



HAZEL RENEWABLE ENERGY VCT2 PLC

HALF-YEARLY REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2012

SHAREHOLDER INFORMATION

Performance summary

	31 Mar 2012	30 Sep 2011	31 Mar 2011
	pence	pence	pence
Net asset value per Ordinary Share	90.4	93.4	94.0
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative dividends per Ordinary Share	3.5	-	-
Total return per Ordinary Share and 'A' Share	<u>94.0</u>	<u>93.5</u>	<u>94.1</u>

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 30 May 2012:	86.0p	0.1p

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

Dividend history

Ordinary Shares

Year end	Date paid	Pence per share
2011 Final	30 March 2012	3.5

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.

Shareholder information is continued on the inside back cover

CHAIRMAN'S STATEMENT

I am pleased to present the Company's half-yearly report for the six months ended 31 March 2012. The period has been another busy one for your Company with a large number of new investments completed and a successful top-up share offer launched.

Top-up share offer

The Company took the opportunity to launch a linked top-up offer with its sister company, Hazel Renewable Energy VCT1 plc, on 1 March 2012. The fundraising was fully subscribed and raised gross proceeds of approximately £2.1 million for each VCT. These shares were allotted shortly after the period end. Shares were issued under the top-up offer at a price of £1.05 for one Ordinary Share and one 'A' Share.

Investments

Shareholders are likely to be aware of the significant number of changes to the Feed-in Tariff ("FiT") regulations that have occurred over the last year. While these have created challenges for the Manager in investing the Company's funds, they have also created some opportunities arising from falling hardware and installation costs for solar PV systems.

The Company made nine new investments and six follow-on investments during the period at a total cost of £6.3 million. Of the new investments, six were in the solar sector and three were in the wind sector. During the period, a number of short-term loan investments were redeemed bringing in proceeds of £2.9 million.

At the period end, the Company held a portfolio of 18 investments with a cost of £14.6 million. The Board has reviewed the valuations of the investments as at 31 March 2012. As most of the investments are new companies which have only recently commenced electricity production, the Board feels it is appropriate to continue to value each at amounts equal to original cost at the current time.

Further details on the investment activities are given in the Investment Manager's Report on page 3.

Net asset value and results

At 31 March 2012, the net asset value per share ("NAV") per Ordinary Share stood at 90.4p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 90.5p, an increase of 0.5p (0.5%) since 30 September 2011 (after taking into account the 3.5p dividend paid during the period). Total Return (total NAV plus cumulative dividends paid to date) stands at 94.0p for a holding of one Ordinary Share and one 'A' Share.

The profit on ordinary activities after taxation for the period was £105,000.

Board appointment

The Board is pleased to announce that Gareth Owen will join the Board with immediate effect as a non-executive Director and representative of Hazel Capital LLP, the Company's Investment Manager. Gareth joined Hazel Capital in 2011 having spent eight years at Barclays Capital in the natural resources investments team and, before that, the structured capital markets division. In his role at Hazel Capital, he has been closely involved in making many of the Company's investments and in their ongoing monitoring. My fellow directors and I believe Gareth will be a valuable addition to the VCT Board.

CHAIRMAN'S STATEMENT (continued)

Share buybacks

As set out in the prospectus, the Company operates a policy of buying in any of its own shares that become available in the market at a 10% discount to NAV, subject to certain regulatory and other restrictions. No shares were purchased in the period.

Outlook

The Board is very pleased with the progress made by the Manager in investing the Company's funds and I am happy to report that a number of further investments have been completed since the period end. The Company is now close to being fully invested, even taking into account the new funds raised in the top-up offer.

The Manager is now focussed on working with the various investment partners to ensure that robust monitoring and reporting systems are in place which will provide comfort that the companies will deliver the anticipated results. Once each project is well established and producing a steady income stream, the Manager will start to explore the possibility of refinancing projects which should enhance yields for your Company.

Peter Wisher
Chairman

31 May 2012

INVESTMENT MANAGER'S REPORT

I am pleased to report another successful period in terms of building and developing the portfolio.

The main areas of progress have been:

1. Confirmation of accreditation from Ofgem of the Lake Farm (AEE Renewables UK 3) and Kingston Farm (AEE Renewables UK 26) projects, both 5MW solar ground-mounted projects;
2. Completion of the acquisition of the South Marston and Beechgrove projects, 5MW and 4MW solar ground-mounted projects respectively;
3. Acquisition of three solar projects to be developed under the Renewable Obligation Certificate ("ROC") regime, which is the UK's carbon reduction programme;
4. Negotiation and signing of Operation and Maintenance ("O&M") agreements for all solar projects; and
5. Successful "top-up" offering of the two Hazel Renewable Energy VCTs ("the VCTs") for approximately £4.2m.

The successful accreditation of Lake Farm and Kingston Farm ground-mounted solar projects allows for revenues accrued from the date of commissioning to the date of accreditation to be paid to the project companies and for normal quarterly payments to be established. In brief, the cash is beginning to flow. Similarly, the acquisition of the South Marston and Beechgrove projects which were conditional upon their accreditation from Ofgem are now completed and capital committed to these projects is formally deployed. The VCTs led investor groups to complete the funding requirement for both acquisitions, in addition to the £2m contributions from the VCTs for each project.

O&M for the six ground-mounted solar projects is now in place. For the four larger PV parks, O&M has been contracted to a joint-venture formed between the constructors of the parks and their developers, while the two smaller parks contracted solely with the constructors of the parks; both typical arrangements frequently seen in the industry. As such, the parks will benefit from data-analytics packages designed to provide remote, real-time data collection and park performance management.

The performance of our ground-mounted solar parks is beginning to create a discernible track record which is very encouraging. The aggregate appears to be performing better than expected while no individual project appears to be underperforming from the data gathered to date.

The solar rooftop projects, where approximately £4m is deployed, are also performing ahead of plan.

Our wind projects are by definition more difficult to assess given the short space of time that they have been operational and the unpredictability of the wind resource. However it does appear that energy output is lower than expected due to a handful of 'problem' turbines, by up to 25% in the worst case assumption. We await additional data but understand that the source of the problem is similar throughout and relates to the calibration of some of the turbines. We are hopeful this can be fixed and will provide an update in our next report.

INVESTMENT MANAGER'S REPORT (continued)

During the first half of the year, the VCTs also invested in a selection of ROC ground-mounted solar projects. These are similar to the Feed-in Tariff projects in which we invested in 2011 given that they enjoy index-linked returns for the duration of the project (20 years in the case of the ROC regime). The projects we invested in are fully permitted sites which required building out. The price paid for the projects was a function of the construction cost at the time. As expected, the cost of construction has already fallen by approximately 15% since January resulting in the potential for an increase in the valuation when outside capital is raised to build the projects as well as higher cash yields as a result of this increase. We intend to commission these projects in the fourth quarter of 2012.

While most of our capital is now allocated, we have capital that is uninvested today within our investee companies as framework deals in small wind, in particular, progress more slowly than expected. For this reason we continue to evaluate new opportunities for this capital to avoid a drag on the overall portfolio's cashflow yield. More specifically, today we continue to see other interesting small wind deals, incremental solar rooftop deals which will ensure almost all remaining capital is deployed within the next few weeks.

One final area relates to the prospects for re-leveraging projects to unlock capital and increase returns in existing projects. This is an area we are actively exploring and hope to have progress to report in our next report, despite difficult debt markets.

No report would be complete without reference to the regulatory environment. As it stands there are three key areas where we await clarification:

- The Government is due to announce the review of ROC banding levels where it will confirm the support available for solar projects from April 2013 to March 2017 (i.e. the amount of ROCs that a Megawatt hour of power earns for a given technology; which is two in the case of solar).
- In addition we await the outcome of the DECC consultation on the comprehensive review of Feed-in Tariff support for non-solar technologies, where tariff reductions are expected.
- DECC has also quietly issued a consultation regarding its ability to manage the Renewable Heat Incentive ("RHI") budget, where, despite slow uptake, they wish to avoid a repeat of the last year's solar tariff review (We have no exposure to RHI today).

In summary, we are still confident that we can exceed the return targets set at the time the capital was raised and meet our dividend yield targets.

Ben Guest
Chief Investment Officer and Partner
Hazel Capital LLP

31 May 2012

UNAUDITED SUMMARISED BALANCE SHEET

as at 31 March 2012

	31 Mar 2012 £'000	31 Mar 2011 £'000	30 Sep 2011 £'000
Fixed assets			
Investments	14,639	750	11,043
Current assets			
Debtors (including accrued income)	259	40	107
Cash at bank and in hand	4,074	8,074	8,422
	<u>4,333</u>	<u>8,114</u>	<u>8,529</u>
Creditors: amounts falling due within one year	(108)	(54)	(127)
Net current assets	4,225	8,060	8,402
Long term creditor	(41)	-	-
Net assets	<u>18,823</u>	<u>8,810</u>	<u>19,445</u>
Capital and reserves			
Called up share capital	52	18	52
Share premium	-	8,820	19,587
Special reserve	18,860	-	-
Share capital to be issued	-	10	-
Capital reserve - realised	74	-	(49)
Revenue reserve	(163)	(38)	(145)
Equity shareholders' funds	<u>18,823</u>	<u>8,810</u>	<u>19,445</u>
Net asset value per Ordinary Share	90.4	94.0	93.4
Net asset value per 'A' Share	0.1	0.1	0.1
	<u><u>90.5</u></u>	<u><u>94.1</u></u>	<u><u>93.5</u></u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the six months ended 31 March 2012

	31 Mar 2012 £'000	31 Mar 2011 £'000	30 Sep 2011 £'000
Opening Shareholders' funds	19,445	-	-
Issue of shares	-	9,352	20,782
Share issue costs	-	(514)	(1,143)
Unallotted shares	-	10	-
Dividends	(727)	-	-
Total recognised gains/(losses) for the period	105	(38)	(194)
Closing Shareholders' funds	<u>18,823</u>	<u>8,810</u>	<u>19,445</u>

UNAUDITED INCOME STATEMENT

for the six months ended 31 March 2012

	Six months ended 31 Mar 2012			Period ended 31 Mar 2011			Period ended 30 Sep 2011
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	231	-	231	22	-	22	146
Gains on investments							
- realised	-	173	173	-	-	-	-
- unrealised	-	-	-	-	-	-	-
Investment management fees	(146)	(48)	(194)	(1)	-	(1)	(146)
Other expenses	(103)	(2)	(105)	(59)	-	(59)	(194)
Return on ordinary activities before taxation	(18)	123	105	(38)	-	(38)	(194)
Taxation	-	-	-	-	-	-	-
Return attributable to equity shareholders	(18)	123	105	(38)	-	(38)	(194)
Return per Ordinary Share	(0.1p)	0.6p	0.5p	(0.6p)	-	(0.6p)	(1.6p)
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 six months ended 31 March 2012

	Note	31 Mar 2012 £'000	31 Mar 2011 £'000	30 Sep 2011 £'000
Cash outflow from operating activities and returns on investments	1	<u>(198)</u>	<u>(24)</u>	<u>(174)</u>
Capital expenditure				
Purchase of investments		(6,306)	(750)	(12,686)
Sale of investments		2,883	-	1,643
Net cash outflow from capital expenditure		<u>(3,423)</u>	<u>(750)</u>	<u>(11,043)</u>
Equity dividends paid		(727)	-	-
Net cash outflow before financing		(4,348)	(774)	(11,217)
Financing				
Proceeds from Ordinary Share issue		-	9,343	20,751
Proceeds from 'A' Share issue		-	19	31
Proceeds from Preference Share issue		-	50	50
Redemption of Preference Shares		-	(50)	(50)
Share issue costs		-	(514)	(1,143)
Net cash inflow from financing		<u>-</u>	<u>8,848</u>	<u>19,639</u>
(Decrease)/increase in cash	2	<u>(4,348)</u>	<u>8,074</u>	<u>8,422</u>

Notes to the cash flow statement:

1 Cash inflow from operating activities and returns on investments

Return on ordinary activities before taxation	105	(38)	(194)
Gains on investments	(173)	-	-
Increase in other debtors	(152)	(40)	(107)
Increase in other creditors	22	54	127
Net cash outflow from operating activities	<u>(198)</u>	<u>(24)</u>	<u>(174)</u>

2 Analysis of net funds

Beginning of period	8,422	-	-
Net cash (outflow)/inflow	<u>(4,348)</u>	<u>8,074</u>	<u>8,422</u>
End of period	<u>4,074</u>	<u>8,074</u>	<u>8,422</u>

SUMMARY OF INVESTMENT PORTFOLIO

as at 31 March 2012

	Cost £'000	Valuation £'000	Unrealised gain/(loss) £'000	% of portfolio by value
Qualifying investments				
AEE Renewables UK 26 Limited	1,114	1,114	-	5.9%
AEE Renewables UK 3 Limited	1,000	1,000	-	5.4%
Hewas Solar Limited *	1,000	1,000	-	5.4%
South Marston Solar Limited	1,000	1,000	-	5.4%
Beechgrove Solar Limited	1,000	1,000	-	5.4%
Vicarage Solar Limited *	965	965	-	5.1%
New Energy Era Limited	884	884	-	4.7%
HRE Willow Limited	875	875	-	4.7%
St Columb Solar Limited *	660	660	-	3.5%
Tumblewind Limited *	300	300	-	1.6%
Minsmere Power Limited *	300	300	-	1.6%
Small Wind Generation Limited *	300	300	-	1.6%
ZW Parsonage Limited *	250	250	-	1.3%
Ayshford Solar (Holding) Limited *	231	231	-	1.2%
Higher Tregarne Solar (Holding) Limited *	202	202	-	1.1%
Causilgey Solar (Holding) Limited *	205	205	-	1.1%
	<u>10,286</u>	<u>10,286</u>	-	55.0%
Non-qualifying investments				
AEE Renewables UK 3 Limited	2,500	2,500	-	13.4%
AEE Renewables UK 26 Limited	680	680	-	3.6%
Quiet Revolution Limited	600	600	-	3.2%
Hewas Solar Limited	363	363	-	1.9%
South Marston Solar Limited	110	110	-	0.6%
Lime Technology Limited	100	100	-	0.5%
	<u>4,353</u>	<u>4,353</u>	-	23.2%
	<u>14,639</u>		<u>-</u>	78.2%
Cash at bank and in hand		<u>4,074</u>		21.8%
Total investments		<u>18,713</u>		<u>100.0%</u>

* investments expected to become qualifying in due course

SUMMARY OF INVESTMENT MOVEMENTS

as at 31 March 2012

Additions

	£'000
Venture capital investments	
AEE Renewables UK 26 Limited	145
Hewas Solar Limited	463
South Marston Solar Limited	1,110
Beechgrove Solar Limited	1,000
Vicarage Solar Limited	965
HRE Willow Limited	125
St Columb Solar Limited	410
Tumblewind Limited	300
Minsmere Power Limited	300
Small Wind Generation Limited	300
ZW Parsonage Limited	250
Ayshford Solar (Holding) Limited	231
Higher Tregarne Solar (Holding) Limited	202
Causilgey Solar (Holding) Limited	205
Quiet Revolution Limited	300
	<u>6,306</u>

Disposals	Cost £'000	Disposal proceeds £'000	Total gain against cost £'000	Realised gain in period £'000
Venture capital investments				
South Marston Renewables Limited	1,000	1,173	173	173
ZW Parsonage Limited	960	960	-	-
AEE AG	750	750	-	-
	<u>2,710</u>	<u>2,883</u>	<u>173</u>	<u>173</u>

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. Accounting policies

Basis of accounting

The unaudited half-yearly results cover the six months to 31 March 2012 and have been prepared in accordance with the accounting policies set out in the annual accounts for the period ended 30 September 2011 which were prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies revised January 2009 ("SORP").

- All revenue and capital items in the Income Statement derive from continuing operations.
- The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
- Net asset value per share at the period end has been calculated on 20,771,172 Ordinary Shares and 31,156,755 'A' Shares, being the number of shares in issue at the period end.
- Return per share for the period has been calculated on 20,771,172 Ordinary Shares and 31,156,755 'A' Shares, being the weighted average number of shares in issue during the period.

6. Dividends

Ordinary Shares Paid in period	31 March 2012		
	Revenue £'000	Capital £'000	Total £'000
2011 Final	-	727	727
	<u>-</u>	<u>727</u>	<u>727</u>

7. Reserves

	Share premium account £'000	Special reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 30 September 2011	19,587	-	(49)	(145)
Gains on investments	-	-	173	-
Expenses capitalised	-	-	(50)	-
Dividends	-	(727)	-	-
Transfer between reserves	(19,587)	19,587	-	-
Retained revenue	-	-	-	(18)
At 31 March 2012	<u>-</u>	<u>18,860</u>	<u>74</u>	<u>(163)</u>

The Revenue reserve and Special reserve are distributable reserves.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

8. 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.

9. Risks and uncertainties

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

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

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

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

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

A number of the Company's investments may currently not be VCT-qualifying because the special purpose vehicles in which the Company has invested do not yet have third party investors. The task of identifying and securing suitable third party investors is ongoing and the Board believes that all or most investments that are intended to be VCT-qualifying will achieve this before the key deadline of 30 September 2013, when at least 70% of the funds raised under the Company's original fundraising need to be invested in VCT-qualifying investments.

10. Going concern

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

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, the Board believes that the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial statements.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

11. 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.
12. Copies of the Half-Yearly Report will be sent to Shareholders shortly. Further copies can be obtained from the Company’s registered office or can be downloaded from www.downing.co.uk.

SHAREHOLDER INFORMATION (continued)

Selling shares

The Company operates a policy of buying its own shares for cancellation as they become available. The Company is only able to make market purchases of shares, so Shareholders will need to use a stockbroker to sell any shares. 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 LLP is able to provide details of close periods and the price at which the Company has bought in shares. Contact details are shown on the back cover of this document.

Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address, or other amendment, this should be notified to the Company's registrar, Capita Registrars, under the signature of the registered holder.

Other information for Shareholders

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

www.downing.co.uk

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

Directors

Peter Wisher (Chairman)
Alexander Hambro
Gareth Owen
Christian Yates

Secretary and Registered Office

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(calls cost 10p per minute plus network extras,
lines open Monday to Friday 8:30am to 5:30pm)

www.capitaregistrars.com