

Northern 2 VCT PLC

Annual report and financial statements
31 March 2018



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.

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Financial summary

| Year ended 31 March: | 2018 | 2017 |
|---|---------------|---------------|
| Net assets | £87.0m | £71.6m |
| Net asset value per share | 66.9p | 76.6p |
| Return per share | | |
| Revenue | 1.3p | 1.6p |
| Capital | (0.4)p | 7.7p |
| Total | 0.9p | 9.3p |
| Dividend per share for the year | | |
| First interim dividend | 2.0p | 2.0p |
| Second interim (special) dividend | – | 5.0p |
| Proposed final dividend | 3.5p | 3.5p |
| Total | 5.5p | 10.5p |
| Cumulative return to shareholders since launch | | |
| Net asset value per share | 66.9p | 76.6p |
| Dividends paid per share* | 111.9p | 101.4p |
| Net asset value plus dividends paid per share | 178.8p | 178.0p |
| Mid-market share price at end of year | 63.50p | 72.00p |
| Share price discount to net asset value | 5.1% | 6.0% |
| Tax-free dividend yield (based on mid-market share price at the end of the year) | | |
| Including special dividend | N/A | 14.6% |
| Excluding special dividend | 8.7% | 7.6% |

*Excluding proposed final dividend payable on 20 July 2018

Key dates

Results announced

17 May 2018

Shares quoted ex dividend

21 June 2018

Record date for final dividend

22 June 2018

Annual general meeting

12 July 2018, 12.00 noon, Royal College of General Practitioners,
30 Euston Square, London NW1 2FB

Final dividend paid

20 July 2018

Chairman's statement

Our investment manager, NVM, continues to meet the twin challenges of identifying new and compelling VCT-qualifying opportunities to support small and medium businesses and working with existing portfolio companies to realise their growth plans.

I am pleased to report on another busy year for Northern 2 VCT, during which ten new VCT qualifying investments were completed. Cash flows remained strong, supported by a highly successful public share offer. Our investment manager, NVM, continues to meet the twin challenges of identifying new and compelling VCT-qualifying opportunities to support small and medium businesses and working with existing portfolio companies to realise their growth plans.

Results and dividend

The total return per share for the year as shown in the income statement was 0.9p (last year 9.3p). The net asset value (NAV) per share at 31 March 2018, after deducting dividends totalling 10.5p which were paid during the year, was 66.9p compared with 76.6p as at 31 March 2017. The total return expressed as a percentage of the opening NAV was 1.2%, which reflects a lower contribution from investment disposal activity during the year.

Since 2004 our company has maintained an annual dividend payment of at least 5.5p per share. Whilst the returns for the current year have not been as high as in recent years, the company does have significant distributable reserves brought forward from previous periods. The directors therefore propose to maintain the total ordinary dividend at 5.5p. 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 2018, which if approved at the annual general meeting, will be paid on 20 July 2018 to shareholders on the register on 22 June 2018. As previously highlighted, the Finance (No.2) Act 2015 contained significant changes to the criteria for VCT-qualifying investments. Subsequent investment activity has necessarily focussed on earlier stage businesses requiring capital to develop new products and markets. This gradual shift in the portfolio may make the flow of realised gains less predictable and so future dividends are likely to be subject to fluctuation. However, paying regular tax-free dividends to shareholders remains a priority for the directors.

Investment portfolio

Following careful selection, ten new VCT-qualifying investments were added to the venture capital portfolio at a cost of £8.7 million. In addition, follow-on investments totalling £1.4 million were made in existing portfolio companies. I am pleased to note that the investment rate of £10.1 million represents a marked increase from the prior year (investments totalling £5.9 million) and demonstrates our manager's continued progress in adapting our investment approach to comply with the evolving legislative landscape. Whilst we are still near the beginning of the investment holding period for the 17 investments acquired to date under the new rules, satisfactory progress is being made in the early stage portfolio. Returns from early stage investments are expected to be more volatile, which will have a bearing on the overall performance of the company as this part of the portfolio grows. We are confident in our manager's skills in selecting attractive opportunities in which to invest shareholders' funds.

Approximately two thirds of the value of the venture capital portfolio is currently represented by investments made under previous iterations of the VCT rules. These investments are unaffected by the introduction of the new rules, except in that we are prohibited from providing follow-on funding to many of them. Strong underlying trading for many of these investments has been balanced by more challenging economic environments faced by a small number of others.

In a relatively subdued period for disposal activity, the cash proceeds from venture capital investments sold or repaid during the year amounted to £7.0 million, representing a surplus of £1.7 million over original cost. Several investee companies are currently the subject of discussions with a view to a realisation during the year to 31 March 2019.

Shareholder issues

Based on the expected investment rate in the coming years, both for new investments and for follow-on funding rounds in early stage investee companies, we announced a prospectus share offer in September 2017 to raise up to £20 million. We were very pleased that strong demand was experienced for this offer and that it was fully subscribed within six weeks of being launched. Your directors would like to express their appreciation of shareholders' continuing support.

In addition to the public offer, gross proceeds of £2 million were received during the year through the issue of new shares under our dividend investment scheme. 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 537,000 shares were repurchased for cancellation, equivalent to approximately 0.6% of the opening share capital.

The company's annual general meeting (AGM) will be held in London on Thursday 12 July 2018 and the directors look forward to meeting and engaging with shareholders.



David Gravells *Chairman*

Board of directors

All the directors will be seeking re-election at the AGM, either in accordance with the AIC Code of Corporate Governance or voluntarily.

Our colleague Chris Fletcher retired from the board at the AGM in July 2017, when tributes were paid to his excellent service as a director and chairman of the audit committee since 1999.

Company secretary

Chris Mellor retired as company secretary of Northern 2 VCT on 31 March 2018, having served in that role since the company was launched in 1999. Many shareholders will have personal experience of Mr Mellor's knowledge and expertise, and the directors would like to thank him for his sound advice and support during his period in office. We welcome James Bryce, NVM's new head of legal and compliance, as Mr Mellor's successor and look forward to working with him.

VCT legislation and regulation

Having conducted its Patient Capital Review in 2017, with the aim of considering the availability of long-term finance for growing firms, the Government announced further changes to the VCT rules in the Autumn Budget in November. The updates place additional restrictions on the range of permitted investments and make the conditions for a VCT to maintain its approved status somewhat more restrictive. We do nonetheless welcome the preservation of the tax reliefs available to shareholders and conditions for obtaining them. We also welcome the stated intention of HM Revenue & Customs to improve the process for providing advanced assurance for new VCT investments. The delays experienced in the current year have on occasion been extreme and a smoother process would enable the sector to deliver time critical funding in a more efficient manner. VCTs continue to provide an important source of capital to small and medium businesses and enable investors to both support and share in their success. Apart from growth generated in the financial metrics of portfolio companies, the wider societal benefits are clear with our unquoted venture capital portfolio companies collectively delivering growth of over 200 employees over the past year.

In January 2018, the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation was introduced with the aim of helping investors to understand and compare the key features, risks, rewards and costs of different investment products. Investment funds are now required to publicly provide a Key Information Document (KID) summarising a range of illustrative net returns to investors. Since its introduction, your company has at all times complied with the PRIIPs regulations, however it should be noted that the composition and presentation of the KID is strictly prescribed and the inputs are based on past performance only.

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 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

The past year has been another period of adapting as the company has faced both economic and legislative uncertainty. These conditions look set to continue for some time as the long-term impact of the UK's decision to leave the EU unfolds and the Government evolves its approach to the VCT industry as a whole. The company is currently well-funded to capitalise on attractive investment opportunities and will continue to maintain the highest standards in the selection and monitoring of investments. We continue to have confidence that our portfolio and investment strategy will deliver good returns to shareholders, taking a medium to long term perspective.

David Gravells
Chairman

17 May 2018

Directors and advisers

David Gravells MSc JP (Chairman)

aged 68, is an experienced entrepreneur with a wide experience of private equity-financed businesses. He is a non-executive director of a number of companies including the Student Loans Company. He was appointed to the board in 2007 and became chairman in 2008.

Alastair Conn FCA

aged 62, co-founded NVM in 1988 and was managing director and then financial director before retiring from the firm in March 2018, continuing as a consultant. He is a member of the Association of Investment Companies' VCT Technical Committee. He was appointed to the board in 1999.

Simon Devonshire OBE

aged 50, has extensive business experience in corporate leadership, financial governance, strategy, communications and sales and marketing. He has a portfolio of business interests including currently serving as a non-executive director of the Student Loans Company and was previously an entrepreneur in residence at the Department for Business, Energy and Industrial Strategy. He was appointed to the board in January 2017.

Cecilia McAnulty CA

aged 55, 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.

Frank Neale MBA

aged 67, 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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Registrars

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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, Manchester and Birmingham. NVM also acts as manager or adviser of three other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC and Northern 3 VCT PLC, and three limited partnerships, NV1 LP, NV2 LP and NVM Private Equity Vintage III LP. NVM has a total of over £350 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 70% (for investments made by funds raised after 5 April 2011 and for all investments made after 5 April 2018) must comprise eligible shares.

For this purpose a "qualifying holding" is an investment in new shares or securities of an unquoted company (which may however 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. A company whose trade is more than seven years old (ten years for 'knowledge intensive' companies) will generally only qualify for VCT investment if it has previously received State-aided risk finance before the end of the initial investing period or if 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 is 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. A breach of the requirements may lead to a loss of VCT status.

The recently introduced Finance Act 2018 contained further changes to the conditions for a VCT to maintain its approved status. The changes are designed to increase the level of qualifying investments made by VCTs and are being introduced on a phased basis. A non-exhaustive list of the main points is as follows:

- investments made from 15 March 2018 will only be qualifying if they meet the risk-to-capital condition. This principles based condition broadly requires the investee to be an early stage, higher risk, entrepreneurial company which has the potential to grow in the long term;
- debt finance provided by VCTs must now be made on an unsecured basis;
- a VCT must invest at least 30% of any funds raised in an accounting period commencing on or after 6 April 2018 in qualifying holdings within 12 months of the period end;
- investments made from 6 April 2018 in qualifying holdings must comprise at least 70% of eligible shares, regardless of when the money used to fund the investment was raised; and
- the proportion of the total value of investments required to comprise qualifying holdings will be increased from 70% to 80% for accounting periods beginning on or after 6 April 2019.

Financial calendar

The company's financial calendar for the year ending 31 March 2019 is as follows:

November 2018

Half-yearly financial report for six months ending 30 September 2018 published

January 2019

Interim dividend paid

May 2019

Final dividend and results for year ending 31 March 2019 announced

June 2019

Annual report and financial statements published

July 2019

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 directors' report is consistent with the financial statements. The auditor's report is set out on pages 26 and 27.

Corporate objective

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing primarily in unquoted UK manufacturing, service and technology businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash in the medium to long term.

Investment policy

The company's investment policy has been designed to enable the company to achieve its objective whilst complying with the qualifying conditions set out in the VCT rules, as amended by HM Government from time to time.

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 will be structured using various investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth. The selection of new investments will necessarily have regard to the VCT rules, which are designed to focus investment on early stage and development capital opportunities.

The portfolio will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle. The normal investment holding period is expected to be in the range from three to ten years.

No single investment will normally represent in excess of 3% of the company's total assets at the time of acquisition. As investments are held with a view to long-term capital growth as well as income, 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.

Co-investment arrangements

The company is entitled to participate pro rata to net assets in all VCT-qualifying 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 VCT-qualifying investment 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, Manchester and Birmingham and currently has over £350 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 0.9p per share, equivalent to 1.2% of the opening net asset value per share of 76.6p. The movement in total net assets and net asset value per share is summarised in Table 2.

Total income from investments was broadly flat at £2.5 million, compared with £2.6 million in the preceding year. The basic investment management fee payable to NVM was slightly higher than in the previous year due to an increase in the net assets under management. There was no performance-related management fee payable in respect of the current year (preceding year £571,000).

The net cash outflow from the venture capital portfolio was £3.1 million, comprising new investments of £10.1 million less disposal proceeds of £7.0 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, the company's total cash balances increased over the year by £7.7 million to £25.5 million. In addition the company holds listed equity investments and interest-bearing investments valued at £7.6 million, compared with £8.8 million at 31 March 2017.

Dividends

The directors have declared or proposed dividends totalling 5.5p per share in respect of the year, comprising a 1.25p revenue dividend and a 4.25p capital distribution.

Investment portfolio

During the year ended 31 March 2018, ten new holdings were added to the venture capital portfolio at a cost of £8.7 million, in addition to follow-on investments for existing holdings totalling £1.4 million. The portfolio at 31 March 2018 comprised 47 holdings with an aggregate value of £53.8 million.

A summary of the venture capital holdings at 31 March 2018 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

Table 1: Venture capital portfolio cash flow

| Year ended 31 March | New investment £000 | Disposal proceeds £000 | Net cash inflow/(outflow) £000 |
|---------------------|------------------------|---------------------------|-----------------------------------|
| 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 |
| 2018 | 10,060 | 6,975 | (3,085) |
| Total | 46,444 | 56,319 | 9,875 |



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

| | £000 | Pence per ordinary share |
|---|---------------|--------------------------|
| Net asset value at 31 March 2017 | 71,647 | 76.6 |
| Net revenue (investment income less revenue expenses and tax) | 1,462 | 1.3 |
| Capital surplus arising on investments: | | |
| Realised net gains on disposals | 709 | 0.6 |
| Movements in fair value of investments | (202) | (0.2) |
| Expenses allocated to capital account (net of tax relief) | (914) | (0.8) |
| Total return for the year as shown in the income statement | 1,055 | 0.9 |
| Proceeds of issues of new shares (net of expenses) | 25,707 | (0.1) |
| Shares re-purchased for cancellation | (349) | – |
| Net movement for the year before dividends | 26,413 | 0.8 |
| Net asset value at 31 March 2018 before dividends recognised | 98,060 | 77.4 |
| Dividends recognised in the financial statements for the year | (11,017) | (10.5) |
| Net asset value at 31 March 2018 | 87,043 | 66.9 |

New investments

The new investments completed during the year were:

- **Medovate (£1,450,000)** – medical devices developer, Cambridge
- **Soda Software Labs (£1,332,000)** – data analytics services provider, Manchester
- **Currentbody.com (£1,286,000)** – online marketplace for home use beauty devices, Manchester
- **Volo Commerce (£1,105,000)** – enterprise resource planning platform supporting online merchants, London
- **Knowledgemotion (£979,000)** – educational video aggregator and distributor, London
- **Primal Food (£967,000)** – protein and clean-label snacks producer, Maidenhead
- **SHE Software Group (£906,000)** – cloud based health & safety software provider, Glasgow
- **Contego Solutions (£489,000)** – identity verification software and solutions, Oxford
- **Angle (£134,000)** – AIM-quoted medical diagnostics provider, Guildford

- **Velocity Composites (£97,000)** – AIM-quoted manufacturer of material kits for aircraft production, Burnley

Investment realisations

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

Optilan Group was the subject of a secondary buy-out transaction funded by Blue Water Energy. The sale generated a total return of over three times the original investment cost and given the timing of exit in April 2017, the valuation had been marked up in the previous period accordingly. **A J Way Group Holdings** (previously Kirton Group) redeemed loan notes of £0.8 million following the disposal of a significant trading division and further loan notes totalling £0.8 million were redeemed by **Buoyant Upholstery** and **Volumatic Holdings**. A total of £2.5 million was returned upon the liquidation of five holding companies **Hunley**, **Oceanos**, **Saluda**, **Seawise** and **Turbinia**.

Having returned approximately 1.8 times the original investment during prior periods, the remaining holding of **S&P Coil Products**, which had been written down to nil, was sold for nominal proceeds. In addition £0.3 million was received and recognised during the year in respect of deferred consideration from the sales of **Alaric Systems** and **Kitwave One** in previous periods.

In the AIM-quoted portfolio, following a sharp increase in valuation since its original flotation on AIM, the remaining investment in **Gear4music (Holdings)** was sold during the year for over four times the original cost.

Strategic report continued

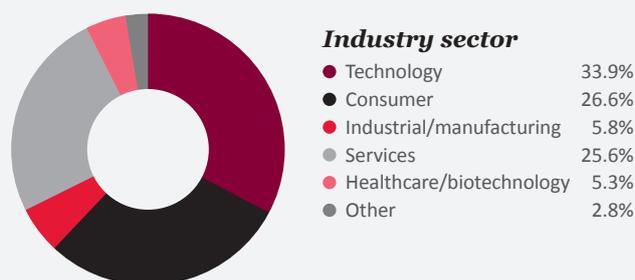
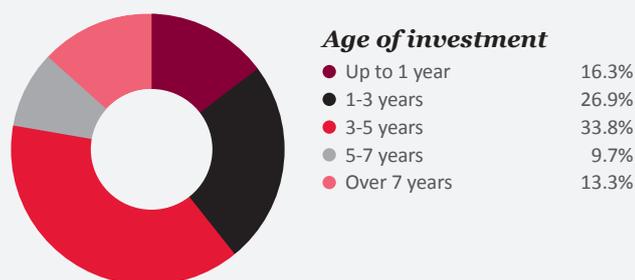


Table 3: Significant investment realisations

| Company | Date of original investment | Original cost £000 | Proceeds £000 | Realised surplus/ (deficit) £000 |
|--|-----------------------------|--------------------|---------------|----------------------------------|
| AJ Way Group Holdings – redemption of loan notes | 2013 | 774 | 774 | – |
| Hunley, Oceanos, Saluda, Seawise and Turbinia | 2015 | 2,510 | 2,470 | (40) |
| Optilan Group – secondary buyout | 2008 | 1,000 | 2,196 | 1,196 |

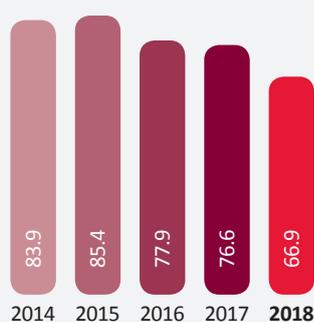
Table 4: Venture capital investment valuation by category

| Category | Number of investments | Valuation £000 | % of portfolio by value |
|---|-----------------------|----------------|-------------------------|
| Unquoted investments at directors' valuation | | | |
| Earnings/revenue multiple | 16 | 30,444 | 56.6 |
| Price of latest funding round | 2 | 3,035 | 5.6 |
| Original cost | 15 | 16,139 | 30.0 |
| Original cost less provision | 3 | 970 | 1.8 |
| Quoted investments at bid price | | | |
| Listed on London Stock Exchange | 1 | 392 | 0.7 |
| Quoted on AIM | 10 | 2,858 | 5.3 |
| Total | 47 | 53,838 | 100.0 |

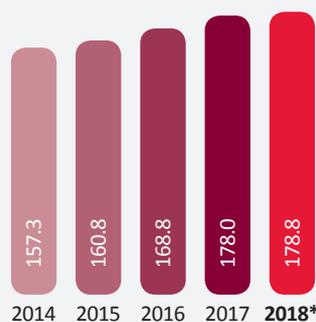
Portfolio review

The pie charts above show the composition of the venture capital portfolio at 31 March 2018 by value according to age, industry sector, financing stage and whether quoted or unquoted. The management buyout investments were completed before updates to the VCT rules prohibiting this type of investment activity were enacted, in November 2015.

The underlying trend in trading results for many of the unquoted venture capital portfolio companies has been positive and the overall valuation of this portfolio increased by £0.9 million during the year. **Closerstill Group**, **Love Saving Group** and **Agilitas IT Holdings** in particular made good progress and the respective valuations have been marked up accordingly. This positive performance has been balanced by a small number of companies in the portfolio where trading conditions have been more challenging in the current year, particularly **Entertainment Magpie**, which has an exposure to the UK retail sector. Our investment valuation policy in these instances is cautious.

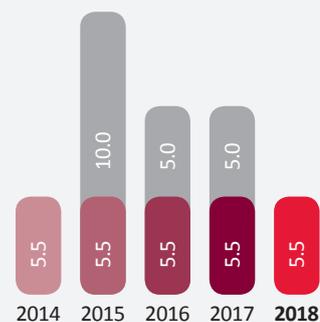


Net asset value (p)



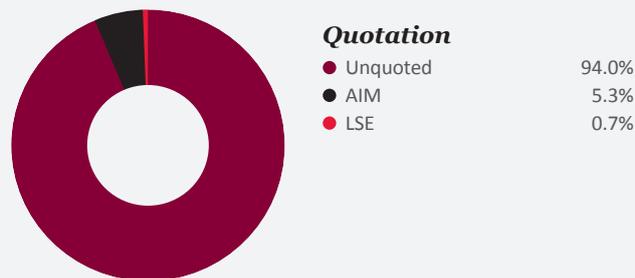
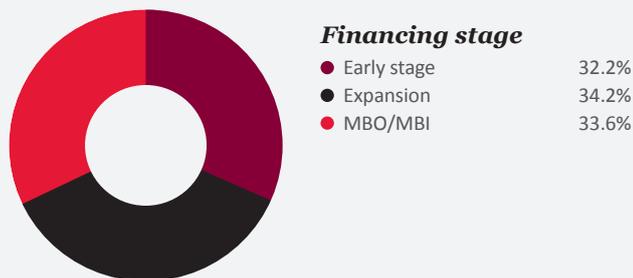
Net asset value plus cumulative dividends paid per share (p)

*excludes dividends proposed, not yet paid



Dividend per share (p)

● Special dividends



In the quoted venture capital portfolio, the market price of **Vectura Group** reduced during the year as a result of delays experienced for key product launches. This contributed to a net downwards revaluation movement of £0.5 million across the quoted venture capital portfolio.

The portfolios of listed equities and fixed-interest bearing investments produced a satisfactory contribution to income, however as widely observed across financial markets, capital valuations came under some pressure during the final quarter of the year.

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 2018 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 and the opposite page show the dividends (including proposed final dividend) declared in respect of each of the past five financial years and on a cumulative basis since inception.

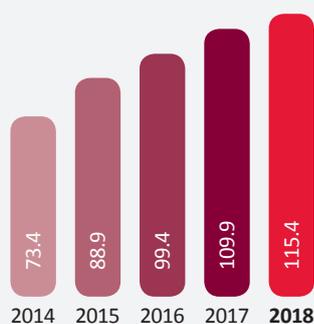
Ongoing charges: the charts at the bottom of this page show total annual running expenses as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

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.

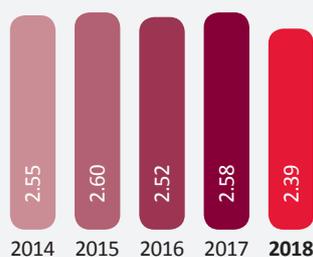
Risk management

The board carries out a regular and robust review of the risk environment in which the company operates. The principal risks and uncertainties identified by the board which might affect the company's business model and future performance, and the steps taken with a view to their mitigation, are as follows:

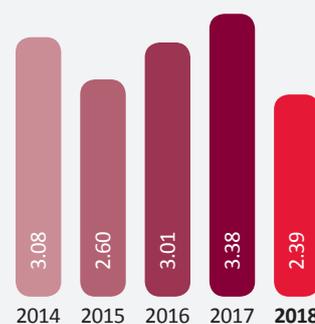
Investment and liquidity risk: investment in smaller and unquoted companies, such as those in which the company invests, involves a higher degree of risk than investment in larger listed companies because they generally have limited product lines, markets and financial resources and may be more dependent on their management or key individuals. The securities of smaller companies in which the company invests are typically unlisted, making them illiquid, and this may cause difficulties in valuing and disposing of the securities. The company may invest in businesses whose shares are quoted on AIM – the fact that a share is quoted on AIM does not mean that it can be readily traded and the spread between the buying and selling prices of such shares may be wide.



Cumulative dividends per share (p)



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



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

Strategic report continued

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 pursue of new unquoted investment opportunities and to make follow-on investments in existing portfolio companies. 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, exchange rates 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: while it is the intention of the directors that the company will be managed so as to continue to qualify as a VCT, there can be no guarantee that this status will be maintained. A failure to continue meeting the qualifying requirements could result in the loss of VCT tax relief, the company losing its exemption from corporation tax on capital gains, to shareholders being liable to pay income tax on dividends received from the company and, in certain circumstances, to shareholders being required to repay the initial income tax relief on their investment.

Mitigation: the investment manager keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

Additional disclosures required by the Companies Act

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

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

Future prospects

The company currently has substantial cash resources as a result of the successful share offer launched in September 2017 and our manager is meeting the challenges of maintaining the flow of new investment opportunities whilst working with existing portfolio companies to realise their growth plans. We believe the portfolio is well positioned to deliver further growth in future.

By order of the Board

J K Bryce
Secretary

17 May 2018

Investment portfolio

as at 31 March 2018

| | Cost £000 | Valuation £000 | % of net assets by value |
|---|---------------|-------------------|-----------------------------|
| Fifteen largest venture capital investments (see pages 12 to 15) | | | |
| No 1 Lounges | 1,977 | 3,362 | 3.9 |
| Lineup Systems | 974 | 2,910 | 3.3 |
| Entertainment Magpie Group | 1,503 | 2,886 | 3.3 |
| Agilitas IT Holdings | 1,638 | 2,565 | 2.9 |
| Sorted Holdings | 1,625 | 2,535 | 2.9 |
| MSQ Partners Group | 1,672 | 2,516 | 2.9 |
| Love Saving Group | 1,124 | 2,309 | 2.7 |
| Closerstill Group | 1,683 | 2,198 | 2.5 |
| Buoyant Upholstery | 1,057 | 2,179 | 2.5 |
| Wear Inns | 1,868 | 2,113 | 2.4 |
| Biological Preparations Group | 2,166 | 1,790 | 2.1 |
| Graza | 1,523 | 1,523 | 1.7 |
| It's All Good | 1,145 | 1,458 | 1.7 |
| Medovate | 1,450 | 1,450 | 1.7 |
| Volumatic Holdings | 1,251 | 1,443 | 1.7 |
| | 22,656 | 33,237 | 38.2 |
| Other venture capital investments | | | |
| Intuitive Holding | 1,508 | 1,352 | 1.6 |
| Soda Software Labs | 1,332 | 1,332 | 1.5 |
| Customs Connect Group | 1,322 | 1,322 | 1.5 |
| Currentbody.com | 1,286 | 1,286 | 1.5 |
| Intelling Group | 1,142 | 1,142 | 1.3 |
| Volo Commerce | 1,105 | 1,105 | 1.3 |
| Knowledgemotion | 979 | 979 | 1.1 |
| Primal Food | 967 | 967 | 1.1 |
| Rockar | 940 | 940 | 1.1 |
| Haystack Dryers | 1,497 | 938 | 1.1 |
| SHE Software Group | 906 | 906 | 1.0 |
| Axial Systems Holdings | 1,004 | 859 | 1.0 |
| Nasstar* | 390 | 818 | 0.9 |
| Channel Mum | 674 | 674 | 0.8 |
| AVID Technology Group | 673 | 673 | 0.8 |
| Lanner Group | 408 | 597 | 0.7 |
| Arnlea Holdings | 1,287 | 577 | 0.7 |
| Adept Telecom* | 235 | 537 | 0.6 |
| Lending Works | 769 | 500 | 0.6 |
| Contego Solutions | 489 | 489 | 0.5 |
| Gentronix | 683 | 393 | 0.5 |
| Vectura Group** | 272 | 392 | 0.4 |
| Fresh Approach (UK) Holdings | 1,454 | 320 | 0.4 |
| Sinclair Pharma* | 425 | 287 | 0.3 |
| Cello Group* | 251 | 279 | 0.3 |
| Ideagen* | 83 | 276 | 0.3 |
| Brady* | 314 | 270 | 0.3 |
| Angle* | 134 | 176 | 0.2 |
| Collagen Solutions* | 299 | 120 | 0.1 |
| Velocity Composites* | 97 | 79 | 0.1 |
| Summit Corporation* | 236 | 16 | – |
| A J Way Group Holdings | 266 | – | – |
| Total venture capital investments | 46,083 | 53,838 | 61.8 |
| Total listed equity investments | 3,644 | 3,800 | 4.4 |
| Total listed interest-bearing investments | 3,868 | 3,794 | 4.4 |
| Total fixed asset investments | 53,595 | 61,432 | 70.6 |
| Net current assets | | 25,611 | 29.4 |
| Net assets | | 87,043 | 100.0 |

*Quoted on AIM

**Listed on London Stock Exchange

Fifteen largest venture capital investments

No 1 Lounges

| | |
|---------------------------|--|
| Cost | £1,977,000 |
| Valuation | £3,362,000 |
| 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 | Development capital financing, 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 £209,000 |

Audited financial information:

| Year ended 31 December | 2016 £m | 2015 £m |
|-------------------------|------------|------------|
| Sales | 22.9 | 15.0 |
| Operating profit/(loss) | 1.0 | (0.8) |
| Loss before tax | (0.1) | (1.9) |
| Profit/(loss) after tax | 0.5 | (1.9) |
| Net liabilities | – | (0.3) |

Lineup Systems

| | |
|---------------------------|---|
| Cost | £974,000 |
| Valuation | £2,910,000 |
| 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 £26,000 |

Audited financial information:

| Year ended 30 June | 2017 £m | 2016 £m |
|--------------------------|------------|------------|
| Sales | 8.6 | 7.3 |
| Operating profit | 0.1 | 0.2 |
| (Loss)/profit before tax | (0.1) | 0.1 |
| Profit after tax | – | 0.1 |
| Net liabilities | (0.2) | (0.2) |

Entertainment Magpie Group

| | |
|---------------------------|--|
| Cost | £1,503,000 |
| Valuation | £2,886,000 |
| 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 £53,000 |

Audited financial information:

| Year ended 31 May | 2017 £m | 2016* £m |
|-------------------|------------|-------------|
| Sales | 101.1 | 52.6 |
| Operating profit | 0.9 | 1.3 |
| Loss before tax | (1.0) | (0.2) |
| Loss after tax | (1.0) | (0.2) |
| Net assets | 0.5 | 1.5 |

*8 month period

Agilitas IT Holdings

| | |
|---------------------------|---|
| Cost | £1,638,000 |
| Valuation | £2,565,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 14.1% (NVM funds total 55.3%) |
| Business/location | Provider of outsourced IT inventory management services, Nottingham |
| History | Management buy-out financing, 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 £113,000 |

Audited financial information:

| Year ended 31 March | 2017 £m | 2016 £m |
|---------------------|------------|------------|
| Sales | 7.7 | 7.2 |
| Operating profit | 0.7 | 0.6 |
| Loss before tax | (0.1) | (0.2) |
| Loss after tax | (0.1) | (0.2) |
| Net assets | 0.4 | 0.5 |

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

Sorted Holdings

| | |
|---------------------------|---|
| Cost | £1,625,000 |
| Valuation | £2,535,000 |
| Basis of valuation | Price of last funding round |
| Equity held | 7.2% (NVM funds total 22.1%) |
| Business/location | Delivery management software platform serving the e-commerce market, Manchester |
| History | Development capital financing, May 2016, led by NVM Private Equity |
| Other NVM funds investing | Northern Venture Trust, Northern 3 VCT |
| Income in year | Dividends nil, loan stock interest nil |

Audited financial information:

| Year ended 31 May | 2016 £m | 2015 £m |
|-------------------|------------|------------|
| Sales | 2.4 | 2.5 |
| Operating loss | (1.5) | (0.4) |
| Loss before tax | (1.7) | (0.5) |
| Loss after tax | (1.7) | (0.5) |
| Net assets | 3.0 | 1.7 |

MSQ Partners Group

| | |
|---------------------------|--|
| Cost | £1,672,000 |
| Valuation | £2,516,000 |
| 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, 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 28 February | 2017 £m | 2016 £m |
|------------------------|------------|------------|
| Sales | 87.0 | 77.6 |
| Operating profit | 1.4 | 1.6 |
| Profit before tax | 0.3 | 0.6 |
| Profit after tax | 0.3 | 1.4 |
| Net assets | 0.1 | 0.6 |

Love Saving Group

| | |
|---------------------------|--|
| Cost | £1,124,000 |
| Valuation | £2,309,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 8.9% (NVM funds total 35.9%) |
| Business/location | Business to business energy comparison and procurement, Bolton |
| History | Development capital financing, 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 £122,000 |

Audited financial information:

| Year ended 31 December | 2016 £m | 2015* £m |
|-------------------------|------------|-------------|
| Sales | 13.2 | 2.4 |
| Operating profit/(loss) | 0.1 | (0.2) |
| Loss before tax | (0.5) | (0.4) |
| Loss after tax | (0.4) | (0.3) |
| Net assets | 1.4 | 1.8 |

*3 month period

Closerstill Group

| | |
|---------------------------|--|
| Cost | £1,683,000 |
| Valuation | £2,198,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 1.0% (NVM funds total 3.0%) |
| 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 | 0.7 |
| Loss before tax | (18.8) | (16.0) |
| Loss after tax | (17.7) | (15.1) |
| Net assets | 146.5 | 155.7 |

*10 month period

Fifteen largest venture capital investments

continued

Buoyant Upholstery

| | |
|---------------------------|--|
| Cost | £1,057,000 |
| Valuation | £2,179,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 13.8% (NVM funds total 64.8%) |
| Business/location | Manufacturer of upholstered furniture, Nelson |
| History | Management buy-out financing, 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 £93,000 |

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 |

Wear Inns

| | |
|---------------------------|---|
| Cost | £1,868,000 |
| Valuation | £2,113,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 9.1% (NVM funds total 23.9%) |
| Business/location | Owner of managed public houses, Newcastle upon Tyne |
| History | Acquisition capital financing, 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 £159,000 |

Audited financial information:

| Year ended 31 March | 2017 £m | 2016 £m |
|---------------------|------------|------------|
| Sales | 14.2 | 13.6 |
| Operating profit | 1.5 | 1.2 |
| Loss before tax | – | (0.4) |
| Loss after tax | (0.4) | (0.5) |
| Net assets | 3.6 | 3.9 |

Biological Preparations Group

| | |
|---------------------------|--|
| Cost | £2,166,000 |
| Valuation | £1,790,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 16.0% (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, 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 £180,000 |

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

Graza

| | |
|---------------------------|---|
| Cost | £1,523,000 |
| Valuation | £1,523,000 |
| Basis of valuation | Cost |
| Equity held | 32.3% (NVM funds total 94.9%) |
| 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 3 VCT |
| Income in year | Dividends nil, loan stock interest nil |

Audited financial information:

N/A

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

It's All Good

| | |
|---------------------------|---|
| Cost | £1,145,000 |
| Valuation | £1,458,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 9.9% (NVM funds total 30.2%) |
| Business/location | Manufacturer of premium savoury snack products, Gateshead |
| History | Development capital financing, 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 | 2016 £m | 2015 £m |
|------------------------|------------|------------|
| Sales | 18.0 | 12.2 |
| Operating profit | 1.5 | 1.1 |
| Profit before tax | 1.1 | 0.7 |
| Profit after tax | 0.9 | 0.7 |
| Net assets | 1.3 | 0.4 |

Medovate

| | |
|---------------------------|---|
| Cost | £1,450,000 |
| Valuation | £1,450,000 |
| Basis of valuation | Cost |
| Equity held | 12.9% (NVM funds total 39.9%) |
| Business/location | Developer of medical devices, Cambridge |
| History | Development capital financing, November 2017, led by NVM Private Equity |
| Other NVM funds investing | Northern Venture Trust, Northern 3 VCT |
| Income in year | Dividends nil, loan stock interest nil |

Audited financial information:

The company was established during the year and is yet to produce its first audited accounts.

Volumatic Holdings

| | |
|---------------------------|---|
| Cost | £1,251,000 |
| Valuation | £1,443,000 |
| 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 £93,000 |

Audited financial information:

| Year ended 31 March | 2017 £m | 2016 £m |
|---------------------|------------|------------|
| Sales | 6.3 | 4.9 |
| Operating profit | 0.9 | 0.4 |
| Loss before tax | – | (0.5) |
| Loss after tax | – | (0.4) |
| Net assets | 1.8 | 1.8 |



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 2018.

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 03695071.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2023 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 £1,055,000 has been transferred to reserves.

The second interim and final dividends for the year ended 31 March 2017 totalling 8.5p and an interim dividend of 2.0p per share in respect of the year ended 31 March 2018 were paid during the year at a cost of £11,017,000 and have been charged to reserves.

The directors have proposed a final dividend of 3.5p per share for the year ended 31 March 2018. Subject to approval of the final dividend at the annual general meeting, the dividend will be paid on 20 July 2018 to shareholders on the register on 22 June 2018.

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.

Statement on long-term viability

In accordance with principle 21 of the AIC Code of Corporate Governance, the directors have assessed the prospects of the company over the three year period to March 2021. 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 and that the period is appropriate for a business of the company's nature and size.

In making their assessment the directors have carried out a robust review of the risk environment in which the company operates, including those risks which might threaten its business model or future performance and the steps taken with a view to their mitigation (see page 10 for further details on risk management). The directors have also considered 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 future cash outflows arising from share-buy backs, dividends and investments. As detailed on page 22, the management engagement committee has also considered the company's relationship with the investment manager, NVM, by reference to the performance of the venture capital portfolio and the expertise demonstrated by NVM in venture capital investment.

Taking into account the company's current position and principal risks, the directors have concluded that there is a reasonable expectation that the company will be able to continue in operation over the three year period and meet its liabilities as they fall due over that period.

Going concern

After making the necessary enquiries, including those made during the preparation of the statement on long-term viability above, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

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, was also an equity partner in NVM during the year ended 31 March 2018.

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. The fee arrangements were amended during the current year such that the fee due in relation to the net proceeds of the prospectus share offer launched in September 2017 is reduced to 1% per annum until 30 September 2018. In the year ended 31 March 2018 the basic annual management fee was £1,573,000 (preceding year: £1,480,000).

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 2018 was 5.9% (preceding year: 6.0%). There was no performance-related management fee due for the year ended 31 March 2018 (preceding year: performance fee due of £571,000).

Accounting and secretarial fee: NVM provides accounting, administrative and secretarial services to the company for a fee of £56,000 per annum, linked to the movement in the RPI. The fee payable in respect of the preceding year was £55,000.

The total remuneration payable to NVM by Northern 2 VCT in respect of the year, comprising the basic management fee and the accounting and secretarial fee, was £1,629,000 (preceding year £2,106,000).

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 2018 were equivalent to 2.39% of average net assets (preceding year: 2.58%).

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 2018 the arrangement fees receivable by NVM from investee companies which were attributable to investments made by Northern 2 VCT amounted to £252,000 (preceding year: £152,000), and directors' and monitoring fees amounted to £286,000 (preceding year: £282,000).

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 and any prior ranking loan notes or preference shares held by the funds having been repaid. The executives participating in the scheme jointly subscribe for 5.0% of the non-yielding ordinary shares available to the NVM funds, except in the case of investments where there is no class of yielding securities, in which case the executives jointly subscribe for 1.0% of the non-yielding ordinary shares available to the NVM funds. At 31 March 2018 NVM executives held investments in 41 investee companies acquired at a total cost of £991,000, of which £293,000 was attributable to investments made by Northern 2 VCT.

Share capital – purchase of shares

During the year the company purchased for cancellation 537,000 of its own shares, representing 0.6% of the called-up share capital of the company at the beginning of the year, for a consideration of £349,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2017 annual general meeting, held in July 2017, shareholders authorised the company to purchase in the market up to 9,913,100 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 2018 this authority remained effective in respect of 9,376,100 shares; the authority will lapse at the conclusion of the 2018 annual general meeting of the company on 12 July 2018.

Share capital – issue of shares

During the year the company issued 2,936,333 new ordinary shares for a cash consideration of £1,989,000 pursuant to the company's dividend investment scheme and 5,570,393 new ordinary shares were issued for a cash consideration of £4,297,000 through a top-up share offer launched in February 2017.

A prospectus share offer was launched in September 2017, which was fully subscribed during the year to 31 March 2018, resulting in 28,559,097 new ordinary shares being issued in November 2017 for a gross cash consideration of £19,962,000.

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 2018 annual general meeting to be held on 12 July 2018 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

J K Bryce
Secretary

17 May 2018

Directors' remuneration report

The board currently comprises five 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.

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 company is required by the Companies Act 2006 to seek shareholders' approval of the directors' remuneration policy at least every three years, or in the event of a change in the policy if sooner. The directors' remuneration policy has remained unchanged since it was approved by shareholders at the annual general meeting held on 12 July 2017 and, unless there is a change in the policy, it is the current intention of the directors that a resolution for the approval of the directors' remuneration policy will next be considered at the annual general meeting to be held in July 2020.

The board currently comprises five 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, chaired by Mr D P A Gravells and comprising all of the directors, 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 was an equity partner in NVM during the year to 31 March 2018, 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 2018 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2018 and 31 March 2017, 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 of the year, at the 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 2018 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 12 July 2017 the resolution to approve the directors' remuneration report for the year ended 31 March 2017 was approved by a show of hands. 95.1% of the proxy votes received in relation to the resolution were either for or discretionary.

Statement by the chairman of the nomination committee

In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 15 February 2018, when it was recommended that fees should be increased to £26,000 per annum for the chairman of the board, £22,000 per annum for the chair of the audit committee and £20,000 per annum for other directors with effect from 1 April 2018, to reflect inflation and the respective roles.

By order of the Board

D P A Gravells
Chairman of the
Nomination Committee

17 May 2018

Table 1: Directors' fees

| | Year ended 31 March 2018 | Year ended 31 March 2017 |
|---|-----------------------------|-----------------------------|
| D P A Gravells (Chairman) | 24,000 | 24,000 |
| A M Conn* | – | – |
| S P Devonshire (appointed 3 January 2017) | 18,500 | 4,625 |
| C G A Fletcher (retired 12 July 2017) | 5,233 | 18,500 |
| C A McAnulty | 18,500 | 18,500 |
| F L G Neale | 18,500 | 18,500 |
| Total | 84,733 | 84,125 |

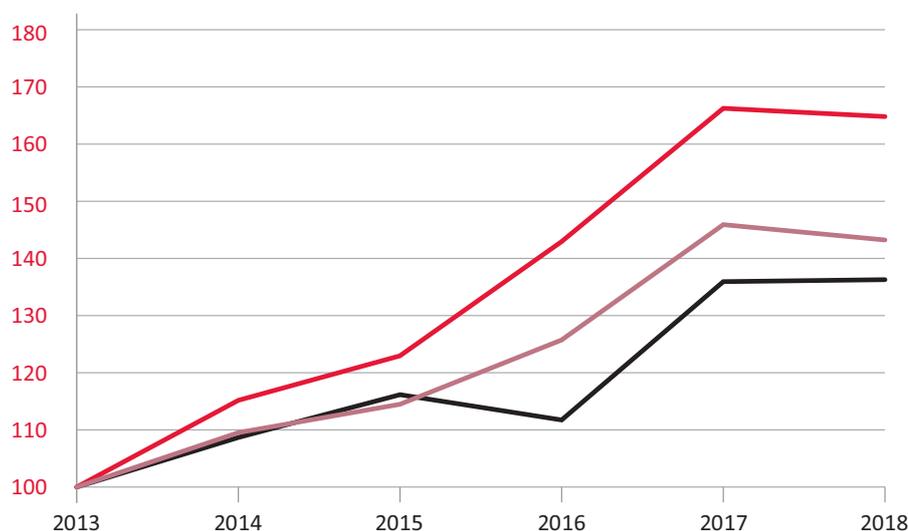
*Mr A M Conn waived his entitlement to directors' fees in respect of both years.

Table 2: Directors' interests in ordinary shares

| | 17 May 2018 | 31 March 2018 | 31 March 2017 |
|--|-------------|---------------|---------------|
| D P A Gravells (Chairman) | 35,288 | 35,288 | 18,925 |
| A M Conn | 460,719 | 460,719 | 446,355 |
| S P Devonshire (appointed 3 January 2017) | – | – | – |
| C G A Fletcher (retired 12 July 2017) | N/A | N/A | 99,416 |
| C A McAnulty | 66,284 | 66,284 | 26,000 |
| F L G Neale | 140,848 | 140,848 | 105,030 |

Return to shareholders in Northern 2 VCT PLC

Five years to 31 March 2018 (March 2013 = 100)



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

Corporate governance

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

The board of Northern 2 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the related Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company. The AIC Code can be viewed at www.theaic.co.uk/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 2018 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 five non-executive directors, four 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 J K Bryce, is responsible for advising the board through the chairman on all governance matters. Mr J K Bryce was appointed on 1 April 2018 following the retirement of the previous company secretary, Mr C D Mellor.

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 was an equity partner in NVM, the company's investment manager, during the year ended 31 March 2018).

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:

Miss C A McAnulty (Chair from 12 July 2017)
 Mr C G A Fletcher (Chair until retirement on 12 July 2017)
 Mr S P Devonshire
 Mr D P A Gravells
 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 2018 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;
- reviewing the taxation advisers' VCT status monitoring and compliance reports;
- 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.

Corporate governance continued

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 confirmed and reported on by Philip Hare & Associates LLP in its capacity as adviser to the company on taxation matters and the relevant report was reviewed by the audit committee.

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.

The committee regularly reviews and monitors the auditor's effectiveness and independence. KPMG LLP has confirmed that it is independent of the company and has complied with the 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 leader is rotated after at most five years, and the current director has served for three years. As part of its review, the committee considers the nature and extent of non-audit services supplied by the auditor, all of which must be approved by the committee. The non-audit services contracted for during the year were tax compliance services (iXBRL tagging). The nature of the services provided was to assist the company with the logistics of digitally submitting the annual report and financial statements to the relevant tax authorities and no input was provided relating to the contents, estimates or disclosures included within the annual report and financial statements. The fees for the non-audit services were relatively small compared to those for the audit services and the services were provided by a separate team.

As such, the committee considers that provision of the non-audit services did not impair the independence of the auditor during the year. The audit committee also considers the requirements and deadlines for mandatory audit tendering and rotation; under current regulations 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
Mr C G A Fletcher (retired 12 July 2017)
Miss C A McNulty
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
Mr C G A Fletcher (retired 12 July 2017)
Miss C A McNulty
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 substantive board and committee meetings held during the year ended 31 March 2018 and the number attended by each director compared with the maximum possible attendance.

Corporate responsibility

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

Investor relations

In fulfilment of the Chairman's obligations under the UK Corporate Governance Code, the Chairman gives feedback to the board on 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.

Table 1: Directors' attendance at meetings

| | Board | Audit committee | Nomination committee | Management engagement committee |
|---------------------------------------|----------|-----------------|----------------------|---------------------------------|
| Number of meetings held | 5 | 3 | 1 | 1 |
| Attendance (actual/possible): | | | | |
| D P A Gravells (Chairman) | 5/5 | 3/3 | 1/1 | 1/1 |
| A M Conn | 5/5 | N/A | N/A | N/A |
| S P Devonshire | 5/5 | 3/3 | 1/1 | 1/1 |
| C G A Fletcher (retired 12 July 2017) | 2/2 | 1/1 | N/A | N/A |
| C A McNulty | 5/5 | 3/3 | 1/1 | 1/1 |
| F L G Neale | 5/5 | 3/3 | 1/1 | 1/1 |



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 in relation to these matters, details of which have been reviewed by the audit committee.

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

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

Risk management

Risk management is discussed in the strategic report on page 10.

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

As at 31 March 2018 there were 130,089,490 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.

Corporate governance continued

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 or 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 2017 annual general meeting to make market purchases of up to 9,913,100 ordinary shares at any time up to the 2018 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 2018 as set out in a separate circular.

By order of the Board

J K Bryce
Secretary

17 May 2018

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 its profit or loss for the year.

In preparing the 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- prepare the financial statements on the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 2018

We confirm that to the best of our knowledge:

- 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 directors' report and strategic report include 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 accounts, 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

J K Bryce
Secretary

17 May 2018



Independent auditor's report

To the members of Northern 2 VCT PLC only

Opinions and conclusions arising from our audit

1. Our opinion is unmodified

We have audited the financial statements of Northern 2 VCT PLC ("the company") for the year ended 31 March 2018 which comprise the income statement, balance sheet, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of company's affairs as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 14 February 2003. The period of total uninterrupted engagement is for the 15 financial years ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2017) in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures.

This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of unquoted investments – (£50.6 million; 2017: £45.7 million) – Refer to page 21 (audit committee section of the corporate governance statement), page 32 (accounting policies) and pages 28 to 41 (financial disclosures).

The risk: Subjective valuation – 58% 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:

- 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 the choice of 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 cashflows 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; and

- 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.

Our results: We found the company's valuation of unquoted investments to be acceptable (2017: acceptable).

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 £871,700 (2017: £758,000), determined with reference to a benchmark of total assets, of which it represents 1% (2017: 1%).

We agreed to report to the audit committee any corrected or uncorrected identified misstatements exceeding £43,453 (2017: £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 performed at the head office of the manager NVM Private Equity LLP, in Newcastle upon Tyne, and KPMG LLP in Edinburgh.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1a to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 16 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the annual report

The directors are responsible for the other information presented in the annual report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the directors' confirmation within the directors' report, page 16, that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency and liquidity;
- the risk management disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the statement on long-term viability of how they have assessed the prospects of the company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the statement of long-term viability. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

We are required to report to you if the corporate governance statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) as well as the company's qualification as a Venture Capital Trust under UK tax legislation, any breach of which could lead to the company losing various deductions and exemptions from UK corporation tax. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

17 May 2018

Income statement

for the year ended 31 March 2018

| | Notes | Year ended 31 March 2018 | | | Year ended 31 March 2017 | | |
|---|-------|--------------------------|-----------------|---------------|--------------------------|-----------------|---------------|
| | | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| Gain on disposal of investments | 8 | – | 709 | 709 | – | 2,285 | 2,285 |
| Movements in fair value of investments | 8 | – | (202) | (202) | – | 6,189 | 6,189 |
| | | – | 507 | 507 | – | 8,474 | 8,474 |
| Income | 2 | 2,482 | – | 2,482 | 2,556 | – | 2,556 |
| Investment management fee | 3 | (393) | (1,180) | (1,573) | (370) | (1,681) | (2,051) |
| Other expenses | 4 | (350) | (11) | (361) | (364) | – | (364) |
| Return on ordinary activities before tax | | 1,739 | (684) | 1,055 | 1,822 | 6,793 | 8,615 |
| Tax on return on ordinary activities | 5 | (277) | 277 | – | (313) | 313 | – |
| Return on ordinary activities after tax | | 1,462 | (407) | 1,055 | 1,509 | 7,106 | 8,615 |
| Return per share | 7 | 1.3p | (0.4)p | 0.9p | 1.6p | 7.7p | 9.3p |

● 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 February 2018 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 2018

| | Notes | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-------|-----------------------|-----------------------|
| Fixed assets | | | |
| Investments | 8 | 61,432 | 58,195 |
| Current assets | | | |
| Debtors | 12 | 205 | 591 |
| Cash and cash equivalents | | 25,540 | 17,874 |
| | | 25,745 | 18,465 |
| Creditors (amounts falling due within one year) | 13 | (134) | (5,013) |
| Net current assets | | 25,611 | 13,452 |
| Net assets | | 87,043 | 71,647 |
| Capital and reserves | | | |
| Called-up equity share capital | 14 | 6,505 | 4,678 |
| Share premium | 15 | 392 | 3,029 |
| Capital redemption reserve | 15 | 110 | 83 |
| Capital reserve | 15 | 71,629 | 53,908 |
| Revaluation reserve | 15 | 7,836 | 9,049 |
| Revenue reserve | 15 | 571 | 900 |
| Total equity shareholders' funds | | 87,043 | 71,647 |
| Net asset value per share | 16 | 66.9p | 76.6p |

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

The financial statements on pages 28 to 41 were approved by the directors on 17 May 2018 and are signed on their behalf by:

D P A Gravells
Director

Statement of changes in equity

for the year ended 31 March 2018

| Notes | Non-distributable reserves | | | | Distributable reserves | | Total £000 |
|--|------------------------------------|--------------------------|--|--------------------------------|----------------------------|----------------------------|---------------|
| | Called-up share capital £000 | Share premium £000 | Capital redemption reserve £000 | Revaluation reserve £000 | Capital reserve £000 | Revenue reserve £000 | |
| At 1 April 2017 | 4,678 | 3,029 | 83 | 9,049 | 53,908 | 900 | 71,647 |
| Return on ordinary activities after tax | – | – | – | (1,213) | 806 | 1,462 | 1,055 |
| Dividends paid 6 | – | – | – | – | (9,226) | (1,791) | (11,017) |
| Net proceeds of share issues 15 | 1,854 | 23,853 | – | – | – | – | 25,707 |
| Shares purchased for cancellation 15 | (27) | – | 27 | – | (349) | – | (349) |
| Cancellation of share premium reserve 15 | – | (26,490) | – | – | 26,490 | – | – |
| At 31 March 2018 | 6,505 | 392 | 110 | 7,836 | 71,629 | 571 | 87,043 |
| Year ended 31 March 2017 | | | | | | | |
| Notes | Called-up share capital £000 | Share premium £000 | Capital redemption reserve £000 | Revaluation reserve £000 | Capital reserve £000 | Revenue reserve £000 | Total £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 15 | 122 | 1,565 | – | – | – | – | 1,687 |
| Shares purchased for cancellation 15 | (24) | – | 24 | – | (338) | – | (338) |
| At 31 March 2017 | 4,678 | 3,029 | 83 | 9,049 | 53,908 | 900 | 71,647 |

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

Statement of cash flows

for the year ended 31 March 2018

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Return on ordinary activities before tax | 1,055 | 8,615 |
| Adjustments for: | | |
| Gain on disposal of investments | (709) | (2,285) |
| Movements in fair value of investments | 202 | (6,189) |
| Decrease/(increase) in debtors | 386 | (321) |
| (Decrease)/increase in creditors | (582) | 172 |
| Net cash inflow/(outflow) from operating activities | 352 | (8) |
| Cash flows from investing activities | | |
| Purchase of investments | (10,265) | (6,082) |
| Sale/repayment of investments | 7,535 | 13,358 |
| Net cash (outflow)/inflow from investing activities | (2,730) | 7,276 |
| Cash flows from financing activities | | |
| Issue of ordinary shares | 26,248 | 1,717 |
| Share issue expenses | (541) | (30) |
| Share subscriptions held pending allotment | (4,297) | 4,297 |
| Purchase of ordinary shares for cancellation | (349) | (338) |
| Equity dividends paid | (11,017) | (9,654) |
| Net cash inflow/(outflow) from financing activities | 10,044 | (4,008) |
| Increase in cash and cash equivalents | 7,666 | 3,260 |
| Cash and cash equivalents at beginning of year | 17,874 | 14,614 |
| Cash and cash equivalents at end of year | 25,540 | 17,874 |

Notes to the financial statements

for the year ended 31 March 2018

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 February 2018 with consequential amendments by the Association of Investment Companies ("AIC SORP").

The company has 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 is the valuation of unquoted investments as explained in Note 1(b).

2. Income

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Investment income: | | |
| Dividends from unquoted companies | 15 | 20 |
| Dividends from quoted companies | 262 | 237 |
| Property income distributions | 13 | 11 |
| Interest receivable: | | |
| Bank deposits* | 30 | 20 |
| Loans to unquoted companies | 2,008 | 2,130 |
| Listed interest-bearing investments | 154 | 138 |
| | 2,482 | 2,556 |

*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 2018 | | | Year ended 31 March 2017 | | |
|----------------------------|--------------------------|-----------------|---------------|--------------------------|-----------------|---------------|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| Investment management fee: | | | | | | |
| Basic | 393 | 1,180 | 1,573 | 370 | 1,110 | 1,480 |
| Performance-related | – | – | – | – | 571 | 571 |
| | 393 | 1,180 | 1,573 | 370 | 1,681 | 2,051 |

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 £56,000 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 2018 was 5.9% (year ended 31 March 2017: 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. There was no performance fee due in respect of the year ended 31 March 2018 (2017: £571,000).

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 2018 £000 | Year ended 31 March 2017 £000 |
|---|-------------------------------------|-------------------------------------|
| Administrative and secretarial services | 56 | 55 |
| Directors' remuneration | 85 | 84 |
| Auditor's remuneration – audit services | 20 | 19 |
| – non-audit services | 1 | 1 |
| Legal and professional expenses | 25 | 16 |
| Share issue promoter's commission | 39 | 64 |
| Irrecoverable VAT | 22 | 23 |
| Other expenses | 113 | 102 |
| | 361 | 364 |

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

Notes to the financial statements continued

for the year ended 31 March 2018

5. Tax on return on ordinary activities

| | Year ended 31 March 2018 | | | Year ended 31 March 2017 | | |
|---|--------------------------|-----------------|---------------|--------------------------|-----------------|---------------|
| | 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 | 277 | (277) | – | 313 | (313) | – |
| (b) Tax reconciliation | | | | | | |
| Return on ordinary activities before tax | 1,739 | (684) | 1,055 | 1,822 | 6,793 | 8,615 |
| Return on ordinary activities multiplied by the standard rate of UK corporation tax of 19.0% (2016 20.0%) | 330 | (130) | 200 | 364 | 1,359 | 1,723 |
| Effect of: | | | | | | |
| UK dividends not subject to tax | (53) | – | (53) | (51) | – | (51) |
| Capital returns not subject to tax | – | (135) | (135) | – | (457) | (457) |
| Movements in fair value of investments not subject to tax | – | 38 | 38 | – | (1,238) | (1,238) |
| (Decrease)/increase in surplus management expenses | – | (50) | (50) | – | 23 | 23 |
| Tax charge/(credit) for the year | 277 | (277) | – | 313 | (313) | – |

(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 £491,000 (31 March 2017 £760,000), 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 2018 | | | Year ended 31 March 2017 | | |
|---|--------------------------|-----------------|---------------|--------------------------|-----------------|---------------|
| | 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 dividend | – | 4,957 | 4,957 | – | 4,580 | 4,580 |
| Previous year's final dividend | 496 | 2,974 | 3,470 | 733 | 2,473 | 3,206 |
| Current year's interim dividend | 1,295 | 1,295 | 2,590 | 934 | 934 | 1,868 |
| | 1,791 | 9,226 | 11,017 | 1,667 | 7,987 | 9,654 |
| (b) Paid and proposed in respect of the year | | | | | | |
| First interim paid – 2.0p (2017 2.0p) per share | 1,295 | 1,295 | 2,590 | 934 | 934 | 1,868 |
| Second interim declared – nil (2017 5.0p) per share | – | – | – | – | 4,678 | 4,678 |
| Final proposed – 3.5p (2017 3.5p) per share | 325 | 4,228 | 4,553 | 467 | 2,807 | 3,274 |
| | 1,620 | 5,523 | 7,143 | 1,401 | 8,419 | 9,820 |

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 £1,055,000 (2017 £8,615,000) and on 112,186,377 (2017 92,962,814) 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 (including subsequent amendments issued in March 2016) 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 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 2018 £000 | 31 March 2017 £000 |
|--------------------------------------|-----------------------|-----------------------|
| Level 1 | | |
| Quoted venture capital investments | 3,250 | 3,693 |
| Listed equity investments | 3,800 | 5,046 |
| Level 2 | | |
| Listed interest-bearing investments | 3,794 | 3,779 |
| Level 3 | | |
| Unquoted venture capital investments | 50,588 | 45,677 |
| | 61,432 | 58,195 |

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 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 |
| Fair value at 31 March 2017 | 45,677 | 3,693 | 5,046 | 3,779 | 58,195 |
| Movements in the year: | | | | | |
| Purchases at cost | 9,829 | 231 | 149 | 56 | 10,265 |
| Disposals – proceeds | (6,741) | (234) | (560) | – | (7,535) |
| – net realised gains/(losses) on disposal | 966 | 55 | (312) | – | 709 |
| Movements in fair value | 857 | (495) | (523) | (41) | (202) |
| Fair value at 31 March 2018 | 50,588 | 3,250 | 3,800 | 3,794 | 61,432 |
| Comprising: | | | | | |
| Book cost at 31 March 2018 | 43,347 | 2,736 | 3,644 | 3,868 | 53,595 |
| Fair value adjustment at 31 March 2018 | 7,241 | 514 | 156 | (74) | 7,837 |
| | 50,588 | 3,250 | 3,800 | 3,794 | 61,432 |
| Equity shares | 22,393 | 3,250 | 3,800 | – | 29,443 |
| Preference shares | 2,556 | – | – | – | 2,556 |
| Interest-bearing securities | 25,639 | – | – | 3,794 | 29,433 |
| | 50,588 | 3,250 | 3,800 | 3,794 | 61,432 |

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 2018 there were no commitments (31 March 2017: none) in respect of investments approved by the manager but not yet completed.

Notes to the financial statements continued

for the year ended 31 March 2018

9. Investment disposals

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

| | Original cost £000 | Carrying value at 31 March 2017 £000 | Disposal proceeds £000 | Realised gain/(loss) against carrying value £000 |
|--|-----------------------|--|---------------------------|--|
| Alaric Systems – deferred proceeds | – | – | 175 | 175 |
| Buoyant Upholstery – loan stock redemption | 452 | 452 | 452 | – |
| Gear4music (Holdings) – disposal of entire holding | 47 | 179 | 234 | 55 |
| Hunley – return of investment on liquidation | 502 | 502 | 494 | (8) |
| A J Way Group Holdings – loan stock redemption | 774 | 193 | 774 | 581 |
| Kitwave One – deferred proceeds | – | – | 137 | 137 |
| Lanner Group – loan stock redemption | 78 | 78 | 78 | – |
| Oceanos – return of investment on liquidation | 502 | 502 | 494 | (8) |
| Optilan Group – outright sale | 1,000 | 2,196 | 2,196 | – |
| Saluda – return of investment on liquidation | 502 | 502 | 494 | (8) |
| Seawise – return of investment on liquidation | 502 | 502 | 494 | (8) |
| Turbinia – return of investment on liquidation | 502 | 502 | 494 | (8) |
| Volumatic Holdings – loan stock redemption | 345 | 345 | 345 | – |
| Other disposals | 62 | – | 114 | 114 |
| | 5,268 | 5,953 | 6,975 | 1,022 |

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2018 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.

| | Total cost £000 | 31 March 2018 Carrying value £000 | Total cost £000 | 31 March 2017 Carrying value £000 |
|-----------------------------------|-----------------------|--|-----------------------|--|
| No 1 Lounges | | | | |
| Ordinary shares | 178 | 1,563 | 178 | 2,163 |
| Loan stock | 1,799 | 1,799 | 1,799 | 1,799 |
| | 1,977 | 3,362 | 1,977 | 3,962 |
| Lineup Systems | | | | |
| Ordinary shares | 174 | 2,110 | 174 | 1,670 |
| Loan stock | 800 | 800 | 800 | 800 |
| | 974 | 2,910 | 974 | 2,470 |
| Entertainment Magpie Group | | | | |
| Ordinary shares | 168 | 1,551 | 168 | 3,770 |
| Preference shares | 277 | 277 | 277 | 319 |
| Loan stock | 1,058 | 1,058 | 1,058 | 1,058 |
| | 1,503 | 2,886 | 1,503 | 5,147 |
| Agilias IT Holdings | | | | |
| Ordinary shares | 221 | 1,148 | 221 | 421 |
| Loan stock | 1,417 | 1,417 | 1,417 | 1,417 |
| | 1,638 | 2,565 | 1,638 | 1,838 |
| Sorted Holdings | | | | |
| Ordinary shares | 1,461 | 2,371 | 650 | 650 |
| Loan stock | 164 | 164 | 164 | 164 |
| | 1,625 | 2,535 | 814 | 814 |

10. Unquoted investments *continued*

| | Total cost £000 | 31 March 2018 Carrying value £000 | Total cost £000 | 31 March 2017 Carrying value £000 |
|--------------------------------------|-----------------------|--|-----------------------|--|
| MSQ Partners Group | | | | |
| Ordinary shares | 206 | 1,050 | 206 | 1,290 |
| Loan stock | 1,466 | 1,466 | 1,466 | 1,466 |
| | 1,672 | 2,516 | 1,672 | 2,756 |
| Love Saving Group | | | | |
| Ordinary shares | 198 | 1,383 | 198 | 198 |
| Preference shares | 132 | 132 | 132 | 132 |
| Loan stock | 794 | 794 | 794 | 794 |
| | 1,124 | 2,309 | 1,124 | 1,124 |
| Closerstill Group | | | | |
| Ordinary shares | 1 | 516 | 1 | 1 |
| Preference shares | 322 | 322 | 322 | 322 |
| Loan stock | 1,360 | 1,360 | 1,360 | 1,360 |
| | 1,683 | 2,198 | 1,683 | 1,683 |
| Buoyant Upholstery | | | | |
| Ordinary shares | 153 | 1,276 | 153 | 1,586 |
| Loan stock | 904 | 903 | 1,355 | 1,355 |
| | 1,057 | 2,179 | 1,508 | 2,941 |
| Wear Inns | | | | |
| Ordinary shares | 272 | – | 272 | – |
| Preference shares | 117 | 578 | 117 | 578 |
| Loan stock | 1,479 | 1,535 | 1,479 | 1,535 |
| | 1,868 | 2,113 | 1,868 | 2,113 |
| Biological Preparations Group | | | | |
| Ordinary shares | 221 | – | 221 | – |
| Preference shares | 340 | 185 | 340 | – |
| Loan stock | 1,605 | 1,605 | 1,605 | 1,605 |
| | 2,166 | 1,790 | 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 |
| It's All Good | | | | |
| Ordinary shares | 117 | 430 | 117 | 640 |
| Loan stock | 1,028 | 1,028 | 1,028 | 1,028 |
| | 1,145 | 1,458 | 1,145 | 1,668 |
| Medovate | | | | |
| Ordinary shares | 802 | 802 | – | – |
| Loan stock | 648 | 648 | – | – |
| | 1,450 | 1,450 | – | – |
| Volumatic Holdings | | | | |
| Ordinary shares | 216 | 408 | 215 | 297 |
| Loan stock | 1,035 | 1,035 | 1,381 | 1,381 |
| | 1,251 | 1,443 | 1,596 | 1,678 |

Notes to the financial statements continued

for the year ended 31 March 2018

10. Unquoted investments *continued*

| | Total cost £000 | 31 March 2018 Carrying value £000 | Total cost £000 | 31 March 2017 Carrying value £000 |
|-------------------------------|-----------------------|--|-----------------------|--|
| Customs Connect Group | | | | |
| Ordinary shares | 185 | 185 | 185 | 185 |
| Preference shares | 205 | 205 | 205 | 205 |
| Loan stock | 932 | 932 | 932 | 932 |
| | 1,322 | 1,322 | 1,322 | 1,322 |
| Axial Systems Holdings | | | | |
| Ordinary shares | 145 | – | 145 | 310 |
| Loan stock | 859 | 859 | 859 | 859 |
| | 1,004 | 859 | 1,004 | 1,169 |
| Optilan Group | | | | |
| Ordinary shares | – | – | 179 | 1,375 |
| Loan stock | – | – | 821 | 821 |
| | – | – | 1,000 | 2,196 |

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 2018 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. The company named is incorporated in England.

| Company | Class of shares (nominal value £0.0001 unless stated) | Number held | Proportion of class held |
|---------|--|-------------|-----------------------------|
| Graza | Ordinary | 145,350 | 32.3% |

12. Debtors

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--------------------------------|-----------------------|-----------------------|
| Prepayments and accrued income | 205 | 591 |

13. Creditors (amounts falling due within one year)

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------|-----------------------|
| Accruals and deferred income | 134 | 716 |
| Share subscriptions held pending allotment | – | 4,297 |
| | 134 | 5,013 |

14. Called-up equity share capital

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|-----------------------|-----------------------|
| Allotted and fully paid: 130,089,490 (2017 93,560,667) ordinary shares of 5.0p | 6,505 | 4,678 |

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 37,065,823 ordinary shares of 5.0p for cash at an average premium of 65.8p per share. 537,000 ordinary shares were re-purchased for cancellation during the year at a cost of £349,000.

15. Reserves

| | Share premium £000 | Capital redemption reserve £000 | Capital reserve £000 | Revaluation reserve £000 | Revenue reserve £000 |
|---|--------------------------|--|----------------------------|--------------------------------|----------------------------|
| At 1 April 2017 | 3,029 | 83 | 53,908 | 9,049 | 900 |
| Premium on issue of ordinary shares | 24,394 | - | - | - | - |
| Share issue expenses | (541) | - | - | - | - |
| Shares purchased for cancellation | - | 27 | (349) | - | - |
| Cancellation of the share premium reserve | (26,490) | - | 26,490 | - | - |
| Share premium reserve cancellation expenses | - | - | (11) | - | - |
| Realised on disposal of investments | - | - | 709 | - | - |
| Transfer on disposal of investments | - | - | 1,011 | (1,011) | - |
| Movements in fair value of investments | - | - | - | (202) | - |
| Management fee charged to capital net of associated tax | - | - | (903) | - | - |
| Revenue return on ordinary activities after tax | - | - | - | - | 1,462 |
| Dividends recognised in the year | - | - | (9,226) | - | (1,791) |
| At 31 March 2018 | 392 | 110 | 71,629 | 7,836 | 571 |

At 31 March 2018 distributable reserves amounted to £72,282,000 (2017 £55,779,000), 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 2018 is based on net assets of £87,043,000 (2017 £71,647,000) divided by the 130,089,490 (2017 93,560,667) 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.

Notes to the financial statements continued

for the year ended 31 March 2018

17. Financial instruments *continued*

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.

8.1% (2017 12.2%) 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 2018 would have increased net assets and the total return for the year by £353,000 (31 March 2017 £437,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

58.1% (2017 63.8%) 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 2018 would have increased net assets and the total return for the year by £2,529,000 (31 March 2017 £2,284,000); 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:

| | Total fixed rate portfolio £000 | Weighted average interest rate % | 31 March 2018 Weighted average period for which rate is fixed Years | Total fixed rate portfolio £000 | Weighted average interest rate % | 31 March 2017 Weighted average period for which rate is fixed Years |
|--|--|--|---|--|--|---|
| Listed fixed-interest investments | 1,173 | 5.4% | 3.4 | 1,164 | 5.4% | 4.4 |
| Fixed-rate investments in unquoted companies | 12,771 | 9.6% | 2.8 | 11,076 | 10.9% | 2.9 |
| | 13,944 | | | 12,240 | | |

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 0.50% at 31 March 2018 (31 March 2017 0.25%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 0.72% at 31 March 2018 (31 March 2017 0.34%). It is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have a significant effect on the company's net assets or total return for the year. The amounts held in floating rate investments at the balance sheet date were as follows:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|-----------------------|-----------------------|
| Floating rate loans to unquoted companies | 12,869 | 12,579 |
| Interest-bearing investment funds | 2,620 | 2,615 |
| Interest-bearing deposit accounts | 25,540 | 17,874 |
| | 41,029 | 33,068 |

17. Financial instruments *continued*

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company.

At 31 March 2018 the company's financial assets exposed to credit risk comprised the following:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------|-----------------------|
| Listed fixed-interest investments | 1,173 | 1,164 |
| Fixed-rate investments in unquoted companies | 12,771 | 11,076 |
| Floating rate loans to unquoted companies | 12,869 | 12,579 |
| Interest-bearing investment funds | 2,620 | 2,615 |
| Interest-bearing deposit accounts | 25,540 | 17,874 |
| Accrued dividends and interest receivable | 189 | 578 |
| | 55,162 | 45,886 |

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 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 2018 or 31 March 2017.

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 2018 these investments were valued at £33,134,000 (31 March 2017 £26,699,000).

18. Contingencies

At 31 March 2018 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £142,000 (31 March 2017 £371,000). 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 2018 or 31 March 2017.

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