



## HAZEL RENEWABLE ENERGY VCT2 PLC

HALF-YEARLY REPORT FOR THE SIX MONTHS ENDED 31 MARCH 2013

# SHAREHOLDER INFORMATION

## Performance summary

	<b>31 Mar 2013</b>	<b>30 Sep 2012</b>	<b>31 Mar 2012</b>
	<b>Pence</b>	<b>Pence</b>	<b>Pence</b>
Net asset value per Ordinary Share	89.2	94.6	90.4
Net asset value per 'A' Share	0.1	0.1	0.1
Cumulative dividends per Ordinary Share	<u>8.5</u>	<u>3.5</u>	<u>3.5</u>
Total return per Ordinary Share and 'A' Share	<u><u>97.8</u></u>	<u><u>98.2</u></u>	<u><u>94.0</u></u>

## Share prices

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

	<b>Ordinary Shares</b>	<b>'A' Shares</b>
TIDM codes	HR20	HR2A
Latest share price 24 May 2013:	84.0p	0.1p

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

## Dividend history

<b>Year end</b>	<b>Date paid</b>	<b>Pence per share</b>
2012 Final	28 March 2013	5.0
2011 Final	30 March 2012	3.5

## Dividends

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

Shareholder information is continued on the inside back cover

## CHAIRMAN'S STATEMENT

I am pleased to present the Company's half-yearly report for the six months ended 31 March 2013. The Company was close to fully invested throughout the period, with a number of loan stock redemptions freeing up funds for one new investment. The underlying projects have generally continued to make progress, although some minor issues have had to be addressed.

### Investments

At the period end, the Company held a portfolio of 23 investments with a value of £20.3 million and which were spread across the ground mounted solar, roof mounted solar and small wind sectors.

The new investment of £2.0 million was made in Ayshford Solar (Holding) Limited to fund the build out of a Renewable Obligation Certificates ("ROC") solar project. The only other investment activity was the redemption of loan stock at par from some 12 investments.

The Board reviewed the valuations of the investments as at 31 March 2013. Many of the investee companies with solar projects are continuing to establish a track record of electricity generation. Low levels of sun hours in the UK last year hindered this slightly, but generally progress is to plan. During the period, a number of the projects built up a significant level of cash which has been used to de-gear the investee companies by redeeming loan stock investments made by the Company.

The Company's wind projects (HRE Willow, Tumbleweed, Small Wind Generation and Minsmere Power) have suffered from some early technical problems. Extensive work has been carried out to correct these and improved results are now being achieved.

With no major departures from plan, the Board has decided to hold all investments at their previous carrying values at this stage. The Board believes that a prudent approach to investment valuations is appropriate at the current time; however, at the year end, we expect there to be potential for valuation increases.

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 2013, the net asset value per share ("NAV") per Ordinary Share stood at 89.2p and the NAV per 'A' Share stood at 0.1p, producing a combined total of 89.3p. This represents a small decrease of 0.4p (0.4%) since 30 September 2012 (after taking into account the 5.0p dividend paid during the period).

Total Return (total NAV plus cumulative dividends paid to date) stands at 97.8p 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 Company recorded a small loss on ordinary activities after taxation for the period of £104,000 as running costs were not fully offset by investment income.

### Dividends

The Company paid a dividend of 5.0p on 28 March 2013 to shareholders on the register at 1 March 2013.

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

## CHAIRMAN'S STATEMENT (continued)

### Share buybacks

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

### Outlook

The Board remains satisfied that the majority of portfolio companies are making good progress and, in due course, have the potential to deliver uplifts in valuations and a resultant increase in the Company's NAV.

Over the remainder of the year, the Manager will continue to explore potential opportunities for refinancing of projects, which has the potential to unlock some gains and also release capital for further investments.

I look forward to updating Shareholders in my statement with the next Annual Report.

**Peter Wisler**  
Chairman

28 May 2013

## INVESTMENT MANAGER'S REPORT

We are pleased to report a successful period in terms of concluding the investment phase of building and developing the portfolio.

A further ground-mounted solar project was constructed under the renewable obligation certificate ("ROC") regime. The 5MWp project called Ayshford Court is located on agricultural land in Devon and was completed during the course of March 2013. The project will qualify for the higher banding level of 2 ROCs (reducing to 1.6 ROCs from April 2013), and the accreditation application is being processed and should be confirmed shortly.

After what feels like a long period of uncertainty, we now hope to enter a more stable regulatory environment. To the extent that incremental investment is being considered then the evaluation can be performed against relatively well known and understood tariff digression mechanisms. This contrasts favourably to the situation experienced over the last two years where dramatic ad-hoc cuts were implemented at relatively short notice, and prolonged regulatory consultations and legal action gave rise to uncertainty.

Following the Ayshford investment, the portfolio is now almost fully invested, and focus switches to managing operational performance together with evaluating refinancing opportunities. Most of our capital is now allocated across 23 investments, and we will shortly deploy the limited amount of uninvested capital (approximately £600,000) within our SPVs to conclude the investment phase. This will take the form of smaller ad-hoc investments, most likely in the rooftop solar sector, together with a limited number of small wind transactions.

Greater focus is now being placed on securing debt refinancing of the six larger operational solar assets (operating under the FIT regime), and discussions are progressing with providers of long-term debt finance. It is hoped that an announcement can be made on this in the coming quarters which should release invested capital and also leverage project returns. In the event that capital is released in this manner then additional investments will be evaluated and potentially added to the portfolio.

The performance of our six solar parks continues to be in-line with expectations, although unseasonably poor weather does have an impact on generation output. Operational performance of the solar rooftop portfolio looks to be broadly in line with expectations; however some properties encountered a number of administrative problems in getting processed in a timely manner. This issue has now largely been addressed and should not have any impact on revenues. The fleet of small wind turbines shows lower than expected output. The situation is being monitored to evaluate how much underperformance is attributable to wind conditions being lower than forecast, and how much can be improved through ongoing technical evaluation and fixes that are being managed by the operations and maintenance partner.

It is hoped that, over the coming half-year, some SPVs will be in a position to commence paying a dividend. In the meantime operational cash flow will be used to service interest on loans advanced by the VCT.

**Hazel Capital LLP**

28 May 2013

## UNAUDITED SUMMARISED BALANCE SHEET

as at 31 March 2013

	31 Mar 2013 £'000	31 Mar 2012 £'000	30 Sep 2012 £'000
<b>Fixed assets</b>			
Investments	20,273	14,639	20,657
<b>Current assets</b>			
Debtors (including accrued income)	212	259	450
Cash at bank and in hand	224	4,074	630
	<u>436</u>	<u>4,333</u>	<u>1,080</u>
Creditors: amounts falling due within one year	<u>(346)</u>	<u>(108)</u>	<u>(130)</u>
<b>Net current assets</b>	90	4,225	950
Long term creditor	-	(41)	-
<b>Net assets</b>	<u>20,363</u>	<u>18,823</u>	<u>21,607</u>
<b>Capital and reserves</b>			
Called up share capital	57	52	57
Share premium	2,001	-	2,001
Special reserve	17,720	18,860	18,860
Revaluation reserve	795	-	795
Capital reserve - realised	45	74	101
Revenue reserve	(255)	(163)	(207)
<b>Equity shareholders' funds</b>	<u>20,363</u>	<u>18,823</u>	<u>21,607</u>
<b>Net asset value per Ordinary Share</b>	<b>89.2</b>	<b>90.4</b>	<b>94.6</b>
<b>Net asset value per 'A' Share</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
	<u><b>89.3</b></u>	<u><b>90.5</b></u>	<u><b>94.7</b></u>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the six months ended 31 March 2013

	<b>31 Mar 2013 £'000</b>	<b>31 Mar 2012 £'000</b>	<b>30 Sep 2012 £'000</b>
<b>Opening Shareholders' funds</b>	21,607	19,445	19,445
Issue of shares	-	-	2,123
Share issue costs	-	-	(117)
Dividends	(1,140)	(727)	(727)
Total recognised (losses)/gains for the period	(104)	105	883
<b>Closing Shareholders' funds</b>	<u>20,363</u>	<u>18,823</u>	<u>21,607</u>

## UNAUDITED INCOME STATEMENT

for the six months ended 31 March 2013

	Six months ended 31 Mar 2013			Six months ended 31 Mar 2012			Year ended 30 Sep 2012
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Total £'000
Income	229	-	229	231	-	231	481
Gains on investments							
- realised	-	-	-	-	173	173	256
- unrealised	-	-	-	-	-	-	795
	<u>229</u>	<u>-</u>	<u>229</u>	<u>231</u>	<u>173</u>	<u>404</u>	<u>1,532</u>
Investment management fees	(162)	(54)	(216)	(146)	(48)	(194)	(403)
Other expenses	(115)	(2)	(117)	(103)	(2)	(105)	(246)
<b>Return on ordinary activities before taxation</b>	<u>(48)</u>	<u>(56)</u>	<u>(104)</u>	<u>(18)</u>	<u>123</u>	<u>105</u>	<u>883</u>
Taxation	-	-	-	-	-	-	-
<b>Return attributable to equity shareholders</b>	<u>(48)</u>	<u>(56)</u>	<u>(104)</u>	<u>(18)</u>	<u>123</u>	<u>105</u>	<u>883</u>
<b>Return per Ordinary Share</b>	<b>(0.2p)</b>	<b>(0.2p)</b>	<b>(0.4p)</b>	<b>(0.1p)</b>	<b>0.6p</b>	<b>0.5p</b>	<b>4.1p</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 2013

	31 Mar 2013 £'000	31 Mar 2012 £'000	30 Sep 2012 £'000	
Note				
<b>Cash inflow/(outflow) from operating activities and returns on investments</b>	<b>1</b>	<b>350</b>	<b>(198)</b>	<b>(509)</b>
<b>Capital expenditure</b>				
Purchase of investments		(2,016)	(6,306)	(11,625)
Sale of investments		2,400	2,883	3,062
<b>Net cash inflow/(outflow) from capital expenditure</b>		<b>384</b>	<b>(3,423)</b>	<b>(8,563)</b>
<b>Equity dividends paid</b>		<b>(1,140)</b>	<b>(727)</b>	<b>(727)</b>
<b>Net cash outflow before financing</b>		<b>(406)</b>	<b>(4,348)</b>	<b>(9,799)</b>
<b>Financing</b>				
Proceeds from Ordinary Share issue		-	-	2,123
Proceeds from 'A' Share issue		-	-	1
Share issue costs		-	-	(117)
<b>Net cash inflow from financing</b>		<b>-</b>	<b>-</b>	<b>2,007</b>
<b>Decrease in cash</b>	<b>2</b>	<b>(406)</b>	<b>(4,348)</b>	<b>(7,792)</b>

### Notes to the cash flow statement:

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

(Loss)/return on ordinary activities before taxation	(104)	105	883
Gains on investments	-	(173)	(1,051)
Decrease/(increase) in other debtors	238	(152)	(343)
Increase in other creditors	216	22	2
<b>Net cash inflow/(outflow) from operating activities</b>	<b>350</b>	<b>(198)</b>	<b>(509)</b>

#### 2 Analysis of net funds

Beginning of period	630	8,422	8,422
Net cash outflow	(406)	(4,348)	(7,792)
End of period	224	4,074	630

## SUMMARY OF INVESTMENT PORTFOLIO

as at 31 March 2013

	Cost £'000	Valuation £'000	Unrealised gain £'000	% of portfolio by value
<b>Qualifying investments</b>				
Ayshford Solar (Holding) Limited	2,466	2,466	-	12.0%
AEE Renewables UK 26 Limited	1,110	1,444	-	7.0%
Hewas Solar Limited	1,000	1,108	-	5.4%
St Columb Solar Limited	810	1,061	-	5.2%
AEE Renewables UK 3 Limited	1,000	1,000	-	4.9%
South Marston Solar Limited	1,000	1,000	-	4.9%
Gloucester Wind Limited	1,000	1,000	-	4.9%
New Energy Era Limited	884	976	-	4.8%
Minsmere Power Limited	975	975	-	4.8%
Small Wind Generation Limited	975	975	-	4.8%
Beechgrove Solar Limited	953	953	-	4.6%
Penhale Solar Limited	900	900	-	4.4%
HRE Willow Limited	875	875	-	4.3%
Vicarage Solar Limited	871	871	-	4.2%
Tumblewind Limited	850	850	-	4.1%
Causilgey Solar (Holding) Limited	248	248	-	1.2%
Higher Tregarne Solar (Holding) Limited	243	243	-	1.2%
Owl Lodge Solar (Holding) Limited	80	80	-	0.4%
Yonder Netherton Solar (Holding) Limited	5	5	-	0.0%
Sunhazel UK Limited	1	1	-	0.0%
	<u>16,246</u>	<u>17,031</u>	-	<u>83.1%</u>
<b>Non-qualifying investments</b>				
AEE Renewables UK 3 Limited	2,250	2,250	-	11.0%
Quiet Revolution Limited	600	600	-	2.9%
Hewas Solar Limited	175	175	-	0.8%
Lime Technology Limited	100	100	-	0.5%
South Marston Solar Limited	58	58	-	0.3%
AEE Renewables UK 26 Limited	34	44	-	0.2%
ZW Parsonage Limited	15	15	-	0.1%
	<u>3,232</u>	<u>3,242</u>	-	<u>15.8%</u>
	<u><u>19,478</u></u>	<u><u>20,273</u></u>	-	<u><u>98.9%</u></u>
Cash at bank and in hand		<u>224</u>		<u>1.1%</u>
<b>Total investments</b>		<u><u>20,497</u></u>		<u><u>100.0%</u></u>

## SUMMARY OF INVESTMENT MOVEMENTS

as at 31 March 2013

### Additions

£'000

Ayshford Solar (Holding) Limited

2,016

### Disposals

	Cost £'000	Disposal proceeds £'000	Total gain against cost £'000	Realised gain in period £'000
AEE Renewables UK 26 Limited	650	650	-	-
Hewas Solar Limited	188	188	-	-
St Columb Solar Limited	125	125	-	-
South Marston Solar Limited	52	52	-	-
Beechgrove Solar Limited	47	47	-	-
AEE Renewables UK 3 Limited	250	250	-	-
ZW Parsonage Limited	235	235	-	-
Tumblewind Limited	62	62	-	-
Higher Tregarne Solar (Holding) Limited	125	125	-	-
Causilgey Solar (Holding) Limited	102	102	-	-
Penhale Solar Limited	100	100	-	-
Owl Lodge Solar (Holding) Limited	464	464	-	-
	<u>2,400</u>	<u>2,400</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 2013 and have been prepared in accordance with the accounting policies set out in the annual accounts for the year ended 30 September 2012 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 2013			Year ended 30 Sep 2012
	Revenue £'000	Capital £'000	Total £'000	Total £'000
<b>Paid in period</b>				
2012 Final	-	1,140	1,140	-
2011 Final	-	-	-	727
	<u>-</u>	<u>1,140</u>	<u>1,140</u>	<u>727</u>

### 7. Reserves

	Share premium account £'000	Special reserve £'000	Revaluation reserve £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 30 September 2012	2,001	18,860	795	101	(207)
Gains on investments	-	-	-	-	-
Expenses capitalised	-	-	-	(56)	-
Dividends	-	(1,140)	-	-	-
Retained revenue	-	-	-	-	(48)
At 31 March 2013	<u>2,001</u>	<u>17,720</u>	<u>795</u>	<u>45</u>	<u>(255)</u>

The Revenue reserve and Special reserve are distributable reserves. Distributable reserves at 31 March 2013 were £17,465,000.

## NOTES TO THE UNAUDITED FINANCIAL STATEMENTS (continued)

### 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
- (iv) failure to secure VCT qualifying status for some investments.

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

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

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

## 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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Registered No. 07378395

**Investment Manager**

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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)