



# HAZEL RENEWABLE ENERGY VCT2 PLC

HALF-YEARLY REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2014

## SHAREHOLDER INFORMATION

### Performance summary

	31 Mar 2014	30 Sep 2013	31 Mar 2013
	Pence	Pence	Pence
Net asset value per Ordinary Share	105.2	98.8	89.2
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative dividends per Ordinary Share	24.5	8.5	8.5
Total return per Ordinary Share and 'A' Share	<u>129.8</u>	<u>107.4</u>	<u>97.8</u>

### Share prices

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

	Ordinary Shares	'A' Shares
TIDM codes	HR20	HR2A
Latest share price 29 May 2014:	102.5p	5.0p

Share prices are also available on Downing's website ([www.downing.co.uk](http://www.downing.co.uk)).

### Dividend history

#### Ordinary Shares

Year end	Date paid	Pence per share
2013 Final	28 March 2014	5.0
2013 Special	28 February 2014	7.3
2012 Final	28 March 2013	5.0
2011 Final	30 March 2012	3.5

#### 'A' Shares

Year end	Date paid	Pence per share
2013 Special	28 February 2014	3.7

### Dividends

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

Shareholder information is continued on the inside back cover

## CHAIRMAN'S STATEMENT

I am pleased to present the Company's half-yearly report for the six months ended 31 March 2014. As Shareholders will be aware from the last Annual Report, the Company completed a substantial financing transaction during the period which has resulted in a significant uplift in net asset value and has allowed the payment of some additional dividends.

### Investments

At the period end, the Company held a portfolio of 21 investments with a value of £25.8 million and which were spread across the ground mounted solar, roof mounted solar and small wind sectors.

In December 2013, the Company, along with its sister VCT, completed a £66 million financing of ground-mounted solar projects held by six existing portfolio companies. As part of the transaction, the investments were reorganised and the VCTs acquired shares in the portfolio companies previously held by third parties. The original investments are now held by new portfolio companies, Lunar 1 Limited and Lunar 2 Limited.

The only other investment activity was the redemption of loan stock at par of £2.1 million in AEE Renewables UK 3 Limited and £300,000 in two other investments.

The Board has reviewed the investment valuations as at 31 March 2014. As result of the significant enhancement to expected future cash flows from the investments involved in the financing transaction, the valuations of Lunar 1, Lunar 2, New Era Energy and Vicarage Solar have been uplifted by a total of £5.7 million. Collectively, all other investments have performed in line with expectations and are held at previous carrying values.

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

### Net asset value and results

At 31 March 2014, the net asset value ("NAV") per Ordinary Share stood at 105.2p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 105.3p. This represents an increase of 22.4p (22.6%) since 30 September 2013 (after taking into account the Ordinary Share dividends of 12.3p and the A Shares dividend of 3.7p paid during the period).

Total Return (total NAV plus cumulative dividends paid to date) stands at 129.8p for a holding of one Ordinary Share and one 'A' Share, compared to the cost for subscribers in the original share offer, net of income tax relief, of 70.0p.

The return on ordinary activities after taxation for the period as shown in the Income Statement was £5,547,000.

### Dividends

During the period, the Company paid a final dividend in respect of the year ended 30 September 2013 of 5.0p per Ordinary Share on 28 March 2014. The Company also paid a special dividend of 7.3p per Ordinary Share and 3.7p per 'A' Share on 28 February 2014.

In line with the Company's usual practice, no interim dividend will be paid.

### Top-up fundraising

In March 2014, the Company launched a small top-up fundraising, alongside its sister VCT. The fundraising was fully subscribed and raised net proceeds of £2 million for the Company.

### Share buybacks

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

## CHAIRMAN'S STATEMENT (continued)

### Outlook


The financing transaction has been a significant achievement for the Company and sets a foundation for solid returns for Shareholders well into the future.

From a regulatory perspective, there continue to be challenges in the renewable sector, although fortunately these do not affect your Company significantly. First, the government has announced in the latest Budget that new renewable energy projects in wind or solar will no longer be qualifying for VCT (or EIS) purposes. The second matter, in the public eye at present, relates to the changing whims of UK politicians who are currently thinking of favouring solar rooftop over ground-mounted solar projects going forward. If this current thinking is in fact reflected in changes to the ROC regime, we expect them to take effect from April 2015.

The Manager and the Board are always alive to this potential instability, although in being fully invested, save for the recent top-up funds, the Company is relatively sheltered to new changes in law.

With the new top-up funds, the Company once again has the opportunity to make some new investments. The Manager is reviewing interesting opportunities which may result in new additions to the portfolio over the next six months.

I look forward to updating Shareholders in my statement in the Annual Report for the year ending 30 September 2014.



**Peter Wisner**  
Chairman

29 May 2014

## INVESTMENT MANAGER'S REPORT

We are pleased to report to you a productive and successful half year for the Company and its sister VCT. Since the year end in September 2013, we have;

- Borrowed £66 million through two wholly-owned new entities, Lunar 1 Ltd and Lunar 2 Ltd, that was used to reach 100% ownership of all six ground-mounted FIT projects in the portfolio, where previously ownership of these projects was at an average of c.20%;
- Paid a substantial one-off dividend of 7.3p per Ordinary Share and 3.7p per 'A' Share;
- In addition, paid an ongoing annual dividend of 5.0p per Ordinary Share;
- Continued to see the improved earnings generation of the portfolio by tackling incremental challenges and opportunities from improvement within individual project companies;
- Completed a Linked Top Up fundraising, raising £2 million per VCT; and
- Enjoyed an uplift in NAV of 22.6p for a holding of one Ordinary Share and one 'A' Share.

The £66 million financing completed in December 2013 and simultaneous acquisition of the six FIT projects' shares that were not previously held by the Company has been covered extensively both in the Offering Circular released prior to the transactions and in subsequent press releases. We can now also add that various "post-closing" requirements imposed by the lender are being carried out and these are further improving the quality of the parks, in particular through the installation of improved SCADA systems which gather more detailed data. The security systems of all parks have also been substantially upgraded. Meanwhile, the parks continue to perform within expectations and we are well prepared for our first debt service payment at the end of May 2014.

We were delighted to be able to pay the one-off dividend in addition to the regular annual dividend, which is testament to the ongoing cash flow generation of the portfolio and the value creation generated by the series of transactions mentioned above. As Investment Manager, we will continue to strive to find other opportunities to carry out value enhancing transactions without unduly increasing the risks in the portfolio through excessive leverage or otherwise.

The key objective for the Hazel team is to maintain and improve, where possible, the profitability of the portfolio. As with the FIT ground-mounted projects described above, we are doing this through better monitoring systems at as many of our projects as is viable, which can in turn identify opportunities to improve technical aspects of renewables projects and the reaction times of operations and maintenance ("O&M") providers. There are also improvements through additional technical fixes that we hope to continue to achieve in our wind projects, which have been the laggards in terms of performance.

The Linked Top Up fundraising was successfully completed, raising £2 million per VCT. There was a short delay in allotting shares in respect of the 2014/2015 tax year while some ambiguities surrounding proposed changes to the VCT legislation proposed in the latest Budget were considered. This matter has now been resolved and shares were allotted earlier this month.

## INVESTMENT MANAGER'S REPORT (continued)

Since solar PV may not remain the most interesting area to invest in going forward, as returns fall and as it becomes non-VCT qualifying when the latest Budget proposals become law (expected in July), Hazel Capital has been working on investment opportunities in new areas to invest excess future cash flows. We look forward to revealing more about these new and exciting opportunities in due course but we are pleased to say that they are in completely new areas of the renewable and sustainability markets.

A handwritten signature in black ink, appearing to read 'Ben Guest', with a long horizontal flourish extending to the right.

**Ben Guest**  
Chief Investment Officer  
Hazel Capital LLP

29 May 2014

## UNAUDITED SUMMARISED BALANCE SHEET

as at 31 March 2014

	31 Mar 2014 £'000	31 Mar 2013 £'000	30 Sep 2013 £'000
<b>Fixed assets</b>			
Investments	25,791	20,273	22,510
<b>Current assets</b>			
Debtors (including accrued income)	112	212	175
Cash at bank and in hand	1,331	224	537
	<u>1,443</u>	<u>436</u>	<u>712</u>
Creditors: amounts falling due within one year	<u>(2,030)</u>	<u>(346)</u>	<u>(677)</u>
<b>Net current assets</b>	(587)	90	35
<b>Net assets</b>	<u>25,204</u>	<u>20,363</u>	<u>22,545</u>
<b>Capital and reserves</b>			
Called up share capital	57	57	57
Share premium	2,001	2,001	2,001
Unallotted share capital	1,180	-	-
Special reserve	13,653	17,720	17,721
Revaluation reserve	9,519	795	3,166
Capital reserve - realised	(715)	45	(35)
Revenue reserve	(491)	(255)	(365)
	<u>25,204</u>	<u>20,363</u>	<u>22,545</u>
<b>Equity shareholders' funds</b>	<u>25,204</u>	<u>20,363</u>	<u>22,545</u>
<b>Net asset value per Ordinary Share</b>	<b>105.2</b>	<b>89.2</b>	<b>98.8</b>
<b>Net asset value per 'A' Share</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
	<u><b>105.3</b></u>	<u><b>89.3</b></u>	<u><b>98.9</b></u>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the six months ended 31 March 2014

	31 Mar 2014 £'000	31 Mar 2013 £'000	30 Sep 2013 £'000
<b>Opening Shareholders' funds</b>	22,545	21,607	21,607
Unallotted share capital	1,180	-	-
Dividends	(4,068)	(1,140)	(1,139)
Total recognised gains/(losses) for the period	5,547	(104)	2,077
<b>Closing Shareholders' funds</b>	<u>25,204</u>	<u>20,363</u>	<u>22,545</u>

## UNAUDITED INCOME STATEMENT

for the six months ended 31 March 2014

	Six months ended 31 Mar 2014			Six months ended 31 Mar 2013			Year ended 30 Sep 2013
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	205	-	205	229	-	229	386
Gains on investments							
- realised	-	-	-	-	-	-	-
- unrealised	-	5,735	5,735	-	-	-	2,371
	205	5,735	5,940	229	-	229	2,757
Investment management fees	(190)	(63)	(253)	(162)	(54)	(216)	(418)
Other expenses	(141)	1	(140)	(115)	(2)	(117)	(262)
<b>Return on ordinary activities before taxation</b>	<b>(126)</b>	<b>5,673</b>	<b>5,547</b>	<b>(48)</b>	<b>(56)</b>	<b>(104)</b>	<b>2,077</b>
Taxation	-	-	-	-	-	-	-
<b>Return attributable to equity shareholders</b>	<b>(126)</b>	<b>5,673</b>	<b>5,547</b>	<b>(48)</b>	<b>(56)</b>	<b>(104)</b>	<b>2,077</b>
<b>Return per Ordinary Share</b>	<b>(0.6p)</b>	<b>24.9p</b>	<b>24.3p</b>	<b>(0.2p)</b>	<b>(0.2p)</b>	<b>(0.4p)</b>	<b>9.1p</b>
<b>Return per 'A' Share</b>	-	-	-	-	-	-	-

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



## UNAUDITED CASH FLOW STATEMENT

for the six months ended 31 March 2014

		31 Mar 2014 £'000	31 Mar 2013 £'000	30 Sep 2013 £'000
	Note			
<b>Cash inflow from operating activities and returns on investments</b>	1	<u>1,228</u>	<u>350</u>	<u>528</u>
<b>Capital expenditure</b>				
Purchase of investments		-	(2,016)	(2,283)
Sale of investments		<u>2,454</u>	<u>2,400</u>	<u>2,801</u>
<b>Net cash inflow from capital expenditure</b>		<u>2,454</u>	<u>384</u>	<u>518</u>
<b>Equity dividends paid</b>		(4,068)	(1,140)	(1,139)
<b>Net cash outflow before financing</b>		(386)	(406)	(93)
<b>Financing</b>				
Unallotted share capital		<u>1,180</u>	-	-
Net cash inflow from financing		<u>1,180</u>	-	-
<b>Increase/(decrease) in cash</b>	2	<u>794</u>	<u>(406)</u>	<u>(93)</u>

### Notes to the cash flow statement:

#### 1 Cash inflow from operating activities and returns on investments

Return/(loss) on ordinary activities before taxation	5,547	(104)	2,077
Gains on investments	(5,735)	-	(2,371)
Decrease in other debtors	63	238	275
Increase in other creditors	<u>1,353</u>	<u>216</u>	<u>547</u>
Net cash inflow from operating activities	<u>1,228</u>	<u>350</u>	<u>528</u>

#### 2 Analysis of net funds

Beginning of period	537	630	630
Net cash inflow/(outflow)	<u>794</u>	<u>(406)</u>	<u>(93)</u>
End of period	<u>1,331</u>	<u>224</u>	<u>537</u>

## SUMMARY OF INVESTMENT PORTFOLIO

as at 31 March 2014

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
Lunar 2 Limited	2,976	9,863	5,134	36.4%
Ayshford Solar (Holding) Limited	2,390	2,672	-	9.8%
Hewas Solar Limited	1,125	1,624	-	6.0%
New Energy Era Limited	883	1,473	131	5.4%
Vicarage Solar Limited	871	1,315	273	4.8%
St Columb Solar Limited	735	1,236	-	4.6%
Gloucester Wind Limited	1,000	1,000	-	3.7%
Minsmere Power Limited	975	975	-	3.6%
Small Wind Generation Limited	975	975	-	3.6%
AEE Renewables UK 3 Limited	900	900	-	3.3%
Penhale Solar Limited	900	900	-	3.3%
HRE Willow Limited	875	875	-	3.2%
Tumblewind Limited	850	850	-	3.2%
Lunar 1 Limited	124	402	197	1.5%
Owl Lodge Solar (Holding) Limited	80	260	-	1.0%
Causilgey Solar (Holding) Limited	248	226	-	0.8%
Higher Tregarne Solar (Holding) Limited	243	224	-	0.8%
ZW Parsonage Limited	15	15	-	0.1%
Yonder Netherton Solar (Holding) Limited	5	5	-	0.0%
Sunhazel UK Limited	1	1	-	0.0%
Lime Technology Limited	100	-	-	0.0%
	<u>16,271</u>	<u>25,791</u>	<u>5,735</u>	<u>95.1%</u>
Cash at bank and in hand		<u>1,331</u>		<u>4.9%</u>
<b>Total investments</b>		<u><u>27,122</u></u>		<u><u>100.0%</u></u>

## SUMMARY OF INVESTMENT MOVEMENTS

as at 31 March 2014

### Additions

There were no additions during the six months to 31 March 2014

### Disposals

	Cost £'000	Disposal proceeds £'000	Total loss against cost £'000	Realised gain in period £'000
AEE Renewables UK 3 Limited	2,125	2,125	-	-
Quiet Revolution Limited	618	-	(618)	-
Ayshford Solar (Holding) Limited	326	326	-	-
Beechgrove Solar Limited	3	3	-	-
	<u>3,072</u>	<u>2,454</u>	<u>(618)</u>	<u>-</u>

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

### 1. Accounting policies - Basis of accounting

The unaudited half-yearly results cover the six months to 31 March 2014 and have been prepared in accordance with the accounting policies set out in the annual accounts for the year ended 30 September 2013 which were prepared under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies revised January 2009 ("SORP").

2. All revenue and capital items in the Income Statement derive from continuing operations.
3. The Company has only one class of business and derives its income from investments made in shares, securities and bank deposits.
4. Net asset value per share at the period end has been calculated on 22,793,330 Ordinary Shares and 34,189,992 'A' Shares, being the number of shares in issue at the period end.
5. Return per share for the period has been calculated on 22,793,330 Ordinary Shares and 34,189,992 'A' Shares, being the weighted average number of shares in issue during the period.
6. **Dividends**

	Period ended 31 Mar 2014			Year ended 30 Sep 2013	
	Revenue £'000	Capital £'000	Total £'000	Total £'000	
<b>Paid in period</b>					
2013 Final Ordinary	-	1,139	1,139	-	
2014 Special Ordinary	-	1,664	1,664	-	
2014 Special 'A' Share	-	1,265	1,265	-	
2012 Final Ordinary	-	-	-		1,139
	<u>-</u>	<u>4,068</u>	<u>4,068</u>		<u>1,139</u>

### 7. Reserves

	Share premium account £'000	Unallotted share capital £'000	Special reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue Reserve £'000
At 30 September 2013	2,001	-	17,721	3,166	(35)	(365)
Unallotted share capital	-	1,180	-	-	-	-
Gains on investments	-	-	-	5,735	-	-
Expenses capitalised	-	-	-	-	(62)	-
Dividends	-	-	(4,068)	-	-	-
Retained revenue	-	-	-	-	-	(126)
Transfer between reserves	-	-	-	618	(618)	-
At 31 March 2014	<u>2,001</u>	<u>1,180</u>	<u>13,653</u>	<u>9,519</u>	<u>(715)</u>	<u>(491)</u>

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 7. Reserves (continued)

The Revenue reserve and Special reserve are distributable reserves. The distributable reserve is reduced by unrealised holding losses of £142,000 which are included in the Revaluation reserve. Distributable reserves at 31 March 2014 were £13,020,000.

### 8. Risks and uncertainties

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

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

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

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

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

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 9. Going concern

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

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

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

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

- a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

12. Copies of the Half-Yearly Report will be sent to Shareholders shortly. Further copies can be obtained from the Company's registered office or can be downloaded from [www.downing.co.uk](http://www.downing.co.uk).

## SHAREHOLDER INFORMATION (continued)

### Selling shares

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

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

### Notification of change of address

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

### Other information for Shareholders

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

**[www.downing.co.uk](http://www.downing.co.uk)**

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

**Directors**

Peter Wisher (Chairman)  
Alexander Hambro  
Gareth Owen  
Christian Yates

**Company Secretary and Registered Office**

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

[www.capitaregistrars.com](http://www.capitaregistrars.com)