



# HAZEL RENEWABLE ENERGY VCT2 PLC

HALF-YEARLY REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2015

## SHAREHOLDER INFORMATION

### Performance summary

	31 Mar 2015	30 Sep 2014	31 Mar 2014
	Pence	Pence	Pence
Net asset value per Ordinary Share	115.0	115.0	105.2
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative dividends per Ordinary Share	24.5	24.5	24.5
Total return per Ordinary Share and 'A' Share	<u>139.6</u>	<u>139.6</u>	<u>129.8</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 27 May 2015:	97.5p	5.0p

### Dividends

#### Forthcoming dividend

Year end	Date paid	Pence per share
2015 Interim	18 September 2015	5.0

#### Historic dividends

Year end	Date paid	Pence per share
<b>Ordinary Shares</b>		
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
<b>'A' Shares</b>		
2013 Special	28 February 2014	<u>3.7</u>
		<u>24.5</u>

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 Asset Services, 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 2015.

### Investments

At the period end, the Company held a portfolio of 21 investments with a value of £30.0 million and which were spread across the ground mounted solar, roof mounted solar and small wind sectors.

The investment portfolio has continued to perform satisfactorily. All investment valuations have been held at the previous carrying value at the period end, with the exception of Lunar 2 Limited, which has been increased in value by £300,000 in recognition of the cash that has accumulated in the company and its subsidiaries over the period as a result of the receipt of Feed in Tariffs ("FiTs").

Further details on the investments is provided in the Investment Manager's report on pages 3 and 4.

### Net asset value and results

At 31 March 2015, the net asset value ("NAV") per Ordinary Share stood at 115.0p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 115.1p. This reflects no change since 30 September 2014.

Total Return (total NAV plus cumulative dividends paid to date) stands at 139.6p 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 £5,000.

### Dividends

As I mentioned in my statement in the last Annual Report, the Board has decided to adjust the Company's financial calendar to better align the payment of the annual dividend with the seasonal cycle of the receipts of FiTs and other incentives by the investee companies.

The first dividend on this revised schedule will be 5.0p per share which will be paid on 18 September 2015 to Shareholders on the register at 28 August 2015. It is intended that the annual dividend in future will always be paid in September.

### Future Strategy

The Company will be five years old later this year and the Board has decided that it is an appropriate time to review the long term strategy for the Company.

Having successfully built a solid portfolio comprising ground mounted solar, roof mounted solar and some small wind projects, the Manager and the Board are evaluating options in order to determine which are likely to produce the best overall outcome for Shareholders. The Board notes that almost all of the projects owned by the investee companies earn incentives which are no longer available within a VCT wrapper which produces tax-free income for Shareholders.

Although this work is not yet complete, there appear to be strong arguments in favour of the Company continuing as a VCT after the initial five year period rather than considering a wind up. The Manager believes there may be further opportunities for refinancing of the existing portfolio as well as other areas in the renewable and sustainable sectors that may be attractive in due course.

I will be in a position to give more detailed proposals for the future strategy of the Company when the next Annual Report is published.

## CHAIRMAN'S STATEMENT (continued)

### 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 any liquidity restrictions. The Board intends to review this policy at regular intervals, in particular to ensure that demand for buybacks and liquidity remain appropriately aligned.

No shares were purchased in the period.

### Outlook

With the Company fully invested and the portfolio continuing to mature, we expect relatively little portfolio activity over the remainder of the financial year. The Manager's main focus will continue to be on optimising the performance of the existing investments.

I look forward to updating Shareholders on developments in my statement within the Annual Report for the year ending 30 September 2015.

A handwritten signature in black ink, appearing to read 'Peter Wisner', written in a cursive style.

**Peter Wisner**  
Chairman

27 May 2015

## INVESTMENT MANAGER'S REPORT

The half year ending 31 March 2015 has been notable for an intensified focus in three areas: operational improvements, cost savings in finance and structure-related areas and future investment strategy and dividends.

The VCTs are now fully invested and this has been the first half year since the inception of the VCTs where we have not made new investments or implemented any refinancing. This has given us the long awaited opportunity to delve deeper into these areas that have had to take a back seat to putting money to work and related activities.

Specifically, since the year end in September 2014, we have done the following:

### Operations

- Looked at ways in which we could boost the performance of our large ground-mounted solar assets, particularly those that earn high feed-in-tariffs. We identified a small modification in one of our parks that carried a negligible cost but had the potential of increasing the amount of electricity generated;
- Negotiated and put in place a good, attractively priced O&M contract for the small part of our rooftop solar portfolio that has had operational issues. Anesco, the appointed contractor, is the most experienced in the UK, in our view;
- Developed our working relationship with Britwind (Ecotricity Group), the O&M contractor appointed for the small wind fleet, and engaged with independent contractors for the purpose of improving monitoring and addressing performance issues. Our efforts are bearing fruit, with more of the fleet reaching a steady-state performance; and

- Broadened our O&M relationships with a view to cutting O&M costs by as much as 50% as current contracts expire over the coming two years.

### Cost reduction through financial and structural improvements

- Conducted a thorough review of bookkeeping, tax, accounting and audit costs across the portfolio and have identified alternative solutions that can reduce costs by as much as 30%; and
- Initiated a review of the structure of the Company and its portfolio with a view to identifying top level savings from mergers and consolidations.

### Investment Strategy and Dividends

- We have put in place better systems and procedures to forecast cash yields across our portfolio. This has given us much greater visibility on dividends in the short and longer term. The results that have come out of our analysis have been encouraging and highlight the value that has been created by leveraging good quality assets at good terms and acquiring new assets at attractive valuations (largely due to conservative modelling resulting in better-than-expected returns). Also, as part of this process the Board of Directors has recommended making the payment of the annual dividend at the end of the year it corresponds to, rather than in the middle, which occurred for historical reasons only; and

## INVESTMENT MANAGER'S REPORT (continued)

### Investment Strategy and Dividends (continued)

- Continued our efforts to identify a pipeline of new high-yielding opportunities (in solar but also energy efficiency and electricity storage) with a similar risk profile to the current portfolio. As the Company is fully invested and the net cash yield after costs is paid out as dividends, funds for new investments can only come from refinancing other assets, or additional fundraising. We therefore examined the refinancing potential for SPVs that are not leveraged today in the context of the unprecedentedly low interest rate environment that we are experiencing. The low rates as well as funders' increasing comfort with renewable generation assets has brought down risk premiums and this may give us a unique opportunity to refinance them - however we will continue to be very mindful of the need to avoid excess leverage even with the greater stability of our asset base.

We are very pleased with the progress made in the quarter. Not only have we been able to boost operational performance at the margin and lay the grounds for further improvements, but we have also identified the potential to extract significant savings from ancillary areas such as the structure of the Company and financial costs such as audit, accounting, tax and bookkeeping. We are confident that all the necessary steps have been taken to drag up laggards in the portfolio such as the small portion of the solar rooftop portfolio that has underperformed, and our small wind portfolio. We are also happy with the cashflow forecasting tools that we now have.

Finally, after conducting another review of the valuation of the portfolio we have concluded that, for most investments, an adjustment either way is not justified at this time. We have anecdotal evidence that hurdle rates for renewable generation assets have drifted down since the last valuation at 30 September 2014, in line with interest rates that hit all-time lows. However these rates have experienced a sharp bounce in the last two weeks. This suggests that a "mark-to-market" exercise for our portfolio in what is likely to be a volatile interest rate environment should be done cautiously; we will continue to make adjustments if we have strong evidence of a sustained move in hurdle rates. We have however agreed with the Board that the investment in Lunar 2 Limited should be uplifted slightly by £300,000 in view of the cash which has accumulated in the company and its subsidiaries over the period.

We look forward to the next half year and building on the progress we achieved in the six months ending at the end of March.



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

27 May 20115

## UNAUDITED SUMMARISED BALANCE SHEET

as at 31 March 2015

	31 Mar 2015 £'000	31 Mar 2014 £'000	30 Sep 2014 £'000
<b>Fixed assets</b>			
Investments	29,958	25,791	29,802
<b>Current assets</b>			
Debtors (including accrued income)	394	112	144
Cash at bank and in hand	46	1,331	163
	<u>440</u>	<u>1,443</u>	<u>307</u>
Creditors: amounts falling due within one year	<u>(654)</u>	<u>(2,030)</u>	<u>(682)</u>
<b>Net current liabilities</b>	<u>(214)</u>	<u>(587)</u>	<u>(375)</u>
<b>Total Assets less net current liabilities</b>	29,744	25,204	29,427
<b>Creditors: amounts falling due after more than one year</b>	(1,412)	-	(1,100)
<b>Net assets</b>	<u>28,332</u>	<u>25,204</u>	<u>28,327</u>
<b>Capital and reserves</b>			
Called up share capital	62	57	62
Share premium	3,985	2,001	3,985
Unallotted share capital	-	1,180	-
Special reserve	13,632	13,653	13,632
Revaluation reserve	12,427	9,519	12,127
Capital reserve - realised	(865)	(715)	(794)
Revenue reserve	(909)	(491)	(685)
<b>Equity shareholders' funds</b>	<u>28,332</u>	<u>25,204</u>	<u>28,327</u>
<b>Net asset value per Ordinary Share</b>	<b>115.0p</b>	<b>105.2p</b>	<b>115.0p</b>
<b>Net asset value per 'A' Share</b>	<b>0.1p</b>	<b>0.1p</b>	<b>0.1p</b>
	<u><b>115.1p</b></u>	<u><b>105.3p</b></u>	<u><b>115.1p</b></u>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the six months ended 31 March 2015

	31 Mar 2015 £'000	31 Mar 2014 £'000	30 Sep 2014 £'000
<b>Opening Shareholders' funds</b>	28,327	22,545	22,545
Unallotted share capital	-	1,180	-
Proceeds from share issue	-	-	2,067
Share issue costs	-	-	(98)
Dividends	-	(4,068)	(4,069)
Total recognised gains for the period	5	5,547	7,882
<b>Closing Shareholders' funds</b>	<u>28,332</u>	<u>25,204</u>	<u>28,327</u>

## UNAUDITED INCOME STATEMENT

for the six months ended 31 March 2015

	Six months ended 31 Mar 2015			Six months ended 31 Mar 2014			Year ended 30 Sep 2014
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	126	-	126	205	-	205	370
Gains on investments - unrealised	-	300	300	-	5,735	5,735	8,343
	<u>126</u>	<u>300</u>	<u>426</u>	<u>205</u>	<u>5,735</u>	<u>5,940</u>	<u>8,713</u>
Investment management fees	(212)	(71)	(283)	(190)	(63)	(253)	(517)
Other expenses	(138)	-	(138)	(141)	1	(140)	(314)
<b>Return on ordinary activities before taxation</b>	<u>(224)</u>	<u>229</u>	<u>5</u>	<u>(126)</u>	<u>5,673</u>	<u>5,547</u>	<u>7,882</u>
Taxation	-	-	-	-	-	-	-
<b>Return attributable to equity shareholders</b>	<u>(224)</u>	<u>229</u>	<u>5</u>	<u>(126)</u>	<u>5,673</u>	<u>5,547</u>	<u>7,882</u>
<b>Return per Ordinary Share</b>	<b>(0.9p)</b>	<b>0.9p</b>	<b>0.0p</b>	<b>(0.6p)</b>	<b>24.9p</b>	<b>24.3p</b>	<b>33.3p</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 2015

	Note	31 Mar 2015 £'000	31 Mar 2014 £'000	30 Sep 2014 £'000
<b>Cash (outflow)/inflow from operating activities and returns on investments</b>	<b>1</b>	<u>(613)</u>	<u>1,228</u>	<u>(424)</u>
<b>Capital expenditure</b>				
Purchase of investments		-	-	(1,684)
Sale of investments		145	2,454	2,735
<b>Net cash inflow from capital expenditure</b>		<u>145</u>	<u>2,454</u>	<u>1,051</u>
<b>Equity dividends paid</b>		-	(4,068)	(4,069)
<b>Net cash outflow before financing</b>		<u>(468)</u>	<u>(386)</u>	<u>(3,442)</u>
<b>Financing</b>				
Unallotted share capital		-	1,180	-
Proceeds from Ordinary Share issue		-	-	2,062
Proceeds from 'A' Share issue		-	-	4
Long term loans		351	-	1,100
Share issue costs		-	-	(98)
<b>Net cash inflow from financing</b>		<u>351</u>	<u>1,180</u>	<u>3,068</u>
<b>(Decrease)/increase in cash</b>	<b>2</b>	<u>(117)</u>	<u>794</u>	<u>(374)</u>

### Notes to the cash flow statement:

#### 1 Cash (outflow)/inflow from operating activities and returns on investments

Return on ordinary activities before taxation	5	5,547	7,882
Gains on investments	(300)	(5,735)	(8,343)
(Increase)/Decrease in other debtors	(250)	63	32
(Decrease)/Increase in other creditors	(68)	1,353	5
<b>Net cash (outflow)/inflow from operating activities</b>	<u>(613)</u>	<u>1,228</u>	<u>(424)</u>

#### 2 Analysis of net funds

Beginning of period	163	537	537
Net cash (outflow)/inflow	(117)	794	(374)
End of period	<u>46</u>	<u>1,331</u>	<u>163</u>

## SUMMARY OF INVESTMENT PORTFOLIO

as at 31 March 2015

	Cost £'000	Valuation £'000	Unrealised gain in period £'000	% of portfolio by value
Lunar 2 Limited	2,976	10,247	300	34.2%
Ayshford Solar (Holding) Limited	2,102	2,921	-	9.7%
Tumblewind Limited	2,534	2,856	-	9.5%
Lunar 1 Limited	124	2,043	-	6.8%
Hewas Solar Limited	1,000	1,672	-	5.6%
St Columb Solar Limited	722	1,388	-	4.6%
New Energy Era Limited	884	1,304	-	4.4%
Vicarage Solar Limited	871	1,204	-	4.0%
Minsmere Power Limited	975	1,009	-	3.4%
Gloucester Wind Limited	1,000	1,000	-	3.3%
Small Wind Generation Limited	975	975	-	3.2%
AEE Renewables UK 3 Limited	900	900	-	3.0%
Penhale Solar Limited	900	900	-	3.0%
HRE Willow Limited	875	875	-	2.9%
Owl Lodge Solar (Holding) Limited	80	249	-	0.8%
Higher Tregarne Solar (Holding) Limited	243	216	-	0.7%
Causilgey Solar (Holding) Limited	248	184	-	0.6%
ZW Parsonage Limited	15	15	-	0.1%
Yonder Netherton Solar (Holding) Limited	5	-	-	0.0%
Sunhazel UK Limited	1	-	-	0.0%
Lime Technology Limited	100	-	-	0.0%
	<u>17,530</u>	<u>29,958</u>	<u>300</u>	<u>99.8%</u>
Cash at bank and in hand		<u>46</u>		<u>0.2%</u>
<b>Total investments</b>		<u><u>30,004</u></u>		<u><u>100.0%</u></u>

## SUMMARY OF INVESTMENT MOVEMENTS

as at 31 March 2015

### Additions

There were no additions during the six months to 31 March 2015.

### Disposals

	Cost £'000	Disposal proceeds £'000	Total gain against cost £'000	Realised gain in period £'000
Ayshford Solar (Holding) Limited	145	145	-	-
	145	145	-	-

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

### 1. Accounting policies - Basis of accounting

The unaudited half-yearly results cover the six months to 31 March 2015 and have been prepared in accordance with the accounting policies set out in the annual accounts for the year ended 30 September 2014 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 24,603,159 Ordinary Shares and 36,904,733 'A' Shares, being the number of shares in issue at the period end.
5. Return per share for the period has been calculated on 24,603,159 Ordinary Shares and 36,904,733 'A' Shares, being the weighted average number of shares in issue during the period.

### 6. Dividends

	Period ended 31 Mar 2015			Year ended 30 Sep 2014
	Revenue £'000	Capital £'000	Total £'000	Total £'000
<b>Paid in period</b>				
2013 Final Ordinary	-	-	-	1,139
2014 Special Ordinary	-	-	-	1,664
2014 Special 'A' Share	-	-	-	1,265
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,068</u>
<b>Forthcoming dividends</b>				
2014 Final Ordinary – 5.0p	-	1,230	1,230	-
	<u>-</u>	<u>1,230</u>	<u>1,230</u>	<u>-</u>

### 7. Reserves

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue Reserve £'000
At 30 September 2014	3,985	13,632	12,127	(794)	(685)
Gains on investments	-	-	300	-	-
Expenses capitalised	-	-	-	(71)	-
Retained revenue	-	-	-	-	(224)
At 31 March 2015	<u>3,985</u>	<u>13,632</u>	<u>12,427</u>	<u>(865)</u>	<u>(909)</u>

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 7. Reserves (continued)

The Revenue reserve, Capital reserve - realised and Special reserve are distributable reserves. The distributable reserve is reduced by unrealised holding losses of £196,000 which are included in the Revaluation reserve. Distributable reserves at 31 March 2015 were £11,662,000.

### 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; and
- (iii) failure to maintain approval as a VCT.

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 has appointed Robertson Hare LLP, who will 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 Asset Services, 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.capitaassetservices.com](http://www.capitaassetservices.com)** and click on "Products and services" and then "Shareholders".

**Directors**

Peter Wisher (Chairman)  
Alexander Hambro  
Bozkurt Aydinoglu  
Christian Yates

**Company Secretary and Registered Office**

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(calls cost 10p per minute plus network extras,  
lines open Monday to Friday 9:00am to 5:30pm)

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