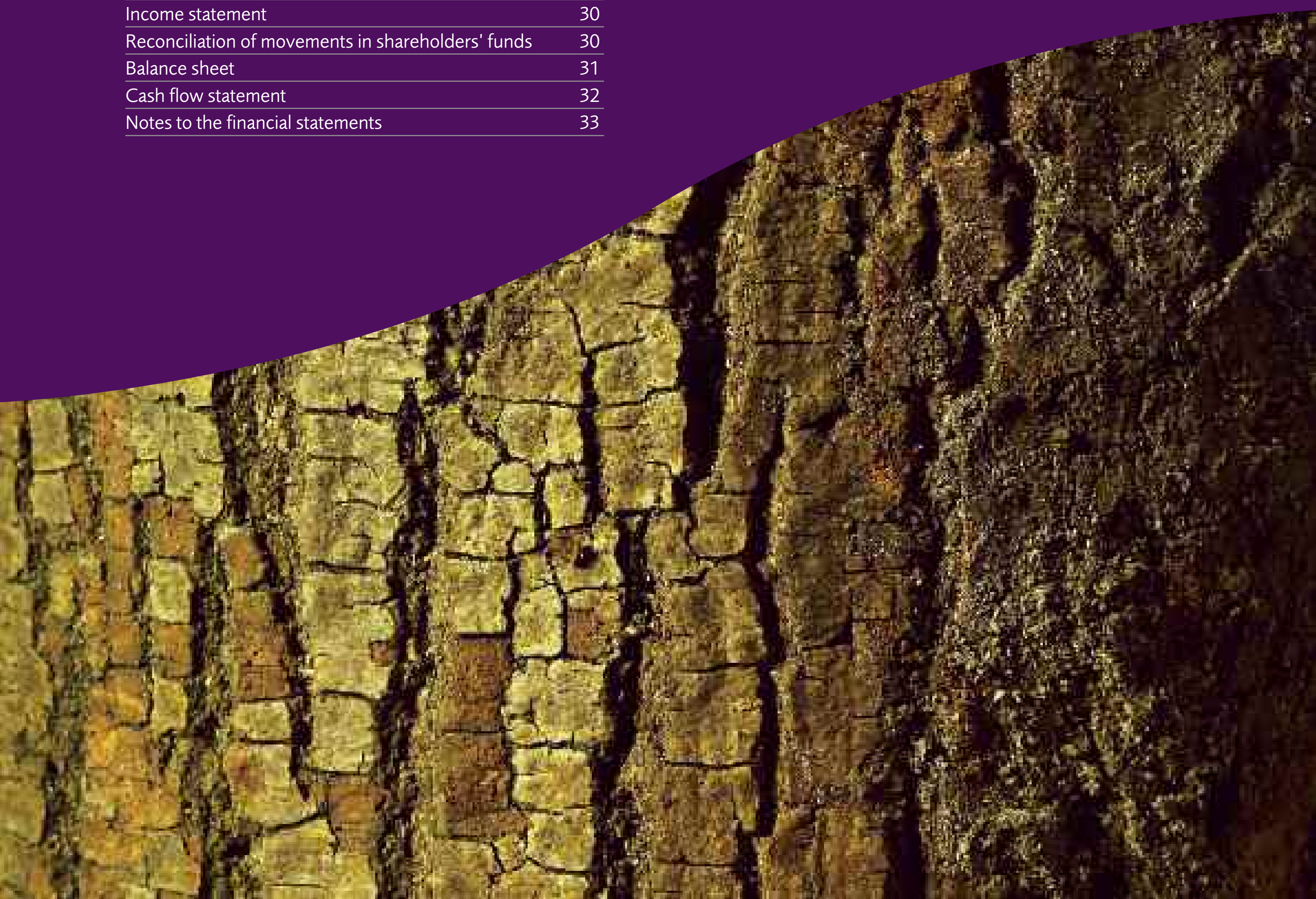
2011

Northern 2 VCT PLC

Annual Report and Accounts
31 March 2011

nvm private equity

Northern 2 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity. It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.



Financial Summary

	14 months ended 31 March 2011	Year ended 31 January 2010
Net assets	£45.7m	£44.3m
Net asset value per share	79.5p	77.9p
Return per share		
Revenue	2.1p	1.7p
Capital	4.8p	11.8p
Total	6.9p	13.5p
Dividend per share declared in respect of the period	6.5p	5.5p
Cumulative return to shareholders since launch		
Net asset value per share	79.5p	77.9p
Dividends paid per share*	52.4p	46.9p
Net asset value plus dividends paid per share	131.9p	124.8p
Share price at end of year	65p	62p

*Excluding second interim and proposed final dividend payable on 22 July 2011

Key dates

Results announced	**26 May 2011**	
Shares quoted ex dividend	**29 June 2011**	
Annual general meeting	**19 July 2011**	(12.00 noon, Life Bioscience Centre, Times Square, Newcastle upon Tyne NE1 4EP)
Final dividend paid (to shareholders on register on 1 July 2011)	**22 July 2011**	

Chairman's Statement

Our company has made good progress during the 14 month period under review.

Our company has made good progress during the 14 month period under review, despite a continuation of difficult conditions in the UK economy and financial markets. New investments in the venture capital portfolio were at a record level, and solid performance by existing investee companies produced an increase in net asset value (NAV) per share over the period. The dividend paid to investors was again in line with our annual target rate of 5.5p per share.

NAV and return per share

The NAV per share as at 31 March 2011 was 79.5p, up from 77.9p as at 31 January 2010. The total return per share for the extended 14 month period to 31 March 2011 was 6.9p, equivalent to 8.9% of the opening net asset value. On an annualised basis investment income was marginally up over the preceding year, whilst total expenses charged to the revenue account were slightly down, which led to a increase in the revenue return per share from 1.7p to 2.1p.

Dividend

An interim dividend of 2.0p per share was paid in December 2010. As indicated in January 2011, the directors have declared a second interim dividend of 1.0p per share to reflect the increased length of the last accounting period due to the change of year end to 31 March. A final dividend of 3.5p per share is proposed which will, if approved by shareholders at the annual general meeting, be paid with the second interim dividend on 22 July 2011 to shareholders on the register on 1 July 2011. This is the seventh successive accounting period in which the annual rate of dividend has been 5.5p per share or more.

Following the change in year end, it is intended that in future years an interim dividend will be paid each January with the final dividend being paid in July.

Investment portfolio

New investments in the venture capital portfolio totalled £11.0 million, an all-time high for a single accounting period. With no major exits during the period, sale proceeds were relatively low at £2.5 million, including £0.8 million in deferred proceeds from the sale of DxS in 2009.

The venture capital portfolio at 31 March 2011 comprised 45 holdings with an aggregate value of £33.0 million. Despite the unhelpful environment for smaller UK businesses, the portfolio as a whole has made encouraging progress and most of our companies are well positioned to both withstand short-term challenges and take advantage of longer-term opportunities.

David Gravells
Chairman

At the annual general meeting in May 2010 shareholders approved a resolution to amend the company's investment policy so as to permit the use of a wider range of financial instruments, with a view to generating an improved return on funds awaiting long-term investment. For the time being your directors have continued to hold surplus funds in a range of fixed-income bonds and cash deposits, but this is kept under regular review in the light of available returns.

Shareholder issues

It was announced a year ago that the company would follow a policy of repurchasing its shares in the market at a discount of 15% to NAV, in order to provide liquidity for shareholders wishing to realise their investment in the company. During the 14 months to 31 March 2011 the company repurchased a total of 1,100,000 shares at a cost of £0.7 million, an average price of 64.2p per share.

In March 2011 1,278,565 new ordinary shares were issued at a price of 82p per share through a small public offer in conjunction with a similar offer by Northern 3 VCT, raising a total of £1.0 million net of expenses. I would like to welcome our new shareholders to the company and thank both them and our existing investors for their support.

VCT qualifying status

The company has continued to meet the qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The board retains PricewaterhouseCoopers LLP as independent advisers on VCT taxation matters.

Board of directors

Professor Sir Frederick Holliday has indicated that he intends to retire from the board at the close of the forthcoming annual general meeting. Fred has had an immensely distinguished academic and business career and has served on the boards of many public companies. We have been very fortunate to have had the benefit of his involvement with Northern 2 VCT since the inception of the company in 1999. On behalf of shareholders and Fred's board colleagues I would like to thank him for his enormous contribution as a director and wish him a long and happy retirement.

Prospects

Northern 2 VCT has continued to build on its sound long-term performance record and we believe that our current investment portfolio represents a good foundation for further growth in the future. The flow of potential new investments has been strong in recent months, and we must seek to capitalise on these opportunities whilst achieving satisfactory exits from existing investments in order to generate funds for dividend payments to shareholders. In the current economic climate this presents a considerable challenge, but one which your board and managers face with confidence in the knowledge that our investment policy and practice have been well tried and tested over many years.

David Gravells
Chairman 26 May 2011

Directors and Advisers

from left to right:
David Gravells, Alastair Conn,
Michael Denny, Christopher Fletcher,
Professor Sir Frederick Holliday, Frank Neale.




David Gravells MSc JP (Chairman)
aged 61
is an experienced entrepreneur with a wide experience of private equity-financed businesses. He was appointed to the board in 2007 and became chairman in 2008.

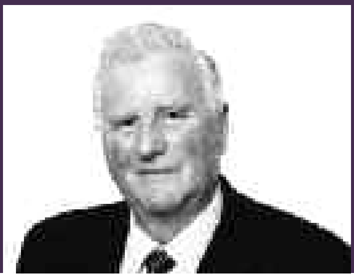
Alastair Conn FCA
aged 56
is financial director of NVM Private Equity Limited. He qualified as a chartered accountant with Price Waterhouse and was a co-founder of NVM in 1988. He is a non-executive director of Northern AIM VCT PLC. He was appointed to the board in 1999.

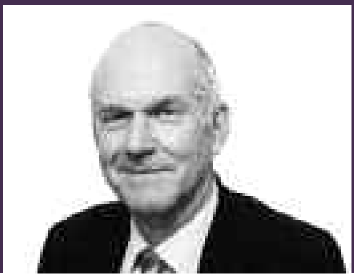
Michael Denny
aged 68
was chairman of NVM Private Equity Limited until his retirement in 2008. He is a non-executive director of Northern Investors Company PLC and Northern Venture Trust PLC and is a past chairman of the British Private Equity and Venture Capital Association. He was appointed to the board in 1999.

Christopher Fletcher CA
aged 59
was managing director of Baillie Gifford's life and retail operations until his retirement in April 2011. He previously spent ten years as a corporate finance partner in the Edinburgh office of KPMG, where he advised on a wide variety of business transactions. He was appointed to the board in 1999.

Professor Sir Frederick Holliday CBE FRSE
aged 75
was formerly chairman of Northumbrian Water Group PLC, Brewin Dolphin Holdings PLC, The Go-Ahead Group plc and Northern Venture Trust PLC. He is a marine scientist and was vice-chancellor of the University of Durham from 1980 to 1990. He was appointed to the board in 1999 and has indicated that he intends to retire at the close of the annual general meeting in July 2011.

Frank Neale MBA
aged 60
is a partner in IRRfc, a private equity advisory business. He is a past vice-chairman of the British Private Equity and Venture Capital Association and is a non-executive director of Northern Investors Company PLC. He was appointed to the board in 1999.





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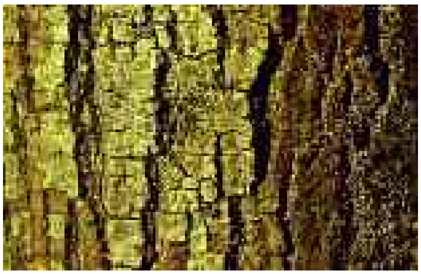
Shareholder helpline: 0800 028 2349

Business Review

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth.



This review has been prepared by the directors in accordance with the requirements of Section 417 of the Companies Act 2006, and forms part of the directors' report to shareholders. The company's independent auditors are required by law to report on whether the information given in the directors' report (including the business review) is consistent with the financial statements. The auditors' opinion is included in their report on page 28.

Objectives and investment policy

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing in a portfolio mainly comprising holdings in UK unquoted companies.

The company is a Venture Capital Trust approved by HM Revenue & Customs. In order to maintain approved status, the company must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007; in particular, the company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT-qualifying holdings, of which at least 30% must comprise eligible ordinary shares. For this purpose a "VCT-qualifying holding" consists of up to £1 million invested in any one year in new shares or securities of a UK unquoted company (which may be quoted on AIM) which is carrying on a qualifying trade, and whose gross assets at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out above. The directors intend that the long-term disposition of the company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM investments and 20% in other investments selected with a view to producing an enhanced return whilst avoiding undue capital volatility, to provide a reserve of liquidity which will maximise the company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buy-backs. Within the VCT-qualifying portfolio investments will be structured using various listed and unlisted investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth, having regard to the VCT legislation. The portfolio will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle. The normal investment holding period will be in the range from three to seven years. Up to approximately 10% by value of the company's investments may be in early stage companies with high growth potential.

The target size range for VCT-qualifying investments is from approximately £250,000 to £1 million (the maximum permitted within any tax year), with an average investment of over £500,000. As a result, and based on the company's present gross assets of approximately £46 million, no single investment would normally represent in excess of 2.2% of the company's total assets at the time of acquisition. However shareholders should be aware that the company's VCT-qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available. Investments will normally be made using the company's equity shareholders' funds and it is not intended that the company will take on any long-term borrowings.

The company is entitled to participate pro rata to net assets in all investment opportunities developed by NVM Private Equity Limited (NVM) and regularly invests alongside the four other funds managed by NVM, enabling the funds together to undertake investment commitments in any one investee company of up to approximately £7 million. Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each new investee company on a predetermined basis.

Investment management

NVM has acted as the company's investment manager since inception. NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne and Reading and currently has over £200 million under management in four VCTs and one investment trust.

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis. The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements.

Overview of the period

During the period under review Northern 2 VCT achieved a total return to ordinary shareholders, before dividends, of 6.9p per share, equivalent to 8.9% of the opening net asset value per share of 77.9p. The movement in total net assets and net asset value per share is summarised in Table 2.

The net cash invested in the venture capital portfolio was £8.5 million, comprising new investments of £11.0 million less sale proceeds of £2.5 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, the company's total cash balances reduced over the period by £10.2 million to £4.0 million. In addition the company holds listed fixed-interest investments valued at £9.0 million.

Table 1: Venture capital portfolio cash flow

Year ended	New investment £000	Disposal proceeds £000	Net inflow/ (outflow) £000
31 January 2007	4,703	2,698	(2,005)
31 January 2008	5,186	9,174	3,988
31 January 2009	6,932	7,205	273
31 January 2010	2,688	11,440	8,752
31 March 2011 (14 month period)	10,993	2,545	(8,448)
Total	**30,502**	**33,062**	**2,560**

Table 2: Movement in net assets and net asset value per share

	£000	Pence per ordinary share
Net asset value at 31 January 2010	**44,349**	**77.9**
Net revenue (investment income less revenue expenses and tax)	1,193	2.1
Capital surplus arising on investments:		
Realised gains on disposals	1,065	1.9
Movements in fair value of investments	2,206	3.9
Management expenses allocated to capital account (net of tax relief)	(553)	(1.0)
Total return for the period as shown in income statement	**3,911**	**6.9**
Proceeds of issue of new shares (net of expenses)	1,272	–
Shares re-purchased for cancellation	(706)	0.2
Net movement for the period before dividends	**4,477**	**7.1**
Net asset value at 31 March 2011 before dividends recognised	**48,826**	**85.0**
Dividends recognised in the financial statements for the period	(3,113)	(5.5)
Net asset value at 31 March 2011	**45,713**	**79.5**

Business Review

Dividends

The directors have declared dividends of 6.5p per share in respect of the period, comprising 2.0p revenue dividend and a 4.5p capital distribution.

Investment portfolio

During the 14 months ended 31 March 2011, 10 new holdings were added to the venture capital portfolio at a cost of £8.8 million, and additional investments totalling £2.2 million were made in existing portfolio companies. The portfolio at 31 March 2011 comprised 45 holdings with an aggregate value of £33.0 million.

A summary of the venture capital holdings at 31 March 2011 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

New investments

The new investments completed during the period were:

- **Lanner Group (£772,000)** – developer of business process simulation software, Redditch
- **Kerridge Commercial Systems (£1,740,000)** – developer of software for the distribution sector, Hungerford
- **RCC Lifesciences (£995,000)** – acquisition vehicle for lifescience businesses, Manchester
- **Evolve Investments (£995,000)** – acquisition vehicle for under-performing and undercapitalised businesses, Tunbridge Wells
- **Brady (£123,000)** – AIM-quoted developer of commodity trading and risk management software, Cambridge
- **Cawood Scientific (£1,031,000)** – laboratory services for land-based industries, Bracknell/Cawood
- **Altacor (£424,000)** – developer of specialty ophthalmic pharmaceutical products, Cambridge
- **Control Risks Group Holdings (£746,000)** – international specialist risk consultancy, London
- **Closer2 Investments (£678,000)** – business-to-business exhibition management (sister company to Closerstill Holdings), London
- **Kitwave One (£1,246,000)** – wholesaler of confectionery, soft drinks, snacks, beers, wines and tobacco, North Shields

Investment realisations

Details of investment sales during the period are given in Note 10 on page 38. The most significant realisations (original cost or sales proceeds in excess of £0.25m) in the period are summarised in Table 3.

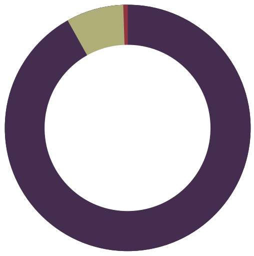
Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Andor Technology – market sale (AIM quoted)	2004	123	385	263
DxS – deferred sale proceeds	2001	–	769	769
IG Doors – loan stock repayment	2003	257	296	39
Mantis Deposition Holdings – loan stock repayment	2009	437	437	–

Age of investment	
Up to 1 year	17.8%
1-3 years	25.2%
3-5 years	20.5%
5-7 years	20.7%
Over 7 years	15.8%

Industry sector	
IT/electronics	28.6%
Construction	4.7%
Consumer	15.6%
Industrial/manufacturing	13.4%
Services	30.4%
Healthcare/biotechnology	7.3%

Financing stage	
Early stage	12.5%
Expansion	38.5%
MBO/MBI	49.0%



Quotation	
Unquoted	91.2%
AIM	7.9%
London Stock Exchange	0.9%

Portfolio composition

The pie charts above show the composition of the investment portfolio at 31 March 2011 by value according to age, industry sector, financing stage and whether quoted or unquoted. The portfolio is well diversified and the company has continued to invest primarily in manufacturing and service businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash.

Our portfolio companies have generally made good progress during the period under review, despite the continuation of challenging conditions in the UK economy and financial markets. The trend in the underlying trading results of many companies has been positive and this has been reflected in the directors' valuation of investments at 31 March 2011. The largest individual contributors to NAV growth were **Kerridge Commercial Systems**, a March 2010 investment which has performed well ahead of expectations, and **Alaric Systems**, a long-standing investment in the card fraud detection and prevention sector which has secured important new contracts. The performance of **Britspace Group**, which manufactures modular buildings and bathroom pods, has been disappointing and the investment has been written down to nil value, with an additional provision of £630,000 made for potential liabilities under a bank guarantee and contract performance bonds.

As at 31 March 2011 the number of investments falling into each valuation category was as shown in Table 4.

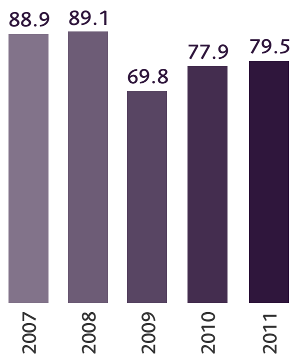
Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings multiple	17	19,922	60.3
Original cost	11	9,075	27.5
Original cost less provision	4	526	1.6
Net assets	1	591	1.8
Quoted investments at bid price			
Listed on London Stock Exchange	1	296	0.9
Quoted on AIM	11	2,619	7.9
Total	**45**	**33,029**	**100.0**

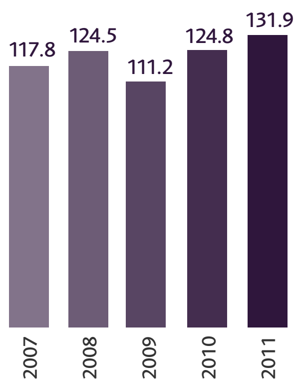
Key performance indicators

The directors regard the following as the key indicators pertaining to the company's performance:

Net asset value and total return to shareholders: the following charts show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial periods:



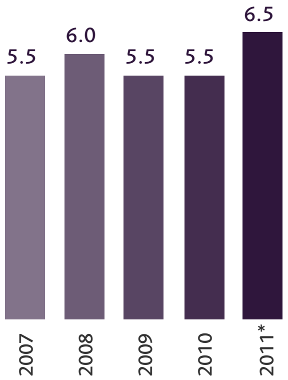
Net asset value (p)



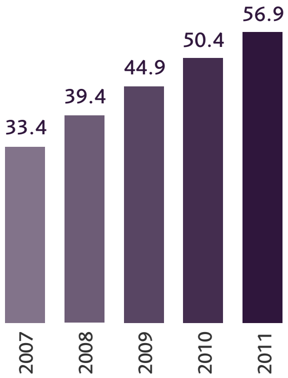
Net asset value plus cumulative dividends paid per share (p)

Business Review

Dividend distributions: the following charts show the dividends (including proposed final dividends) declared in respect of each of the past five financial periods and on a cumulative basis since inception:

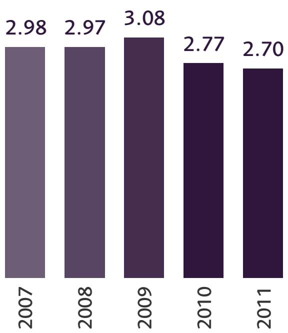


Dividend per share (p)
* 14 month period



Cumulative dividends per share (p)

Total expense ratio: the following chart shows total annual running expenses (including investment management fees charged to capital reserve but excluding performance-related fees) as a percentage of the average net assets attributable to shareholders for each of the past five financial periods:



Total expense ratio (%)

Maintenance of VCT qualifying status: the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.

Risk management

The board carries out a regular review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board are as follows:

Investment risk: the majority of the company's investments are in small and medium-sized unquoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies. The directors and the managers aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage, industry sector and geographical location. The board reviews the investment portfolio with the managers on a regular basis.

Financial risk: as most of the company's investments involve a medium- to long-term commitment and are relatively illiquid, the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis. Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to take advantage of new unquoted investment opportunities. The company has very little exposure to foreign currency risk and does not enter into derivative transactions.

Economic risk: events such as economic recession or general fluctuation in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value.

Stock market risk: Some of the company's investments are quoted on the AIM market and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide and the AIM market is no exception to this. In times of adverse sentiment there tends to be very little, if any, market demand for shares in the smaller companies quoted on AIM.

Liquidity risk: the company's investments may be difficult to realise. The fact that a stock is quoted on AIM does not guarantee its liquidity and there may be a large spread between bid and offer prices. Unquoted investments are not traded on a recognised stock exchange and are inherently illiquid.

Internal control risk: the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

VCT qualifying status risk: the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment. The manager keeps the company's VCT qualifying status under continual review and reports to the board on a quarterly basis. The board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

Future prospects

The level of new investment activity over the past year has been encouraging and we believe that the venture capital portfolio is well positioned to make further progress.

By order of the Board

C D Mellor
Secretary 26 May 2011

Investment Portfolio

as at 31 March 2011

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Kerridge Commercial Systems	1,740	3,041	6.7
Promanex Group Holdings	1,694	2,135	4.7
Closerstill Holdings	1,001	1,521	3.3
Arleigh International	939	1,438	3.1
Envirotec	975	1,431	3.1
IG Doors	744	1,362	3.0
Crantock Bakery	1,107	1,359	3.0
Kitwave One	1,246	1,246	2.7
Paladin Group	1,307	1,209	2.6
Alaric Systems	1,269	1,200	2.6
Axial Systems Holdings	1,004	1,141	2.5
Wear Inns	1,116	1,116	2.4
Cawood Scientific	1,031	1,031	2.3
Evolve Investments	995	995	2.2
RCC Lifesciences	995	995	2.2
	17,163	**21,220**	**46.4**
Other venture capital investments			
Promatic Group	987	987	2.2
S&P Coil Products	313	901	2.0
Direct Valeting	606	798	1.8
Advanced Computer Software Group*	381	783	1.7
Lanner Group	772	772	1.7
Control Risks Group Holdings	746	746	1.6
Closer2 Investments	678	678	1.5
KPJ Software Services	633	633	1.4
Tikit Group*	527	593	1.3
Longhirst Venues	375	591	1.3
Mantis Deposition Holdings	568	568	1.2
e-know.net	435	508	1.1
Optilan Group	1,000	500	1.1
IS Pharma*	425	478	1.0
Altacor	424	424	0.9
Andor Technology*	79	337	0.7
Vectura Group**	235	296	0.7
Warmseal Windows (Newcastle)	818	205	0.4
Gentronix	457	202	0.4
Interlube Systems	50	180	0.4
Brady*	123	157	0.3
Cello Group*	251	141	0.3
Astbury Marsden Holdings	1,120	120	0.3
Spectrum Interactive	311	79	0.2
Adept Telecom*	235	54	0.1
Colliers International UK*	439	38	0.1
Twenty*	198	30	0.1
Summit Corporation*	236	7	–
Individual Restaurant Company*	250	3	–
Britspace Group	1,474	–	–
Total venture capital investments	**32,309**	**33,029**	**72.2**
Listed fixed-interest investments	9,076	8,955	19.6
Total fixed asset investments	**41,385**	**41,984**	**91.8**
Net current assets		3,729	8.2
Net assets		**45,713**	**100.0**

*Quoted on AIM

**Listed on London Stock Exchange

Fifteen Largest Venture Capital Investments

KERRIDGE COMMERCIAL SYSTEMS LIMITED

Cost	£1,740,000
Valuation	£3,041,000
Basis of valuation	Earnings multiple
Equity held	8.3% (NVM funds total 42.7%)
Business/location	Software developer for wholesale and retail distribution sectors, Hungerford
History	Management buy-out from ADP Inc, March 2010, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT, Northern AIM VCT
Income in period	Dividends nil, loan interest £130,000

Audited financial information:

Period ended 30 September	2010* £m
Sales	11.6
Profit before tax	0.7
Profit after tax	0.5
Net assets	1.7

*6 months ended 30 September

PROMANEX GROUP HOLDINGS LIMITED

Cost	£1,694,000
Valuation	£2,135,000
Basis of valuation	Earnings multiple
Equity held	14.4% (NVM funds total 75.0%)
Business/location	Provider of construction and engineering support services, Nuneaton
History	Management buy-out from venture capital ownership, March 2007, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in period	Nil

Audited financial information:

Year ended 30 September	2010 £m	2009 £m
Sales	56.2	58.3
Profit/(loss) before tax	0.9	(0.5)
Profit/(loss) after tax	1.6	(0.7)
Net liabilities	(3.7)	(5.8)

CLOSERSTILL HOLDINGS LIMITED

Cost	£1,001,000
Valuation	£1,521,000
Basis of valuation	Earnings multiple
Equity held	12.0% (NVM funds 47.6%)
Business/location	Business-to-business exhibition management, London
History	Acquisition capital financing in September 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in period	Dividends nil, loan stock interest £38,000

Unaudited financial information:

Period ended 31 December*	2009 £m
Sales	-
Loss before tax	(0.6)
Loss after tax	(0.6)
Net assets	0.9

*16 months ended 31 December

ARLEIGH INTERNATIONAL LIMITED

Cost	£939,000
Valuation	£1,438,000
Basis of valuation	Earnings multiple
Equity held	12.1% (NVM funds total 41.6%)
Business/location	Suppliers of accessories and spares to the holiday home and boating markets, Nuneaton
History	Management buy-out from Firstserve, October 2004, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in period	Dividends £212,000, loan stock interest £90,000

Audited financial information:

Year ended 31 December	2010 £m	2009 £m
Sales	13.2	12.0
Profit before tax	0.8	0.9
Profit after tax	0.5	0.6
Net assets	0.7	1.7

ENVIROTEC LIMITED

Cost	**£975,000**
Valuation	**£1,431,000**
Basis of valuation	Earnings multiple
Equity held	11.2% (NVM funds total 35.0%)
Business/location	Manufacture of air curtains and air handling equipment, High Wycombe
History	Management buy-out from institutional investor, January 2005, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in period	Dividends nil, loan stock interest £87,000

Audited financial information:

Year ended 28 February	2010 £m	2009 £m
Sales	8.2	18.6
Profit before tax	1.0	2.1
Profit after tax	1.0	1.3
Net assets	4.1	4.2

IG DOORS LIMITED

Cost	**£744,000**
Valuation	**£1,362,000**
Basis of valuation	Earnings multiple
Equity held	9.7% (NVM funds total 35.1%)
Business/location	Manufacture of steel and GRP composite doors, Cwmbran
History	Management buy-out from Expamet International, November 2003, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT, Northern AIM VCT
Income in period	Dividends £17,000, loan stock interest £87,000

Audited financial information:

Year ended 31 December	2009 £m	2008 £m
Sales	14.7	14.8
Profit/(loss) before tax	0.1	(0.5)
Profit/(loss) after tax	0.1	(0.4)
Net assets	1.2	0.6

CRANTOCK BAKERY LIMITED

Cost	**£1,107,000**
Valuation	**£1,359,000**
Basis of valuation	Earnings multiple
Equity held	15.4% (NVM funds total 43.2%)
Business/location	Manufacture of premium hand-made Cornish pasties, Newquay
History	Management buy-out/buy-in from private ownership, October 2002, led by NVM
Other NVM funds	Northern Investors Company, Northern AIM VCT, Northern 3 VCT
Income in period	Dividends £25,000, loan stock interest £123,000

Audited financial information:

Year ended 30 September	2010 £m	2009 £m
Sales	11.9	11.6
Profit before tax	1.0	0.9
Profit after tax	0.6	0.6
Net assets	2.6	2.1

KITWAVE ONE LIMITED

Cost	**£1,246,000**
Valuation	**£1,246,000**
Basis of valuation	Cost
Equity held	6.3% (NVM funds total 38.0%)
Business/location	Wholesaler of confectionery, soft drinks, snacks, beers, wines and tobacco, North Shields
History	Growth capital investment in March 2011, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in period	Nil

Audited financial information:

First audited accounts will be for the period ending 30 April 2012

Fifteen Largest Venture Capital Investments

PALADIN GROUP LIMITED

Cost	**£1,307,000**
Valuation	**£1,209,000**
Basis of valuation	Earnings multiple
Equity held	10.1% (NVM funds total 38.9%)
Business/location	Provider of property management services, Bath
History	Development capital investment, June 2006, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in period	Dividends nil, loan stock interest £48,000

Audited financial information:

Year ended 31 March	2010 £m	2009 £m
Sales	19.6	20.3
Loss before tax	(1.1)	(0.6)
Loss after tax	(0.9)	(0.7)
Net assets	1.2	1.9

ALARIC SYSTEMS LIMITED

Cost	**£1,269,000**
Valuation	**£1,200,000**
Basis of valuation	Earnings multiple
Equity held	9.1% (NVM funds 36.5%)
Business/location	Developer of electronic payment protection software, London
History	Development capital financing in November 2000, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust
Income in period	Nil

Audited financial information:

Year ended 31 March	2010 £m	2009 £m
Sales	3.9	3.6
Profit before tax	0.1	0.1
Profit after tax	0.1	0.1
Net liabilities	(1.5)	(1.6)

AXIAL SYSTEMS HOLDINGS LIMITED

Cost	**£1,004,000**
Valuation	**£1,141,000**
Basis of valuation	Earnings multiple
Equity held	8.2% (NVM funds total 45.7%)
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM Private Equity
Other NVM funds	Northern Investors Company, Northern Venture Trust, Northern 3 VCT, Northern AIM VCT
Income in period	Dividends nil, loan interest £47,000

Audited financial information:

Year ended 31 May	2010 £m	2009* £m
Sales	18.3	21.9
Profit before tax	0.2	–
Loss after tax	–	(0.3)
Net assets	1.3	1.3

*14 months ended 31 May

WEAR INNS LIMITED

Cost	**£1,116,000**
Valuation	**£1,116,000**
Basis of valuation	Cost
Equity held	13.8% (NVM funds total 52.3%)
Business/location	Owner of managed public houses, Newcastle upon Tyne
History	Acquisition capital financing in February 2006, led by NVM
Other NVM funds	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £91,000

Audited financial information:

Year ended 31 March	2010 £m	2009 £m
Sales	3.8	2.7
Loss before tax	(0.1)	(0.1)
Loss after tax	(0.1)	(0.1)
Net assets	0.1	–

CAWOOD SCIENTIFIC LIMITED

Cost	**£1,031,000**
Valuation	**£1,031,000**
Basis of valuation	Cost
Equity held	11.4% (NVM funds total 45.6%)
Business/location	Laboratory services for land-based industries, Bracknell/Cawood
History	Management buy-out financing in December 2010, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £23,000

Audited financial information:

First audited accounts will be for the period ended 31 March 2011

EVOLVE INVESTMENTS LIMITED

Cost	**£995,000**
Valuation	**£995,000**
Basis of valuation	Cost
Equity held	15.5% (NVM funds total 46.5%)
Business/location	Acquisition of underperforming businesses, Birmingham
History	Acquisition capital financing in April 2010, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in period	Nil

Audited financial information:

First audited accounts will be for the period ended 31 March 2011

RCC LIFESCIENCES LIMITED

Cost	**£995,000**
Valuation	**£995,000**
Basis of valuation	Cost
Equity held	15.8% (NVM funds total 47.4%)
Business/location	Development of lifescience products., London
History	Acquisition capital financing in March 2010, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Nil

Audited financial information:

First audited accounts will be for the period ended 31 March 2011

Shareholder Information

The trust invests mainly in unquoted venture capital holdings.

The Company
Northern 2 VCT PLC is a Venture Capital Trust (VCT) launched in January 1999. The company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed fixed-interest investments and bank deposits.

The company is a member of the Association of Investment Companies (AIC).

Northern 2 VCT PLC is managed by NVM Private Equity Limited (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne and Reading. NVM also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern AIM VCT PLC and Northern 3 VCT PLC, and has a total of over £200 million under management.

Venture Capital Trusts
Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation being contained in the Finance Act 1995. VCTs are intended to provide a means whereby private individuals can invest in small unquoted trading companies in the UK, with an incentive in the form of a range of tax benefits. With effect from 6 April 2006, the benefits to eligible investors include:

- income tax relief at up to 30% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least five years;
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income); and
- exemption from capital gains tax on disposals of shares in VCTs.

Subscribers for shares in VCTs between 6 April 2004 and 5 April 2006 were entitled to income tax relief at 40% rather than 30% and the shares had to be held for at least three years rather than five years. Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% and could also obtain capital gains deferral relief. Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in VCT tax reliefs.

Financial calendar
The company's financial calendar for the year ending 31 March 2012 is as follows:

November 2011
Half-yearly financial report for the six months ending 30 September 2011 published

January 2012
Interim dividend paid

May 2012
Final dividend and results for year to 31 March 2012 announced

June 2012
Annual report and financial statements published

July 2012
Annual general meeting

July 2012
Final dividend paid

Share price
The company's share price is carried daily in the Financial Times, the Daily Telegraph, the Newcastle Journal and The Herald. The company's FTSE Actuaries classification is "Investment Companies – VCTs".

A range of shareholder information is provided on the internet at **www.shareview.co.uk** by the company's registrars, Equiniti Limited, including details of shareholdings, indicative share prices and information on recent dividends (see page 5 for contact details for Equiniti Limited).

Share price information can also be obtained via the NVM website at **www.nvm.co.uk**.

Dividend investment scheme
The company operates a dividend investment scheme, giving shareholders the option of reinvesting their dividends in new shares in the company with the benefit of the tax reliefs currently available to VCT subscribers. Information about the scheme can be obtained from the Company Secretary (see page 5 for contact details).

Directors' Report

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust.

The directors present their report and the audited financial statements for the 14 month period ended 31 March 2011.

Activities and status

The principal activity of the company during the period was the making of long term equity and loan investments, mainly in unquoted companies.

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust for the purposes of Section 274 of the Income Tax Act 2007. The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Chapter 2 of Part 10 of the Corporation Tax Act 2010.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2013 that the company should continue as a venture capital trust for a further five year period, and at each fifth subsequent annual general meeting thereafter. If any such resolution is not passed, the directors shall within four months convene a general meeting to consider proposals for the reorganisation or winding-up of the company.

Business review

The directors are required by Section 417 of the Companies Act 2006 to include a business review in their report to shareholders. The business review is set out on pages 6 to 10 and is included in the directors' report by reference.

Corporate governance

The statement on corporate governance set out on pages 22 to 26 is included in the directors' report by reference.

Results and dividend

The return on ordinary activities after tax for the period of £3,911,000 has been transferred to reserves.

The final dividend of 3.5p per share in respect of the year ended 31 January 2010 and the first interim dividend of 2.0p per share in respect of the 14 month period ended 31 March 2011 were paid during the period at a cost of £3,113,000 and have been charged to reserves.

The second interim dividend of 1.0p per share and, if approved by shareholders, the proposed final dividend of 3.5p per share for the 14 month period ended 31 March 2011 will be paid on 22 July 2011 to shareholders on the register on 1 July 2011.

Provision of information to auditors

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he is aware, there is no relevant audit information of which the company's auditors are unaware and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

After making the necessary enquiries, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Directors' Report

Directors

The directors of the company during the period and their interests in respect of which transactions are notifiable to the company under Disclosure and Transparency Rule 3.1.2R (and so far as the company is, or ought upon reasonable enquiry to become, aware, the interests of their connected persons) in the issued ordinary shares of 5p of the company as at 31 March 2011 are shown in Table 1.

Table 1: Directors' interests in ordinary shares

	31 March 2011	1 February 2010
D P A Gravells (Chairman)	**5,526**	5,526
A M Conn	**257,842**	240,037
E M P Denny	**125,000**	125,000
C G A Fletcher	**62,504**	62,504
Sir Frederick Holliday	**10,100**	10,100
F L G Neale	**68,377**	68,377

All of the directors' share interests were held beneficially. There have been no changes in the directors' share interests between 31 March 2011 and the date of this report.

None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management", no contract or arrangement subsisted during or at the end of the period in which any director was materially interested and which was significant in relation to the company's business.

Directors' and officers' liability insurance

The company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by any of them in relation to the company.

Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. There were no amounts owing to trade creditors at 31 March 2011.

Management

NVM Private Equity Limited (NVM) has acted as investment adviser and manager to the company since incorporation. The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements. Mr A M Conn is an executive director of NVM.

With effect from April 2006 a management performance incentive scheme was introduced under which investment executives employed by NVM are required to invest personally (and on the same terms as the company and other funds managed by NVM) in the ordinary share capital of investee companies in which the company invests. The directors review the operation of the scheme annually.

As required by the Listing Rules, the directors confirm that in their opinion the continuing appointment of NVM as investment manager on the terms agreed is in the interests of the company's shareholders as a whole.

In reaching this conclusion the directors have taken into account the performance of the investment portfolio and the efficient and effective service provided by NVM to the company.

Share capital – purchase of shares

During the period the company purchased for cancellation 1,100,000 of its own shares, representing 1.9% of the called-up share capital of the company at the beginning of the period, for a consideration of £706,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value.

At the 2010 annual general meeting shareholders authorised the company to purchase in the market up to 5,670,376 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 5p per share and a maximum price per share of not more than 105% of the average market value for the ordinary shares in the company for the five business days prior to the date on which the ordinary shares were purchased. As at 31 March 2011 1,100,000 shares had been purchased under this authority, which at that date remained effective in respect of 4,570,376 shares; the authority will lapse at the conclusion of the 2011 annual general meeting of the company on 19 July 2011.

Share capital – issue of shares

During the period the company issued 1,278,565 new ordinary shares for a cash consideration of £1,048,000 through a public offer for subscription and 386,482 new ordinary shares for a cash consideration of £291,000 through the company's dividend investment scheme. Details of allotments during the period are given in Note 15 to the financial statements.

Fixed assets

Movements in fixed asset investments during the period are set out in Note 9 to the financial statements.

Annual general meeting

Notice of the 2011 annual general meeting to be held on 19 July 2011 is set out in a separate circular to shareholders along with explanatory comments on the resolutions.

Substantial shareholdings

No disclosures of major shareholdings had been made to the company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules) as at the date of this report.

Independent auditors

KPMG Audit Plc have indicated their willingness to continue as auditors of the company and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

C D Mellor
Secretary 26 May 2011

Directors' Remuneration Report

The board currently comprises six directors, all of whom are non-executive.

This report has been prepared by the directors in accordance with the requirements of the Companies Act 2006. A resolution to approve the report will be proposed at the annual general meeting.

The company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below. Their report on these and other matters is set out on page 28.

Board of directors

The board currently comprises six directors, all of whom are non-executive. The board does not have a separate remuneration committee, as the company has no employees or executive directors. The board has established a nomination committee, comprising Mr D P A Gravells (Chairman), Mr E M P Denny, Mr C G A Fletcher, Professor Sir Frederick Holliday and Mr F L G Neale, which considers the selection and appointment of directors and makes recommendations to the board as to the level of directors' fees. The board has not retained external advisors in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type.

Remuneration policy

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies. It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company. Mr A M Conn is entitled to participate in performance incentive arrangements established for the benefit of certain executives of NVM, as described in the directors' report on page 18.

Directors' fees were reviewed by the nomination committee during its meeting in January 2011, when it was recommended that fees should remain at their present level of £18,750 per annum for the chairman and £14,500 for other directors for the year ending 31 March 2012. The articles of association place an overall limit (currently £150,000 per annum) on directors' remuneration.

Table 1: Directors' fees

	14 months ended 31 March 2011 £	Year ended 31 January 2010 £
D P A Gravells (Chairman)	**21,875**	17,500
A M Conn	**–**	–
E M P Denny	**16,917**	13,500
C G A Fletcher	**16,917**	13,500
Sir Frederick Holliday	**16,917**	13,500
F L G Neale	**16,917**	13,500

Directors' fees (audited information)

The fees paid to individual directors in respect of the 14 month period ended 31 March 2011 and the year ended 31 January 2010 are shown in Table 1.

Mr A M Conn waived his entitlement to directors' fees in respect of both periods. Mr C G A Fletcher's fees were paid to Baillie Gifford & Co in consideration for his services.

Terms of appointment

The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and any director who was not appointed or re-appointed at one of the preceding two annual general meetings shall retire and be subject to re-election at each annual general meeting. None of the directors has a service contract with the company. On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities. A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances.

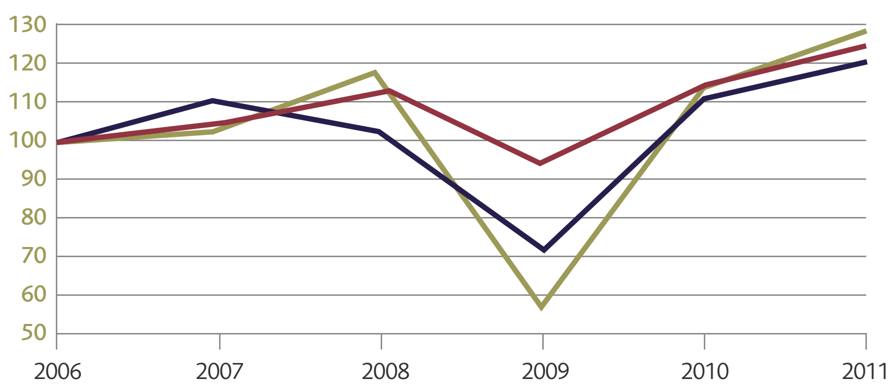
Company performance

The graph below compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 31 March 2011 with the total return from a notional investment in the FTSE All-Share index over the same period. This index is considered to be the most appropriate broad equity market index for comparative purposes.

By order of the Board

C D MELLOR
Secretary 26 May 2011

Return to shareholders in Northern 2 VCT PLC
Five years to 31 March 2011 (March 2006 = 100)



Northern 2 VCT NAV total return
Northern 2 VCT share price total return
FTSE All-share index total return

Corporate Governance

The company is committed to maintaining high standards in corporate governance.

The board of Northern 2 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the related Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company. The AIC Code can be viewed at www.theaic.co.uk/Documents/Technical/AICCodeofCorporateGovernanceMarch2010.pdf.

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The company is committed to maintaining high standards in corporate governance and during the 14 month period ended 31 March 2011 complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the board considers these provisions are not relevant to the position of the company, which is an externally managed venture capital trust. The company has therefore not reported further in respect of these provisions.

Board of directors

The company has a board of six non-executive directors, the majority of whom are considered to be independent of the company's investment manager, NVM. The board meets regularly on a quarterly basis, and on other occasions as required. The board is responsible to shareholders for the effective stewardship of the company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

- consideration of long-term strategic issues;
- valuation of the unquoted investment portfolio; and
- ensuring the company's compliance with good practice in corporate governance matters.

A brief biographical summary of each director is given on page 4.

The chairman, Mr D P A Gravells, leads the board in the determination of its strategy and in the achievement of its objectives. The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the company. He facilitates the effective contribution of the directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The board has established a formal process, led by the chairman, for the annual evaluation of the performance of the board, its principal committees and individual directors. The directors are made aware on appointment that their performance will be subject to regular evaluation. The performance of the chairman is evaluated by a meeting of the other board members under the leadership of Professor Sir Frederick Holliday.

The company secretary, Mr C D Mellor, is responsible for advising the board through the chairman on all governance matters. All of the directors have access to the advice and services of the company secretary, who has administrative responsibility for the meetings of the board and its committees. Directors may also take independent professional advice at the company's expense where necessary in the performance of their duties. Professor Sir Frederick Holliday is the senior non-executive director of the company.

The company's articles of association and the schedule of matters reserved to the board for decision provide that the appointment and removal of the company secretary is a matter for the full board.

The company's articles of association require that one third of the directors should retire by rotation each year and seek re-election at the annual general meeting, and that directors appointed by the board should seek re-appointment at the next annual general meeting. The board complies with the requirement of the UK Corporate Governance Code that all directors are required to submit themselves for re-election at least every three years.

Independence of directors

The board regularly reviews the independence of its members and is satisfied that (with the exception of Mr A M Conn who is a director and employee of NVM, the company's investment manager and Mr E M P Denny who is a former director and employee of NVM) the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity. Mr F L G Neale is a non-executive director of Northern Investors Company PLC, which is also managed by NVM, but after careful consideration the board has concluded that Mr Neale's independence is not affected by this relationship.

The AIC Code recommends that where a director has served for more than nine years, the board should state its reasons for believing that the individual remains independent. The board is of the view that a term of service in excess of nine years is not of itself prejudicial to a director's ability to carry out his duties effectively and from an independent perspective; the nature of the company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. Accordingly it is not considered appropriate to require directors who have served for more than nine years to seek annual re-election. Nevertheless the board acknowledges that periodic refreshment of its membership is desirable.

Board committees

The board has appointed three standing committees to make recommendations to the board in specific areas. The board does not have a separate remuneration committee, as the company has no employees or executive directors. Detailed information relating to the remuneration of directors is given in the directors' remuneration report on pages 20 and 21.

Audit Committee

During the period the audit committee comprised:

Mr C G A Fletcher (Chairman)
Professor Sir Frederick Holliday
Mr F L G Neale

The audit committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the board in relation to the company's published financial statements and other formal announcements relating to the company's financial performance;
- monitoring and making recommendations to the board in relation to the company's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditors are engaged to supply non-audit services; and
- ensuring that the investment manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes required as a result of the review. The terms of reference are available on request from the company secretary. The audit committee meets three times per year and has direct access to KPMG Audit Plc, the company's external auditors.

Corporate Governance

The board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The company does not have an independent internal audit function as it is not deemed appropriate given the size of the company and the nature of the company's business. However, the committee considers annually whether there is a need for such a function and if so would recommend this to the board.

During the 14 month period ended 31 March 2011 the audit committee discharged its responsibilities by:

- monitoring and approving the external auditors' terms of engagement and remuneration;
- monitoring the external auditors' plan for the audit of the company's financial statements, including identification of key risks and confirmation of auditor independence;
- monitoring NVM's statement of internal controls operated in relation to the company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- monitoring periodic reports on the effectiveness of NVM's compliance procedures;
- monitoring the appropriateness of the company's accounting policies;
- monitoring the company's draft annual financial statements, half-yearly results statement and interim management statements prior to board approval;
- monitoring the external auditors' detailed reports to the committee on the annual financial statements; and
- recommending to the board and shareholders the reappointment of KPMG Audit plc as the auditors of the company.

Table 1: Directors' attendance at meetings

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of meetings held	6	3	1	1
Attendance (actual/possible):				
D P A Gravells (Chairman)	6/6	N/A	1/1	1/1
A M Conn	6/6	N/A	N/A	N/A
E M P Denny	5/6	N/A	1/1	N/A
C G A Fletcher	6/6	3/3	1/1	1/1
Sir Frederick Holliday	6/6	3/3	1/1	1/1
F L G Neale	6/6	3/3	1/1	1/1

Nomination Committee

During the period the nomination committee comprised:

Mr D P A Gravells (Chairman)
Mr E M P Denny
Mr C G A Fletcher
Professor Sir Frederick Holliday
Mr F L G Neale

The nomination committee considers the selection and appointment of directors and makes annual recommendations to the board as to the level of directors' fees. The committee monitors the balance of skills, knowledge and experience offered by board members, and satisfies itself that they are able to devote sufficient time to carry out their role efficiently and effectively. When recommending new appointments to the board the committee draws on its members' extensive business experience and range of contacts to identify suitable candidates; the use of formal advertisements and external consultants is not considered cost-effective given the company's size. New directors are provided with briefing material relating to the company, its investment managers and the venture capital industry as well as to their own legal responsibilities as directors. The committee has written terms of reference which are reviewed annually and are available on request from the company secretary.

Management Engagement Committee

During the period the management engagement committee comprised:

Mr D P A Gravells (Chairman)
Mr C G A Fletcher
Professor Sir Frederick Holliday
Mr F L G Neale

The management engagement committee undertakes a periodic review of the performance of the investment manager, NVM, and of the terms of the management agreement including the level of fees payable and the length of the notice period. The principal terms of the agreement are set out in Note 3 to the financial statements on page 34.

Following the latest review by the committee, the board concluded that the continuing appointment of NVM was in the interests of the company and its shareholders as a whole. NVM has demonstrated its commitment to and expertise in venture capital investment over an extended period, as a result of which the company has established a consistent long-term performance record. NVM has also performed its company secretarial and accounting duties efficiently and effectively.

Attendance at board and committee meetings

Table 1 sets out the number of formal board and committee meetings held during the 14 month period ended 31 March 2011 and the number attended by each director compared with the maximum possible attendance.

Corporate responsibility

The board aims to ensure that the company takes a positive approach to corporate responsibility, in relation both to itself and to the companies it invests in. This entails maintaining a responsible attitude to ethical, environmental, governance and social issues, and the encouragement of good practice in investee companies. The board seeks to avoid investing in companies which do not operate within relevant ethical, environmental and social legislation or otherwise fail to comply with appropriate industry standards.

Investor relations

In fulfilment of the chairman's obligations under the UK Corporate Governance Code, the chairman gives feedback to the board on issues raised with him by shareholders with a view to ensuring that members of the board develop an understanding of the views of shareholders about their company. The board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual general meeting to question the board and the investment manager on matters relating to the company's operation and performance. Proxy voting figures for each resolution are announced at general meetings and are made available publicly following the relevant meeting.

Further information can also be obtained via the NVM website at **www.nvm.co.uk**.

Internal control

The directors have overall responsibility for ensuring that there are in place systems of internal control, both financial and non-financial, and for reviewing their effectiveness. The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The board regularly reviews financial performance and results with the investment manager. Responsibility for accounting, secretarial services and physical custody of documents of title relating to venture capital investments has been contractually delegated to NVM under the management agreement. NVM has established its own system of internal controls in relation to these matters, details of which have been reviewed by the audit committee.

Non-financial internal controls include the systems of operational and compliance controls maintained by the investment manager in relation to the company's business as well as the management of key risks as referred to in the section headed "Risk management" below.

The directors confirm that by means of the procedures set out above, and in accordance with "Internal Controls: Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and have reviewed the effectiveness of the internal control systems. This process has been in place throughout and subsequent to the accounting period under review.

Risk management

Risk management is discussed in the Business Review on page 10.

Share capital, rights attaching to the shares and restrictions on voting and transfer

As at 31 March 2011 57,468,808 ordinary shares were in issue (as at that date none of the issued shares were held by the company as treasury shares). Subject to any suspension or abrogation of rights pursuant to relevant law or the company's articles of association, the shares confer on their holders (other than the company in respect of any treasury shares) the following principal rights:

(a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the company;

(b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the company remaining after payment of its liabilities pari passu with the other holders of ordinary shares; and

(c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the company. On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder; the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the company's articles of association with a notice pursuant to Section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares), the company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares.

Shareholders, either alone or with other shareholders, have other rights as set out in the company's articles of association and in the Companies Act 2006.

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his shares, subject in the case of certificated shares to the rules set out in the company's articles of association or in the case of uncertificated shares to the regulations governing the operation of CREST

(which allow the directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell out rules relating to the shares in the company's articles of association, shareholders are subject to the compulsory acquisition provisions in Sections 974 to 991 of the Companies Act 2006.

Amendment of articles of association

The company's articles of association may be amended by the members of the company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

Appointment and replacement of directors

A person may be appointed as a director of the company by the shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the directors; no person, other than a director retiring by rotation or otherwise, shall be appointed or reappointed a director at any general meeting unless he is recommended by the directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the company's articles of association.

Each director who is appointed by the directors (and who has not been elected as a director of the company by the members at a general meeting held in the interval since his appointment as a director of the company) is to be subject to election as a director of the company by the members at the first annual general meeting of the company following his appointment. At each annual general meeting of the company one third of the directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one third, are to be subject to re-election.

The Companies Act 2006 allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the company.

A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the company's articles of association.

Powers of the directors

The company's articles of association specify that, subject to the provisions of the Companies Act 2006, the articles of association of the company and any directions given by shareholders by special resolution, the business of the company is to be managed by the directors, who may exercise all the powers of the company, whether relating to the management of the business or not. In particular the directors may exercise on behalf of the company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the company's 2010 annual general meeting to make market purchases of up to 5,670,376 ordinary shares at any time up to the 2011 annual general meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the annual general meeting to be held on 19 July 2011 as set out in a separate circular.

By order of the Board

C D MELLOR
Secretary 26 May 2011

Directors' Responsibilities Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 the period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The company's financial statements are published on the NVM website, **www.nvm.co.uk**. The maintenance and integrity of this website is the responsibility of NVM and not of the company. The work carried out by KPMG Audit Plc as independent auditors of the company does not involve consideration of the maintenance and integrity of the website and accordingly they accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

By order of the Board

C D MELLOR
Secretary 26 May 2011

Independent Auditors' Report

To the members of NORTHERN 2 VCT PLC

We have audited the financial statements of Northern 2 VCT PLC for the 14 month period ended 31 March 2011 set out on pages 30 to 44. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at **www.frc.org.uk/apb/scope/private.cfm**.

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 31 March 2011 and of its profit for the period then ended;
- have been properly prepared in accordance with UK 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; and
- the information given in the Directors' Report 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 22 to 26 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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:

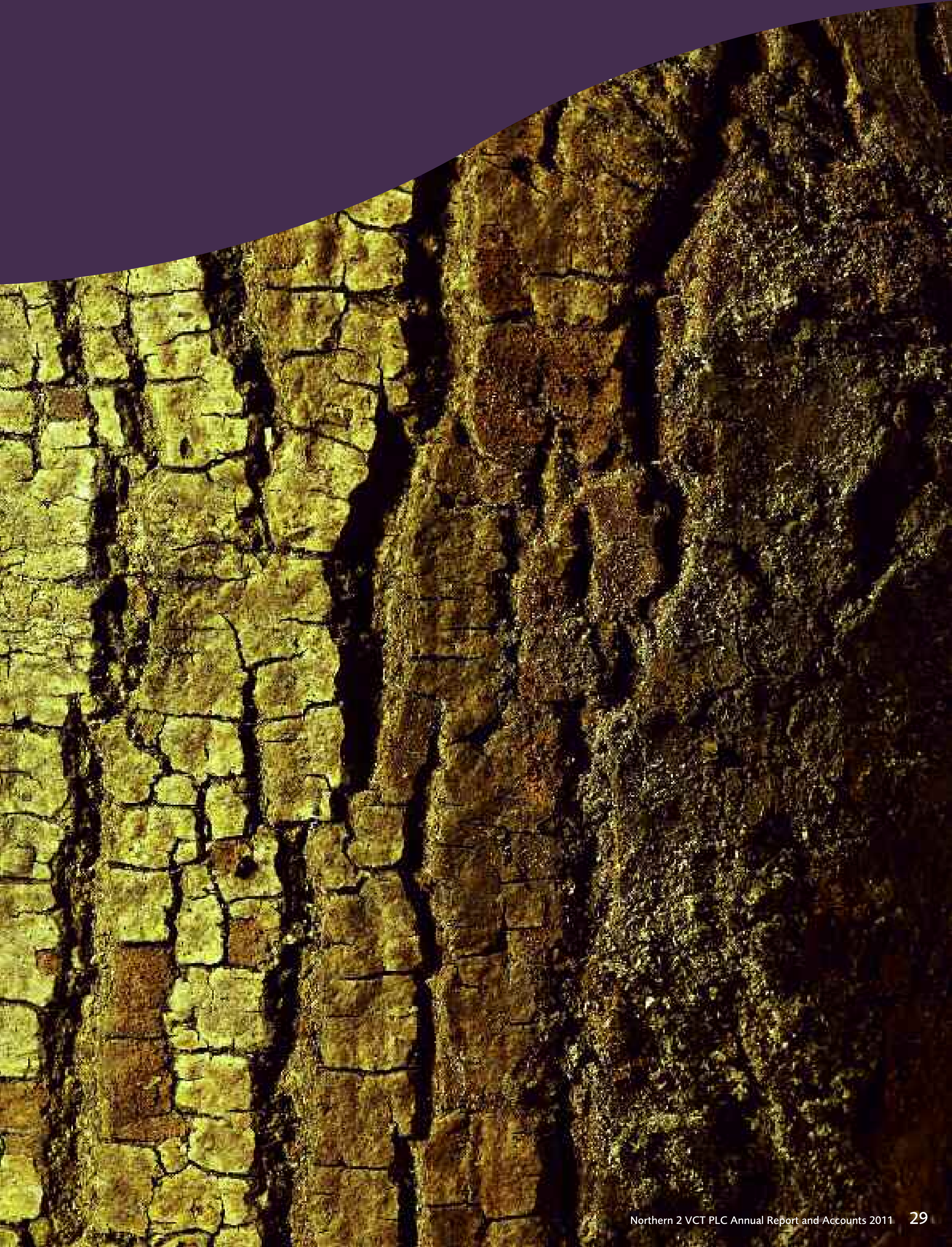
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- 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 17, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Simon Pashby
(Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh 26 May 2011

Financial Statements



Income Statement

for the 14 months ended 31 March 2011

	Notes	14 months ended 31 March 2011 Revenue £000	Capital £000	Total £000	Year ended 31 January 2010 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	9	–	1,065	1,065	–	4,676	4,676
Movements in fair value of investments	9, 16	–	2,206	2,206	–	2,505	2,505
		–	3,271	3,271	–	7,181	7,181
Income	2	2,034	–	2,034	1,704	–	1,704
Investment management fee	3	(263)	(983)	(1,246)	(215)	(647)	(862)
Recoverable VAT	4	72	215	287	–	–	–
Other expenses	5	(329)	–	(329)	(303)	–	(303)
Return on ordinary activities before tax		1,514	2,503	4,017	1,186	6,534	7,720
Tax on return on ordinary activities	6	(321)	215	(106)	(198)	185	(13)
Return on ordinary activities after tax		1,193	2,718	3,911	988	6,719	7,707
Return per share	8	2.1p	4.8p	6.9p	1.7p	11.8p	13.5p

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.
- The accompanying notes are an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

for the 14 months ended 31 March 2011

	Notes	14 months ended 31 March 2011 £000	Year ended 31 January 2010 £000
Equity shareholders' funds at 1 February 2010		44,349	39,702
Return on ordinary activities after tax		3,911	7,707
Dividends recognised in the period	7	(3,113)	(3,130)
Net proceeds of share issues	15	1,272	271
Shares purchased for cancellation	15	(706)	(201)
Equity shareholders' funds at 31 March 2011		45,713	44,349

- The accompanying notes are an integral part of this statement.

Balance Sheet

as at 31 March 2011

	Notes	31 March 2011 £000	31 January 2010 £000
Fixed assets			
Investments	9	41,984	29,629
Current assets			
Debtors	13	798	658
Cash and deposits		3,996	14,180
		4,794	14,838
Creditors (amounts falling due within one year)	14	(1,065)	(118)
Net current assets		3,729	14,720
Net assets		45,713	44,349
Capital and reserves			
Called-up equity share capital	15	2,873	2,845
Share premium	16	35,461	34,272
Capital redemption reserve	16	410	355
Capital reserve	16	6,167	8,348
Revaluation reserve	16	(31)	(2,243)
Revenue reserve	16	833	772
Total equity shareholders' funds		45,713	44,349
Net asset value per share	17	79.5p	77.9p

- The accompanying notes are an integral part of this statement.

The financial statements on pages 30 to 44 were approved by the directors on 26 May 2011 and are signed on their behalf by:

D P A Gravells
Director

C G A Fletcher
Director

Cash Flow Statement

for the 14 months ended 31 March 2011

	14 months ended 31 March 2011 £000	14 months ended 31 March 2011 £000	Year ended 31 January 2010 £000	Year ended 31 January 2010 £000
Net cash inflow from operating activities		839		657
Taxation				
Corporation tax paid		(22)		(409)
Financial investment				
Purchase of investments	(14,839)		(11,220)	
Sale/repayment of investments	6,385		16,321	
Net cash inflow/(outflow) from financial investment		(8,454)		5,101
Equity dividends paid		(3,113)		(3,130)
Net cash inflow/(outflow) before financing		(10,750)		2,219
Financing				
Issue of ordinary shares	1,340		297	
Share issue expenses	(68)		(26)	
Purchase of ordinary shares for cancellation	(706)		(201)	
Net cash inflow from financing		566		70
Increase/(decrease) in cash and deposits		(10,184)		2,289
Reconciliation of return before tax to net cash flow from operating activities				
Return on ordinary activities before tax		4,017		7,720
Gain on disposal of investments		(1,065)		(4,676)
Movements in fair value of investments		(2,206)		(2,505)
(Increase)/decrease in debtors		(140)		155
Increase/(decrease) in creditors		233		(37)
Net cash inflow from operating activities		839		657

Analysis of movement in net funds

	1 February 2010 £000	Cash flows £000	31 March 2011 £000
Cash and deposits	14,180	(10,184)	3,996

Notes to the Financial Statements

for the 14 months ended 31 March 2011

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year and the preceding year, is set out below.

a Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in January 2009, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

b Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date).

The company's investments have been designated by the directors as fair value through profit and loss at the time of acquisition and are measured at subsequent reporting dates at fair value. In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending on the convention of the exchange on which the investment is quoted. In the case of unquoted investments, fair value is established in accordance with industry guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the revaluation reserve. Transaction costs attributable to the acquisition or disposal of investments are charged to capital return within the income statement.

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the company's normal policy and are not equity accounted as required by the Companies Act 2006. The directors consider that, as these investments are held as part of the company's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the company's interests in these investments. Quantification of the effect of this departure is not practicable. Carrying investments at fair value is specifically permitted under Financial Reporting Standard 9 "Associates and Joint Ventures", where venture capital entities hold investments as part of a portfolio.

c Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares and debt securities are recognised on an effective interest rate basis, provided there is no reasonable doubt that payment will be received in due course.

d Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue return within the income statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are allocated to capital return as incurred; and
- expenses are split and allocated partly to capital return where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the basic element of the investment management fee has been allocated 25% to revenue return and 75% to capital return, in order to reflect the directors' expected long-term view of the nature of the investment returns of the company. The performance-related element of the investment management fee has been charged 100% to capital return.

e Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the company. The capital column includes realised and unrealised gains and losses on investments and that part of the investment management fee which is allocated to capital return.

f Taxation

UK corporation tax payable is provided on taxable profits at the current rate. The tax charge for the year is allocated between revenue return and capital return on the "marginal basis" as recommended in the SORP.

Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability.

g Dividends payable

Dividends payable are recognised as distributions in the financial statements when the company's liability to make payment has been established.

h Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. No provision is established where a reliable estimate of the obligation cannot be made. Provisions are allocated to revenue or capital depending on the nature of the circumstances.

1 Accounting policies continued

i Capital reserve

The following are accounted for in the capital reserve: gains or losses on the realisation of investments; realised and unrealised exchange differences of a capital nature; the cost of repurchasing ordinary shares, including stamp duty and transaction costs; and other capital charges and credits charged to this account in accordance with the above policies.

j Revaluation reserve

Changes in fair value of investments are dealt with in this reserve.

2 Income

	14 months ended 31 March 2011 £000	Year ended 31 January 2010 £000
Franked investment income:		
Unquoted companies	351	414
Quoted companies	18	21
Interest receivable:		
Bank deposits*	21	139
Loans to unquoted companies	1,276	864
Listed fixed-interest investments	351	211
Sundry income*	17	55
	2,034	1,704

* Denotes income arising from investments not designated as fair value through profit or loss at the time of acquisition.

3 Investment management fee

	14 months ended 31 March 2011			Year ended 31 January 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	263	789	1,052	215	647	862
Performance-related	–	194	194	–	–	–
	263	983	1,246	215	647	862

NVM Private Equity Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 20 December 1999, which may be terminated at any time by not less than twelve months' notice being given by either party.

NVM receives a basic management fee, payable quarterly in advance, at the rate of 2.06% per annum of net assets calculated half-yearly as at 31 March and 30 September. NVM bears the cost of Sarasin & Partners' fees for managing the listed fixed-interest portfolio. NVM also provides administrative and secretarial services to the company for a fee of £45,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 5).

NVM is entitled to receive a performance-related management fee equivalent to 9.5% of the amount, if any, by which the total return in each financial year (expressed as a percentage of opening net asset value) exceeds a performance hurdle. The hurdle is a composite rate based on 7% on average long-term investments and base rate on average cash and near-cash investments during the year. Following a period in which net assets decline, a "high water mark" will apply to the calculation of the performance-related fee but will be then adjusted downwards to the extent that a positive return is achieved in the following financial year. The performance-related management fee is subject to an overall cap of 2.25% of net assets.

The total running costs of the company, excluding performance-related management fees, are capped at 3.5% of its net assets and NVM has agreed that any excess will be refunded by way of a reduction in its fees.

4 Recoverable VAT

During the period the company received a repayment of £287,000 relating to VAT previously paid on investment management fees between 2002 and 2005. The managers continue to pursue a claim against HM Revenue & Customs in relation to the payment of compound rather than simple interest on VAT repayments, but the directors have been advised that the outcome of this claim is uncertain and accordingly any proceeds will be recognised only at the time of receipt.

5 Other expenses

	14 months ended 31 March 2011 £000	Year ended 31 January 2010 £000
Administrative and secretarial services	53	44
Directors' remuneration	90	72
Auditors' remuneration – audit services	17	16
Legal and professional expenses	23	21
Share issue promoter's commission	29	40
Irrecoverable VAT	14	16
Other expenses	103	94
	329	303

Information on directors' remuneration is given in the directors' remuneration report on pages 20 and 21.

6 Tax on return on ordinary activities

	14 months ended 31 March 2011			Year ended 31 January 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the period						
UK corporation tax payable/(recoverable) on the return for the period	321	(215)	106	198	(185)	13
(b) Tax reconciliation						
Return on ordinary activities before tax	1,514	2,503	4,017	1,186	6,534	7,720
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 28% (2010 28%)	424	701	1,125	332	1,372	1,704
Effect of:						
UK dividends not subject to tax	(103)	–	(103)	(122)	–	(122)
Capital returns not subject to tax	–	(298)	(298)	–	(982)	(982)
Unrealised adjustments to fair value	–	(618)	(618)	–	(526)	(526)
Marginal relief	–	–	–	(3)	(49)	(52)
Adjustment to tax charge in respect of prior periods	–	–	–	(9)	–	(9)
Current tax charge/(credit) for the period	321	(215)	106	198	(185)	13

(c) Factors which may affect future tax charges
The directors are not aware of any matters which may affect the tax charges in future periods. There is no provided or unprovided deferred tax as at 31 March 2011.

Approved venture capital trusts are exempt from tax on capital gains within the company. Since the directors intend that the company will continue to conduct its affairs so as to maintain its approval as a venture capital trust, no current or deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

7 Dividends

	14 months ended 31 March 2011 Revenue £000	Capital £000	Total £000	Year ended 31 January 2010 Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the period						
Previous year's final dividend	566	1,417	1,983	853	1,137	1,990
Current year's interim dividend	565	565	1,130	570	570	1,140
	1,131	1,982	3,113	1,423	1,707	3,130
(b) Paid and proposed in respect of the period						
First interim paid – 2.0p (2010 2.0p) per share	565	565	1,130	570	570	1,140
Second interim proposed – 1.0p (2010 nil) per share	–	575	575	–	–	–
Final proposed - 3.5p (2010 3.5p) per share	575	1,437	2,012	569	1,423	1,992
	1,140	2,577	3,717	1,139	1,993	3,132

The revenue dividends paid and proposed in respect of the period form the basis for determining whether the company has complied with the requirements of Section 274 of the Income Tax Act 2007 as to the distribution of investment income.

The proposed final dividend of 3.5p per share for the 14 months ended 31 March 2011 is subject to approval by shareholders at the annual general meeting on 19 July 2011 and has not been recognised as a liability in these financial statements.

8 Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the period of £3,911,000 (2010 £7,707,000) and on 56,667,849 (2010 56,970,265) shares, being the weighted average number of shares in issue during the period.

9 Investments

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (FRS 29) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investments with quoted prices in an active market.
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices.
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

	31 March 2011 £000	31 January 2010 £000
Level 1		
Quoted venture capital investments	2,915	2,542
Listed fixed-interest investments	8,955	8,837
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	30,114	18,250
	41,984	29,629

9 Investments continued

Movements in investments during the period are summarised as follows:

	Venture capital – unquoted Level 3 £000	Venture capital – quoted Level 1 £000	Listed fixed-interest Level 1 £000	Total £000
Book cost at 1 February 2010	18,848	3,955	9,069	31,872
Fair value adjustment at 1 February 2010	(598)	(1,413)	(232)	(2,243)
Fair value at 1 February 2010	18,250	2,542	8,837	29,629
Movements in the period:				
Purchases at cost	10,720	273	3,846	14,839
Disposals – proceeds	(2,045)	(500)	(3,840)	(6,385)
– net realised gains/(losses) on disposal	1,096	40	(71)	1,065
Movements in fair value	2,093	560	183	2,836
Fair value at 31 March 2011	30,114	2,915	8,955	41,984
Comprising:				
Book cost at 31 March 2011	28,930	3,379	9,076	41,385
Fair value adjustment at 31 March 2011	1,184	(464)	(121)	599
	30,114	2,915	8,955	41,984
Equity shares	10,857	2,915	–	13,772
Preference shares	450	–	–	450
Interest-bearing securities	18,807	–	8,955	27,762
	30,114	2,915	8,955	41,984

The gains and losses included in the above table have all been recognised in the Income Statement on page 30.

FRS 29 requires disclosure, by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of each investee company. On that prudent basis the directors consider that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly.

At 31 March 2011 there were commitments totalling £759,000 (31 January 2010 £5,092,000) in respect of investments approved by the manager but not yet completed.

10 Investment disposals

Disposals of venture capital investments during the period were as follows:

	Original cost £000	Carrying valuation at 31 January 2010 £000	Disposal proceeds £000	Realised gain/ (loss) against carrying value £000
Advanced Computer Software (AIM quoted)	49	105	115	10
Andor Technology (AIM quoted)	123	191	385	194
Connaught (AIM quoted)	119	101	–	(101)
Direct Valeting - loan stock repayment	88	88	110	22
DxS - deferred consideration	–	–	769	769
IG Doors - loan stock repayment	257	257	296	39
Mantis Deposition Holdings - loan stock repayment	437	437	437	–
Pivotal Laboratories Holdings - deferred consideration	–	–	122	122
Product Support (Holdings) - deferred consideration	–	–	104	104
S&P Coil Products - loan stock repayment	166	166	182	16
Shieldtech (AIM quoted)	248	64	–	(64)
Others	–	–	25	25
	1,487	1,409	2,545	1,136

11 Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2011 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on page 11, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 March 2011 Total cost £000	31 March 2011 Carrying value £000	31 January 2010 Total cost £000	31 January 2010 Carrying value £000
Kerridge Commercial Systems Limited				
Ordinary shares	175	1,476	–	–
Loan stock	1,565	1,565	–	–
	1,740	3,041	–	–
Promanex Group Holdings Limited				
Ordinary shares	618	1,059	100	–
Loan stock	1,076	1,076	900	750
	1,694	2,135	1,000	750
CloserStill Holdings Limited				
Ordinary shares	192	712	191	465
Loan stock	809	809	809	809
	1,001	1,521	1,000	1,274
Arleigh International Limited				
Ordinary shares	44	543	43	562
Loan stock	895	895	392	392
	939	1,438	435	954
Envirotec Limited				
Ordinary shares	225	531	225	698
Loan stock	750	900	750	750
	975	1,431	975	1,448
IG Doors Limited				
Ordinary shares	101	719	100	100
Loan stock	643	643	900	900
	744	1,362	1,000	1,000
Crantock Bakery Limited				
Ordinary shares	225	477	225	877
Loan stock	882	882	882	882
	1,107	1,359	1,107	1,759
Kitwave One Limited				
Ordinary shares	127	127	–	–
Loan stock	1,119	1,119	–	–
	1,246	1,246	–	–
Paladin Group Limited				
Ordinary shares	389	291	389	343
Loan stock	918	918	918	918
	1,307	1,209	1,307	1,261
Alaric Systems Limited				
Ordinary shares	995	630	995	–
Loan stock	274	570	274	274
	1,269	1,200	1,269	274
Axial Systems Holdings Limited				
Ordinary shares	145	282	145	246
Loan stock	859	859	859	859
	1,004	1,141	1,004	1,105

11 Unquoted investments continued

	31 March 2011 Total cost £000	31 March 2011 Carrying value £000	31 January 2010 Total cost £000	31 January 2010 Carrying value £000
Wear Inns Limited				
Ordinary shares	276	276	237	136
Loan stock	840	840	415	415
	1,116	1,116	652	551
Cawood Scientific Limited				
Ordinary shares	118	118	–	–
Loan stock	913	913	–	–
	1,031	1,031	–	–
Evolve Investments Limited				
Ordinary shares	100	100	–	–
Loan stock	895	895	–	–
	995	995	–	–
RCC Lifesciences Limited				
Ordinary shares	100	100	–	–
Loan stock	895	895	–	–
	995	995	–	–
S&P Coil Products Limited				
Ordinary shares	62	624	62	473
Loan stock	251	277	417	417
	313	901	479	890
Direct Valeting Limited				
Ordinary shares	91	283	91	91
Redeemable preference shares	450	450	450	450
Loan stock	65	65	153	153
	606	798	694	694
Longhirst Venues Limited				
Ordinary shares	110	326	110	663
Loan stock	265	265	265	265
	375	591	375	928
Mantis Deposition Holdings Limited (formerly Phusion Healthcare Limited)				
Ordinary shares	110	110	100	100
Loan stock	458	458	895	895
	568	568	995	995
Optilan Group Limited				
Ordinary shares	179	–	179	–
Loan stock	821	500	821	821
	1,000	500	1,000	821
Britspace Group Limited				
Ordinary shares	866	–	866	866
Loan stock	608	–	608	608
	1,474	–	1,474	1,474

Additional information relating to material investments in unquoted companies is given on pages 12 to 15.

12 Significant interests

Details of shareholdings in those companies where the company's holding at 31 March 2011 represents (1) more than 20% of the allotted equity share capital of any class, (2) more than 20% of the total allotted share capital or (3) more than 20% of the assets of the company itself, are given below. All of the companies named are incorporated in Great Britain.

Company	Class of shares (nominal value £1 unless stated)	Number held	Proportion of class held
Britspace Group Limited	A ordinary (0.1p)	866,289	28.9%
Direct Valeting Limited	Ordinary (1p)	149,700	30.0%
	Preference	450,000	30.0%

13 Debtors

	31 March 2011 £000	31 January 2010 £000
Prepayments and accrued income	404	658
Other debtors	394	–
	798	658

14 Creditors (amounts falling due within one year)

	31 March 2011 £000	31 January 2010 £000
Accruals and deferred income	329	96
Provision for investment liabilities (Note 19)	630	–
Corporation tax payable	106	22
	1,065	118

15 Called-up equity share capital

	31 March 2011 £000	31 January 2010 £000
Allotted and fully paid:		
57,468,808 (2010 56,903,761) ordinary shares of 5p	2,873	2,845

The capital of the company is managed in accordance with its investment policy with a view to the achievement of its investment objective, as set out on pages 6 and 7. The company is not subject to externally imposed capital requirements.

During the period the company issued 1,278,565 ordinary shares for cash at a price of 82.0p (a premium of 77.0p) per share pursuant to a public offer for subscription and 386,482 ordinary shares for cash at a price of 75.4p (a premium of 70.4p) per share in connection with the dividend investment scheme. 1,100,000 ordinary shares were re-purchased for cancellation during the period at a cost of £706,000.

16 Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 February 2010	34,272	355	8,348	(2,243)	772
Premium on issue of ordinary shares	1,257	–	–	–	–
Share issue expenses	(68)	–	–	–	–
Shares purchased for cancellation	–	55	(706)	–	–
Realised on disposal of investments	–	–	1,065	–	–
Transfer on disposal of investments	–	–	(6)	6	–
Movements in fair value of investments	–	–	–	2,836	–
Provision for investment liabilities (Note 19)	–	–	–	(630)	–
Management fee capitalised net of associated tax	–	–	(553)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	1,193
Dividends recognised in the period	–	–	(1,981)	–	(1,132)
At 31 March 2011	35,461	410	6,167	(31)	833

At 31 March 2011 distributable reserves amounted to £6,879,000 (31 January 2010 £8,888,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed fixed-interest investments.

17 Net asset value per share

The calculation of net asset value per share as at 31 March 2011 is based on net assets of £45,713,000 (2010 £44,349,000) divided by the 57,468,808 (2010 56,903,761) ordinary shares in issue at that date.

18 Financial instruments

The company's financial instruments comprise equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors. The company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT-qualifying unquoted and AIM-quoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Fixed asset investments (see note 9) are valued at fair value. For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted. Unquoted investments are carried at fair value as determined by the directors in accordance with current venture capital industry guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet.

In carrying on its investment activities, the company is exposed to various types of risk associated with the financial instruments and markets in which it invests. The most significant types of financial risk facing the company are market risk, credit risk and liquidity risk. The company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

Market risk

The company's strategy for managing investment risk is determined with regard to the company's investment objective, as outlined in the business review on pages 6 to 10. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The company's portfolio is managed in accordance with the policies and procedures described in the corporate governance statement on pages 22 to 26, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the company's assets is monitored by the board on a quarterly basis.

Details of the company's investment portfolio at the balance sheet date are set out on page 11. An analysis of investments between debt and equity instruments is given in Note 9.

18 Financial instruments continued

6.4% (31 January 2010 5.7%) by value of the company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 5% movement in the bid price of these securities as at 31 March 2011 would have changed net assets and the total return for the period by £146,000 (31 January 2010 £127,000).

65.9% (31 January 2010 41.2%) by value of the company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 5% movement in the valuation of the unquoted investments at 31 March 2011 would have changed net assets and the total return for the period by £1,506,000 (31 January 2010 £913,000).

Interest rate risk

Some of the company's financial assets are interest-bearing, of which some are at fixed rates and some variable. As a result, the company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

(a) Fixed rate investments

The table below summarises weighted average effective interest rates for the company's fixed rate interest-bearing financial instruments:

	31 March 2011			31 January 2010		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Listed fixed-interest investments	8,955	2.9%	1.9	8,837	5.0%	2.1
Short-term cash deposits	2,000	0.7%	0.1	4,500	0.5%	0.1
Fixed-rate investments in unquoted companies	2,685	9.8%	2.2	2,953	10.9%	1.8
	13,640			16,290		

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have had a significant effect on the company's net assets or total return for the period.

(b) Floating rate investments

The company's floating rate investments comprise floating-rate loans to unquoted companies and cash held in interest-bearing deposit accounts. The benchmark rate which determines the rate of interest receivable on such investments is the UK bank base rate, which was 0.5% at 31 March 2011 (31 January 2010 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2011 £000	31 January 2010 £000
Floating rate loans to unquoted companies	16,123	8,528
Interest-bearing deposit accounts	1,996	9,680
	18,119	18,208

18 Financial instruments continued

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company. The investment manager and the board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

At 31 March 2011 the company's financial assets exposed to credit risk comprised the following:

	31 March 2011 £000	31 January 2010 £000
Listed fixed-interest investments	8,955	8,837
Short-term cash deposits	2,000	4,500
Fixed-rate investments in unquoted companies	2,685	2,953
Floating rate loans to unquoted companies	16,123	8,528
Interest-bearing deposit accounts	1,996	9,680
Accrued dividends and interest receivable	396	101
	32,155	34,599

Credit risk relating to listed fixed-interest investments is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government, European Union governments and major UK and international companies and institutions. Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk.

Those assets of the company which are traded on recognised stock exchanges are held on the company's behalf by third party custodians (Bank of New York in the case of listed fixed-interest investments and Brewin Dolphin Limited in the case of quoted equity securities). Bankruptcy or insolvency of a custodian could cause the company's rights with respect to securities held by the custodian to be delayed or limited.

Credit risk arising on transactions with brokers relates to transactions in quoted securities awaiting settlement. Risk relating to unsettled transactions is considered to be low due to the short settlement period involved and the high credit quality of the brokers used. The board further mitigates the risk by monitoring the quality of service provided by the brokers.

The company's interest-bearing deposit accounts are maintained with major UK clearing banks.

There were no significant concentrations of credit risk to counterparties at 31 March 2011 or 31 January 2010. No individual investment exceeded 6.7% of the company's net assets at 31 March 2011 (31 January 2010 3.4%).

Liquidity risk

The company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. As a result, the company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer.

The company's listed fixed-interest investments are considered to be readily realisable as they are of high credit quality as outlined above.

The company's liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the board. The company's overall liquidity risks are monitored on a quarterly basis by the board.

The company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 March 2011 these investments were valued at £12,951,000 (31 January 2010 £23,017,000).

19 Contingent liabilities

At 31 March 2011 the company had a potential liability not recognised in the financial statements of £nil (31 January 2010 £1,458,000) in respect of guarantees given to secure certain liabilities and obligations of investee companies. The directors consider that there is a significant probability of these guarantees being called upon within the next 12 months and have decided to recognise a potential liability of £630,000 as at 31 March 2011 (31 January 2010 £nil) in respect of such guarantees; this provision, which represents the full potential liability, has been treated as an unrealised loss in the revaluation reserve and is included in creditors (amounts falling due within one year).

At 31 March 2011 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £1,385,000 (31 January 2010 £2,760,000). The extent to which these amounts will become receivable in due course is dependent on future events.

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