Northern 2 VCT PLC

Half-yearly financial report

30 September 2017

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

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 2017	Six months ended 30 September 2016	Year ended 31 March 2017
Net assets	**£69.3m**	£72.2m	£71.6m
Net asset value per share	**68.4p**	77.3p	76.6p
Return per share			
Revenue	**1.0p**	0.7p	1.6p
Capital	**(0.6)p**	7.3p	7.7p
Total	**0.4p**	8.0p	9.3p
Dividend per share declared in respect of the period*	**2.0p**	2.0p	10.5p
Cumulative return to shareholders since launch			
Net asset value per share	**68.4p**	77.3p	76.6p
Dividends paid per share**	**109.9p**	99.4p	101.4p
Net asset value plus dividends paid per share	**178.3p**	176.7p	178.0p
Mid-market share price at end of period	**64.5p**	66.5p	72.0p
Share price discount to net asset value	**5.7%**	14.0%	6.0%
Tax-free dividend yield (based on mid-market share price)			
Including special dividend	**N/A**	N/A	14.6%
Excluding special dividend	**8.5%**	8.3%	7.6%

*Year ended 31 March 2017 includes 5.0p special dividend
**Excluding interim dividend not yet paid

Key dates

Half-yearly results announced
14 November 2017

Shares quoted ex dividend
4 January 2018

Interim dividend paid (to shareholders on register on 5 January 2018)
26 January 2018

Half-yearly management report

for the six months ended 30 September 2017

Our manager continues to identify an encouraging pipeline of investment opportunities and we have confidence in the potential of our investment approach to produce good returns for shareholders in the future.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2017 was 68.4 pence (76.6 pence (audited) at 31 March 2017). This is after deducting the second interim and final dividends totalling 8.5 pence per share in respect of the 2016/17 financial year which were paid in July 2017. The board declared the second interim dividend due to the strong inflow of cash from investment realisations during the year to 31 March 2017. Shareholders may recall that the VCT rules permit only six months for re-investment of such receipts, before they become non-qualifying if retained by the company.

The return per share as shown in the income statement for the six months ended 30 September 2017 was 0.4 pence, compared with 8.0 pence in the corresponding period last year. This reflects a lower contribution from investment revaluations and realisations during the particular period under review.

The board has declared an unchanged interim dividend for the year ending 31 March 2018 of 2.0 pence per share, which will be paid on 26 January 2018 to shareholders on the register on 5 January 2018.

Portfolio

Four new holdings in VCT-qualifying unquoted companies were acquired for a total consideration of £2.7 million:

- **Velocity Composites** (£97,000): an AIM-quoted manufacturer of material kits for aircraft production, Burnley
- **Knowledgemotion** (£979,000): an educational video aggregator and distributor, London
- **Contego Fraud Solutions** (£489,000): an identity verification system provider, Oxford
- **Volo Commerce** (£1,105,000): an enterprise resource planning platform supporting online merchants, London

In addition, a follow-on investment of £812,000 was made during the period in Sorted Holdings (previously Myparceldelivery Holdings), an existing investee company.

Since 30 September 2017, two new investments have been completed, in Angle, an AIM-quoted medical diagnostics provider of £134,000, and Soda Software Labs, a data analytics specialist of £1,332,000.

Proceeds of £5.9 million were received from investment sales and repayments, resulting in a realised gain of £0.7 million over the 31 March 2017 carrying values. Optilan Group was sold to Blue Water Energy by way of a secondary buyout transaction, generating proceeds for Northern 2 VCT of £2.2 million. A further £2.5 million was returned from five holding companies, which had been seeking a VCT qualifying trade but which were ultimately unable to do so. In the AIM-quoted portfolio, the remaining investment in Gear4music (Holdings) was sold for over three times the original cost.

As shareholders will appreciate, the composition of the portfolio is gradually changing with an increasing proportion of funds invested in earlier stage investment opportunities, as required by the current VCT regulations.

David Gravells *Chairman*

Share issues and buy-backs

Based on the expected investment rate in the coming years both for new investments and follow-on funding rounds in early stage investee companies, we announced a prospectus share offer in September 2017 to raise up to £20 million. We are very pleased that strong demand was experienced for this offer and on 8 November 2017 we announced that it was fully subscribed. Priority was given to existing shareholders for a period of 21 days. All applications received during that period were satisfied in full. I would like to thank all applicants for their support in acquiring shares and believe that our company is well placed to take advantage of attractive investment opportunities as they arise.

Whilst the company has maintained its policy of buying back its own shares in the market at a discount of 5% to NAV from time to time, there were no repurchases during the period under review.

VCT qualifying status

The company has continued to meet the stringent qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Our investment manager, NVM, monitors the position closely and reports regularly to the board. Philip Hare & Associates LLP has continued to act as independent adviser to the company on VCT taxation matters.

VCT legislation

Having operated under the current iteration of the VCT rules for the last two years, our manager NVM has continued to adapt its approach to maintain ongoing compliance and has also continued to strengthen and supplement its team of early stage investment professionals.

We have closely monitored the Government's Patient Capital Review, established to consider the availability of long-term finance for growing firms. In conjunction with NVM, we have continued to champion the work of the VCT industry and to highlight the considerable contribution that the sector makes in supporting small and medium-sized businesses. We await with interest the detail of the Chancellor's Budget announcement on 22 November 2017, to understand whether it will provide any clarity as to the future legislative landscape for the VCT sector.

Prospects

In recent times we have operated against a background of political uncertainty and that looks set to continue as the long-term impact of the UK's decision to leave the EU unfolds. That notwithstanding, our manager continues to identify an encouraging pipeline of investment opportunities and we have confidence in the potential of our investment approach to produce good returns for shareholders in the future.

On behalf of the Board

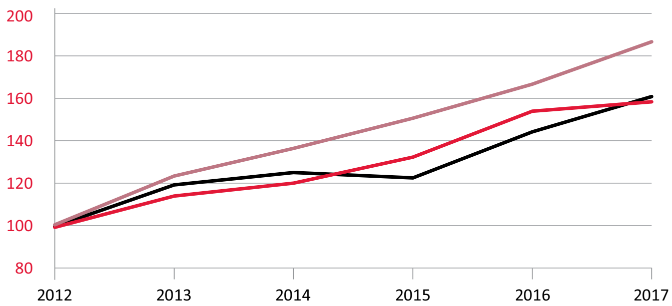
David Gravells
Chairman

14 November 2017

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

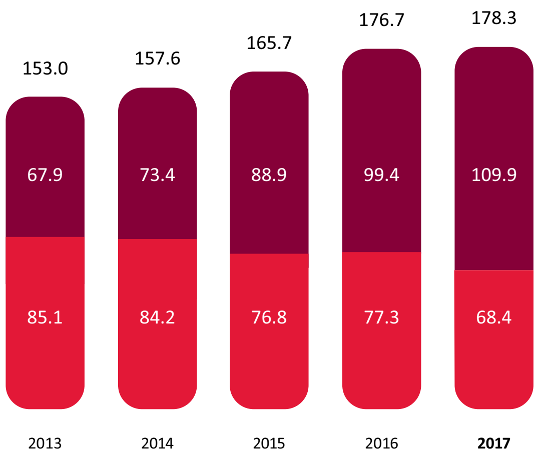
Five years to 30 September 2017 (30 September 2012 = 100)



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)

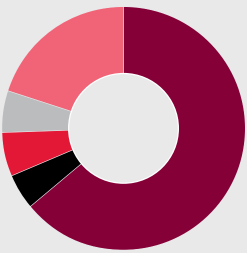


Cumulative dividends paid since launch
Net asset value per share

Investment portfolio

as at 30 September 2017

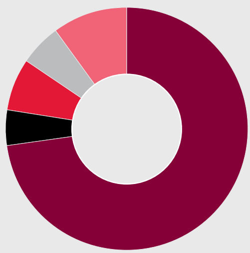
	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
No 1 Lounges	1,977	3,850	5.6
Entertainment Magpie Group	1,503	3,501	5.1
Buoyant Upholstery	1,508	2,941	4.2
MSQ Partners Group	1,672	2,596	3.7
Sorted Holdings	1,625	2,535	3.7
Lineup Systems	974	2,468	3.6
Wear Inns	1,868	2,113	3.1
Agilitas IT Holdings	1,638	1,951	2.8
Biological Preparations Group	2,166	1,891	2.7
CloserStill Group	1,683	1,837	2.6
It's All Good	1,145	1,668	2.4
Volumatic Holdings	1,423	1,555	2.2
Love Saving Group	1,124	1,546	2.2
Graza	1,522	1,522	2.2
Intuitive Holding	1,508	1,352	2.0
Fifteen largest venture capital investments	**23,336**	**33,326**	**48.1**
Other venture capital investments	16,953	13,954	20.1
Total venture capital investments	**40,289**	**47,280**	**68.2**
Listed equity investments	3,644	4,157	6.0
Listed interest-bearing investments	3,872	3,783	5.4
Total fixed asset investments	**47,805**	**55,220**	**79.6**
Net current assets		14,128	20.4
Net assets		**69,348**	**100.0**



30 September 2017

Asset allocation

30 September 2017		30 September 2016
64.0%	Venture capital – unquoted	72.8%
4.7%	Venture capital – quoted	4.9%
6.0%	Listed equity	7.0%
5.5%	Listed interest-bearing	5.3%
19.8%	Cash and short term deposits	10.0%



30 September 2016

Income statement

(unaudited) for the six months ended 30 September 2017

	Six months ended 30 September 2017 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	376	376
Movements in fair value of investments	–	(560)	(560)
	–	(184)	(184)
Income	1,526	–	1,526
Investment management fee	(195)	(586)	(781)
Other expenses	(187)	–	(187)
Return on ordinary activities before tax	1,144	(770)	374
Tax on return on ordinary activities	(186)	186	–
Return on ordinary activities after tax	958	(584)	374
Return per share	1.0p	(0.6)p	0.4p

- 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.

Six months ended 30 September 2016			Year ended 31 March 2017		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	562	562	–	2,285	2,285
–	6,613	6,613	–	6,189	6,189
–	7,175	7,175	–	8,474	8,474
1,181	–	1,181	2,556	–	2,556
(184)	(551)	(735)	(370)	(1,681)	(2,051)
(183)	–	(183)	(364)	–	(364)
814	6,624	7,438	1,822	6,793	8,615
(130)	130	–	(313)	313	–
684	6,754	7,438	1,509	7,106	8,615
0.7p	7.3p	8.0p	1.6p	7.7p	9.3p

Balance sheet

(unaudited) as at 30 September 2017

	30 September 2017 £000	30 September 2016 £000	31 March 2017 £000
Fixed assets			
Investments	55,220	64,796	58,195
Current assets			
Debtors	638	269	591
Cash and deposits	13,590	7,288	17,874
	14,228	7,557	18,465
Creditors (amounts falling due within one year)	(100)	(135)	(5,013)
Net current assets	14,128	7,422	13,452
Net assets	69,348	72,218	71,647
Capital and reserves			
Called-up equity share capital	5,070	4,670	4,678
Share premium	8,390	2,744	3,029
Capital redemption reserve	83	70	83
Capital reserve	47,028	53,794	53,908
Revaluation reserve	7,415	9,932	9,049
Revenue reserve	1,362	1,008	900
Total equity shareholders' funds	69,348	72,218	71,647
Net asset value per share	68.4p	77.3p	76.6p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2017

	Non-distributable reserves				Distributable reserves		Total
	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
At 1 April 2017	4,678	3,029	83	9,049	53,908	900	71,647
Return on ordinary activities after tax	–	–	–	(1,634)	1,050	958	374
Dividends paid	–	–	–	–	(7,930)	(496)	(8,426)
Net proceeds of share issues	392	5,361	–	–	–	–	5,753
Shares purchased for cancellation	–	–	–	–	–	–	–
At 30 September 2017	5,070	8,390	83	7,415	47,028	1,362	69,348
Six months ended 30 September 2016							
At 1 April 2016	4,580	1,464	59	5,562	58,614	1,058	71,337
Return on ordinary activities after tax	–	–	–	4,370	2,384	684	7,438
Dividends paid	–	–	–	–	(7,054)	(734)	(7,788)
Net proceeds of share issues	101	1,280	–	–	–	–	1,381
Shares purchased for cancellation	(11)	–	11	–	(150)	–	(150)
At 30 September 2016	4,670	2,744	70	9,932	53,794	1,008	72,218
Year ended 31 March 2017							
At 1 April 2016	4,580	1,464	59	5,562	58,614	1,058	71,337
Return on ordinary activities after tax	–	–	–	3,487	3,619	1,509	8,615
Dividends paid	–	–	–	–	(7,987)	(1,667)	(9,654)
Net proceeds of share issues	122	1,565	–	–	–	–	1,687
Shares purchased for cancellation	(24)	–	24	–	(338)	–	(338)
At 31 March 2017	4,678	3,029	83	9,049	53,908	900	71,647

Statement of cash flows

(unaudited) for the six months ended 30 September 2017

	Six months ended 30 September 2017 £000	Six months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Cash flows from operating activities			
Return on ordinary activities before tax	374	7,438	8,615
Adjustments for:			
Gain on disposal of investments	(376)	(562)	(2,285)
Movements in fair value of investments	560	(6,613)	(6,189)
(Increase)/decrease in debtors	(47)	1	(321)
(Decrease)/increase in creditors	(616)	(409)	172
Net cash outflow from operating activities	(105)	(145)	(8)
Cash flows from investing activities			
Purchase of investments	(3,716)	(5,103)	(6,082)
Sale/repayment of investments	6,507	4,478	13,358
Net cash inflow/(outflow) from investing activities	2,791	(625)	7,276
Cash flows from financing activities			
Issue of ordinary shares	5,842	1,397	1,717
Share issue expenses	(89)	(15)	(30)
Share subscriptions held pending allotment	(4,297)	–	4,297
Purchase of ordinary shares for cancellation	–	(150)	(338)
Equity dividends paid	(8,426)	(7,788)	(9,654)
Net cash outflow from financing activities	(6,970)	(6,556)	(4,008)
Net (decrease)/increase in cash and cash equivalents	(4,284)	(7,326)	3,260
Cash and cash equivalents at beginning of period	17,874	14,614	14,614
Cash and cash equivalents at end of period	13,590	7,288	17,874

Notes to the financial statements

(unaudited) for the six months ended 30 September 2017

1. The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts", issued in November 2014 and updated in January 2017 with consequential amendments by the Association of Investment Companies ("AIC 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 2017 and on 99,880,309 (2016 92,387,450) 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 2017 divided by the 101,400,355 (2016 93,394,459) ordinary shares in issue at that date.
4. The interim dividend of 2.0p per share for the year ending 31 March 2018 will be paid on 26 January 2018 to shareholders on the register at the close of business on 5 January 2018.
5. The unaudited half-yearly financial statements for the six months ended 30 September 2017 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 2017 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent 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 2017.
6. Each of the directors confirms that to the best of their knowledge the half-yearly financial statements have been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the half-yearly financial report includes a fair review of the information required by (a) DTR 4.2.7R of the Disclosure Rules and Transparency Rules, being an indication of important events that have occured 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 mailed 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 and robust review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board which might affect the company's business model and future performance, and the steps taken with a view to their mitigation, are as follows:

Investment and liquidity risk: investment in smaller and unquoted companies, such as those in which the company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on their management or key individuals. The securities of smaller companies in which the company invests are typically unlisted, making them illiquid, and this may cause difficulties in valuing and disposing of the securities. The company may invest in businesses whose shares are quoted on AIM – the fact that a share is quoted on AIM does not mean that it can be readily traded and the spread between the buying and selling prices of such shares may be wide. ***Mitigation:*** 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 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: most of the company's investments involve a medium to long-term commitment and many are relatively illiquid. ***Mitigation:*** 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. ***Mitigation:*** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where appropriate.

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 smaller companies quoted on AIM. ***Mitigation:*** the company's quoted investments are actively managed by specialist managers, including NVM in the case of AIM-quoted investments, and the board keeps the portfolio and the actions taken under ongoing review.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. ***Mitigation:*** the directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

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, which reflects 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. ***Mitigation:*** The board and the manager monitor political developments and where appropriate seek to make representations either directly or through relevant trade bodies.

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime. ***Mitigation:*** 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: while it is the intention of the directors that the company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment. ***Mitigation:*** the investment manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

Company information

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Christopher Mellor FCA MCSI

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private equity