HAZEL RENEWABLE ENERGY VCT2 PLC

INITIAL HALF-YEARLY REPORT FOR THE PERIOD ENDED 31 MARCH 2011

HAZEL CAPITAL

Shareholder Information

Performance summary

	31 Mar 2011
	pence
Net asset value per Ordinary Share	94.0
Net asset value per 'A' Share	0.1
Total return per Ordinary Share and 'A' Share	**94.1**

Share prices

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

	Ordinary Shares	'A' Shares
TIDM codes	HR2O	HR2A
Latest share price (26 May 2011):	100.0p	0.1p

Share prices are also available on Downing's website (www.downing.co.uk).

Dividends

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

Selling shares

The Company operates a policy of buying its own shares for cancellation as they become available. The Company is only able to make market purchases of shares, so Shareholders will need to use a stockbroker to sell any shares. Shareholders should note that any sales of shares before 2016 are likely to have significant tax implications, so you should take advice from an independent financial adviser before selling any shares.

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

Other information for Shareholders

Up to date Company information (including company announcements, share prices and dividend history) may be obtained from Downing's website at **www.downing.co.uk**.

If you have any queries regarding your shareholding in Hazel Renewable Energy VCT2 plc, please contact the registrar on the number shown on the back cover or visit Capita's website at **www.capitaregistrars.com** and select "Shareholders".

Chairman's Statement

I am pleased to welcome Shareholders to Hazel Renewable Energy VCT2 plc and to present the Company's first financial report covering the period to 31 March 2011.

Share offer

The Company launched joint offers for subscription ("Offers") with Hazel Renewable Energy VCT1 plc in October 2010. The fundraising has been a great success, raising gross proceeds of approximately £30 million to date.

As at the 31 March 2011 period end, the Company had issued 9.4 million Ordinary and 'A' Shares under the Offers, giving net proceeds, after issue costs, of £8.9 million. The Company has issued further shares since then bringing total Ordinary and 'A' Shares issued under the Offers to 13.8 million, equivalent to net proceeds of £13.1 million.

The Company's share capital has been structured so that investors who subscribed under the Offers received one Ordinary Share and one 'A' Share for every £1 subscribed.

The 'A' Shares are designed as a tax-efficient mechanism to allow the payment of a performance incentive to management should any such incentive become payable in the future. Additional 'A' Shares have been issued to management such that, at the close of the Offers, they will hold one third of the total 'A' Shares in issue. The 'A' Shares are expected to have a net asset value of 0.1p per share in the Company's initial years. This is only expected to change if and when the performance hurdles are met and a performance incentive becomes due.

FiT review and VCT regulation changes

Shareholders are probably aware of the review of feed-in-tariffs ("FiT") announced by the Government in February 2011. The results of the review are expected in July 2011 and are expected to remove large solar schemes from the FiT regime with effect from 1 August 2011, making them unattractive investment options. Additionally, a change to the VCT regulations has also been announced whereby FiT businesses will no longer be qualifying investments for VCTs after the current tax year.

Although these changes will place some restrictions on the investment opportunities the Company might undertake, the Manager is confident that they will not significantly affect the Company's plans. The Manager is evaluating several large solar investments which are expected to be completed before 1 August 2011. The Manager also reports a strong pipeline of other investment opportunities and is confident that the Company will be able to invest more than 70% of its funds in FiT businesses before 5 April 2012 when the VCT regulations are expected to change.

For these reasons, the Board remains satisfied that the FiT review and the VCT regulations changes will not have a major impact on the Manager's ability to invest the Company's funds in good quality, renewable energy opportunities within the timetables imposed by these proposed regulation changes.

Investments

The Manager is currently working on a number of VCT-qualifying opportunities, and has made one non-qualifying investment of £0.75 million in the period. The investment is a short-term secured loan to a German solar developer and ensures that the Company has exclusivity on a number of potential solar investments which are being progressed by the investment partner.

Further details on the investment activities are given in the Investment Manager's Report on page 7.

Net asset value and results

As with most VCTs, the initial period tends to see the Company's running costs exceeding the level of investment income that can be generated while funds are being raised. As a result the Company has experienced a small fall in net asset value per share ("NAV") over this period. The Board expects this imbalance to be reversed as the Company's funds are employed in yielding investments.

The loss on ordinary activities after taxation for the period was £38,000, comprising wholly of a revenue loss.

At 31 March 2011, the NAV per Ordinary Share stood at 94.0p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 94.1p, a decrease of approximately 0.4% over the initial NAV of 94.5p (net of issue costs).

Share buybacks

As set out in the prospectus, the Company intends to operate a share buyback policy whereby, subject to certain restrictions, it will buy in any of its own shares that become available in the market for cancellation at a 10% discount to NAV.

No shares were purchased in the period.

Risks and uncertainties

Under the Disclosure and Transparency Rules, the Board is required to report in the Company's Half-Year Results on the principal risks and uncertainties facing the Company over the remainder of the financial year.

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

(i) compliance risk of failure to maintain approval as a VCT; and
(ii) investment risk associated with investing in small and immature businesses.

The Company's compliance with the VCT regulations is continually monitored by the Administration Manager, who reports regularly to the Board on the current position. The Company also retains PricewaterhouseCoopers to provide regular reviews and advice in this area. The Board considers that this approach reduces the risk of a breach of the VCT regulations

In order to make VCT-qualifying investments, the Company has to invest in small businesses which are often immature. It also has a limited period in which it must invest the majority of its funds. The Manager has implemented a rigorous and well-defined investment process. In addition, after an investment is made, the Manager will closely monitor the project. The Board is satisfied that this approach reduces the investment risk described in (ii) above as far as is reasonably possible.

Outlook

Although the FiT review and VCT regulation changes are likely to place some new restrictions on investments that the Company can undertake, the success of the Company's fundraising has brought benefits in allowing the Manager to consider larger investments than may have otherwise been the case.

The next few months are expected to be very busy in terms of investment activity as the Manager focuses on completing a number of larger solar investments before the proposed FiT changes take effect. Looking further ahead, the strong pipeline of potential opportunities in other renewable energy sectors should allow the Company to build a well-balanced portfolio which can deliver good results for Shareholders. I look forward to updating Shareholders in the Company's first Annual Report for the period ended 30 September 2011.

Peter Wisher
Chairman

26 May 2011

Investment Manager's Report

Investment activity since the launch of the company has focused on constructing a pipeline of projects which meet the Company's investment criteria. Given the attractive tariffs for large-scale solar projects, the Company's efforts had been initially concentrated on identifying projects in this area. To this end, the Company secured an exclusive option on a substantial pipeline of large scale Solar PV projects mainly located in South West England.

Following the announcement of the 'Fast-track FiT Review' in February 2011 and the launch of the consultation period in March 2011, the Company refined its pipeline to concentrate only on those PV projects where there was certainty around construction and accreditation before the proposed cut-off date of 1 August 2011. At the same time the Manager also looked to accelerate the Company's investment programme in the other renewable technologies, specifically wind.

The March 2011 Budget also imposed further challenges by adding FiT businesses (those that receive more than 20% of their revenue from feed-in-tariffs) to the excluded activity list from April 2012. The Manager has therefore taken steps to ensure that all VCT qualifying investments are made within this timescale.

In the wake of these announcements, financing for many projects has fallen away leaving many developers with a funding shortfall. This has resulted in a supply/demand imbalance in the market place and the Manager believes that the Company is well placed to benefit from this situation as prices for developed projects fall. This has enabled the Company to be selective in picking projects with attractive return profiles and where the risk of gaining accreditation within the timeline has been suitably mitigated.

At the time of writing, the Company is expecting to announce its first two significant investments very shortly. These will involve the deployment of circa £6 million over the coming four months.

In summary, we are confident that at least 70% of the funds will be invested in qualifying companies by April 2012 and that the investment outlook for the strategy remains as compelling as at the outset of the fundraising offer.

Hazel Capital LLP

26 May 2011

Unaudited Summarised Balance Sheet

as at 31 March 2011

	31 Mar 2011 £'000
Fixed assets	
Investments	750
Current assets	
Debtors (including accrued income)	40
Cash at bank and in hand	8,074
	8,114
Creditors: amounts falling due within one year	(54)
Net current assets	8,060
Net assets	8,810
Capital and reserves	
Called up share capital	18
Share premium	8,820
Share capital to be issued	10
Revenue reserve	(38)
Equity shareholders' funds	8,810
Net asset value per Ordinary Share	**94.0**
Net asset value per 'A' Share	**0.1**
	94.1

Reconciliation of Movements in Shareholders' Funds

for the period ended 31 March 2011

	31 Mar 2011
	£'000
Issue of shares	9,352
Share issue costs	(514)
Unalloted shares	10
Total recognised losses for the period	(38)
Closing shareholders' funds	**8,810**

Unaudited Income Statement

for the period ended 31 March 2011

		Period ended 31 Mar 2011	
	Revenue £'000	Capital £'000	Total £'000
Income	22	-	22
Gains on investments - realised	-	-	-
- unrealised	-	-	-
	22	-	22
Investment management fees	(1)	-	(1)
Other expenses	(59)	-	(59)
Return on ordinary activities before taxation	(38)	-	(38)
Taxation	-	-	-
Return attributable to equity shareholders	(38)	-	(38)
Return per Ordinary Share	**(0.6p)**	**-**	**(0.6p)**
Return per 'A' Share	**-**	**-**	**-**

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

Unaudited Cash Flow Statement

for the period ended 31 March 2011

	Note	31 Mar 2011 2011 £'000
Cash inflow from operating activities and returns on investments	**1**	(24)
Capital expenditure		
Purchase of investments		(750)
Sale of investments		-
Net cash outflow from capital expenditure		(750)
Net cash outflow before financing		(774)
Financing		
Proceeds from Ordinary Share issue		9,343
Proceeds from 'A' Share issue		19
Proceeds from Preference Share issue		50
Redemption of Preference Shares		(50)
Share issue costs		(514)
Net cash inflow from financing		8,848
Increase in cash	**2**	8,074
Notes to the cash flow statement:		
1 Cash inflow from operating activities and returns on investments		
Return on ordinary activities before taxation		(38)
Gains on investments		-
Increase in other debtors		(40)
Increase in other creditors		54
Net cash inflow from operating activities		(24)
2 Analysis of net funds		
Beginning of period		-
Net cash inflow		8,074
End of period		8,074

Summary of Investment Portfolio
as at 31 March 2011

	Cost £'000	Valuation £'000	Unrealised gain/(loss) £'000	% of portfolio by value
Non VCT-qualifying				
AEE AG Loan	750	750	-	8.5%
Cash at bank and in hand		8,074		91.5%
Total investments		**8,824**		**100.0%**

All investments were additions and there were no disposals in the period ended 31 March 2011.

Notes to the Unaudited Financial Statements

1. Accounting policies

Basis of accounting

The unaudited half-yearly results cover the period to 31 March 2011 and have been prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" revised January 2009 ("SORP").

Presentation of Income Statement

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

In respect of unquoted instruments, fair value is established by using the IPEV. 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;
- Earnings multiple;
- 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.

Where an investee company has gone into receivership or liquidation the loss on the investment, although not physically disposed of, is treated as being realised.

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 expensed.

It is not the Company's policy to exercise either significant or controlling influence over investee companies. Therefore the results of these companies are not incorporated into the Revenue Account except to the extent of any income accrued.

Income

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

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

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.

Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated.

The Company has adopted a policy of charging 75% of the investment management fees to the revenue account and 25% to the capital account to reflect the Board's estimated split of investment returns which will be achieved by the Company over the long term.

Taxation

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

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

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

Issue costs

Issue costs have been deducted from the share premium account.

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

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

4. Net asset value per share at the period end has been calculated on 9,351,985 Ordinary Shares and 9,351,985 'A' Shares, being the number of shares in issue at the period end.

5. Return per share for the period has been calculated on 6,755,358 Ordinary Shares and 6,755,358 'A' Shares, being the weighted average number of shares in issue during the period.

6. Reserves

	Share premium account	Shares to be issued	Revenue reserve
	£'000	£'000	£'000
At 16 September 2010	-	-	-
Share issues	9,334	-	-
Share issue costs	(514)	-	-
Unallotted shares	-	10	
Retained revenue	-	-	(38)
At 31 March 2011	8,820	10	(38)

The Revenue reserve is distributable reserves.

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

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

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

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

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

Directors
Peter Wisher
Alexander Hambro
Christian Yates

Secretary and Registered Office
Grant Whitehouse
10 Lower Grosvenor Place
London SW1W 0EN
Registered No. 07378395

Investment Manager
Hazel Capital LLP
11 - 14 Grafton Street
London W1S 4EW
Tel: 0203 006 4610
www.hazelcapital.com

Administration Manager
Downing Management Services Limited
10 Lower Grosvenor Place
London SW1W 0EN
Tel: 0207 416 7780
www.downing.co.uk

Registrar
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel: 0871 664 0324
(calls cost 10p per minute plus network extras, lines open Monday to Friday 8:30am to 5:30pm)
www.capitaregistrars.com