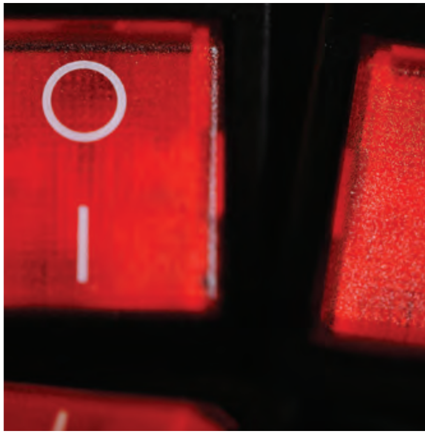
Northern 2 VCT PLC

Half-yearly financial report

30 September 2016



nvm
private equity

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

It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

Contents

Financial summary

	Six months ended 30 September 2016	Six months ended 30 September 2015	Year ended 31 March 2016
Net assets	**£72.2m**	£70.7m	£71.3m
Net asset value per share	**77.3p**	76.8p	77.9p
Return per share			
Revenue	**0.7p**	0.7p	1.5p
Capital	**7.3p**	4.2p	6.5p
Total	**8.0p**	4.9p	8.0p
Dividend per share declared in respect of the period*	**2.0p**	2.0p	10.5p
Cumulative return to shareholders since launch			
Net asset value per share	**77.3p**	76.8p	77.9p
Dividends paid per share**	**99.4p**	88.9p	90.9p
Net asset value plus dividends paid per share	**176.7p**	165.7p	168.8p
Mid-market share price at end of period	**66.5p**	69.3p	72.5p
Share price discount to net asset value	**14.0%**	9.8%	6.9%
Tax-free dividend yield (based on mid-market share price)			
Including special dividend	**N/A**	N/A	14.5%
Excluding special dividend	**8.3%**	7.9%	7.6%

*Year ended 31 March 2016 includes 5.0p special dividend **Excluding interim dividend not yet paid

Key dates

Half-yearly results announced
14 November 2016

Shares quoted ex dividend
5 January 2017

Interim dividend paid (to shareholders on register on 6 January 2017)
27 January 2017

Half-yearly management report

for the six months ended 30 September 2016

We have confidence in the potential of our investment approach to produce good returns for shareholders in the future.

Results and dividend

The unaudited net asset value (NAV) per share at 30 September 2016, after deducting the second interim and final dividends totalling 8.5 pence per share in respect of the 2015/16 financial year which were paid in July 2016, was 77.3 pence (31 March 2016 (audited) 77.9 pence). The board declared the second interim dividend in recognition of several successful sales of investee companies during the year.

The return per share as shown in the income statement for the six months ended 30 September 2016 was 8.0 pence, compared with 4.9 pence in the corresponding period last year. This result reflects a further overall increase in the valuation of the venture capital portfolio based on good underlying company performance.

The board has declared an interim dividend for the year ending 31 March 2017 of 2.0 pence per share, which will be paid on 27 January 2017 to shareholders on the register on 6 January 2017. We expect that the total dividend for the year will be not less than our established target of 5.5 pence.

Investments

Six new holdings in VCT-qualifying unquoted companies were acquired at a cost of £5.0 million, as follows:

- **Myparceldelivery Holdings** (£813,000) – parcel delivery comparison website, Manchester
- **Lending Works** (£650,000) – peer-to-peer lending platform, London
- **AVID Technology Group** (£673,000) – electrification and intelligent control of engine ancillaries, thermal management systems and hybrid systems, Cramlington
- **Rockar** (£823,000) – innovative motor vehicle retailer, York
- **Customs Connect Group** (£1,322,000) – import duty consultancy, Manchester
- **Channel Mum** (£674,000) – online multi-channel video blog community network for parents of young children, London

Proceeds from investment sales and repayments amounted to £4.4 million, producing a realised gain of £0.6 million over 31 March 2016 carrying values. The investment in Silverwing was sold to the Canadian inspection technology group Eddyfi for £2.4 million, and Arleigh Group was acquired by NASDAQ-listed LKQ Corporation, which trades in the UK as Euro Car Parts, for £1.7 million.

Most of the venture capital portfolio holdings have continued to make satisfactory progress. Entertainment Magpie Group, Cawood Scientific, No 1 Traveller and Optilan Group performed particularly well in the period. In the AIM-quoted portfolio, the share price of Gear4music (Holdings) more than doubled over the half year and subsequently some profits have been taken.

Share issues and buy-backs

Cash flow from the investment portfolio has remained strong which, together with the funds raised in our last significant share issue in 2013/14 tax year, has enabled us to finance new investment activity as well as paying substantial dividends over the past three years. We do not presently envisage that there will be a major public share offer in the 2016/17 tax year, though we will keep the position under review for future years. However, in order to maintain a comfortable margin of liquidity for new investments, we intend in conjunction with Northern Venture Trust and Northern 3 VCT to launch a non-prospectus 'top-up' share issue in January 2017 which will raise up to approximately £4 million for each VCT. It is intended that priority will be given to applications from existing investors.

David Gravells *Chairman*

The company has continued to buy back shares in the market at a 5% discount to NAV. During the six months to 30 September 2016 225,000 shares were re-purchased for cancellation at a cost of £150,000.

VCT qualifying status

The company has maintained its approved venture capital trust status with HM Revenue & Customs. The company's compliance with the VCT qualifying conditions is closely monitored by the board, who receive regular reports from NVM and from our VCT taxation advisers Philip Hare & Associates LLP.

VCT legislation

Over the past 18 months the Government has made significant changes to the VCT legislation, with the stated objective of channelling more funds into relatively young companies requiring finance for growth and development. This has necessitated a change in our own investment focus, which previously centred on management buy-outs and later-stage financings. NVM has considerable experience of making earlier-stage investments and has already recruited additional executives with relevant expertise. It is pleasing to note that in the six months to 30 September 2016, six new investments qualifying under the new rules have been completed.

We have a substantial portfolio of existing VCT-qualifying investments which we can continue to hold under the new legislation, although in many cases the new rules will prevent us from providing "follow-on" funding rounds for these companies. As the older investments are sold over the next few years and new holdings are added, the composition of the portfolio will gradually change and future investment returns may be subject to a greater degree of fluctuation, with potentially a greater emphasis on capital appreciation rather than income.

Prospects

Our company's recent performance has been encouraging and we believe that we can continue to develop our investment approach so as to operate effectively within the new VCT rules. The UK economic background is not entirely favourable, with continuing uncertainty around the long-term effects of the EU referendum result, but we have confidence in the potential of our investment approach to produce good returns for shareholders in the future.

On behalf of the Board

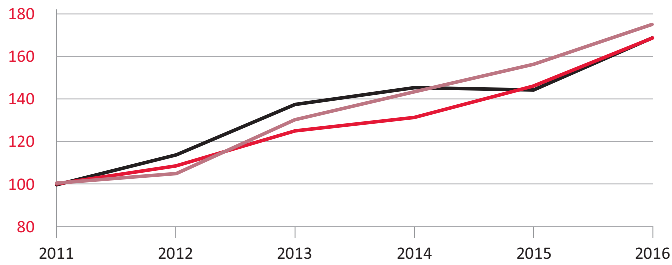
David Gravells
Chairman

15 November 2016

Five year performance

Comparative return to shareholders (assuming dividends re-invested)

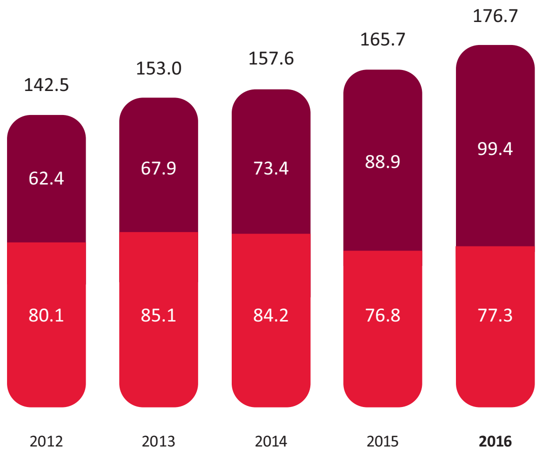
Five years to 30 September 2016 (30 September 2011 = 100)



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

Net asset value and cumulative dividends per share

As at 30 September (pence per share)

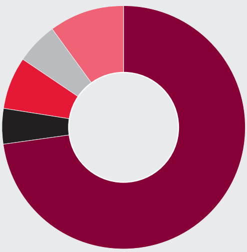


Cumulative dividends paid
Net asset value per share

Investment portfolio

as at 30 September 2016

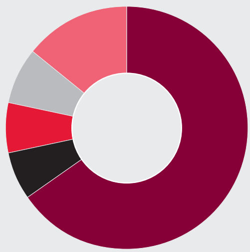
	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Entertainment Magpie Group	1,503	5,147	7.1
No 1 Traveller	1,977	3,170	4.4
Buoyant Upholstery	1,508	3,034	4.2
MSQ Partners Group	1,672	2,546	3.4
Lineup Systems	975	2,468	3.4
Cawood Scientific	1,031	2,423	3.4
Wear Inns	1,868	2,323	3.2
Optilan Group	1,000	2,183	3.0
It's All Good	1,145	1,801	2.5
Axial System Holdings	1,004	1,799	2.5
Volumatic Holdings	1,762	1,724	2.4
Closerstill Group	1,683	1,693	2.3
Agilitas IT Holdings	1,638	1,607	2.2
Biological Preparations Group	2,166	1,606	2.2
Hunley	1,522	1,522	2.1
Fifteen largest venture capital investments	**22,454**	**35,046**	**48.3**
Other venture capital investments	24,552	20,617	29.2
Total venture capital investments	**47,006**	**55,963**	**77.5**
Listed equity investments	4,042	5,028	7.0
Listed interest-bearing investments	3,816	3,805	5.3
Total fixed asset investments	**54,864**	**64,796**	**89.8**
Net current assets		7,422	10.2
Net assets		**72,218**	**100.0**



30 September 2016

Asset allocation

30 September 2016		30 September 2015
72.8%	Venture capital – unquoted	65.4%
4.9%	Venture capital – quoted	6.5%
7.0%	Listed equity	6.5%
5.3%	Listed interest-bearing	7.5%
10.0%	Cash and short term deposits	14.1%



30 September 2015

Income statement

(unaudited) for the six months ended 30 September 2016

	Six months ended 30 September 2016		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	562	562
Movements in fair value of investments	–	6,613	6,613
	–	7,175	7,175
Income	1,181	–	1,181
Investment management fee	(184)	(551)	(735)
Other expenses	(183)	–	(183)
Return on ordinary activities before tax	814	6,624	7,438
Tax on return on ordinary activities	(130)	130	–
Return on ordinary activities after tax	684	6,754	7,438
Return per share	0.7p	7.3p	8.0p

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

Six months ended 30 September 2015 Revenue £000	Capital £000	Total £000	Year ended 31 March 2016 Revenue £000	Capital £000	Total £000
–	622	622	–	2,214	2,214
–	3,733	3,733	–	5,068	5,068
–	4,355	4,355	–	7,282	7,282
1,186	–	1,186	2,334	–	2,334
(203)	(608)	(811)	(385)	(1,524)	(1,909)
(193)	–	(193)	(351)	–	(351)
790	3,747	4,537	1,598	5,758	7,356
(107)	107	–	(205)	205	–
683	3,854	4,537	1,393	5,963	7,356
0.7p	4.2p	4.9p	1.5p	6.5p	8.0p

Balance sheet

(unaudited) as at 30 September 2016

	30 September 2016 £000	30 September 2015 £000	31 March 2016 £000
Fixed assets			
Investments	64,796	60,681	56,997
Current assets			
Debtors	269	214	270
Cash and deposits	7,288	9,968	14,614
	7,557	10,182	14,884
Creditors (amounts falling due within one year)	(135)	(128)	(544)
Net current assets	7,422	10,054	14,340
Net assets	72,218	70,735	71,337
Capital and reserves			
Called-up equity share capital	4,670	4,606	4,580
Share premium	2,744	1,464	1,464
Capital redemption reserve	70	32	59
Capital reserve	53,794	59,393	58,614
Revaluation reserve	9,932	4,247	5,562
Revenue reserve	1,008	993	1,058
Total equity shareholders' funds	72,218	70,735	71,337
Net asset value per share	77.3p	76.8p	77.9p

Statement of changes in equity

(unaudited) for the six months ended 30 September 2016

	Non-distributable reserves				Distributable reserves		Total
	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	£000
At 1 April 2016	4,580	1,464	59	5,562	58,614	1,058	71,337
Return on ordinary activities after tax	–	–	–	4,370	2,384	684	7,438
Dividends paid	–	–	–	–	(7,054)	(734)	(7,788)
Net proceeds of share issues	101	1,280	–	–	–	–	1,381
Shares purchased for cancellation	(11)	–	11	–	(150)	–	(150)
At 30 September 2016	4,670	2,744	70	9,932	53,794	1,008	72,218
Six months ended 30 September 2015							
At 1 April 2015	4,609	1,464	30	292	71,234	1,047	78,676
Return on ordinary activities after tax	–	–	–	3,955	(101)	683	4,537
Dividends paid	–	–	–	–	(11,707)	(737)	(12,444)
Net proceeds of share issues	–	–	–	–	–	–	–
Shares purchased for cancellation	(3)	–	2	–	(33)	–	(34)
At 30 September 2015	4,606	1,464	32	4,247	59,393	993	70,735
Year ended 31 March 2016							
At 1 April 2015	4,609	1,464	30	292	71,234	1,047	78,676
Return on ordinary activities after tax	–	–	–	5,270	693	1,393	7,356
Dividends paid	–	–	–	–	(12,903)	(1,382)	(14,285)
Net proceeds of share issues	–	–	–	–	–	–	–
Shares purchased for cancellation	(29)	–	29	–	(410)	–	(410)
At 31 March 2016	4,580	1,464	59	5,562	58,614	1,058	71,337

Statement of cash flows

(unaudited) for the six months ended 30 September 2016

	Six months ended 30 September 2016 £000	Six months ended 30 September 2015 £000	Year ended 31 March 2016 £000
Cash flows from operating activities			
Return on ordinary activities before tax	7,438	4,537	7,356
Adjustments for:			
Gain on disposal of investments	(562)	(622)	(2,214)
Movements in fair value of investments	(6,613)	(3,733)	(5,068)
(Increase)/decrease in debtors	1	33	(23)
Increase/(decrease) in creditors	(409)	(75)	341
Net cash (outflow)/inflow from operating activities	(145)	140	392
Cash flows from investing activities			
Purchase of investments	(5,103)	(12,981)	(13,883)
Sale/repayment of investments	4,478	2,948	10,461
Net cash outflow from investing activities	(625)	(10,033)	(3,422)
Cash flows from financing activities			
Issue of ordinary shares	1,397	–	–
Share issue expenses	(15)	–	–
Purchase of ordinary shares for cancellation	(150)	(34)	(410)
Equity dividends paid	(7,788)	(12,444)	(14,285)
Net cash outflow from financing activities	(6,556)	(12,478)	(14,695)
Net decrease in cash and cash equivalents	(7,326)	(22,371)	(17,725)
Cash and cash equivalents at beginning of period	14,614	32,339	32,339
Cash and cash equivalents at end of period	7,288	9,968	14,614

Notes to the financial statements

(unaudited) for the six months ended 30 September 2016

1 The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts", issued by The Association of Investment Companies in November 2014 (AIC SORP).

2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 30 September 2016 and on 92,387,450 (2015 92,155,006) ordinary shares, being the weighted average number of shares in issue during the period.

3 The calculation of net asset value per share is based on the net assets at 30 September 2016 divided by the 93,394,459 (2015 92,128,230) ordinary shares in issue at that date.

4 The interim dividend of 2.0p per share for the year ending 31 March 2017 will be paid on 27 January 2017 to shareholders on the register at the close of business on 6 January 2017.

5 The unaudited half-yearly financial statements for the six months ended 30 September 2016 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 31 March 2016 have been extracted from the audited financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditor's report on those financial statements (i) was unqualified, (ii) did not include any referenceto matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 31 March 2016.

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

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

Risk management

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

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

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

Economic risk: events such as economic recession or general fluctuation in stock markets, 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 can be very little, if any, market demand for shares in smaller companies quoted on AIM. ***Mitigation:*** the company's quoted investments are actively managed by specialist managers, including NVM in the case of AIM-quoted investments, and the board keeps the portfolio and the actions taken under ongoing review.

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

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

Internal control risk: the company's assets could be at risk in the absence of an appropriate internal control regime. ***Mitigation:*** the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager. These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained.

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

Company information

Directors
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Alastair Conn
Christopher Fletcher
Cecilia McAnulty
Frank Neale

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Christopher Mellor FCA MCSI

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