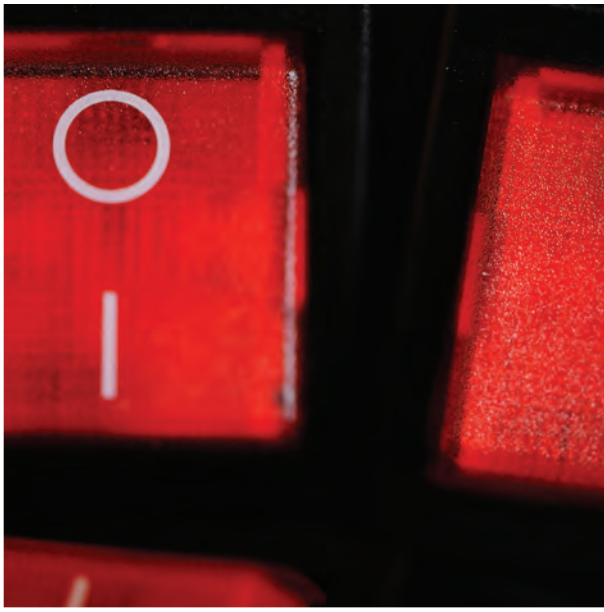
Northern 2 VCT PLC

Annual report and financial statements

31 March 2017



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.

Contents

Financial summary

Year ended 31 March:	2017	2016
Net assets	**£71.6m**	£71.3m
Net asset value per share	**76.6p**	77.9p
Return per share		
Revenue	**1.6p**	1.5p
Capital	**7.7p**	6.5p
Total	**9.3p**	8.0p
Dividend per share for the year		
First interim dividend	**2.0p**	2.0p
Second interim (special) dividend	**5.0p**	5.0p
Proposed final dividend	**3.5p**	3.5p
Total	**10.5p**	10.5p
Cumulative return to shareholders since launch		
Net asset value per share	**76.6p**	77.9p
Dividends paid per share*	**101.4p**	90.9p
Net asset value plus dividends paid per share	**178.0p**	168.8p
Mid-market share price at end of year	**72.0p**	72.5p
Share price discount to net asset value	**6.0%**	6.9%
Tax-free dividend yield (based on mid-market share price at the end of the year)		
Including special dividend	**14.6%**	14.5%
Excluding special dividend	**7.6%**	7.6%

*Excluding second interim and proposed final dividend payable on 21 July 2017

Key dates

Results announced
12 June 2017

Shares quoted ex dividend
22 June 2017

Record date for second interim and final dividend
23 June 2017

Annual general meeting
12 July 2017, 12.00 noon,
Royal College of General Practitioners,
30 Euston Square, London NW1 2FB

Second interim and final dividend paid
21 July 2017

Chairman's statement

There is currently no lack of commercially attractive businesses that require capital to prosper and the challenge remains to identify those opportunities which are VCT-qualifying.

Northern 2 VCT has enjoyed another year of progress in which seven new investments were added to the venture capital portfolio and cash flows remained strong, supported by three significant realisations. Those realised investments, which we held on average for over 7 years, are excellent examples of how patient capital from venture capital trusts supports growing companies at an early stage in their development to enhance shareholder value whilst creating employment opportunities and contributing to the wider UK economy in many ways.

Results and dividend

Notwithstanding that our sector is experiencing unprecedented change, I am pleased to report consistently good results. In the year ended 31 March 2017 the company achieved a return after tax of £8,615,000 (2016 £7,356,000), or 9.3p per share (2016 8.0p), before deducting dividends paid, representing a total return of 11.9% over the opening net asset value per share (NAV). This excellent outcome reflected net gains on the sale of investments totalling £2.3 million and an uplift in the valuation of the continuing portfolio of £6.2 million, following a strong performance by a number of our venture capital holdings.

The NAV per share at 31 March 2017, after deducting dividends totalling 10.5p which were paid during the year, was 76.6p compared with 77.9p as at 31 March 2016. An interim dividend of 2.0p per share was paid in January and the directors propose a final dividend of 3.5p per share in respect of the year ended 31 March 2017. This is the fourteenth consecutive year in which a dividend of at least 5.5p per share has been paid.

As indicated earlier, there has been a strong inflow of cash from investment realisations since we last paid a special dividend. The VCT rules permit only six months for re-investment of such receipts before they become non-qualifying if retained by the company. The directors have therefore also decided to declare a special dividend of 5.0p, which will be paid as a second interim dividend for the year ended 31 March 2017, making a total dividend of 10.5p for the year. Both the final and special dividends will be paid on 21 July 2017 to shareholders on the register on 23 June 2017.

Whilst continuing to pay a predictable dividend remains a priority for your directors, the dividend policy does remain under review. The new VCT rules require a shift in our portfolio towards earlier stage investments, which may have the effect of reducing the amount of income and realised gains available for early distribution, weighting returns to a later point in the investment cycle.

Investments

The cash proceeds from venture capital investments sold or repaid during the year amounted to £13.3 million, representing a surplus of £5.0 million over original cost. Momentum has been maintained following the financial year end, with a significant investment sale completed in April 2017 and several other companies currently in discussions with a view to a realisation.

A total of £5.9 million was invested in new VCT-qualifying holdings during the year. Our investment manager has reported a strong pipeline of activity currently which is expected to materialise into further investments during the year to 31 March 2018.

Shareholder issues

In February 2017 we completed a non-prospectus top-up offer of new ordinary shares, raising gross proceeds of £4.3 million, in conjunction with similar offers by Northern Venture Trust and Northern 3 VCT. The offer was initially restricted to existing investors and owing to the extremely strong level of demand experienced, was closed in advance of becoming available to new shareholders. Whilst we understand and regret the disappointment felt by unsuccessful applicants, we are encouraged by the level of interest shown in VCTs such as ours, with a well-established track record of sustained value creation. We appreciate that some shareholders would welcome the opportunity to make a further investment in the company and will keep possible share offers under review, monitoring both the level of liquidity required by expected deal flow and the need for continuing support for portfolio investments in the longer term.

In addition to the top-up offer, 2,437,437 shares were issued during the year under our dividend investment scheme for consideration representing around one sixth of the total dividend payments during the year. The scheme enables shareholders to efficiently re-invest some or all of their dividends in new shares attracting income tax relief and remains open to new participants.

The company has maintained its policy of buying back its own shares in the market, at a discount of 5% to NAV. During the year, a total of 485,000 shares were repurchased for cancellation, equivalent to approximately 0.5% of the opening share capital.

David Gravells *Chairman*

The company's annual general meeting (AGM) will be held in London on Wednesday 12 July 2017 and the directors look forward to meeting and engaging with shareholders and discussing the issues facing the sector.

Board of directors

I am pleased to highlight that Simon Devonshire, a highly experienced investment professional and the current Entrepreneur-in-Residence at the Department for Business, Energy and Industrial Strategy, joined the board in January 2017 following a thorough process conducted by the nomination committee. Simon brings a valuable fresh perspective to our board and we look forward to benefiting from his contribution during the years ahead.

All the directors except Chris Fletcher will be seeking re-election at the AGM, either in accordance with the AIC Code of Corporate Governance or voluntarily. Chris has signalled his intention to retire from the board after the AGM. I would like to take this opportunity to record your board's sincere thanks to him for his significant contribution to Northern 2 VCT since joining the board in 1999. He has played a pivotal role as chairman of the board's audit committee. Chris has had an extremely distinguished career in corporate finance, including currently as a non-executive director of the Association of Investment Companies. The entire board will miss his expertise and guidance and I am sure you will join me in wishing him well for the future.

VCT legislation

The past two years have seen significant change in the legislative environment for VCTs as the Government has sought to channel more funds into relatively young companies requiring funding for development and growth. As the practicalities of operating under the new rules have emerged, NVM has adapted to meet this challenge by supplementing its team, which already has a good track record of investing in early stage opportunities, with additional executives possessing relevant expertise.

We note with interest the announcement by the Government in November 2016 of its Patient Capital Review. The key terms of reference of the review are to consider the availability of long-term finance for growing firms and to identify and address the root-causes of factors which negatively affect the availability of long-term finance. VCTs play a vital role in supporting entrepreneurial prosperity by providing growth capital to innovative growing businesses at an early stage in their development and we welcome the opportunity to engage in these crucial discussions. We will continue to champion our work and highlight the considerable contribution that the VCT sector makes in supporting small and medium businesses, which are the lifeblood of our economy.

VCT qualifying status

The company has continued to meet the stringent and evolving 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.

Outlook

We have been operating for some time in a period of change in the VCT market and against a background of political uncertainty, and it is likely that will continue in the year ahead. We are however encouraged by the consistency of our track record throughout this period and have confidence in the strength of our existing portfolio. There is currently no lack of commercially attractive businesses that require capital to prosper and the challenge remains to identify those opportunities which are VCT qualifying. We continue to believe that our company and its manager are well placed to meet this challenge.

David Gravells
Chairman

12 June 2017

Directors and advisers

David Gravells MSc JP (Chairman)

aged 67, 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 62, is financial director of NVM Private Equity. He qualified as a chartered accountant with Price Waterhouse and was a co-founder of NVM in 1988. He was appointed to the board in 1999.

Simon Devonshire OBE

aged 49, has extensive business experience in corporate leadership, financial governance, strategy, communications and sales and marketing. He has a portfolio of business interests including being an entrepreneur in residence at the Department for Business, Energy and Industrial Strategy and a non-executive director of the Student Loans Company. He was appointed to the board on 3 January 2017.

Cecilia McAnulty CA

aged 54, was formerly a partner and portfolio manager with Centaurus Capital, a London based hedge fund, head of structured finance at Royal Bank of Scotland and a director of Barclays Capital. She was appointed to the board in 2014.

Christopher Fletcher CA

aged 65, is a non-executive director of The Association of Investment Companies and Invesco Perpetual UK Smaller Companies Investment Trust. He was previously managing director of Baillie Gifford's life and retail operations and a corporate finance partner at KPMG. He was appointed to the board in 1999 and has indicated his intention to retire as a director at the close of the annual general meeting on 12 July 2017.

Frank Neale MBA

aged 66, 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. He was appointed to the board in 1999.

Secretary and registered office

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20 Castle Terrace
Edinburgh EH1 2EG

Taxation advisers

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London EC2A 2RS

Stockbrokers

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Barclays House
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Newcastle upon Tyne NE1 3DX

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA
Shareholder helpline: 0800 028 2349

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 interest-bearing and equity investments and bank deposits.

Northern 2 VCT is managed by NVM Private Equity LLP (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne, Reading and Manchester. NVM also acts as manager of three other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC and Northern 3 VCT PLC, and two limited partnerships, NV1 LP and NV2 LP. NVM has a total of over £260 million under management.

Northern 2 VCT is a member of the Association of Investment Companies (AIC).

Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation now being contained in the Income Tax Act 2007. 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.

In order to maintain approved status, a VCT must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007; in particular, a VCT is required at all times to hold at least 70% by value of its investments (as defined in the legislation) in qualifying holdings, of which at least 30% (70% for funds raised after 5 April 2011) must comprise eligible ordinary shares. For this purpose a "qualifying holding" is an investment in new shares or securities of an unquoted company (which may be quoted on AIM) which has a permanent establishment in the UK, is carrying on a qualifying trade, and whose gross assets and number of employees at the time of investment do not exceed prescribed limits.

The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing. The Finance (No 2) Act 2015 contained a number of significant changes to the VCT rules for investments completed after its introduction, designed to secure approval of the VCT scheme by the European Commission. In future a company whose trade is more than seven years old (ten years for 'knowledge intensive' companies) will only qualify for VCT investment if it has previously received State-aided risk finance in the past seven (or ten) years or the new investment exceeds 10% of the total turnover for the past five years and the funds are used for new products and/or geographical markets; there will be a lifetime limit of £12 million (£20 million for 'knowledge intensive' companies) on the amount of State aid funding receivable by a company; and VCT funds may not be used by a company to acquire shares in another company or to acquire a business. The rules apply to qualifying and non-qualifying investments, and a breach of the requirements may lead to a loss of VCT status.

Financial calendar

The company's financial calendar for the year ending 31 March 2018 is as follows:

November 2017

Half-yearly financial report for the six months ending 30 September 2017 published

January 2018

Interim dividend paid

May 2018

Final dividend and results for year ending 31 March 2018 announced

June 2018

Annual report and financial statements published

July 2018

Annual general meeting; final dividend paid

Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph and the Newcastle Journal. 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 4 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 ordinary shares in the company with the benefit of the tax reliefs currently available to VCT subscribers. Information about the dividend investment scheme can be obtained from the Company Secretary (see page 4 for contact details).

Electronic communications

The company continues to provide the option to shareholders to receive communications from the company electronically rather than by paper copy. Shareholders who wish to join the scheme, which is operated by the company's registrars, Equiniti Limited, should visit www.shareview.co.uk, register for a Shareview portfolio and select 'Email' as their preferred method of delivery of company communications.

Strategic report

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 report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The company's independent auditor is required by law to report on whether the information given in the strategic report and the directors' report is consistent with the financial statements. The auditor's report is set out on pages 26 and 27.

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. The company invests primarily in unquoted UK manufacturing and service businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash.

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out within the shareholder information on page 5.

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-quoted investments and 20% in other investments selected with a view to producing an enhanced return while 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 are 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 is 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 is in the range from three to seven years.

The directors expect that no single investment would normally represent in excess of 3% 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 and regularly invests alongside other funds managed by NVM. 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, Reading and Manchester and currently has over £260 million under management.

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis. Further information about the terms of the management agreement with NVM and the remuneration payable to NVM is set out in the directors' report on pages 16 and 17 and in Note 3 to the financial statements.

Overview of the year

During the year under review Northern 2 VCT achieved a total return to ordinary shareholders, before dividends, of 9.3p per share, equivalent to 11.9% 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.

Total income from investments was £2.6 million, compared with £2.3 million in the preceding year. The increase reflected the recognition of £0.4 million of arrears of loan stock interest due from Optilan Group, which was received in April 2017. The basic investment management fee payable to NVM was slightly lower than in the previous year but the strong investment performance resulted in an increased performance-related management fee of £571,000 (preceding year £370,000).

The net cash realised from the venture capital portfolio was £7.4 million, comprising new investments of £5.9 million less sale proceeds and repayments of £13.3 million. Portfolio cash flow over the past five years is summarised in Table 1.

Table 1: Venture capital portfolio cash flow

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/(outflow) £000
2013	6,079	10,529	4,450
2014	7,806	8,734	928
2015	10,368	19,964	9,596
2016	12,276	7,362	(4,914)
2017	5,934	13,284	7,350
Total	**42,463**	**59,873**	**17,410**

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

	£000	Pence per ordinary share
Net asset value at 31 March 2016 before dividends recognised	71,337	77.9
Net revenue (investment income less revenue expenses and tax)	1,509	1.6
Capital surplus arising on investments:		
Realised net gains on disposals	2,285	2.5
Movements in fair value of investments	6,189	6.7
Management expenses allocated to capital account (net of tax relief)	(1,368)	(1.5)
Total return for the year as shown in income statement	8,615	9.3
Proceeds of issue of new shares (net of expenses)	1,687	(0.1)
Shares re-purchased for cancellation	(338)	–
Net movement for the year before dividends	9,964	9.2
Net asset value at 31 March 2017 before dividends recognised	81,301	87.1
Dividends recognised in the financial statements for the year	(9,654)	(10.5)
Net asset value at 31 March 2017	**71,647**	**76.6**

After taking account of other cash flows, the company's total cash balances increased over the year by £3.3 million to £17.9 million. In addition the company holds listed equity investments and interest-bearing investments valued at £8.8 million, compared with £8.2 million at 31 March 2016.

Dividends

The directors have declared or proposed dividends totalling 10.5p per share in respect of the year, comprising a 1.5p revenue dividend and a 9.0p capital distribution.

Investment portfolio

During the year ended 31 March 2017, seven new holdings were added to the venture capital portfolio at a cost of £5.9 million. The portfolio at 31 March 2017 comprised 45 holdings with an aggregate value of £49.4 million.

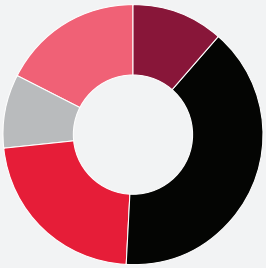
A summary of the venture capital holdings at 31 March 2017 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

New investments

The new investments completed during the year were:

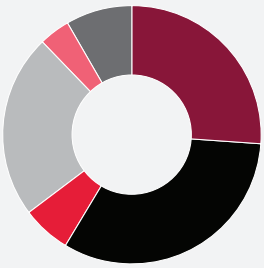
- **Myparceldelivery Holdings (£813,000)** – parcel delivery comparison website, Manchester
- **Lending Works (£650,000)** – peer-to-peer lending platform, London
- **AVID Technology Group (£673,000)** – electrification and intelligent control of engine ancillaries, thermal management systems and hybrid systems, Cramlington
- **Rockar (£823,000)** – E-commerce and fulfilment platform for the new car sales industry, York
- **Customs Connect Group (£1,322,000)** – import duty consultancy, Manchester
- **Channel Mum (£674,000)** – online multi-channel video blog community network for parents of young children, London
- **Intelling Group (£979,000)** – communications specialist providing customer support solutions, Manchester

Following the recent changes in the VCT legislation, the focus of new investment activity has moved away from management buy-out transactions towards growth finance for earlier-stage businesses. A satisfactory rate of new investment was achieved, although there has been concern at ongoing delays in the system for obtaining advance assurance as to the VCT-qualifying status of new investments from HM Revenue & Customs.



Age of investment

Up to 1 year	11.5%
1-3 years	39.6%
3-5 years	22.5%
5-7 years	9.1%
Over 7 years	17.3%



Industry sector

Computer/electronics	26.3%
Consumer	32.5%
Industrial/manufacturing	6.0%
Business services	23.0%
Healthcare/biotechnology	4.0%
Other	8.2%

Investment realisations

Details of investment realisations during the year are given in Note 9 on page 36. The most significant disposals (original cost or sales proceeds in excess of £0.5 million) in the year are summarised in Table 3.

The three principal realisations from the unquoted portfolio in the year generated sales proceeds of £7.0 million and a surplus of £2.3 million over the carrying values at 31 March 2016.

Arleigh Group was acquired by the NASDAQ-quoted LKQ Corporation and **Silverwing** was sold to the Canadian group Eddyfi, whilst **Cawood Scientific** was the subject of a secondary management buy-out. In addition, a total of £5.1 million was received during the year on redemption at par value of loan notes issued by **Turbinia, Seawise, Oceanos, Saluda** and **Hunley**. Shortly after the year end, in April 2017, a further substantial exit was completed with the sale of **Optilan Group** in another secondary buy-out transaction.

Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus £000
Silverwing – trade sale	2012	1,388	2,408	1,020
Arleigh Group – trade sale	2014	45	1,790	1,745
Cawood Scientific – secondary buyout	2010	1,031	2,786	1,755

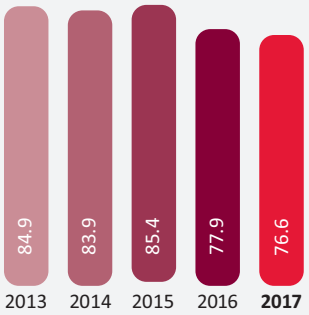
In the AIM-quoted portfolio, the investment in **Gear4music (Holdings)** increased sharply in value and the bulk of the holding was sold during the year for approximately three times the original cost.

Portfolio review

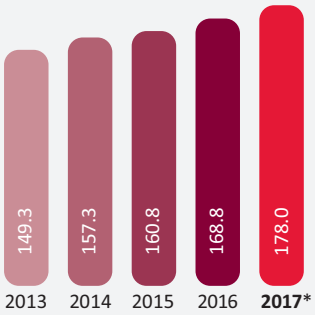
The pie charts above show the composition of the venture capital portfolio at 31 March 2017 by value according to maturity, industry sector, financing stage and whether quoted or unquoted.

A number of companies in the portfolio have been affected by external factors such as the continuing weakness in the oil and gas sector and the uncertainty caused by the EU referendum result. However the portfolio has on the whole performed satisfactorily and this is reflected in the positive investment return achieved during the year. **Entertainment Magpie Group** and **No 1 Lounges** both achieved excellent results and are now the most highly valued holdings. Our investment valuation policy remains cautious particularly where companies are performing behind expectations.

The portfolio of listed equity and interest-bearing investments has again produced a satisfactory income yield and capital performance during the year.

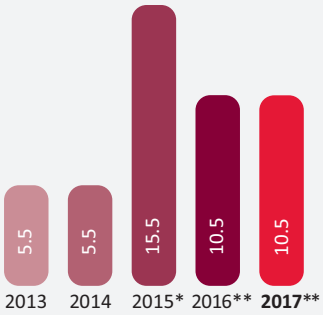


Net asset value (p)



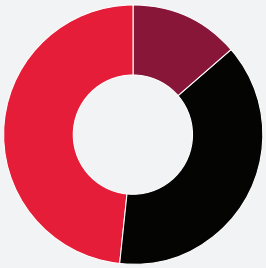
Net asset value plus cumulative dividends paid per share (p)

*excludes dividends declared, not yet paid



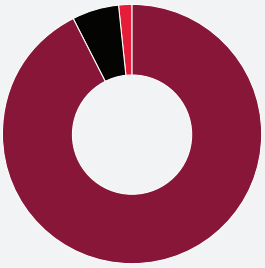
Dividend per share (p)

*includes a 10p special dividend
**includes a 5p special dividend



Financing stage

Early stage	13.7%
Expansion	38.2%
MBO/MBI	48.1%



Quotation

Unquoted	92.5%
AIM	5.9%
LSE	1.6%

Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 32, which takes account of current industry guidelines for the valuation of venture capital portfolios. Provision against cost is made where an investment is under-performing significantly. Where valuations are based on company earnings, audited historic results will be taken into account along with more recent unaudited information and projections where these are considered sufficiently reliable.

As at 31 March 2017 the number of venture capital investments falling into each valuation category was as shown in Table 4.

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 charts at the bottom of the page opposite show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years.

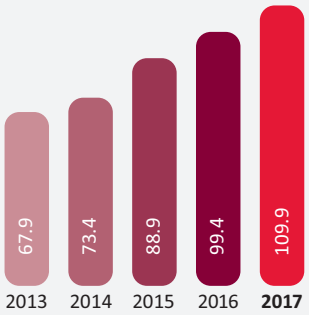
Dividend distributions: the charts at the bottom of this page and the page opposite show the dividends (including proposed final dividends) declared in respect of each of the past five financial years and on a cumulative basis since inception.

Ongoing charges: the charts at the bottom of this page show total annual running expenses as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

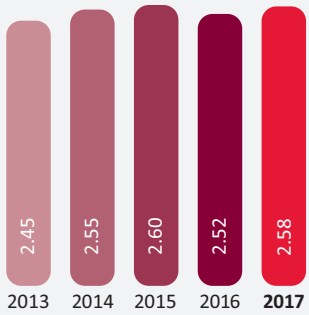
Maintenance of VCT qualifying status: the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.

Table 4: Venture capital investment valuation by category

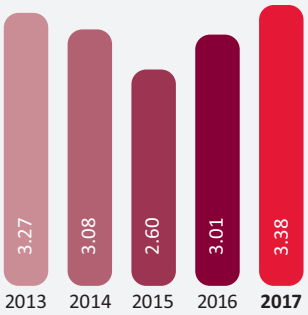
Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings/revenue multiple	17	33,734	68.3
Original cost	13	10,442	21.2
Original cost less provision	5	1,501	3.0
Quoted investments at bid price			
Listed on London Stock Exchange	1	771	1.6
Quoted on AIM	9	2,922	5.9
Total	**45**	**49,370**	**100.0**



Cumulative dividends per share (p)



Ongoing charges excluding performance fees (% of average net assets)



Ongoing charges including performance fees (% of average net assets)

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: 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 larger quoted companies. ***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 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 may 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: 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. ***Mitigation:*** the manager keeps the company's VCT qualifying status under continual review, seeking to take appropriate action to maintain it where required, 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.

Additional disclosures required by the Companies Act

The company had no employees during the year and there are six directors, five of whom are male.

As an externally managed investment company, the company is not directly responsible for any greenhouse gas emissions.

Future prospects

The investment portfolio is generally making satisfactory progress, with a number of exit prospects. Our manager currently has a promising flow of investments which will qualify under the new VCT legislation.

By order of the Board

C D Mellor
Secretary 12 June 2017

Investment portfolio

as at 31 March 2017

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Entertainment Magpie Group	1,503	5,147	7.2
No 1 Lounges	1,977	3,962	5.5
Buoyant Upholstery	1,508	2,941	4.1
MSQ Partners Group	1,672	2,756	3.9
Lineup Systems	974	2,470	3.4
Optilan Group	1,000	2,196	3.1
Wear Inns	1,868	2,113	3.0
Agilitas IT Holdings	1,638	1,838	2.6
CloserStill Group	1,683	1,683	2.4
Volumatic Holdings	1,596	1,678	2.3
It's All Good	1,145	1,668	2.3
Biological Preparations Group	2,166	1,605	2.2
Graza	1,523	1,523	2.1
Customs Connect Group	1,322	1,322	1.8
Axial Systems Holdings	1,004	1,169	1.6
	22,579	**34,071**	**47.5**
Other venture capital investments			
Love Saving Group	1,124	1,124	1.6
Intuitive Holding	1,508	987	1.4
Intelling Group	979	979	1.4
Rockar	823	823	1.1
Myparceldelivery Holdings	813	813	1.1
Vectura Group**	272	771	1.1
Channel Mum	674	674	1.0
AVID Technology Group	673	673	0.9
Nasstar*	390	662	0.9
Lanner Group	486	649	0.9
Haystack Dryers	1,497	636	0.9
Arnlea Holdings	1,287	577	0.9
Adept Telecom*	236	537	0.8
Saluda	502	502	0.7
Oceanos	502	502	0.7
Turbinia	502	502	0.7
Seawise	502	502	0.7
Hunley	502	502	0.7
Sinclair Pharma*	425	494	0.7
Lending Works	650	402	0.6
Brady*	314	343	0.5
Cello Group*	251	306	0.5
Gentronix	579	289	0.4
Fresh Approach (UK) Holdings	1,454	236	0.3
Kirton Group	1,041	232	0.3
Collagen Solutions*	299	192	0.2
Ideagen*	83	191	0.2
Gear4music (Holdings)*	47	180	0.2
Summit Corporation*	236	19	–
S&P Coil Products	62	–	–
Total venture capital investments	**41,292**	**49,370**	**68.9**
Total listed equity investments	4,042	5,046	7.0
Total listed interest-bearing investments	3,812	3,779	5.3
Total fixed asset investments	**49,146**	**58,195**	**81.2**
Net current assets		13,452	18.8
Net assets		**71,647**	**100.0**

* Quoted on AIM

** Listed on London Stock Exchange

Fifteen largest venture capital investments

Entertainment Magpie Group

Cost	£1,503,000
Valuation	£5,147,000
Basis of valuation	Earnings multiple
Equity held	9.5% (NVM funds total 38.2%)
Business/location	Re-commerce website for pre-owned entertainment media and electronic items, Manchester
History	Management buy-out, September 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £159,000

Audited financial information:

Period ended 31 May	2016* £m
Sales	52.6
Operating profit	1.3
Loss before tax	(0.2)
Loss after tax	(0.2)
Net assets	1.5

*8 month period

No 1 Lounges

Cost	£1,977,000
Valuation	£3,962,000
Basis of valuation	Earnings multiple
Equity held	8.9% (NVM funds total 38.7%)
Business/location	Operator of airport lounges and related services, London
History	Growth capital investment in March 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £165,000

Audited financial information:

Year ended 31 December	2015 £m	2014* £m
Sales	16.4	10.7
Operating loss	(1.3)	(1.5)
Loss before tax	(1.9)	(2.2)
Loss after tax	(1.9)	(2.2)
Net (liabilities)/assets	(0.3)	1.3

*11 month period

Buoyant Upholstery

Cost	£1,508,000
Valuation	£2,941,000
Basis of valuation	Earnings multiple
Equity held	13.8% (NVM funds total 64.9%)
Business/location	Manufacturer of upholstered furniture, Nelson
History	Management buy-out financing in July 2013, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £135,000

Audited financial information:

Year ended 2 October	2016 £m	2015 £m
Sales	51.7	53.6
Operating profit	4.9	5.2
Profit before tax	3.0	3.1
Profit after tax	2.2	2.3
Net assets	6.7	5.5

MSQ Partners Group

Cost	£1,672,000
Valuation	£2,756,000
Basis of valuation	Earnings multiple
Equity held	8.2% (NVM funds total 38.7%)
Business/location	Marketing and communications agency group, London
History	Management buy-out financing in July 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £147,000

Audited financial information:

Year ended 29 February	2016 £m	2015* £m
Sales	83.1	59.5
Operating profit	2.7	1.0
Profit/(loss) before tax	0.4	(0.7)
Profit/(loss) after tax	0.8	(1.3)
Net assets/(liabilities)	0.6	(0.5)

*7.5 month period

Note: "Operating profit" is defined as earnings before interest, tax and amortisation of goodwill.

Lineup Systems

Cost	£974,000
Valuation	£2,470,000
Basis of valuation	Revenue multiple
Equity held	17.4% (NVM funds total 52.2%)
Business/location	Multi-channel advertising and media software, London
History	Development capital financing, December 2011, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £33,000

Audited financial information:

Year ended 30 June	2016 £m	2015 £m
Sales	7.3	5.4
Operating profit	0.2	–
Loss before tax	–	(0.1)
Profit/(loss) after tax	0.1	(0.1)
Net liabilities	(0.2)	(0.3)

Optilan Group

Cost	£1,000,000
Valuation	£2,196,000
Basis of valuation	Earnings multiple
Equity held	7.2% (NVM funds total 37.1%)
Business/location	Telecommunications systems integrator, Coventry
History	Management buy-out from private ownership, March 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Compay, Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £443,000

Audited financial information:

Year ended 30 June	2015 £m	2014 £m
Sales	33.3	34.9
Operating profit	3.1	3.1
Profit before tax	1.5	1.7
Profit after tax	2.4	1.8
Net assets	3.3	0.7

Wear Inns

Cost	£1,868,000
Valuation	£2,113,000
Basis of valuation	Earnings multiple
Equity held	8.5% (NVM funds total 23.9%)
Business/location	Owner of managed public houses, Newcastle upon Tyne
History	Acquisition capital financing in February 2006, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £160,000

Audited financial information:

Year ended 31 March	2016 £m	2015 £m
Sales	13.6	13.2
Operating profit	1.2	1.3
Loss before tax	(0.4)	(0.3)
Loss after tax	(0.5)	(0.3)
Net assets	3.9	4.6

Agilitas IT Holdings

Cost	£1,638,000
Valuation	£1,838,000
Basis of valuation	Earnings multiple
Equity held	13.5% (NVM funds total 56.0%)
Business/location	Provider of outsourced IT inventory management services, Nottingham
History	Management buy-out financing in June 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT, NV2 LP
Income in year	Dividends nil, loan stock interest £114,000

Audited financial information:

Year ended 31 March	2016 £m	2015* £m
Sales	7.2	5.8
Operating profit	0.6	0.3
Loss before tax	(0.2)	(0.4)
Loss after tax	(0.2)	(0.3)
Net assets	0.5	0.7

*11 month period

Fifteen largest venture capital investments
continued

CloserStill Group

Cost	£1,683,000
Valuation	£1,683,000
Basis of valuation	Earnings multiple
Equity held	1.0% (NVM funds total 3.2%)
Business/location	Promoter of international business-to-business events, London
History	Secondary buy-out from private equity ownership, March 2015, led by Inflexion Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £61,000

Audited financial information:

Year ended 31 December	2016 £m	2015* £m
Sales	36.5	28.5
Operating profit	0.6	0.8
Loss before tax	(18.8)	(16.0)
Loss after tax	(17.7)	(15.1)
Net assets	146.5	155.7

*10 month period

Volumatic Holdings

Cost	£1,596,000
Valuation	£1,678,000
Basis of valuation	Earnings multiple
Equity held	16.9% (NVM funds total 50.7%)
Business/location	Manufacturer of intelligent cash handling equipment, Coventry
History	Management buy-out, March 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £122,000

Audited financial information:

Year ended 31 March	2016 £m	2015 £m
Sales	4.9	5.1
Operating profit	0.4	0.4
Loss before tax	(0.5)	(0.6)
Loss after tax	(0.4)	(0.6)
Net assets	1.8	2.2

It's All Good

Cost	£1,145,000
Valuation	£1,668,000
Basis of valuation	Earnings multiple
Equity held	9.9% (NVM funds total 30.2%)
Business/location	Manufacturer of premium savoury snack products, Gateshead
History	Growth capital investment in February 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £103,000

Audited financial information:

Year ended 31 December	2015 £m	2014 £m
Sales	12.2	8.7
Operating profit	1.1	0.4
Profit before tax	0.7	–
Profit after tax	0.7	0.2
Net assets/(liabilities)	0.4	(0.2)

Biological Preparations Group

Cost	£2,166,000
Valuation	£1,605,000
Basis of valuation	Earnings multiple
Equity held	16% (NVM funds total 47.5%)
Business/location	Developer and supplier of products based on microbial, antimicrobial, plant extract and enzyme technology, Cardiff
History	Management buy-out financing in March 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends £20,000, loan stock interest £223,000

Audited financial information:

Year ended 31 December	2016 £m	2015* £m
Sales	5.4	4.4
Operating profit	0.3	0.2
Loss before tax	(1.1)	(0.9)
Loss after tax	(1.0)	(1.0)
Net (liabilities)/assets	(0.6)	0.4

*15 month period

Note: "Operating profit" is defined as earnings before interest, tax and amortisation of goodwill.

Graza

Cost	£1,523,000
Valuation	£1,523,000
Basis of valuation	Cost
Equity held	26.3% (NVM funds total 93.4%)
Business/location	Holding company seeking VCT qualifying trade, Newcastle upon Tyne
History	Investment in April 2015, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

N/A

Customs Connect Group

Cost	£1,322,000
Valuation	£1,322,000
Basis of valuation	Cost
Equity held	12.3% (NVM funds total 37.1%)
Business/location	Niche duty consultancy, Manchester
History	Growth capital investment in August 2016, 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 ending 30 June 2017

Axial Systems Holdings

Cost	£1,004,000
Valuation	£1,169,000
Basis of valuation	Earnings multiple
Equity held	10.6% (NVM funds total 58.9%)
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 investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £38,000

Audited financial information:

Year ended 31 May	2016 £m	2015 £m
Sales	27.4	20.0
Operating profit	1.7	1.1
Profit before tax	0.8	0.2
Profit after tax	0.5	–
Net assets	1.0	0.6

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 year ended 31 March 2017.

Activities and status

The principal activity of the company during the year 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 company's registered number is 3695071.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2019 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 an extraordinary general meeting to consider proposals for the reorganisation or winding-up of the company.

Corporate governance

The statement on corporate governance set out on pages 20 to 24 is included in the directors' report by reference.

Results and dividend

The return on ordinary activities after tax for the year of £8,615,000 has been transferred to reserves.

The second interim and final dividends for the year ended 31 March 2016 totalling 8.5p and an interim dividend of 2.0p per share in respect of the year ended 31 March 2017 were paid during the year at a cost of £9,654,000 and have been charged to reserves.

The directors have declared a second interim dividend of 5.0p per share and proposed a final dividend of 3.5p per share for the year ended 31 March 2017. Subject to approval of the final dividend at the annual general meeting, the second interim and final dividends will be paid on 21 July 2017 to shareholders on the register on 23 June 2017.

Provision of information to the auditor

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

Statement on long-term viability

As required by the AIC Code of Corporate Governance, the directors have assessed the prospects of the company over the three year period to March 2020, taking into account the company's current position and principal risks, and have concluded that there is a reasonable expectation that the company will be able to continue in operation over the period and meet its liabilities as they fall due over that period. The directors consider that for the purpose of this exercise it is not practical or meaningful to look forward over a period of more than three years. In making their assessment the directors have taken into account the principal risks and their mitigation identified in the strategic report on page 10, the nature of the company's business, including its substantial reserve of cash and near-cash investments, the potential of its venture capital portfolio to generate future income and capital proceeds and the ability of the directors to control the level of cash outflows.

Directors

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 year 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.

Management

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, who is a director of Northern 2 VCT, is also an equity partner in NVM.

The management engagement committee carries out a regular review of the terms of NVM's appointment with a view to ensuring that NVM's remuneration is set at an appropriate level, having regard to the nature of the work carried out and general market practice.

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.

Remuneration receivable by NVM

The remuneration receivable by NVM and its executives by virtue of NVM's management agreement with Northern 2 VCT comprises the following:

Remuneration payable by Northern 2 VCT

Basic management fee: NVM is entitled to receive a basic annual management fee equivalent to 2.06% of net assets, calculated half-yearly as at 31 March and 30 September. In the year ended 31 March 2017 the basic annual management fee was £1,480,000 (preceding year: £1,539,000).



Performance-related management fee: NVM is entitled to receive an annual performance related management fee equivalent to 12% of the total return in excess of a formula-driven hurdle rate, details of whose composition are set out in Note 3 to the financial statements. The hurdle rate for the year ended 31 March 2017 was 6.0% (preceding year: 6.0%). The performance-related management fee for the year ended 31 March 2017 was £571,000 (preceding year: £370,000).

Accounting and secretarial fee: NVM provides accounting, administrative and secretarial services to the company for a fee of £55,000 per annum, linked to the movement in the RPI. The fee payable in respect of the preceding year was £54,000.

Under current tax legislation the fees paid by the company to NVM are not subject to VAT. The total annual running costs of the company, including the basic management fee and the accounting and secretarial fee but excluding the performance-related management fee, are capped at 2.9% of average net assets and any excess will be refunded to the company by way of a reduction in NVM's basic management fee. The annual running costs of the company for the year ended 31 March 2017 were equivalent to 2.58% of average net assets (preceding year: 2.52%).

Remuneration payable by investee companies

Under the management agreement, NVM is entitled to receive fees from investee companies in respect of the arrangement of investments and the provision of non-executive directors and other advisory services. NVM is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 March 2017 the arrangement fees receivable by NVM from investee companies which were attributable to investments made by Northern 2 VCT amounted to £152,000 (preceding year: £78,000), and directors' and monitoring fees amounted to £282,000 (preceding year: £288,000).

Executive co-investment scheme

Since 2006 the company has, together with the other funds managed by NVM, participated in a co-investment scheme with the objective of enabling NVM to recruit, retain and incentivise its key investment executives. Under the scheme, executives 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 every unquoted investee company in which the company invests. The shares held by executives can only be sold at such time as the funds managed by NVM sell their shares, any prior ranking loan notes or preference shares held by the funds having been repaid. The executives participating in the scheme subscribe jointly for 5.0% of the ordinary shares available to the NVM funds, except in the case of ungeared investments comprising only ordinary shares, where the proportion is 1.0%. At 31 March 2017 NVM executives held investments in 40 investee companies acquired at a total cost of £953,000, of which £273,000 was attributable to investments made by Northern 2 VCT.

Share capital – purchase of shares

During the year the company purchased for cancellation 485,000 of its own shares, representing 0.5% of the called-up share capital of the company at the beginning of the year, for a consideration of £338,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2016 annual general meeting, held in July 2016, shareholders authorised the company to purchase in the market up to 9,160,823 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 2017 this authority remained effective in respect of 8,675,823 shares; the authority will lapse at the conclusion of the 2017 annual general meeting of the company on 12 July 2017.

Share capital – issue of shares

During the year the company issued 2,437,437 new ordinary shares for a cash consideration of £1,717,000 pursuant to the company's dividend investment scheme.

Fixed assets

Movements in fixed asset investments during the year are set out in Note 8 to the financial statements.

Annual general meeting

Notice of the 2017 annual general meeting to be held on 12 July 2017 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 auditor

KPMG LLP have indicated their willingness to continue as auditor of the company and resolutions to re-appoint them and to authorise the audit committee to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

C D Mellor
Secretary

12 June 2017

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 Section 410 of the Companies Act 2006. A resolution to approve the directors' remuneration report and statement of the directors' remuneration policy will be proposed at the annual general meeting on 12 July 2017.

The company's independent auditor, KPMG LLP, is required to give its opinion on certain information included in this report, as indicated below. The auditor's report on these and other matters is set out on pages 26 and 27.

Directors' remuneration policy

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 S P Devonshire, Mr C G A Fletcher, Miss C A McAnulty and Mr F L G Neale, which meets annually (or more frequently if required) to consider the selection and appointment of directors and to make recommendations to the board as to the level of directors' fees. The board has not retained external advisers in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type. No views which are relevant to the formulation of the directors' remuneration policy have been expressed to the company by shareholders, whether at a general meeting or otherwise.

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, who is an equity partner in NVM, has an interest in the co-investment scheme referred to in the directors' report on page 17.)

The articles of association place an overall limit (currently £150,000 per annum) on directors' remuneration. 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 that 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. A director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services.

Directors' remuneration for the year ended 31 March 2017 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2017 and 31 March 2016, which represent the entire remuneration payable to directors, are shown in Table 1.

Directors' share interests (audited information)

The interests of the directors of the company (including the interests of their connected persons) in the issued ordinary shares of the company, at the beginning and end of the year and at the date of this report, are shown in Table 2.

All of the directors' share interests were held beneficially.

The company has not set out any formal requirements or guidelines to directors concerning their ownership of shares in the company.

Relative importance of spend on pay

As the company has no employees, the directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

Company performance

The graph opposite compares the total return (assuming re-investment of all dividends) to shareholders in the company over the five years ended 31 March 2017 with the total return from a broad UK equity market index over the same period.

Statement of voting at annual general meeting

At the annual general meeting on 14 July 2016 the resolution to approve the directors' remuneration report for the year ended 31 March 2016 was approved by a show of hands. 96.9% of the proxy votes received in relation to the resolution were either for or discretionary.

Statement by the chairman of the nomination committee

The directors' fees payable by the company were set at £24,000 per annum for the chairman and £18,500 per annum for other directors with effect from 1 April 2016. In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 29 March 2017, when it was recommended that fees should remain the same for the year to 31 March 2018.

By order of the Board

D P A Gravells
Chairman of the
Nomination Committee 12 June 2017

Table 1: Directors' fees

	Year ended 31 March 2017	Year ended 31 March 2016
D P A Gravells (Chairman)	24,000	22,000
A M Conn	–	–
E M P Denny (retired 14 July 2015)	–	4,902
S P Devonshire (appointed 3 January 2017)	4,625	–
C G A Fletcher	18,500	17,000
C A McAnulty	18,500	17,000
F L G Neale	18,500	17,000
Total	**84,125**	**77,902**

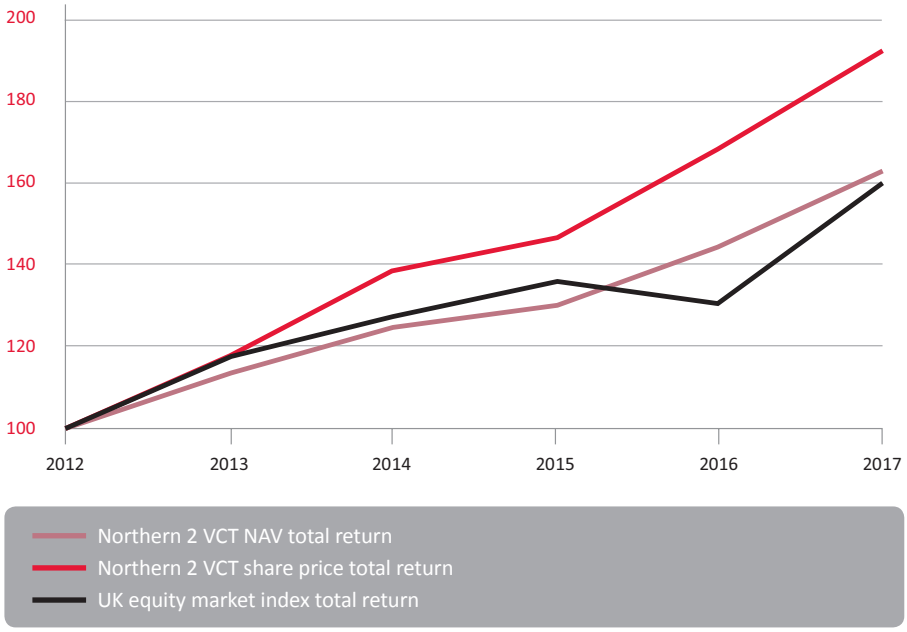
Mr A M Conn waived his entitlement to directors' fees in respect of both years

Table 2: Directors' interests in ordinary shares

	12 June 2017	31 March 2017	31 March 2016
D P A Gravells (Chairman)	34,459	26,692	18,925
A M Conn	446,355	446,355	397,651
S P Devonshire (appointed 3 January 2017)	–	–	N/A
C G A Fletcher	99,416	99,416	99,416
C A McAnulty	77,914	51,957	–
F L G Neale	105,030	105,030	105,030

Return to shareholders in Northern 2 VCT PLC

Five years to 31 March 2017 (March 2012 = 100)



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/aic-code-of-corporate-governance-0.

The board considers that reporting in accordance with 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 year ended 31 March 2017 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 Northern 2 VCT PLC, 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, five of whom are considered to be independent of the company's investment manager, NVM Private Equity LLP (NVM). The board meets regularly in person or by conference call quarterly, 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 Mr F L G Neale, the senior independent director of the company.

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.

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 board.

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 that 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.

Independence of directors

The board regularly reviews the independence of its members and is satisfied that the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity (with the exception of Mr A M Conn who is an equity partner in NVM, the company's investment manager).

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 in itself prejudicial to a director's ability to carry out his/her duties effectively and from an independent perspective; the nature of the company's business is such that individual director's experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. However the board has as a matter of good practice adopted the AIC Code recommendation that directors who have served for more than nine years should seek annual re-election, and acknowledges that regular 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 18 and 19.

Audit Committee

During the year the audit committee comprised:

Mr C G A Fletcher (Chairman)
Mr S P Devonshire (appointed 3 January 2017)
Mr D P A Gravells
Miss C A McAnulty
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 valuation of the company's unquoted investments;
- 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 auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's 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 auditor is 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 and on the NVM website, www.nvm.co.uk. The audit committee ordinarily meets three times per year and has direct access to KPMG LLP, the company's external auditor. 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 year ended 31 March 2017 the audit committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing 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;
- reviewing periodic reports on the effectiveness of NVM's compliance procedures;
- reviewing the appropriateness of the company's accounting policies;
- reviewing the company's draft annual financial statements and half-yearly results statement prior to board approval, including the proposed fair value of investments;
- reviewing the external auditor's detailed reports to the committee on the annual financial statements;
- considering the effectiveness of the external audit process; and
- recommending to the board and shareholders the reappointment of KPMG LLP as the independent auditor of the company.

The key areas of risk that have been identified and considered by the audit committee in relation to the business activities and financial statements of the company are as follows:

- valuation and existence of unquoted investments; and
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status.

These issues were discussed with the investment manager and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments: the investment manager confirmed to the audit committee that the investment valuations had been carried out consistently with prior periods and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. The audit committee reviewed the estimates and judgements made in the investment valuations and was satisfied that the final valuations are appropriate.

Venture capital trust status: the investment manager confirmed to the audit committee that the conditions for maintaining the company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by Philip Hare & Associates LLP in its capacity as adviser to the company on taxation matters.

The investment manager and auditor confirmed to the audit committee that they were not aware of any material misstatements. Having reviewed the reports received from the manager and auditor, the audit committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The committee considers that KPMG LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of auditor effectiveness and independence, KPMG LLP has confirmed that it is independent of the company and has complied with applicable auditing standards. KPMG LLP together with its predecessor KPMG Audit Plc has held office as auditor for fifteen years; in accordance with professional guidelines the engagement director is rotated after at most five years, and the current director has served for three years. Having completed its review the audit committee is satisfied that KPMG LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. The audit committee is satisfied that KPMG LLP is independent and that it would not be appropriate to put the audit appointment out to tender at the present time. Under impending UK legislation,listed companies will in the future be subject to mandatory rotation of auditors. The last period for which KPMG LLP will be permitted to act as auditor of the company will be the year ending 31 March 2023.

Nomination Committee

During the year the nomination committee comprised:

Mr D P A Gravells (Chairman)
Mr S P Devonshire (appointed 3 January 2017)
Mr C G A Fletcher
Miss C A McAnulty
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, diversity 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, and would consider the use of formal advertisements and external consultants where appropriate. New directors are provided with briefing material relating to the company, its investment manager 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 and on the NVM website, www.nvm.co.uk.

Management Engagement Committee

During the year the management engagement committee comprised:

Mr D P A Gravells (Chairman)
Mr S P Devonshire (appointed 3 January 2017)
Mr C G A Fletcher
Miss C A McAnulty
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 33.

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 substantial board and committee meetings held during the year ended 31 March 2017 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.

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	3/3	1/1	1/1
A M Conn	6/6	N/A	N/A	N/A
S P Devonshire (appointed 3 January 2017)	3/3	1/1	1/1	1/1
C G A Fletcher	5/6	3/3	1/1	1/1
C A McAnulty	6/6	3/3	1/1	1/1
F L G Neale	6/6	3/3	1/1	1/1

Investor relations

In fulfilment of the chairman's obligations under the UK Corporate Governance Code, the chairman gives feedback to the board on any 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. The manager holds an annual VCT investor seminar to which shareholders are invited. 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 robust 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 and secretarial services has been contractually delegated to NVM under the management agreement.

NVM has established its own system of internal controls, which is subject to continuing review and updating, in relation to these matters. The internal control system is regularly reviewed by the board and no material weaknesses have been identified as a result of this review.

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 strategic report on page 10.

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

As at 31 March 2017 there were 93,560,667 ordinary shares 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, 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.

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 and 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, except where the Companies Act 2006 or the articles of association of the company otherwise require. 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 2016 annual general meeting to make market purchases of up to 9,160,823 ordinary shares at any time up to the 2017 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 12 July 2017 as set out in a separate circular.

By order of the Board

C D Mellor
Secretary

12 June 2017

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 that year.

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 the 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 strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual report and financial statements for the year ended 31 March 2017

We confirm that to the best of our knowledge:

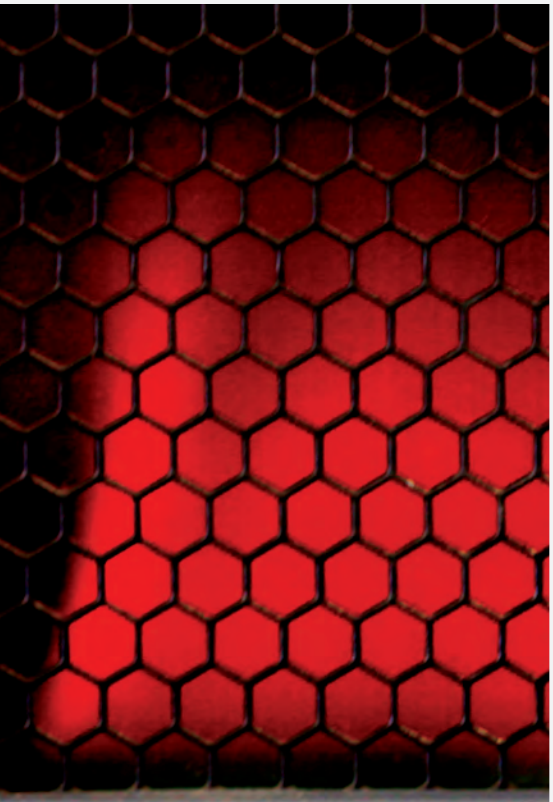
- taken as a whole, the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

C D Mellor
Secretary

12 June 2017



Independent auditor's report

To the members of Northern 2 VCT PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Northern 2 VCT PLC for the year ended 31 March 2017 set out on pages 28 to 41. In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows (unchanged from 2016):

Valuation of unquoted investments – (£45.68 million; 2016: £45.39 million) – Refer to page 21 (audit committee section of the corporate governance statement), page 32 (accounting policy) and pages 28 to 41 (financial disclosures).

The risk: Subjective valuation – 59% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as prices of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments.

Our response: Our procedures included:

- Control design: Documenting and assessing the design and implementation of the investment valuation processes and controls;
- Control observation: Attending the year-end audit committee meeting where we assessed the effectiveness of the audit committee's challenge and approval of unlisted investment valuations;
- Historical comparisons: Assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations;
- Methodology choice: In the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines, we challenged the appropriateness of the valuation basis selected;
- Our valuations experience: Challenging the investment manager on key judgements affecting investee company valuations, such as discount factors and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or whether refinancing may be required. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- Comparing valuations: Where a recent transaction has been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was considered to be on an arms-length basis and suitable as an input into a valuation.
- Assessing transparency: Consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £758,000 (2016: £718,810) determined with reference to a benchmark of total assets, of which it represents 1% (2016: 1%).

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £37,900 (2016: £35,700), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the head office of the manager, NVM Private Equity LLP, in Newcastle upon Tyne.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 strategic report and the directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the directors' statement of long-term viability on page 16, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the company's continuing in operation over the three years to 31 March 2020; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

- Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy; or
- the audit committee section of the corporate governance statement does not appropriately address matters communicated by us to the audit committee.

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' statements, set out on page 16, in relation to going concern and longer-term viability; and
- the part of the corporate governance statement on pages 20 to 24 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Philip Merchant
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

12 June 2017

Income statement

for the year ended 31 March 2017

	Notes	Year ended 31 March 2017 Revenue £000	Capital £000	Total £000	Year ended 31 March 2016 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	8	–	2,285	2,285	–	2,214	2,214
Movements in fair value of investments	8	–	6,189	6,189	–	5,068	5,068
		–	8,474	8,474	–	7,282	7,282
Income	2	2,556	–	2,556	2,334	–	2,334
Investment management fee	3	(370)	(1,681)	(2,051)	(385)	(1,524)	(1,909)
Other expenses	4	(364)	–	(364)	(351)	–	(351)
Return on ordinary activities before tax		1,822	6,793	8,615	1,598	5,758	7,356
Tax on return on ordinary activities	5	(313)	313	–	(205)	205	–
Return on ordinary activities after tax		1,509	7,106	8,615	1,393	5,963	7,356
Return per share	7	1.6p	7.7p	9.3p	1.5p	6.5p	8.0p

- The total column of this statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The supplementary revenue return and capital return columns have been prepared 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").
- 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.

Balance sheet

as at 31 March 2017

	Notes	31 March 2017 £000	31 March 2016 £000
Fixed assets			
Investments	8	58,195	56,997
Current assets			
Debtors	12	591	270
Cash and cash equivalents		17,874	14,614
		18,465	14,884
Creditors (amounts falling due within one year)	13	(5,013)	(544)
Net current assets		13,452	14,340
Net assets		71,647	71,337
Capital and reserves			
Called-up equity share capital	14	4 ,678	4,580
Share premium	15	3 ,029	1,464
Capital redemption reserve	15	83	59
Capital reserve	15	53,908	58,614
Revaluation reserve	15	9,049	5,562
Revenue reserve	15	900	1,058
Total equity shareholders' funds		71,647	71,337
Net asset value per share	16	76.6p	77.9p

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

The financial statements on pages 28 to 41 were approved by the directors on 12 June 2017 and are signed on their behalf by:

D P A Gravells
Director

Statement of changes in equity

for the year ended 31 March 2017

	Notes	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 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	6	–	–	–	–	(7,987)	(1,667)	(9,654)
Net proceeds of share issues	14	122	1,565	–	–	–	–	1,687
Shares purchased for cancellation	14	(24)	–	24	–	(338)	–	(338)
At 31 March 2017		4,678	3,029	83	9,049	53,908	900	71,647

Year ended 31 March 2016		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 2015		4,609	1,464	30	292	71,234	1,047	78,676
Return on ordinary activities after tax		–	–	–	5,270	693	1,393	7,356
Dividends paid	6	–	–	–	–	(12,903)	(1,382)	(14,285)
Net proceeds of share issues	14	–	–	–	–	–	–	–
Shares purchased for cancellation	14	(29)	–	29	–	(410)	–	(410)
At 31 March 2016		4,580	1,464	59	5,562	58,614	1,058	71,337

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

Statement of cash flows

for the year ended 31 March 2017

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Return on ordinary activities before tax	8,615	7,356
Gain on disposal of investments	(2,285)	(2,214)
Movements in fair value of investments	(6,189)	(5,068)
Increase in debtors	(321)	(23)
Increase in creditors	172	341
Net cash (outflow)/inflow from operating activities	(8)	392
Cash flows from investing activities		
Purchase of investments	(6,082)	(13,883)
Sale/repayment of investments	13,358	10,461
Net cash inflow/(outflow) from investing activities	7,276	(3,422)
Cash flows from financing activities		
Issue of ordinary shares	1,717	–
Share issue expenses	(30)	–
Share subscriptions held pending allotment	4,297	–
Purchase of ordinary shares for cancellation	(338)	(410)
Equity dividends paid	(9,654)	(14,285)
Net cash outflow from financing activitiess	(4,008)	(14,695)
Increase/(decrease) in cash and cash equivalents	3,260	(17,725)
Cash and cash equivalents at beginning of year	14,614	32,339
Cash and cash equivalents at end of year	17,874	14,614

Notes to the financial statements

for the year ended 31 March 2017

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 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").

The company has early adopted "Amendments to FRS 102 – Fair value hierarchy disclosures" issued by the Financial Reporting Council in March 2016.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £000.

The financial statements have been prepared on a going concern basis.

(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 the International Private Equity and Venture Capital Valuation 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 FRS 102 (Section 14.4B), 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 income 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.

(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.

(k) Significant estimates and judgements

Disclosure is required of judgements and estimates made by management in applying the accounting policies that have a significant effect on the financial statements. The area involving a higher degree of judgement and estimates in the valuation of unquoted investments as explained in Note 1(b).

2. Income

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Investment income:		
Dividends from unquoted companies	20	347
Dividends from quoted companies	237	226
Property income distributions	11	–
Interest receivable:		
Bank deposits*	20	65
Loans to unquoted companies	2 ,130	1,550
Listed interest bearing investments	138	146
	2,556	2,334

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

3. Investment management fee

	Year ended 31 March 2017			Year ended 31 March 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	370	1,110	1,480	385	1,154	1,539
Performance-related	–	571	571	–	370	370
	370	1,681	2,051	385	1,524	1,909

NVM Private Equity (NVM) provides investment management, secretarial and administrative 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 the fees of Speirs & Jeffrey Limited for managing the listed interest bearing and equity portfolios. NVM also provides administrative and secretarial services to the company for a fee of £55,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4).

NVM is also entitled to receive a performance-related management fee equivalent to 12% 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 (a) 7% on average long-term investments, (b) the higher of (i) base rate plus 1% and (ii) 2.5% on average cash and interest bearing investments, (c) base rate plus 4% on average listed equity investments during the year. The hurdle rate for the year ended 31 March 2017 was 6.0% (year ended 31 March 2016: 6.0%).

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. Any performance-related element of the investment management fee is charged 100% to capital return.

The total running costs of the company, excluding performance-related management fees, are capped at 2.9% of its net assets and NVM has agreed that any excess will be refunded by way of a reduction in its fees.

4. Other expenses

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Administrative and secretarial services	55	54
Directors' remuneration	84	78
Auditor's remuneration – audit services	19	22
– non-audit services	1	1
Legal and professional expenses	16	18
Share issue promoter's commission	64	45
Irrecoverable VAT	23	20
Other expenses	102	113
	364	351

Information on directors' remuneration is given in the directors' remuneration report on pages 18 and 19.

5. Tax on return on ordinary activities

	Year ended 31 March 2017			Year ended 31 March 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	313	(313)	–	205	(205)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	1,822	6,793	8,615	1 ,598	5,758	7,356
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 20% (2016 20%)	364	1,359	1,723	320	1,152	1,472
Effect of:						
UK dividends not subject to tax	(51)	–	(51)	(115)	–	(115)
Capital returns not subject to tax	–	(457)	(457)	–	(443)	(443)
Movements in fair value of investments not subject to tax	–	(1,238)	(1,238)	–	(1,014)	(1,014)
Increase in surplus management expenses	–	23	23	–	100	100
Tax charge/(credit) for the year	313	(313)	–	205	(205)	–

(c) Factors which may affect future tax charges

The company has not recognised a deferred tax asset in respect of surplus management expenses carried forward of £760,000 (31 March 2016 £645,000), as the company may not generate sufficient taxable income in the foreseeable future to utilise these expenses. There is no other unprovided deferred taxation.

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.

6. Dividends

	Year ended 31 March 2017			Year ended 31 March 2016		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's second interim	–	4,580	4,580	–	9,218	9,218
Previous year's final dividend	733	2,473	3,206	737	2,489	3,226
Current year's interim dividend	934	934	1,868	645	1,196	1,841
	1,667	7,987	9,654	1,382	12,903	14,285
(b) Paid and proposed in respect of the year						
First interim paid – 2.0p (2016 2.0p) per share	934	934	1,868	645	1,196	1,841
Second interim declared – 5.0p (2016 5.0p) per share	–	4,678	4,678	–	4,580	4,580
Final proposed – 3.5p (2016 3.5p) per share	467	2,807	3,274	733	2,473	3,206
	1,401	8,419	9,820	1,378	8,249	9,627

The revenue dividends paid and proposed in respect of the year 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.

7. Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £8,615,000 (2016 £7,356,000) and on 92,962,814 (2016 92,102,422) shares, being the weighted average number of shares in issue during the year.

8. 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.

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The company has early adopted Amendments to FRS 102 – Fair value hierarchy disclosures issued by the Financial Reporting Council in March 2016. The fair value hierarchy shall have the following classifications:

- Level 1 – unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

	31 March 2017 £000	31 March 2016 £000
Level 1		
Quoted venture capital investments	3,693	3,391
Listed equity investments	5,046	4,568
Level 2		
Listed interest-bearing investments	3,779	3,647
Level 3		
Unquoted venture capital investments	45,677	45,391
	58,195	56,997

8. Investments *continued*

Movements in investments during the year are summarised as follows:

	Venture capital - unquoted Level 3 £000	Venture capital - quoted Level 1 £000	Listed equity Level 1 £000	Listed interest-bearing Level 2 £000	Total £000
Book cost at 31 March 2016	40,978	2,672	3,955	3,830	51,435
Fair value adjustment at 31 March 2016	4,413	719	613	(183)	5,562
Fair value at 31 March 2016	45,391	3,391	4,568	3,647	56,997
Movements in the year:					
Purchases at cost	5,934	–	86	62	6,082
Disposals – proceeds	(12,915)	(369)	–	(74)	(13,358)
– net realised gains/(losses) on disposal	2,031	254	–	–	2,285
Movements in fair value	5,236	417	392	144	6,189
Fair value at 31 March 2017	45,677	3,693	5,046	3,779	58,195
Comprising:					
Book cost at 31 March 2017	38,740	2,552	4,042	3,812	49,146
Fair value adjustment at 31 March 2017	6,937	1,141	1,004	(33)	9,049
	45,677	3,693	5,046	3,779	58,195
Equity shares	20,131	3,693	5,046	–	28,870
Preference shares	1,891	–	–	–	1,891
Interest-bearing securities	23,655	–	–	3,779	27,434
	45,677	3,693	5,046	3,779	58,195

The gains and losses included in the above table have all been recognised in the income statement on page 28.

FRS 102 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 be unlikely to increase or decrease the fair value of Level 3 investments by more than 5%, see note 17 for details of the impact this would have on the financial statements.

At 31 March 2017 there were no commitments (31 March 2016: commitments totalling £1,642,000) in respect of investments approved by the manager but not yet completed.

9. Investment disposals

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

	Original cost £000	Carrying value at 31 March 2016 £000	Disposal proceeds £000	Realised gain against carrying value £000
Silverwing – outright sale	1,388	2,130	2,408	278
Arleigh Group – sale of shares	45	1,551	1,790	239
Kitwave One – deferred sales proceeds	–	–	191	191
Gear4music (Holdings) – partial disposal of holding	120	115	369	254
Crantock Bakery – outright sale	225	–	179	179
Cawood Scientific – outright sale	1,031	1,720	2,786	1 ,066
Turbinia – loan note redemption	1,020	1,020	1,020	–
Seawise – loan note redemption	1,020	1,020	1,020	–
Oceanos – loan note redemption	1,020	1,020	1,020	–
Saluda – loan note redemption	1,020	1,020	1,020	–
Hunley – loan note redemption	1,020	1,020	1,020	–
Others	383	383	461	78
	8,292	10,999	13,284	2,285

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2017 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 2017		31 March 2016	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Entertainment Magpie Group				
Ordinary shares	168	3,770	168	693
Preference shares	277	319	277	277
Loan stock	1,058	1,058	1,058	1,058
	1,503	5,147	1,503	2,028
No 1 Lounges				
Ordinary shares	178	2,163	178	368
Loan stock	1,799	1,799	1,964	1,964
	1,977	3,962	2,142	2,332
Buoyant Upholstery				
Ordinary shares	153	1,586	153	2,288
Loan stock	1,355	1,355	1,355	1,355
	1,508	2,941	1,508	3,643
MSQ Partners Group				
Ordinary shares	206	1,290	206	1,115
Loan stock	1,466	1,466	1,466	1,466
	1,672	2,756	1,672	2,581
Lineup Systems				
Ordinary shares	174	1,670	174	1,670
Loan stock	800	800	800	800
	974	2,470	974	2,470
Optilan Group				
Ordinary shares	179	1,375	179	212
Loan stock	821	821	821	821
	1,000	2,196	1,000	1,033
Wear Inns				
Ordinary shares	272	–	272	–
Preference shares	117	578	117	700
Loan stock	1,479	1,535	1,479	1,535
	1,868	2,113	1,868	2,235
Agilitas IT Holdings				
Ordinary shares	221	421	221	245
Loan stock	1,417	1,417	1,417	1,417
	1,638	1,838	1,638	1,662
CloserStill Group				
Ordinary shares	1	1	1	1
Preference shares	322	322	322	322
Loan stock	1,360	1,360	1,360	1,360
	1,683	1,683	1,683	1,683
Volumatic Holdings				
Ordinary shares	215	297	215	147
Loan stock	1,381	1,381	1,547	1,547
	1,596	1,678	1,762	1,694
It's All Good				
Ordinary shares	117	640	117	632
Loan stock	1,028	1,028	1,028	1,028
	1,145	1,668	1,145	1,660

10. Unquoted investments *continued*

	31 March 2017 Total cost £000	31 March 2017 Carrying value £000	31 March 2016 Total cost £000	31 March 2016 Carrying value £000
Biological Preparations Group				
Ordinary shares	221	–	221	-
Preference shares	340	–	340	-
Loan stock	1,605	1,605	1,605	1,605
	2,166	1,605	2,166	1,605
Graza				
Ordinary shares	146	146	146	146
Preference shares	357	357	357	357
Loan stock	1,020	1,020	1,020	1,020
	1,523	1,523	1,523	1,523
Customs Connect Group				
Ordinary shares	185	185	–	–
Preference shares	205	205	–	–
Loan stock	932	932	–	–
	1,322	1,322	–	–
Axial Systems Holdings				
Ordinary shares	145	310	145	857
Loan stock	859	859	859	859
	1,004	1,169	1,004	1,716
Intuitive Holding				
Ordinary shares	156	–	156	–
Loan stock	1,352	987	1,352	649
	1,508	987	1,508	649
Silverwing				
Ordinary shares	–	–	177	919
Loan stock	–	–	1,211	1,211
	–	–	1,388	2,130
Cawood Scientific				
Ordinary shares	–	–	118	807
Loan stock	–	–	913	913
	–	–	1,031	1,720
Arleigh Group				
Ordinary shares	–	–	45	1,551
Loan stock	–	–	–	–
	–	–	45	1,551

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

11. Significant interests

Details of shareholdings in those companies where the company's holding at 31 March 2017 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 £0.0001 unless stated)	Number held	Proportion of class held
Graza	Ordinary	145,350	26.3%
Hunley	Ordinary	145,350	26.3%
Oceanos	Ordinary	145,350	26.3%
Saluda	Ordinary	145,350	26.3%
Seawise	Ordinary	145,350	26.3%
Turbinia	Ordinary	145,350	26.3%

12. Debtors

	31 March 2017 £000	31 March 2016 £000
Prepayments and accrued income	591	270

13. Creditors (amounts falling due within one year)

	31 March 2017 £000	31 March 2016 £000
Accruals and deferred income	716	544
Share subscriptions held pending allotment	4,297	–
	5,013	544

14. Called-up equity share capital

	31 March 2017 £000	31 March 2016 £000
Allotted and fully paid:		
93,560,667 (2016 91,608,230) ordinary shares of 5p	4 ,678	4,580

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 page 6. The company is not subject to externally imposed capital requirements.

During the year the company issued 2,437,437 ordinary shares of 5p for cash at an average premium of 65.4p per share pursuant to the dividend investment scheme. 485,000 ordinary shares were re-purchased for cancellation during the year at a cost of £338,000.

15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2016	1,464	59	58,614	5,562	1,058
Premium on issue of ordinary shares	1,595	–	–	–	–
Share issue expenses	(30)	–	–	–	–
Shares purchased for cancellation	–	24	(338)	–	–
Realised on disposal of investments	–	–	2,285	–	–
Transfer on disposal of investments	–	–	2 ,702	(2,702)	–
Movements in fair value of investments	–	–	-	6,189	–
Management fee charged to capital net of associated tax	–	–	(1,368)	–	–
Revenue return on ordinary activities after tax	–	–	-	–	1,509
Dividends recognised in the year	–	–	(7,987)	–	(1,667)
At 31 March 2017	3,029	83	53,908	9, 049	900

At 31 March 2017 distributable reserves amounted to £55,779,000 (2016 £60,102,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed interest-bearing and listed equity investments.

16. Net asset value per share

The calculation of net asset value per share as at 31 March 2017 is based on net assets of £71,647,000 (2016 £71,337,000) divided by the 93,560,667 (2016 91,608,230) ordinary shares in issue at that date.

17. 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 8) 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 strategic report on page 6. 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 20 to 24, 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 8.

12.2% (2016 11.2%) by value of the company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 5% increase in the bid price of these securities as at 31 March 2017 would have increased net assets and the total return for the year by £437,000 (31 March 2016 £398,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

63.8% (2016 63.6%) 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% increase in the value price of these securities as at 31 March 2017 would have increased net assets and the total return for the year by £2,284,000 (31 March 2016 £2,270,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

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 2017			31 March 2016		
	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	1,164	5.4%	4.4	1,109	5.7%	5.3
Fixed-rate investments in unquoted companies	11,076	10.9%	2.9	7,300	9.8%	3.4
	12,240			8,409		

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 year

(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 is the UK bank base rate for interest bearing deposit accounts, which was 0.25% at 31 March 2017 (31 March 2016 0.5%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 0.34% at 31 March 2017 (31 March 2016 0.49%).

17. Financial instruments *continued*

The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2017 £000	31 March 2016 £000
Floating rate loans to unquoted companies	12,579	21,376
Interest-bearing investment funds	2,615	2,538
Interest-bearing deposit accounts	17,874	14,614
	33,068	38,528

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 2017 the company's financial assets exposed to credit risk comprised the following:

	31 March 2017 £000	31 March 2016 £000
Listed fixed-interest investments	1,164	1,109
Fixed-rate investments in unquoted companies	11,076	7,300
Floating rate loans to unquoted companies	12,579	21,376
Interest-bearing investment funds	2,615	2,538
Interest-bearing deposit accounts	17,874	14,614
Accrued dividends and interest receivable	578	255
	45,886	47,192

Credit risk relating to listed fixed-interest and floating rate 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 (Speirs & Jeffrey Limited in the case of listed interest-bearing investments and nominee companies of Brewin Dolphin Limited or Speirs & Jeffrey 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, including short term cash deposits, are maintained with major UK clearing banks.

There were no significant concentrations of credit risk to counterparties at 31 March 2017 or 31 March 2016.

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 2017 these investments were valued at £26,699,000 (31 March 2016 £22,829,000).

18. Contingencies

At 31 March 2017 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £371,000 (31 March 2016 £640,000). The extent to which these amounts will become receivable in due course is dependent on future events.

The company had no contingent liabilities at 31 March 2017 or 31 March 2016.

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