</u>	<u>28,051</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 £3,000. The Bank of England base rate increased from 0.25% per annum to 0.5% per annum on 2 November 2017 and from 0.5% to 0.75% on 2 August 2018. 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 in investee companies is considered to be part of market risk as the performance of the underlying SPVs impacts the carrying values.

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

	2018 £'000	2017 £'000
Investments in loan stocks	2,756	5,203
Cash and cash equivalents	3,038	88
Interest, dividends and other receivables	264	301
	<u>6,058</u>	<u>5,592</u>

The Adviser manages credit risk in respect of loan stock with a similar approach as described under "Market risks". 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.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 30 September 2018**

**17. Financial instruments (continued)**

***Credit risk (continued)***

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

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

There have been no loan investments for which the terms have been renegotiated during the year.

***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 £113,000 (2017: £68,000) and has long term loans from investee companies (see Note 13 for an analysis of the repayment terms), which have either been repaid at the date of this report or are expected to be repaid by future dividends from these companies, being £3,107,000 (2017: £3,660,000), 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 2017 as analysed by the expected maturity date is as follows:

<b>As at 30 September 2018</b>	<b>Not later than 1 year £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 3 years £'000</b>	<b>Between 3 and 5 years £'000</b>	<b>More than 5 years £'000</b>	<b>Total £'000</b>
Fully performing loan stock	-	-	-	-	2,756	2,756
Past due loan stock	-	-	-	-	-	-
	-	-	-	-	2,756	2,756
<b>As at 30 September 2017</b>						
	<b>Not later than 1 year £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 3 years £'000</b>	<b>Between 3 and 5 years £'000</b>	<b>More than 5 years £'000</b>	<b>Total £'000</b>
Fully performing loan stock	3,646	-	-	450	551	4,647
Past due loan stock	556	-	-	-	-	556
	4,202	-	-	450	551	5,203

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 30 September 2018

#### 18. Capital management

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

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

As the Investment Policy implies, the Board would consider levels of gearing. As at 30 September 2018 the Company had loans from investee companies of £3,107,000 (2017: £3,660,000). It regards the net assets of the Company as the Company's capital, as the level of liabilities are small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

#### 19. Contingencies, guarantees and financial commitments

At 30 September 2018, the Company had no contingencies, guarantees or financial commitments.

#### 20. Controlling party and related party transactions

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

#### 21. Significant interests

Details of shareholdings in those companies where the Company's holding, as at 30 September 2018, represents more than 20% of the nominal value of any class of shares issued by the portfolio company are predominantly disclosed in the Review of Investments on pages 15 to 18. Relevant companies which do not feature in the Review of Investments are listed below. All of the companies named are incorporated in England and Wales. The percentage holding in each class of shares also reflects the percentage voting rights in each Company as a whole.

Company	Registered office	Class of shares	Number held	Proportion of class held	Capital and reserves	Profit/(loss) for the year
Minsmere Power Limited	EC2V 6AA	Ordinary	200,001	50%	(£478,000)	(£478,000)
Penhale Solar Limited	EC2V 6AA	Ordinary	299,601	50%	(£60,000)	(£14,000)
Small Wind Generation Limited	EC2V 6AA	Ordinary	840,001	50%	(£1,889,000)	(£380,000)
Lunar 3 Limited	EC2V 6AA	Ordinary	100	50%	£nil	£nil

#### 22. Events after the end of the reporting period

On 23 October 2018 the Company issued 752,759 Ordinary Shares at an average price of 123.6p and 752,759 'A' Shares at an average price of 0.1p.

On 24 October 2018 the Company issued 1,067,378 Ordinary Shares at an average price of 123.7p and 2,104,662 'A' Shares at an average price of 0.1p.

At the date of this report, the Company's issued share capital comprised 26,685,774 Ordinary Shares and 40,016,583 'A' Shares and the total number of voting rights in the Company were 26,725,790,583.

Following the period end the Company paid dividends in respect of the year ended 30 September 2018, of 5.4958p per Ordinary Share and 0.5042p per A Share. These dividends were paid on 14 December 2018 to Shareholders on the register at 23 November 2018.

Following the year end the Company made repayments in respect of the loan balances due to certain SPVs. Details of the amounts repaid are shown in Note 13.

## NOTICE OF THE EIGHTH ANNUAL GENERAL MEETING OF HAZEL RENEWABLE ENERGY VCT2 PLC

NOTICE IS HEREBY GIVEN that the eighth Annual General Meeting of Hazel Renewable Energy VCT2 plc will be held at Octagon Point, 5 Cheapside, London EC2V 6AA at 12:20 p.m. on 6 March 2019 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 2018 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.

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

### **Ordinary Resolution**

4. 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**

5. 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**

6. 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 3,976,180 Ordinary Shares and 5,962,471 ‘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.

**Special Resolution**

7. THAT, the name of the Company be changed to Gresham House Renewable Energy VCT2 plc.

By order of the Board



**Grant Whitehouse**

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

31 January 2019

## 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, 6<sup>th</sup> 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, 6<sup>th</sup> 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 12:20 p.m. on 4 March 2019 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 12:20 p.m. on 4 March 2019 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

- (g) As at 9:00 a.m. on 31 January 2019, the Company's issued share capital comprised 26,685,774 Ordinary Shares and 40,016,583 'A' Shares and the total number of voting rights in the Company were 26,725,790,583. Information regarding the number of shares and voting rights may be obtained from the website, <https://newenergy.greshamhouse.com/funds/vcts-1-2/>.
- (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 Octagon Point, 5 Cheapside, London EC2V 6AA at 12:20 p.m. on 6 March 2019.

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 6<sup>th</sup> Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 12:20 p.m. on 6 March 2019 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"/> |

### SPECIAL BUSINESS

- |   |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|
| 4. To authorise the Company to allot shares.                        | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To disapply pre-emption rights.                                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To authorise the Company to make market purchases of its shares. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To authorise the change of name of the Company.                  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Signature(s)\*..... Date.....2019

\* Delete as appropriate

**PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED, OR E-MAIL A  
SCANNED COPY OF THE SIGNED FORM TO PROXY@DOWNING.CO.UK**



## 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, 6<sup>th</sup> 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.



