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# HAZEL RENEWABLE ENERGY VCT1 PLC

**Report & Accounts for the period ended  
30 September 2011**

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COMPANIES HOUSE

## SHAREHOLDER INFORMATION

### Forthcoming dividend

Period end	Date paid	Pence per share
Proposed 2011 Final	30 March 2012	3 5p

### 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, Capita Registrars, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8 30am to 5 30pm 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 Capita's website (see below)

### Share price

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

TIDM/EPIC codes	Ordinary Shares	'A' Shares
	HR10	HR1A
Latest share price (30 January 2012)	100 0p per share	0 1p per share

### Selling shares

The Company operates a policy of buying its own shares for cancellation as they become available. The Company is only able to make market purchases of shares, so Shareholders will need to use a stockbroker to sell any shares. Disposing of shares is likely to have significant tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision. Shareholders who wish to sell should contact Downing LLP, who will be able to provide up-to-date details. Downing LLP can be contacted on 020 7416 7780

### Financial calendar

27 March 2012	Annual General Meeting
30 March 2012	Payment of dividend
May 2012	Announcement of half yearly financial results

### 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 financial statements, share prices and dividend history) may be obtained from Downing's website at [www.downing.co.uk](http://www.downing.co.uk)

If you have any queries regarding your shareholding in Hazel Renewable Energy VCT1 plc, please contact the registrar on the above number or visit Capita's website at [www.capitaregistrars.com](http://www.capitaregistrars.com) and click on "Shareholders"

## **CONTENTS**

	<b>Page</b>
Company information	1
Investment objective, financial highlights and Directors	2
Chairman's statement	3
Investment Manager's report	5
Review of investments	7
Report of the Directors	12
Directors' remuneration report	18
Corporate governance	20
Independent Auditor's report	23
Income statement	25
Reconciliation of movements in Shareholders' funds	25
Balance sheet	26
Cash flow statement	27
Notes to the accounts	28
Notice of Annual General Meeting	40

## COMPANY INFORMATION

<b>Registered number</b>	07378392
<b>Directors</b>	Michael Cunningham (Chairman) Ben Guest Stephen Hay
<b>Company Secretary and Registered Office</b>	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
<b>Investment Manager</b>	Hazel Capital LLP 59 Gloucester Place London W1U 8JH Tel 020 3434 1010 <a href="http://www.hazelcapital.com">www.hazelcapital.com</a>
<b>Administration Manager</b>	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN Tel 020 7416 7780 <a href="http://www.downing.co.uk">www.downing.co.uk</a>
<b>Auditor</b>	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
<b>VCT status advisers</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Registrars</b>	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 8 30a m to 5 30p m Monday to Friday) <a href="http://www.capitaregistrars.com">www.capitaregistrars.com</a>
<b>Solicitors</b>	Howard Kennedy 19 Cavendish Square London W1A 2AW
<b>Bankers</b>	Royal Bank of Scotland London Victoria Branch 119/121 Victoria Street London SW1E 6RA

## INVESTMENT OBJECTIVES

Hazel Renewable Energy VCT1 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 Report of the Directors on pages 13 and 14

## FINANCIAL HIGHLIGHTS

	<b>30 September 2011</b>
Net asset value per Ordinary Share	Pence 93 4
Net asset value per 'A' Share	0 1
Total return per Ordinary Share and 'A' Share	93 5

## DIRECTORS

**Michael Cunningham (Chairman)** has worked in the investment management business for over 25 years and, within Rathbones, was an investment director with responsibility for VCTs, Rathbones' EIS Portfolios and an IHT Service, which together raised over £100 million. He is also a non-executive director of Downing Distribution VCT 1 plc, Downing Income VCT 3 plc and Hampden Underwriting Limited.

**Ben Guest** has a total of 16 years investment experience, 10 years of which have been spent investing in the Cleantech sector. Prior to founding Hazel Capital LLP, Ben was a co-founder of Cantillon Capital, where he managed over \$1 billion from 2003 to 2006. Ben started his fund management career in 1994 with Lazard Asset Management and is a Chartered Financial Analyst having graduated from Imperial College, London with a BEng in Mechanical Engineering.

**Stephen Hay** is a self-employed consultant specialising in financial and environmental issues. He is a former managing director of Goldman Sachs, where he worked for 20 years primarily in equities and research. He was director of Equity research in both London and Tokyo. Stephen is also a non-executive of the Homerton Hospital, where he chairs the Audit and Environmental committees.

All the Directors are non-executive and, with the exception of Ben Guest, are independent of the Investment Manager.

## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to present the Company's first Annual Report and Accounts. The Company has been a very active investor in its initial period and has made good progress in building the investment portfolio.

### Share offer

The Company launched joint offers for subscription ("Offers") with Hazel Renewable Energy VCT2 plc in October 2010. The fundraising was fully subscribed, raising gross proceeds of £41.5 million between the two Companies. Hazel Renewable Energy VCT1 issued a total of 20.8 million Ordinary Shares and 31.2 million 'A' Shares, giving net proceeds, after issue costs, of £19.6 million.

Shareholders 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 facilitate the payment of a performance incentive to the management team should any such incentive become payable in the future. The management team hold one third of the 'A' Shares in issue. The 'A' Shares are expected to have a net asset value of 0.1p per share for the initial years of the Company. This is only expected to change if and when the performance hurdles are met and a performance incentive becomes due.

### Venture capital investments

Since the Company's launch, the Government has announced several significant changes to the Feed-in-Tariff ("FiT") regime, particularly in relation to solar power. It has also been announced that businesses receiving FiTs will not be qualifying under the VCT rules for investments made after 6 April 2012. These changes have created some significant additional challenges for Hazel Capital ("the Manager"), but, I am pleased to report that the Manager has had a strong dealflow and was able to complete a number of ground-mounted solar investments before the key deadline in August 2011. Several on-shore wind and roof-top solar investments have also been completed.

At the period end, the Company held seven VCT qualifying investments with a total cost of £5.2 million. The Company also had £1.2 million invested in those companies in non-qualifying instruments.

Under the VCT regulations, the Company has until 30 September 2013 to get at least 70% of its funds invested in VCT qualifying business, however, the Company intends to employ the majority of its funds in a much shorter period, before the rule changes in April 2012. At 30 September 2011, the proportion of funds held in qualifying investments stood at 27%.

It is, of course, early days for all of the Company's investments, but to date none have experienced any significant deviation from plan and are therefore all carried at valuations equal to original cost at the period end.

Full details of the investments' activities are covered in the Investment Manager's report on pages 5 and 6.

### 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 the majority of funds are initially held as cash deposits. As a result, the Company has experienced a small fall in net asset value per share ("NAV") over this period. The Board expects this lost ground to be recovered as the proportion of funds invested increases and the investments start to produce the anticipated yields.

At 30 September 2011, the NAV per Ordinary Share stood at 93.4p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 93.5p, a decrease of approximately 1.1% over the initial NAV of 94.5p (net of issue costs).

The loss on ordinary activities after taxation for the period was £201,000, comprising of a loss of £152,000 on the revenue account and loss of £49,000 on the capital account.

### Dividends

The Board is proposing a final dividend for the initial period of 3.5p per Ordinary Share. The dividend will be subject to Shareholder approval at the AGM on 27 March 2012 and will be paid on 30 March 2012 to Shareholders on the register at 2 March 2012.

## **CHAIRMAN'S STATEMENT (continued)**

### **Share buybacks**

The Company operates a share buyback policy whereby, subject to liquidity, the rules of both the London Stock Exchange and the UK Listing Authority and applicable VCT legislation, it is intended that the Company will make market purchases of its own shares that become available in the market at a price equivalent to a 10% discount to the most recently published NAV

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

### **Annual General Meeting**

The Company's first AGM will be held at 59 Gloucester Place, London W1U 8JH at 11 00 a m on 27 March 2012

Three items of special business will be proposed at the AGM, one resolution seeking approval for the Company to be able to buy its own shares as described above and two resolutions in connection with authority for the Directors to allot shares. Notice of the meeting is at the end of this document

### **Outlook**

Despite the impact of the FiT Review, further changes to the FiT regulations and changes to the VCT regulations, the Company has made a good start in employing its funds in a series of attractive renewable energy opportunities

Since the year end, the Company has completed a number of new investments, such that at today's date, the Company now has approximately 43% of its funds invested in VCT qualifying investments (or investments intended to become qualifying) and a further 21% in non-qualifying renewable energy investments. The job of building the investment portfolio is expected to be completed shortly

Looking ahead, once each project is fully operational and producing a steady income stream, the Manager will start to explore the possibility of refinancing projects to enhance yields



**Michael Cunningham**

Chairman

30 January 2012

## INVESTMENT MANAGER'S REPORT

### Introduction

We, at Hazel Capital, are delighted with the success of our VCT fundraising and confidence shown in our company to deploy funds into the exciting area of government-backed feed-in-tariff projects

As a team, including experienced fund managers from an institutional background, with the added benefit that three out of four of the core team have a training in engineering, it has been possible to maintain a focus on risk management, efficient pipeline development and deployment, diversification by technology and counterparty, as well as attractive target returns for Shareholders

### FIT review and VCT regulation changes

The above has not been achieved in a particularly favourable environment. The government, represented by the Department for Energy and Climate Change (DECC), have, despite stating an intention to maintain a stable regulatory regime, felt it necessary to 'move the goalposts' on several occasions by cutting tariffs drastically for solar projects with only weeks of warning, first large-scale and more recently small-scale projects. Despite this shifting landscape, it is encouraging that DECC have remained true to their promise of not making retrospective changes to tariffs on operational projects.

It is our mission to deploy 70% of your capital into qualifying projects by April 2012, at which time changes to rules for VCTs (particularly that new investments into FIT-based project companies will no longer be qualifying) and further changes in Feed-in Tariffs themselves may occur for other technologies in addition to solar, which have already been affected. Given that we manage approximately £40 million across Hazel Renewable Energy VCT1 plc and Hazel Renewable Energy VCT2 plc, and that we aim to commit up to £2 million per investable project, we will achieve our goal by targeting 15 investments.

### Investment activity

We began the period focussing on larger, ground-mounted solar projects where we saw the ability to deploy significant amounts of capital in a project area where technology risk is very low (solar panels are guaranteed by their manufacturers for 25 years as standard), planning consent was not problematic (projects cannot be seen from even a fairly short distance, make very little noise and are generally liked by local communities) and where returns met our hurdle rates. We had hoped to deploy in excess of ten projects, but sadly as early as 23 March 2011, a review of ground-mounted solar tariffs was implemented, culminating in a c 70% cut in tariffs for such projects from 1 August 2011 for projects commissioned after this date. In any event, we are pleased to announce that we have nonetheless invested in five ground-mounted solar projects so far which are detailed on pages 8 to 10. We are also hopeful that we will invest in at least one or two more projects in coming months. These projects would still meet target returns, although they will be lower than our earlier investments, given that they would be already operational projects carrying no development or construction risk.

Our second key area of focus was also affected by government 'about-turns', this time roof-mounted solar. More recently, on 31 October 2011 the government announced a fast-track review of small-scale solar projects with the intention of cutting tariffs by c 40-50% depending on the installation size and type of installations commissioned after 12 December 2011. This has been done as a reaction to the huge take-up by consumers of this technology (some 50,000 installations at last count) which was in turn driven by falling equipment prices driving financial returns up sharply. This has also affected our investment plans, given that we intended to commit to at least three project companies in this area, but in any event may only make two investments into a few hundred roofs. We may yet find some acquisition opportunities of portfolios of already installed roofs, but we are discounting the likelihood of this happening at this time.

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

### **Investment activity (continued)**

As a result of less than expected funds being invested into solar projects, which may now account for eight or nine of our 15 target investments, we have turned to small-wind projects, an exciting technology with huge potential in the UK. The UK has a great wind resource but clearly large wind is not the solution as a dense population results in NIMBY-ism. Small wind, on the other hand is much less objectionable, with turbines being much quieter and typically no more than 15 metres tall.

We had in fact anticipated much of the reductions in solar tariffs and so started, back in February, to build a pipeline in small scale wind projects, despite virtually all capital (Hazel's and our competitors alike) being focused on solar. We have focused on a few counterparties for the deployment of hundreds of small wind turbines, each expected to install up to 1,000 turbines. This pipeline is secured with exclusivity agreements or rights of first refusal, which may make it more difficult for competitors to enter this market. This would account for between £15 million and £25 million of the £40 million capital, comfortably filling the remainder of the VCTs with at least 7 project company investments. The attraction of small wind is in its huge degree of diversification by location and also by technology (we will use at least three different turbines). Also, lead times are short (installation of a turbine takes less than a day), reducing concerns around sudden changes in tariffs.

### **Outlook**

In summary, we believe we are on track to satisfy our commitments to the Company's Shareholders in terms of investment timeframe, risk mitigation and return expectations. We look forward to another exciting year ahead.

**Hazel Capital LLP**  
30 January 2012

## REVIEW OF INVESTMENTS

### Portfolio of investments

The following investments were held at 30 September 2011

	Cost	Valuation	Valuation movement in period	% of portfolio
	£'000	£'000	£'000	
<b>Qualifying and part-qualifying investments</b>				
AEE Renewables UK 3 Limited*~	3,500	3,500	-	18.0%
AEE Renewables UK 26 Limited*~	1,649	1,649	-	8.5%
ZW Parsonage Limited*~	960	960	-	4.9%
Hewas Solar Limited	900	900	-	4.6%
New Energy Era Limited	884	884	-	4.5%
HRE Willow Limited	750	750	-	3.8%
St Columb Solar Limited~	250	250	-	1.3%
	<u>8,893</u>	<u>8,893</u>	-	<u>45.6%</u>
<b>Non-qualifying investments</b>				
South Marston Renewables Limited	1,000	1,000	-	5.1%
AEE AG	750	750	-	3.8%
Quiet Revolution Limited	300	300	-	1.6%
Lime Technology Limited	100	100	-	0.5%
	<u>2,150</u>	<u>2,150</u>	-	<u>11.0%</u>
	<u>11,043</u>	<u>11,043</u>	-	<u>56.6%</u>
Cash at bank and in hand		<u>8,456</u>		<u>43.4%</u>
<b>Total investments</b>		<u>19,499</u>		<u>100.0%</u>

All of the above were additions in the period

\* Part-qualifying investment

~ Currently non-qualifying but expected to become qualifying

Hazel Renewable Energy VCT2 plc and Hazel Cleantech Opportunities Fund 1 LP are also managed by Hazel Capital LLP. Hazel Renewable Energy VCT2 plc has made equal investments in all of the companies above. Hazel Cleantech Opportunities Fund 1 LP holds 23.7% of the equity in Quiet Revolution Limited and 21.3% of the equity in Lime Technology Limited.

All venture capital investments are incorporated in England and Wales, with the exception of AEE AG, which was incorporated in Germany.

### Investment movements for the period ended 30 September 2011

#### DISPOSALS

	Cost	Proceeds	Profit vs cost	Realised gain
	£'000	£'000	£'000	£'000
<b>Non-qualifying investments</b>				
AEE Renewables UK 26 Limited	1,448	1,448	-	-
ZW Parsonage Limited	195	195	-	-
	<u>1,643</u>	<u>1,643</u>	-	-

The above disposals all relate to redemption of loan stock. The above were also additions in the period.

The basis of valuation for all investments is set out on pages 8 to 10.

## REVIEW OF INVESTMENTS (continued)

### Further details of all investments (by value):

AEE Renewables UK 3 Limited	Cost	£3,500,000	Valuation at 30/09/11	£3,500,000	
	Date of first investment	June 2011	Valuation method	Cost as reviewed for impairment	
	Investment comprises				
	Ordinary shares	£100,200	Proportion of equity held	19.7%	
	Loan stock	£899,800	Proportion of loan stock held	50.0%	
	Loan facility	£2,500,000	Proportion of loan facility held	50.0%	
	Summary financial information from abbreviated statutory accounts to 31 December 2010		Net assets	£1	
	AEE Renewables UK 3 Limited is a UK FIT partially accredited photovoltaic solar farm located in Sutton Benger, Wiltshire. The project has a total installed capacity of 5MW. The lease is held with a local cereal farmer. The project was developed through to planning permission and grid connection by AEE UK Limited. The project was built and commissioned by Graess GmbH.				
	<hr/>				
	AEE Renewables UK 26 Limited	Cost	£1,649,600	Valuation at 30/09/11	£1,649,600
Date of first investment		June 2011	Valuation method	Cost as reviewed for impairment	
Investment comprises					
Ordinary shares		£999,600	Proportion of equity held	10.2%	
Loan stock		£650,000	Proportion of loan stock held	50.0%	
Summary financial information from statutory accounts. None filed.					
AEE Renewables UK 26 Limited is a UK FIT accredited photovoltaic solar farm located in Bradford-on-Avon, Wiltshire. The project has a total installed capacity of 5MW and the lease is held with a local farmer. The project was developed through to planning permission and grid connection by AEE UK Limited. The project was built and commissioned by Graess GmbH.					
<hr/>					
South Marston Renewables Limited		Cost	£1,000,000	Valuation at 30/09/11	£1,000,000
		Date of first investment	Sept 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises				
	Ordinary shares	£1,000,000	Proportion of equity held	19.8%	
			Proportion of diluted equity	8.3%	
	Summary financial information from statutory accounts. Dormant accounts filed to 31 December 2010.				
	South Marston Renewables Limited is a UK FIT accredited photovoltaic solar farm located near Swindon, Wiltshire. The project has a total installed capacity of 5MW and the lease is held with a local farmer. Due to its proximity the project feeds electricity into the UK Honda factory. The site was developed through to planning permission and grid connection by AEE UK Limited. The project was built and commissioned by Graess GmbH.				
	<hr/>				
	ZW Parsonage Limited	Cost	£960,005	Valuation at 30/09/11	£960,005
		Date of first investment	June 2011	Valuation method	Cost as reviewed for impairment
Investment comprises					
Ordinary shares		£960,005	Proportion of equity held	50.0%	
Summary financial information from statutory accounts. None filed.					
ZW Parsonage Limited is a UK FIT accredited photovoltaic solar farm located 2 miles outside of Ilminster, Somerset. The project has a total installed capacity of 652kW. The project was developed through to planning permission by WRS Energy Limited (a Zouk Ventures backed enterprise). The lease is held with Lord Cameron of the Dlington Estate. The project was built and commissioned by Anesco Limited.					

## REVIEW OF INVESTMENTS (continued)

<b>Hewas Solar Limited</b>	Cost	£899,999	Valuation at 30/09/11	£899,999
	Date of first investment	August 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£899,999	Proportion of equity held	50 0%
Summary financial information from statutory accounts None filed				
<p>Hewas Solar Limited is planning to acquire a portfolio of roof-mounted solar assets. Contracts are in place with Strategic Energy Limited to offer a "Free PV" model to residential social landlords ("RSLs"). The "Free PV" model is where the company finances the capital costs of installing equipment on suitable properties within the RSLs' portfolio, and in return will receive the associated feed-in tariff income. Roof-top installations commenced in November 2011 and are on-going.</p>				
<b>New Energy Era Limited</b>	Cost	£883,728	Valuation at 30/09/11	£883,728
	Date of first investment	Sept 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£883,728	Proportion of equity held	45 0%
Summary financial information from statutory accounts None filed				
<p>New Energy Era Limited is a UK FiT accredited photovoltaic solar farm located in Shipton-under-Wychwood, Oxfordshire. The project has a total installed capacity of 722kW. The landowner, a small local property developer, developed the project through to planning permission and grid connection offer. The project was built and commissioned by Anesco Limited, a UK based renewable energy contractor.</p>				
<b>HRE Willow Limited</b>	Cost	£750,000	Valuation at 30/09/11	£750,000
	Date of first investment	June 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£750,000	Proportion of equity held	50 0%
			Proportion of diluted equity	43 9%
Summary financial information from statutory accounts None filed				
<p>HRE Willow Limited is a portfolio of UK FiT accredited 5kW wind sites. Each project is a single turbine site which has its own distinct lease, planning permission and FiT accreditation. The portfolio of sites is located across the East Anglia region with local farmers making up the majority of the landowners. The developer, Windcrop Limited, offers a complete turnkey solution where they develop, build and commission each site.</p>				
<b>St Columb Solar Limited</b>	Cost	£249,999	Valuation at 30/09/11	£249,999
	Date of first investment	Sept 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£249,999	Proportion of equity held	50 0%
Summary financial information from statutory accounts None filed				
<p>St Columb Solar Limited intends to acquire a portfolio of roof-mounted solar assets. Contracts are in place with Strategic Energy Limited to offer a "Free PV" model to residential social landlords ("RSLs"). The "Free PV" model is where the company finances the capital costs of installing equipment on suitable properties within the RSLs' portfolio, and in return will receive the associated feed-in tariff income. Roof-top installations commenced in November 2011 and are on-going.</p>				

## REVIEW OF INVESTMENTS (continued)

AEE AG	Cost	£750,000	Valuation at 30/09/11	£750,000
	Date of first investment	Dec 2010	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Loan stock	£750,000	Proportion of loan stock held	50 0%
Summary financial information from statutory accounts to 31 December 2010		Turnover	€2,225,961	
		Operating profit	€372,823	
		Net assets	€715,434	

A non-qualifying loan was advanced to AEE AG being the German affiliate of a UK based ground-mounted solar developer, and secured on real estate property located in Germany. This provided working capital to enable them to deliver an exclusive pipeline of large ground mounted solar installations located in the UK. As a result the VCT has made three investments in AEE developed projects, and is in the process of evaluating additional opportunities developed by AEE.

Quiet Revolution Limited	Cost	£300,000	Valuation at 30/09/11	£300,000
	Date of first investment	Sept 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Loan stock	£300,000	Proportion of loan stock held	50 0%
Summary financial information from statutory accounts to 31 December 2010		Turnover	£1,080,446	
		Operating loss	(£3,317,562)	
		Net liabilities	£321,304	

A loan was advanced to Quiet Revolution, a UK based wind turbine and wind developer. This provided working capital to enable them to offer the VCT an exclusive pipeline of wind farms located in the UK. These projects are currently under development and will be offered to the VCT in due course.

Lime Technology Limited	Cost	£100,000	Valuation at 30/09/11	£100,000
	Date of first investment	July 2011	Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Loan stock	£100,000	Proportion of loan stock held	25 0%
Summary financial information from abbreviated statutory accounts to 4 November 2010		Net assets	£1,358,275	

Lime Technology is a leading manufacturer of green building materials. Traditionally a lime mortar and render supplier, the company has developed a market-leading Hemp-based walling product called Hembuild and Hemclad. The company has approximately £6m of annual revenues and is growing in the range of 30-50% pa. The loan granted by the VCT provides the company working capital to grow in line with its projections. The company is projecting a positive EBITDA margin in 2012.

Note: The proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

### Summary of loan stock interest income

	<b>£'000</b>
<b>Loan stock interest receivable in the period</b>	
AEE Renewables UK 3 Limited	37
AEE AG	23
AEE Renewables UK 26 Limited	2
	<u>62</u>

## REVIEW OF INVESTMENTS (continued)

### Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 30 September 2011) is as follows

### Analysis of investments by type

The allocation of the funds compared to the intended split at 30 September 2011 is summarised as follows

	<b>Actual portfolio split at 30 September 2011</b>	<b>Target portfolio split at 30 September 2013</b>
<b>VCT qualifying investments</b>		
Loans to qualifying companies	5%	50%
Ordinary shares in qualifying companies*	22%	40%
<b>Total</b>	<u>27%</u>	<u>90%</u>
<b>Non-qualifying investments (including cash at bank)</b>	73%	10%
<b>Total</b>	<u>73%</u>	<u>10%</u>
	<u>100%</u>	<u>100%</u>

\* Includes investments which are due to become qualifying

## REPORT OF THE DIRECTORS

The Directors present the first Annual Report and Accounts of the Company for the period ended 30 September 2011. The Company was incorporated on 16 September 2010 and commenced activities from 20 October 2010.

### Principal activity and status

The Directors initially obtained provisional approval for the Company to act as a Venture Capital Trust from HM Revenue & Customs and have continued to comply with the VCT regulations.

The Directors consider that the Company has conducted its affairs in a manner to enable it to continue to comply with Part 6 of the Income Tax Act 2007.

The Company has no employees (other than the Directors).

### Business review and developments

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

### Share capital

At the period end, the Company had in issue 20,778,647 Ordinary Shares and 31,167,967 'A' Shares. There are no other share classes in issue.

All shares have voting rights, each Ordinary Share has 1,000 votes and every 'A' Share has one vote. Where there is a resolution in respect of a variation of the rights of 'A' Shareholders or a Takeover Offer, the voting rights of the 'A' Shares rank pari-passu with those of Ordinary Shares.

The Company operates a share buyback policy whereby, subject to liquidity, the rules of both the London Stock Exchange and the UK Listing Authority and applicable VCT legislation, and except in the first year after being established, it is intended that the Company will make market purchases of its own shares, up to a maximum number of shares equivalent to 14.9% of the total number of each class of issued shares from time to time. The Board intends to operate a policy of purchasing shares in the market at a price equivalent to the Company's most recently published NAV, at the time of purchase, less a discount of at least 10%.

### Results and dividends

	£'000	Pence per Ord Share	Pence per 'A' Share
Loss for the period	201	1.6p	-

The Board is proposing to pay a final dividend for the initial period ended 30 September 2011 of 3.5p per Ordinary Share, subject to Shareholder approval, payable on 30 March 2012 to Shareholders on the register at 2 March 2012.

On 24 December 2011, the share premium account was cancelled following receipt of court approval to create distributable reserves, and therefore to enable the Company to pay a dividend. Accounts showing the required distributable reserves will be filed at Companies House prior to the payment of the dividend.

### Directors

The Directors of the Company during the period and their beneficial interests in the issued Ordinary Shares and 'A' Shares at 30 September 2011 and the date of this report were as follows:

Directors	30 September 2011 and date of this report	
	No. of shares	
	Ord	'A'
Michael Cunningham	20,800	20,800
Stephen Hay	104,000	104,000
Ben Guest	210,000	10,599,322

In line with the Articles of Association, all the Directors are to retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 2, together with the results for the period to date, in order to support the resolutions to re-appoint all three Directors.

Each of the Directors entered into a letter of appointment with the Company dated 20 October 2010. These agreements are for a period of twelve months and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

## REPORT OF THE DIRECTORS (continued)

### Insurance cover

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

### Investment policy

#### *General*

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

- a portfolio of VCT-qualifying investments, primarily being in UK and EU based, unquoted companies that specialise in long term renewable energy projects and energy developers, and
- a range of non-qualifying investments, comprised from a selection of cash deposits, fixed income funds, securities and secured loans and which will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated) In addition, as the portfolio of VCT-qualifying investments will involve smaller start-up companies, VCT 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 Manager 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 will invest at least 70% of its funds in VCT-qualifying investments Initially, whilst suitable qualifying investments are being identified, the funds are held as a selection of deposits, institutional money market funds and/or short term fixed income securities Progressively, this portfolio will be realised in order to fund investments in qualifying investments

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

It is expected that once 70% of funds raised have been invested in qualifying investments, the Company will have at least eight investments to provide diversification and risk protection, with a maximum investment in each qualifying investment of £1 million In any case, an investee company's gross assets will not exceed £7 million prior to investment to ensure compliance with VCT legislation In relation to the Company, no single investment (including most loans to investee companies) will represent more than 15 per cent of the aggregate net asset value of its fund

## REPORT OF THE DIRECTORS (continued)

### Investment policy (continued)

#### *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 Manager 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

#### *Gearing*

It is not intended that the Company will borrow. However, the Company has the ability to borrow up to 15% of its net asset value. As at 30 September 2011, this would equal £2.9 million. There are no plans to utilise this ability at the current time.

#### *Investment management and administration fees*

Hazel Capital LLP provides investment management services to the Company at a fee equivalent to 2% of net assets per annum. The agreement is for a minimum term of six years, effective from 6 December 2010, with a twelve month notice period on either side thereafter.

The Board has reviewed the services provided and conclude that it is satisfied with Hazel Capital LLP's strategy, approach and procedures in providing investment management services to the Company. The Directors have therefore agreed that the continuing appointment of Hazel Capital LLP as Investment Manager remains in the best interests of Shareholders.

For the initial part of the year, Downing Management Services Limited provided administration services to the Company for a fee of £35,000 (plus VAT, if applicable) per annum. The agreement is for a minimum term of six years, effective from 20 October 2010, with a twelve month notice period on either side thereafter. On 16 December 2011, the administration agreement was novated such that services are now carried out by Downing LLP, effective 1 June 2011. Downing LLP provides administration services to the Company on the same terms.

The annual running costs of the Company, for the period, are also subject to a cap of 3.5% of net assets of the Company. Any excess costs over this cap are met by Hazel Capital LLP through a reduction in fees.

#### *Performance incentive*

The structure of the 'A' Shares, whereby the Management owns one third of the 'A' Shares in issue, 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.

- Shareholders who invested under the offer for subscription receive a dividend of at least 5p per Ordinary Share at the end of the financial period, and
- one Ordinary Share and one 'A' Share has a combined net asset value of at least 100p.

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:

<b>Hurdle criteria</b>			
Annual dividend per			
Ordinary Share	0-5p	5-10p	>10p
NAV	N/A	>100p	>100p
Hurdle	Not met	Met	Met
<b>Allocation</b>			
Shareholders	99.97%	80%	70%
Management	0.03%	20%	30%

As the hurdle has not been met for the period ended 30 September 2011, no performance incentive is due.

## REPORT OF THE DIRECTORS (continued)

### VCT status

The Company has retained PricewaterhouseCoopers LLP ("PwC") to advise it on compliance with VCT requirements, including evaluation of investment opportunities as appropriate and regular review of the portfolio. Although PwC works closely with the Investment Manager, they report directly to the Board.

Compliance with the VCT regulations for the period under review is summarised as follows:

	Position at period ended 30 Sep 11
1 To ensure that, by and from 1 October 2013, the Company holds at least 70% of its investments in qualifying companies,	26.6%
2 To ensure that, by and from 1 October 2013, 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",	82.7%
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, by and from 1 October 2011, the Company's income for each financial year is derived wholly or mainly from shares and securities,	44.9%
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 A maximum unit size of £1 million in each VCT qualifying investment (per tax year)	Complied

### Trail commission

The Company has an agreement to pay trail commission annually to Hazel Capital LLP, in connection to the funds raised under the offer for subscription. This is calculated at 0.4% of the net assets of the Company at each period end. Out of these funds Hazel Capital LLP is liable to pay trail commission to financial intermediaries.

### Creditor payment policy

The Company's payment policy is to pay creditors within thirty days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the period end.

### Environmental and social policy

As a VCT, with all of its executive and administrative activities delegated to third parties, the Company does not have a policy on either environmental or social and community issues.

### 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.

### Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risks, are summarised within note 17 to the financial statements.

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

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

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

## REPORT OF THE DIRECTORS (continued)

### Substantial interests

As at 30 September 2011, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital

### Auditor

A resolution proposing the reappointment of PKF (UK) LLP will be submitted at the AGM

### Annual General Meeting

The Company's first Annual General Meeting ("AGM") will be held at 59 Gloucester Place, London W1U 8JH, at 11 00 a m on 27 March 2012. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document

### Directors' responsibilities statement

The Directors are responsible for preparing the Directors' Report, 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 Services 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). 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Manager's and Administrator's websites maintained on behalf of the Company. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Directors confirm, to the best of their knowledge

- the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice and the 2009 Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' 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 Manager's Review, Investment Portfolio Summary 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

The names and functions of all the Directors are stated on page 2

## REPORT OF THE DIRECTORS (continued)

### Electronic publication

The financial statements are published on [www.downing.co.uk](http://www.downing.co.uk) and [www.hazelcapital.com](http://www.hazelcapital.com)

### Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 ([www.frc.org.uk](http://www.frc.org.uk)) is shown on page 22.

### Statement as to disclosure of information to 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**  
Secretary of Hazel Renewable Energy VCT1 plc

Company number 07378392

Registered office  
10 Lower Grosvenor Place  
London SW1W 0EN

30 January 2012

## DIRECTORS' REMUNERATION REPORT

The Board have prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to Shareholders at the Annual General Meeting to be held on 27 March 2012.

Under the requirements of Section 497, 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 page 23.

### Directors' remuneration policy

Directors' remuneration is calculated in accordance with the Company's Articles of Association as follows:

- (i) The Directors shall be paid out of the funds of the Company by way of fees for their services an aggregate sum not exceeding £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time). The Directors shall also receive, by way of additional fees, such further sums (if any) as the Company in General Meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and, in default of the determination, equally, 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. This includes any expenses incurred in attending meetings of the Board, or of Committees of the Board or General Meetings. If in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

### Agreement for services

Each of the Directors entered into a letter of appointment with the Company dated 20 October 2010. These agreements are for a period of twelve months and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

### Performance incentive fees

The structure of 'A' Shares enables a payment, by way of a distribution of income, of the performance incentive fees to the Management Team. As the hurdle has not been met, no fee is due to be paid for the period ended 30 September 2011.

### Directors' remuneration (audited)

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

	Current annual fee £	Period ended 30/09/11 £
Michael Cunningham	20,000	19,000
Stephen Hay	15,000	14,000
Ben Guest	Nil	Nil
	<u>35,000</u>	<u>33,000</u>

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.

### 2012/2013 remuneration

The remuneration levels for the forthcoming year for the Directors of Hazel Renewable Energy VCT1 plc are expected to be at the current annual fee levels shown in the above table.

## DIRECTORS' REMUNERATION REPORT (continued)

### Performance graph

The chart below represents the Company's performance over the period since the Company's Ordinary Shares and 'A' Shares were first listed on the London Stock Exchange, and compares the Ordinary/'A' Share NAV Total Return of the Company (Net Asset Value plus dividends reinvested) and Share Price Total Return of the Ordinary and 'A' Shares (share price plus dividends reinvested) to the FTSE All Share Total Return Index. Although the FTSE All Share Total Return Index is not a benchmark for the Company, it has been chosen as a comparison as the Board considers it is the most appropriate of the major

publicly available indices. All series have been rebased to 100 at 10 January 2011, being the date the Company's shares were listed.

By order of the Board



**Grant Whitehouse**  
Company Secretary  
10 Lower Grosvenor Place  
London SW1W 0EN

30 January 2012

## CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010, being the principles of good governance and the code of best practice, as set out in the annex to the Listing Rules of the UK Listing Authority.

### The Board

The Company has a Board comprising three non-executive Directors. The Chairman is Michael Cunningham. 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.

Directors are subject to re-election at the first AGM after their appointment and by rotation thereafter. In accordance with the UK Corporate Governance Code, all of the Directors are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues including considering recommendations from the Investment Manager, making all decisions concerning the acquisition or disposal of investments, and reviewing periodically the terms of engagement of all third party advisers (including the Investment Manager and the administrator). The Board has a formal schedule of matters specifically reserved for its decision.

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.

As the Company has a small Board of non-executive Directors, Michael Cunningham and Stephen Hay sit on the Audit, the Remuneration and the Nomination Committees. The Chairman of each Committee is Michael Cunningham. 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 General Meeting on 27 September 2010. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 12.

### Audit Committee

The Audit Committee is responsible for reviewing the half-yearly 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.

Any non-audit services provided by the Auditor are reviewed and approved by the Committee, prior to being undertaken, to ensure that auditor objectivity and independence are safeguarded.

The Audit Committee will normally meet twice each year.

At the Company's outset the full Board agreed the internal financial controls to be put in place 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.

The Committee has obtained sufficient assurance from their own evaluation, the audit feedback documentation and from correspondence and discussions with the engagement partner of PKF (UK) LLP. Based on the assurance obtained the Committee has recommended to Shareholders that PKF (UK) LLP be re-appointed as Auditor for the forthcoming year.

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 Manager and Administration Manager have whistle blowing procedures in place.

**CORPORATE GOVERNANCE (continued)**

**Board and Committee meetings**

The following table sets out the Directors’ attendance at the Board and Committee meetings held during the period

	<b>Full Board meetings attended (2 held during the period)</b>
Michael Cunningham	2
Stephen Hay	2
Ben Guest	2

No Audit, Nomination or Remuneration Committee meetings were held in the period

**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 18, and this is subject to Shareholder approval.

**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.

**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 Manager 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 first 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 16, and a statement by the Auditor about their reporting responsibilities is set out in the independent Auditor’s report on page 23.

**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.

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 period.

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 Management Administration	Hazel Capital LLP Downing LLP
--------------------------------------	----------------------------------

## CORPORATE GOVERNANCE (continued)

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 and 4, the Investment Manager's Report on pages 5 and 6 and the Report of the Directors on page 15. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 27 and the Report of the Directors on page 14. In addition, note 17 to the financial statements include 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 period 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 pages 12 and 16 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 period ended 30 September 2011 with the provisions set out in the UK Corporate Governance Code issued in June 2010.

- 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 three 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 (B1-6).
- d) As the Company has no staff, other than Directors, there are no procedures in place relating to whistleblowing (C 3.4).
- e) Due to the size of the Company, the Audit Committee has concluded that an internal audit function is not appropriate (C 3.5).



Grant Whitehouse  
Company Secretary  
10 Lower Grosvenor Place  
London SW1W 0EN

30 January 2012

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAZEL RENEWABLE ENERGY VCT1 PLC**

We have audited the financial statements of Hazel Renewable Energy VCT1 plc for the period ended 30 September 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditor**

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion 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,
- the information given in the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the corporate governance statement set out on pages 20 to 22 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAZEL RENEWABLE ENERGY VCT1 PLC (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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, or
- a corporate governance statement has not been prepared by the Company

### **Under the Listing Rules we are required to review**

- the Directors' statement, set out on page 22, in relation to going concern, and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to the shareholders by the board on Directors' remuneration

**Rhodri Whitlock (Senior statutory auditor)  
for and on behalf of PKF (UK) LLP, Statutory  
auditor**

London, UK

30 January 2012

**INCOME STATEMENT**  
for the period ended 30 September 2011

		Period ended 30 September 2011		
	Note	Revenue £'000	Capital £'000	Total £'000
Income	2	139	-	139
Net gain on investments	9	-	-	-
		<u>139</u>	<u>-</u>	<u>139</u>
Investment management fees	3	(110)	(36)	(146)
Other expenses	4	<u>(181)</u>	<u>(13)</u>	<u>(194)</u>
<b>Loss on ordinary activities before tax</b>		(152)	(49)	(201)
Tax on ordinary activities	6	<u>-</u>	<u>-</u>	<u>-</u>
<b>Loss attributable to equity Shareholders</b>		<u>(152)</u>	<u>(49)</u>	<u>(201)</u>
<b>Basic and diluted loss per share:</b>				
Ordinary Share	8	(1 2p)	(0 4p)	(1 6p)
'A' Share	8	-	-	-

All Revenue and Capital items in the above statement derive from continuing operations. The total column within the Income Statement represents the profit and loss account of the Company. No operations were acquired or discontinued during the period.

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

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 historical cost.

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	Period ended 30 September 2011 £'000
Opening Shareholders' funds	-
Proceeds from share issue	20,789
Share issue costs	(1,143)
Total loss for the period	<u>(201)</u>
Closing Shareholders' funds	<u>19,445</u>

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

**BALANCE SHEET**  
as at 30 September 2011

	Note	£'000	2011 £'000
<b>Fixed assets</b>			
Investments	9		11,043
<b>Current assets</b>			
Debtors	10	81	
Cash at bank and in hand	16	8,456	
		<u>8,537</u>	
<b>Creditors</b> amounts falling due within one year	11	<u>(135)</u>	
<b>Net current assets</b>			<u>8,402</u>
<b>Net assets</b>			<u>19,445</u>
<b>Capital and reserves</b>			
Called up Ordinary Share capital	12		21
Called up 'A' Share capital	12		31
Share premium account	13		19,594
Capital reserve - realised	13		(49)
Revenue reserve	13		<u>(152)</u>
<b>Total equity Shareholders' funds</b>			<u>19,445</u>
<b>Basic and diluted net asset value per share</b>			
Ordinary Share	14		93 4p
'A' Share	14		0 1p

The financial statements on pages 25 to 39 were approved and authorised for issue by the Board of Directors on 30 January 2012 and were signed on its behalf by



**Michael Cunningham**  
Chairman

Company number: 07378392

The accompanying notes form an integral part of these financial statements

**CASH FLOW STATEMENT**  
**for the period ended 30 September 2011**

	Note	Period ended 30 September 2011 £'000
<b>Net cash outflow from operating activities</b>	<b>15</b>	<b>(147)</b>
<b>Capital expenditure</b>		
Purchase of investments	9	(12,686)
Proceeds from disposal of investments	9	1,643
<b>Net cash outflow from capital expenditure</b>		<u><b>(11,043)</b></u>
<b>Net cash outflow before financing</b>		<b>(11,190)</b>
<b>Financing</b>		
Proceeds from Ordinary Share issue	12	20,758
Proceeds from 'A' Share issue	12	31
Proceeds from Preference Share issue	12	50
Redemption of Preference Shares	12	(50)
Share issue costs	12	(1,143)
<b>Net cash inflow from financing</b>		<u><b>19,646</b></u>
<b>Increase in cash</b>	<b>16</b>	<u><b>8,456</b></u>

The accompanying notes form an integral part of these financial statements

## **NOTES TO THE ACCOUNTS**

### **for the period ended 30 September 2011**

#### **1 Accounting policies**

##### **Basis of accounting**

The Company has prepared its financial statements 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").

The financial statements are prepared under the historical cost convention except for certain financial instruments measured at fair value and cover an eleven month period

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

##### **Presentation of Income Statement**

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

##### **Investments**

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

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 period as a capital item and transaction costs on acquisition or disposal of the investment are expensed

It is not the Company's policy to exercise significant 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 that does not require portfolio investments to be accounted for using the equity method of accounting

## NOTES TO THE ACCOUNTS (continued) for the period ended 30 September 2011

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

#### 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, 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

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

#### Issue costs

Issue costs in relation to the shares issued for each share class have been deducted from the share premium account

### 2. Income

	<b>2011</b> <b>£'000</b>
<b>Income from investments</b>	
Loan stock interest	62
<b>Other income</b>	
Bank interest	77
	<u>139</u>

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**3. Investment management fees**

The management fee, which is charged quarterly to the Company, is based on 2% of the net assets as at the previous quarter end

	<b>2011 Revenue £'000</b>	<b>2011 Capital £'000</b>	<b>2011 Total £'000</b>
Investment management fees	<u>110</u>	<u>36</u>	<u>146</u>

**4 Other expenses**

	<b>2011 Revenue £'000</b>	<b>2011 Capital £'000</b>	<b>2011 Total £'000</b>
Administration services	30	-	30
Trail commission	78	-	78
Directors' remuneration	33	-	33
Social security costs	3	-	3
Auditor's remuneration for audit	12	-	12
Auditor's remuneration for non-audit services (taxation)	2	-	2
Incidental capital expenses – investment additions	-	11	11
Incidental capital expenses – aborted investments	-	2	2
Other	23	-	23
	<u>181</u>	<u>13</u>	<u>194</u>

The annual running costs of the Company for the period are subject to a cap of 3.5% of net assets of the Company

**5. Directors' remuneration**

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 18

The Company had no employees (other than Directors) during the period. Costs in respect of these are referred to in note 4 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 period ended 30 September 2011**

**6. Tax on ordinary activities**

	<b>2011</b>
	<b>£'000</b>
<b>(a) Tax charge for the period</b>	
UK corporation tax at 26.8%	-
<b>Charge for the period</b>	<u>-</u>
<b>(b) Factors affecting tax charge for the period</b>	
Return on ordinary activities before taxation	<u>(201)</u>
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 26.8%	(54)
Effects of	
Expenses disallowed for tax purposes	24
Losses available to carry forward	<u>30</u>
<b>Current tax charge</b>	<u>-</u>

Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £112,000. The associated deferred tax asset of £29,000 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.

**7 Dividends**

	<b>Period ended 30 September 2011</b>		
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Proposed			
2011 Final – 3.5p	<u>-</u>	<u>727</u>	<u>727</u>

**8. Basic and diluted loss per share**

		<b>Weighted average</b>	<b>Revenue</b>	<b>Capital</b>
		<b>number of shares</b>	<b>return</b>	<b>loss</b>
		<b>in issue</b>	<b>£'000</b>	<b>£'000</b>
Loss per share is calculated on the following				
Period ended				
30 September 2011	Ordinary Shares	12,392,800	(152)	(49)
	'A' Shares	16,404,392	-	-

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

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**9 Fixed assets - investments**

	<b>Unquoted investments £'000</b>
<b>Movement in the period</b>	
Purchased at cost	12,686
Disposals - proceeds	(1,643)
- realised gains on disposals	-
Unrealised gains in the income statement	-
<b>Closing value at 30 September 2011</b>	<u>11,043</u>
Closing cost at 30 September 2011	11,043
Gains at 30 September 2011	-
	<u>11,043</u>

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

- Level 1 Reflects financial instruments with quoted prices in an active market;
- Level 2 Reflects financial instruments that have inputs other than quoted prices that are observable either directly or indirectly, and
- Level 3 Reflects financial instruments with inputs that are not based on observable market data (unquoted equity investments and loan note investments)

	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>2011 Total £'000</b>
Loan notes	-	-	5,200	5,200
Unquoted equity	-	-	5,843	5,843
	<u>-</u>	<u>-</u>	<u>11,043</u>	<u>11,043</u>

**Reconciliation of fair value for Level 3 financial instruments held at the period end**

	<b>£'000</b>
<i>Movements in the income statement</i>	
Unrealised gains in the income statement	-
Realised gains in the income statement	-
	<u>-</u>
Purchases at cost	12,686
Sales proceeds	(1,643)
Balance at 30 September 2011	<u>11,043</u>

There is an element of judgment 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 certain of the VCT's investments. FRS29 requires 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. In respect of the VCT's portfolio, as all investments were acquired within twelve months of the period end, the Directors and Investment Manager do not believe that there are reasonable, possible alternative assumptions which, if used, would lead to a significant change in the fair value of the portfolio. Consequently, no sensitivity analysis is presented.

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**10. Debtors**

	<b>2011</b> <b>£'000</b>
Prepayments and accrued income	68
Other debtors	13
	<u>81</u>

**11. Creditors amounts falling due within one year**

	<b>2011</b> <b>£'000</b>
Taxation and social security	5
Accruals and deferred income	122
Other creditors	8
	<u>135</u>

**12. Called up share capital**

	<b>2011</b> <b>£'000</b>
<b>Allotted, called up and fully-paid:</b>	
20,778,647 Ordinary Shares of 0 1p each	21
31,167,967 'A' Shares of 0 1p each	31
	<u>52</u>

The Company's capital is managed in accordance with its investment policy as shown in the Report of the Directors, in pursuit of its principal investment objectives as stated on page 2

The Company has the authority to buy back shares as described in the Report of the Directors

On 16 September 2010, the two Ordinary Shares issued to the subscribers were paid up in full. On 28 September 2010, 50,000 Redeemable Preference Shares of £1 each were issued to Hazel Capital LLP, one-quarter paid up, to enable the Company to obtain a certificate under Section 761 of the Companies Act 2006

On 22 March 2011, the 50,000 Redeemable Preference Shares of £1 each were paid up in full and then subsequently redeemed out of the proceeds of the offers

Between 6 December 2010 and 12 August 2011, 20,778,645 Ordinary Shares were issued at 99 9p per share, 20,778,645 'A' Shares were issued at 0 1p per share and 10,389,322 Management 'A' Shares (known as the "Management 'A' Shares") were issued at 0 1p per share pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £20,789,000 which excludes issue costs of £1,143,000

The holders of Ordinary Shares and 'A' Shares shall have rights as regards 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 5p 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

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**12. Called up share capital (continued)**

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.

**13. Reserves**

	Share premium account £'000	Capital reserve -realised £'000	Revenue reserve £'000
At 20 October 2010	-	-	-
Issue of new shares	20,737	-	-
Share issue costs	(1,143)	-	-
Expenses capitalised	-	(49)	-
Gains on investments	-	-	-
Retained net revenue	-	-	(152)
	<u>19,594</u>	<u>(49)</u>	<u>(152)</u>
At 30 September 2011	<u>19,594</u>	<u>(49)</u>	<u>(152)</u>

At 30 September 2011 there were no distributable reserves.

**14. Basic and diluted net asset value per share**

	2011 Shares in issue	Pence per share	£'000
Ordinary Shares	20,778,647	93.4	19,414
'A' Shares	31,167,967	0.1	31
Net assets per Balance Sheet			<u>19,445</u>

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 12.

As the Company has not issued any convertible shares or share options, there is no dilutive 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 or per 'A' Share.

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

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

	<b>2011</b> <b>£'000</b>
Return on ordinary activities before taxation	(201)
Gains on investments	-
Increase in debtors	(81)
Increase in creditors	135
Net cash inflow from operating activities and returns on investments	<u>(147)</u>

**16. Analysis of changes in cash at bank during the period**

	<b>2011</b> <b>£'000</b>
Beginning of period	-
Net cash inflow	8,456
End of period	<u>8,456</u>

**17. Financial instruments**

The Company's financial instruments comprise investments held at fair value through the profit and loss, being equity and loan stock investments in unquoted companies, loans and receivables being cash deposits and short term debtors 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-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 1. The composition of the investments is set out in note 9.

Loans and receivables and other financial liabilities, as set out in the balance sheet, are stated at amortised cost which the Directors consider is equivalent to fair value.

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The principal financial risks arising from the Company's operations are

- Market risks,
- Credit risk, and
- Liquidity risk

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company was expected to be exposed to over the period and there have also been no significant changes to the policies for managing those risks during the period.

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 period end are provided below.

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**17 Financial instruments (continued)**

**Market risks**

As a VCT, the Company is exposed to market 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 market risks is a fundamental part of investment activities undertaken by the Investment Manager and overseen by the Board. The Manager 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 Manager to manage the investment risk in respect of individual investments. Market risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

The key market risks to which the Company is exposed are

- Market price risk, and
- Interest rate risk

**Market price risk**

Market price risk arises from uncertainty about the future prices and valuations of financial instruments held in accordance with the Company's investment objectives. 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 2011, the unquoted portfolio was valued at £11,043,000.

The Company's unlisted investments are all in renewable energy projects with predetermined expected returns. As a result, variations in share prices are unlikely to have a significant impact on valuations of the unquoted investments. A 10% movement in the valuations of all of the unquoted investments held by the Company would have an effect as follows:

<b>10% movement in unquoted investment valuations</b>	<b>2011</b>
<b>Impact on net assets</b>	<b>Impact on NAV per share</b>
<b>£'000</b>	<b>Pence</b>
Unquoted investments	1,104                      5.3p

The sensitivity analysis for unquoted valuations above assumes that each of the sub-categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall movement of 10%. Shareholders should note that equal correlation between these sub-categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to market price risk in isolation.

**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. Investments in loan stock attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**17. Financial instruments (continued)**

***Interest rate risk (continued)***

There are four 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,
- "Variable rate" asset represent investments with predetermined interest rates that vary at set dates in accordance with loan agreements,
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate or LIBOR and comprise cash at bank and liquidity fund investments and certain loan note investments, and
- "No interest rate" assets do not attract interest and comprise equity investments, certain loan note investments, loans and receivables (excluding cash at bank) and other financial liabilities

	Average interest rate	Average period until maturity	2011 £'000
Fixed rate	6.5%	698 days	4,150
Variable rate	3.1%	854 days	1,050
Floating rate	0.5%		8,456
No interest rate			5,789
			<u>19,445</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 total return before taxation for the period by £85,000. As the Bank of England base rate stood at 0.5% per annum throughout the period, it is not believed that a reduction from this level is likely

***Credit risk***

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits and debtors. Credit risk relating to loan stock investee companies is considered to be part of market risk.

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

	2011 £'000
Investments in loan stocks	5,200
Cash and cash equivalents	8,456
Interest, dividends and other receivables	81
	<u>13,737</u>

The Manager manages credit risk in respect of loan stock with a similar approach as described under "Market risks" above. Similarly the management of credit risk associated interest, dividends and other receivables is covered within the investment management procedures. The level of security is a key means of managing credit risk.

**NOTES TO THE ACCOUNTS (continued)**  
**for the period ended 30 September 2011**

**17. Financial instruments (continued)**

***Credit risk (continued)***

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

There have been no changes in fair value during the period that are directly attributable to changes in credit risk.

***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 (£135,000) and has no borrowings 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 Manager 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 2011 as analysed by the expected maturity date is as follows:

As at 30 September 2011	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Full performing loan stock	1,400	300	-	3,500	-	5,200

**18. Contingencies, guarantees and financial commitments**

At 30 September 2011, the Company had no contingencies, guarantees or financial commitments.

## **NOTES TO THE ACCOUNTS (continued)**

### **for the period ended 30 September 2011**

#### **19. Controlling party and related party transactions**

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

Hazel Capital LLP, of which Ben Guest is a partner, acted as promoter for the Share Offer for subscription dated 20 October 2010 and agreed to underwrite the costs of the Offer in return for a fee of 5.5% of the monies raised, which amounted to £1,143,000. At the period end £12,524 was owed by Hazel Capital LLP for the refund of listing expenses. This amount is included in other debtors. No issue costs were due or outstanding at the year end.

Hazel Capital LLP also provides investment management services to the Company. Details of the agreement with Hazel Capital LLP are included within note 3. During the period ended 30 September 2011, £146,000 was payable to Hazel Capital LLP in respect of these services. At the period end there was no balance owing to Hazel Capital LLP.

In accordance with the prospectus and the Investment Management agreement, Hazel Capital LLP receives trail commission of 0.4% of the net assets of the Company at the year end, out of which it pays trail commission to financial intermediaries. As at 30 September 2011, this amounted to £77,781, all of which is outstanding.

Hazel Renewable Energy VCT2 plc is a company of which Hazel Capital LLP is also the Investment Manager. At the year end the Company owed Hazel Renewable Energy VCT2 plc £7,774 in relation to interest received on cash deposits during the fundraising. This amount is included in other creditors.

#### **20. Post Balance Sheet event**

On 24 December 2011, the share premium account was cancelled following receipt of court approval. The amount standing to the share premium account on 31 August 2011 has therefore been transferred to a special reserve. The special reserve is a distributable reserve, which was created to enable the Company to purchase its own shares in the market and to pay dividends.

## **NOTICE OF THE FIRST ANNUAL GENERAL MEETING OF HAZEL RENEWABLE ENERGY VCT1 PLC**

NOTICE IS HEREBY GIVEN that the first Annual General Meeting of Hazel Renewable Energy VCT1 plc will be held at 59 Gloucester Place, London W1U 8JH at 11:00 a m on 27 March 2012 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 of the Directors and Accounts of the Company for the period ended 30 September 2011 together with the report of the Auditor thereon.
- 2 To approve the Directors' Remuneration Report
- 3 To approve the payment of a final dividend of 3 5p per Ordinary Share
4. To re-appoint PKF (UK) 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
- 5 To re-elect as Director, Michael Cunningham, who retires and, being eligible, offers himself for re-election
- 6 To re-elect as Director, Stephen Hay, who retires and, being eligible, offers himself for re-election
- 7 To re-elect as Director, Ben Guest, who retires and, being eligible, offers himself for re-election

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

### ***Ordinary Resolution***

- 8 THAT, the Directors 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
  - (i) Ordinary Shares or to grant rights to subscribe for or to convert any security into Ordinary Shares in the Company up to an aggregate nominal amount of £2,078 (representing approximately 10% of the Ordinary Share capital in issue at today's date),
  - (ii) 'A' Shares or to grant rights to subscribe for or to convert any security into 'A' Shares in the Company up to an aggregate nominal amount of £3,117 (representing approximately 10% of the 'A' Share capital in issue at today's date),

this authority to expire at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied 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 to subscribe for or to convert any security into shares in the Company after such expiry and all previous authorities given by the Directors in accordance with Section 551 of the Act be and are hereby revoked, provided that such revocation shall not have retrospective effect,

### ***Special Resolutions***

- 9 THAT, the Directors be and are hereby empowered, during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in general meeting), pursuant to Section 570 of the Act, to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority given in accordance with Section 551 of the Act, pursuant to resolution 8 above, as if Section 561(1) of the Act did not apply to any such allotment but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired,

10 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 3,096,018 Ordinary Shares and 4,644,027 'A' Shares representing approximately 14.9% of the issued Ordinary Share capital and 14.9% of the issued 'A' Share capital of the Company,
- (ii) the minimum price which may be paid for an Ordinary Share or 'A' Share is 0 1p, exclusive of all expenses,
- (iii) the maximum price which may be paid for an Ordinary Share or 'A' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the relevant share as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the share is contracted to be purchased, and
- (iv) the Company may validly make a contract to purchase its own Ordinary Shares or 'A' Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares or 'A' Shares in pursuance of any such contract,

and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution or on the expiry of 15 months from the passing of the resolution, whichever is the earlier

By order of the Board



**Grant Whitehouse**  
Company Secretary

Registered Office  
10 Lower Grosvenor Place  
London SW1W 0EN  
30 January 2012

## 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, 10 Lower Grosvenor Place, London SW1W 0EN 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, 10 Lower Grosvenor Place, London SW1W 0EN. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice
  - by sending an e-mail to proxy@downing.co.uk
- In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 11 00 a.m. on 23 March 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 11 00 a.m. on 23 March 2012 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 30 January 2012, the Company's issued share capital comprised 20,778,647 Ordinary Shares and 31,167,967 'A' Shares and the total number of voting rights in the Company were 20,809,814,967. The website referred to above will include information on the number of shares and voting rights.
- (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.