Northern 2 VCT PLC

Half-yearly financial report

30 September 2014

nvm
private equity

Northern 2 VCT is a Venture Capital Trust (VCT) managed by NVM Private Equity Limited.

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.

Contents

Financial summary

	Six months ended 30 September 2014	Six months ended 30 September 2013	Year ended 31 March 2014
Net assets	**£77.5m**	£63.3m	£76.6m
Net asset value per share	**84.2p**	85.1p	83.9p
Return per share			
Revenue	**0.9p**	1.0p	1.8p
Capital	**(0.6)p**	2.7p	6.8p
Total	**0.3p**	3.7p	8.6p
Dividend per share declared in respect of the period	**2.0p**	2.0p	5.5p
Cumulative return to shareholders since launch			
Net asset value per share	**84.2p**	85.1p	83.9p
Dividends paid per share*	**73.4p**	67.9p	73.4p
Net asset value plus dividends paid per share	**157.6p**	153.0p	157.3p
Mid-market share price at end of period	**77.00p**	74.75p	75.38p
Share price discount to net asset value	**8.6%**	12.2%	10.1%
Tax-free dividend yield (based on mid-market share price)	**7.1%**	7.4%	7.3%

*Excluding interim dividend not yet paid

Key dates

Half-yearly results announced
11 November 2014

Shares quoted ex dividend
4 December 2014

Record date for interim dividend
5 December 2014

Interim dividend paid
16 January 2015

Half-yearly management report

for the six months ended 30 September 2014

There was a high level of investment activity during the six months to 30 September 2014, with the result that four new holdings totalling £6.1 million were added to the venture capital portfolio.

David Gravells *Chairman*

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2014 was 84.2p (31 March 2014 83.9p). The return per share for the period before dividends, as shown in the income statement, was 0.3p compared with 3.7p in the six months ended 30 September 2013. This outcome reflects both the relatively low level of investment sales in the period and our prudent approach to valuation in an uncertain economic climate.

Investment income for the period amounted to £1.4 million (corresponding period £1.2 million), reflecting an improved contribution from the venture capital portfolio.

The board has declared an unchanged interim dividend of 2.0p per share, which will be paid on 16 January 2015 to shareholders on the register on 5 December 2014. It remains our target to maintain the annual dividend at not less than 5.5p per share, a level which has now been achieved or exceeded in ten consecutive financial years. This represents a substantial investment yield to shareholders in an era of persistently low interest rates, with the added benefit of being exempt from income tax.

Investments

There was a high level of investment activity during the six months to 30 September 2014, with the result that four new holdings totalling £6.1 million were added to the venture capital portfolio:

- **Arnlea Holdings** (£1,287,000) – developer of asset management software for the oil and gas industry, Aberdeen
- **Agilitas Holdings** (£1,638,000) – provider of outsourced IT inventory management services, Nottingham
- **Fresh Approach (UK) Holdings** (£1,454,000) – creative events manager, Manchester
- **MSQ Partners** (£1,671,000) – marketing and communications agency group, London

Proceeds from investment sales and repayments amounted to £2.7 million, generating a realised gain of £0.3 million compared with 31 March 2014 carrying values. **Tinglobal Holdings** raised new equity funding from a strategic trade investor and was able to repay £1.6 million of our loan stock. **Altacor** and **Mantis Deposition Holdings**, both of which had been written down in value at 31 March 2014 after periods of disappointing performance, were sold for aggregate proceeds of £0.5 million. Our managers continue to seek profitable exit opportunities and several investee companies are currently the subject of offers from third parties.

Although the venture capital portfolio is generally making satisfactory progress, a small number of companies are currently having to deal with challenging market conditions and this has been reflected in our cautious approach to valuation.

Following the successful outcome of last year's share offer, the company has continued to hold a higher than usual level of liquid funds for future investment in the venture capital portfolio. Cash balances reduced by £3.5 million during the half year, with new investments being partly offset by the proceeds of sales and repayments. We expect a further gradual reduction in liquidity, and with the long-expected rise in interest rates still on hold we have continued to invest part of our assets in a portfolio of income-yielding blue-chip listed equities, pending investment in the venture capital portfolio, with the aim of achieving a better return whilst seeking to preserve capital value subject to market conditions.

Shareholder issues

The board has reviewed projected future cash requirements in the light of new investment activity and potential realisations of existing investments, and has concluded that it would not be appropriate to raise further funds by launching a share issue in the 2014/15 tax year.

We have maintained our policy of being prepared to buy back the company's shares in the market at a 10% discount to NAV. In the half year under review a total of 310,000 shares, equivalent to 0.3% of the issued share capital, was repurchased at an average price of 75.8p. The policy will be kept under review in the light of market conditions and peer group practice.

Earlier this year the opportunity was extended to shareholders to receive communications from the company electronically rather than by paper copy. The take-up of this option has been encouraging and it remains open to any other shareholders who wish to join the scheme.

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 has retained PricewaterhouseCoopers LLP as independent advisers on VCT taxation matters.

VCT legislation and regulation

We have previously reported on the Government's proposals to introduce restrictions on investors who sell shares in a VCT within the period six months before and after subscribing for shares in the same VCT, and to restrict the ability of VCTs to pay dividends to shareholders out of distributable reserves created by cancelling the share premium arising where new shares are allotted after 6 April 2014. The 2014 Finance Act containing the relevant legislation duly received Royal Assent in July 2014. The company already has ample reserves available for distribution and we do not expect the new measures to have any impact on our dividend or share buy-back policies.

The Government has recently undertaken a consultation exercise on the future of VCTs and other tax-advantaged investment schemes, against the background of a European Commission review of the rules relating to state aid for businesses in member countries, which in the UK includes VCTs. The outcome of this review is awaited; we hope that there will be no significant change in the positioning of VCTs as an important part of the UK government's strategy for supporting small and medium-sized enterprises.

The Commission's Alternative Investment Fund Managers Directive (AIFMD) is now part of UK law. The Directive regulates the management of alternative investment funds, including venture capital funds such as VCTs. The directors have appointed the company's existing manager, NVM Private Equity, as our AIFM for the purposes of the Directive with effect from May 2014.

Board of directors

Cecilia McAnulty, who is an experienced investment professional and a former director of Barclays Capital, was appointed as a non-executive director on 18 September 2014. We welcome Cecilia to the board and look forward to working with her.

Prospects

The financial markets have recently shown signs of being affected by UK and global uncertainties, both political and economic, and this may have an impact on the performance of some investee companies. However the flow of potential new investments is good and we expect to see some exits coming through in the second half of the year. Our company is in a strong position to make further progress in the future.

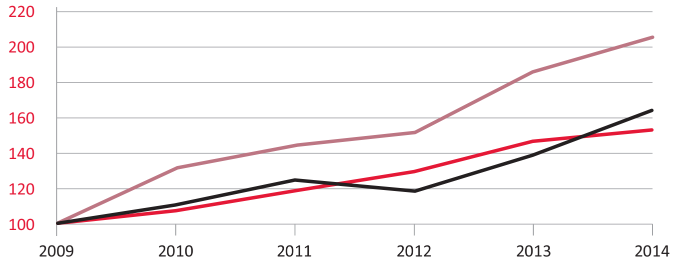
On behalf of the Board

David Gravells
Chairman 11 November 2014

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

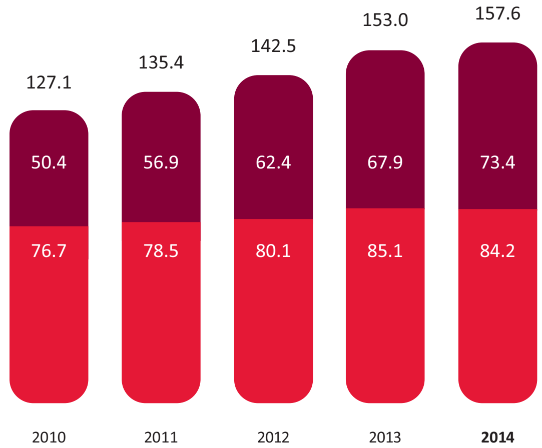
Five years to 30 September 2014 (30 September 2009 = 100)



Northern 2 VCT NAV total return
Northern 2 VCT share price total return
UK equity market index total return

Net asset value and cumulative dividends per share

As at 30 September (pence per share)



Cumulative dividends paid
Net asset value per share

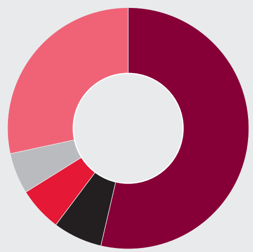
Investment portfolio

as at 30 September 2014

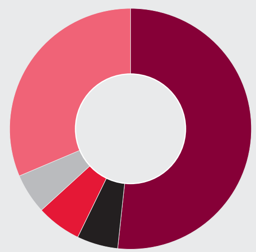
	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Kerridge Commercial Systems	1,593	7,874	10.2
Advanced Computer Software Group*	382	2,585	3.3
Wear Inns	1,868	2,349	3.0
Volumatic Holdings	2,095	2,307	3.0
Silverwing	1,388	2,019	2.6
Buoyant Upholstery	1,508	1,826	2.4
Arleigh Group	505	1,725	2.2
MSQ Partners	1,671	1,671	2.2
Agilitas Holdings	1,638	1,638	2.1
No 1 Traveller	1,629	1,629	2.1
Control Risks Group Holdings	746	1,534	2.0
Fresh Approach (UK) Holdings	1,454	1,454	1.9
Kitwave One	1,246	1,394	1.8
Intuitive Holding	1,508	1,352	1.7
Cawood Scientific	1,031	1,341	1.7
	20,262	**32,698**	**42.2**
Other venture capital investments	16,761	14,048	18.1
Total venture capital investments	**37,023**	**46,746**	**60.3**
Listed equity investments	4,048	4,548	5.9
Listed interest-bearing investments	4,262	4,238	5.4
Total fixed asset investments	**45,333**	**55,532**	**71.6**
Net current assets		21,982	28.4
Net assets		**77,514**	**100.0**

*Quoted on AIM

Asset allocation



30 September 2014		30 September 2013
53.7%	Venture capital – unquoted	51.7%
6.6%	Venture capital – quoted	5.5%
5.9%	Listed equity	6.0%
5.5%	Listed interest-bearing	5.4%
28.3%	Cash and short term deposits	31.4%



30 September 2014

30 September 2013

Income statement

(unaudited) for the six months ended 30 September 2014

	Six months ended 30 September 2014			Six months ended 30 September 2013			Year ended 31 March 2014		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	277	277	–	416	416	–	2,695	2,695
Movements in fair value of investments	–	(419)	(419)	–	1,947	1,947	–	3,970	3,970
	–	(142)	(142)	–	2,363	2,363	–	6,665	6,665
Income	1,368	–	1,368	1,207	–	1,207	2,517	–	2,517
Investment management fee	(197)	(592)	(789)	(162)	(485)	(647)	(343)	(1,391)	(1,734)
Other expenses	(196)	–	(196)	(193)	–	(193)	(396)	(15)	(411)
Return on ordinary activities before tax	975	(734)	241	852	1,878	2,730	1,778	5,259	7,037
Tax on return on ordinary activities	(150)	150	–	(131)	131	–	(328)	328	–
Return on ordinary activities after tax	825	(584)	241	721	2,009	2,730	1,450	5,587	7,037
Return per share	0.9p	(0.6)p	0.3p	1.0p	2.7p	3.7p	1.8p	6.8p	8.6p

- 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.

Reconciliation of movements in shareholders' funds

(unaudited) for the six months ended 30 September 2014

	Six months ended 30 September 2014 £000	Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
Equity shareholders' funds at 1 April 2014	76,588	62,844	62,844
Return on ordinary activities after tax	241	2,730	7,037
Dividends recognised in the period	–	(2,608)	(7,608)
Net proceeds of share issues	921	828	15,149
Shares purchased for cancellation	(236)	(465)	(834)
Equity shareholders' funds at 30 September 2014	77,514	63,329	76,588

Balance sheet

(unaudited) as at 30 September 2014

	30 September 2014 £000	30 September 2013 £000	31 March 2014 £000
Fixed assets			
Investments	55,532	49,986	51,836
Current assets			
Debtors	338	290	363
Cash and deposits	21,891	22,860	25,417
	22,229	23,150	25,780
Creditors (amounts falling due within one year)	(247)	(9,807)	(1,028)
Net current assets	21,982	13,343	24,752
Net assets	77,514	63,329	76,588
Capital and reserves			
Called-up equity share capital	4,601	3,721	4,562
Share premium	1,243	28,395	377
Capital redemption reserve	22	799	7
Capital reserve	60,287	20,228	62,007
Revaluation reserve	10,199	9,215	9,298
Revenue reserve	1,162	971	337
Total equity shareholders' funds	77,514	63,329	76,588
Net asset value per share	84.2p	85.1p	83.9p

Cash flow statement

(unaudited) for the six months ended 30 September 2014

	Six months ended 30 September 2014 £000	Six months ended 30 September 2013 £000	Year ended 31 March 2014 £000
Net cash (outflow)/inflow from operating activities	(374)	(491)	391
Taxation			
Corporation tax paid	–	–	–
Financial investment			
Purchase of investments	(8,000)	(5,106)	(9,933)
Sale/repayment of investments	4,163	2,885	10,164
Net cash (outflow)/inflow from financial investment	(3,837)	(2,221)	231
Equity dividends paid	–	(2,608)	(7,608)
Net cash outflow before financing	(4,211)	(5,320)	(6,986)
Financing			
Issue of ordinary shares	939	855	15,505
Share issue expenses	(18)	(27)	(356)
Share subscriptions held pending allotment	–	9,729	–
Purchase of ordinary shares for cancellation	(236)	(465)	(834)
Net cash inflow from financing	685	10,092	14,315
(Decrease)/increase in cash and deposits	(3,526)	4,772	7,329
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	241	2,730	7,037
Gain on disposal of investments	(277)	(416)	(2,695)
Movements in fair value of investments	419	(1,947)	(3,970)
Decrease in debtors	24	267	194
Decrease in creditors	(781)	(1,125)	(175)
Net cash (outflow)/inflow from operating activities	(374)	(491)	391

Analysis of movement in net funds	1 April 2014 £000	Cash flows £000	30 September 2014 £000
Cash and deposits	25,417	(3,526)	21,891

Notes to the financial statements

(unaudited) for the six months ended 30 September 2014

1 The financial statements have been prepared 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.

2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2014 and on 92,018,141 (2013 74,548,285) ordinary shares, being the weighted average number of shares in issue during the period.

3 The calculation of net asset value per share is based on the net assets at 30 September 2014 divided by the 92,026,038 (2013 74,422,079) ordinary shares in issue at that date.

4 The proposed interim dividend of 2.0p per share for the year ending 31 March 2015 will be paid on 16 January 2015 to shareholders on the register at the close of business on 5 December 2014.

5 The unaudited half-yearly financial statements for the six months ended 30 September 2014 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2014 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies. The auditor's report on those financial statements (i) was unqualified, (ii) did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2014.

6 Each of the directors confirms that to the best of his or her knowledge the half-yearly financial statements have been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

7 Copies of this half-yearly report have been sent to shareholders and are available to the public at the company's registered office, and on the NVM Private Equity website, www.nvm.co.uk.

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: many of the company's investments are in small and medium-sized unquoted and AIM-quoted 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 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 and industry sector. The board reviews the investment portfolio with the investment manager 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 direct 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 London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there can be very little, if any, market demand for shares in the smaller companies quoted on AIM.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. The directors review the creditworthiness of the counterparties to these instruments and cash deposits in addition to ensuring there is no undue concentration of credit risk with any one counterparty.

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.

Legislative and regulatory risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK as well as the European Commission's state aid rules. Changes to the UK legislation or the state aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. The board and the manager monitor legislative and regulatory developments and where appropriate seek to make representations either directly or through the relevant trade bodies.

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.

Company information

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David Gravells (Chairman)
Alastair Conn
Michael Denny
Christopher Fletcher
Cecilia McAnulty
Frank Neale

Secretary
Christopher Mellor FCA MCSI

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