Northern Venture Trust PLC

Half-yearly financial report

31 March 2017

nvm

private equity

Northern Venture Trust is a Venture Capital Trust (VCT) whose investment adviser is NVM Private Equity.

The trust was one of the first VCTs launched on the London Stock Exchange in 1995. 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

	Six months ended 31 March 2017	Six months ended 31 March 2016	Year ended 30 September 2016
Net assets	**£76.9m**	£77.9m	£77.2m
Net asset value per share	**79.1p**	82.9p	80.0p
Return per share			
Revenue	**0.9p**	0.9p	1.6p
Capital	**1.2p**	1.9p	8.5p
Total	**2.1p**	2.8p	10.1p
Dividend per share declared in respect of the period			
First interim dividend	**3.0p**	3.0p	3.0p
Second interim (special) dividend	**5.0p**	7.0p	7.0p
Final dividend	**–**	–	3.0p
Total	**8.0p**	10.0p	13.0p
Cumulative return to shareholders since launch			
Net asset value per share	**79.1p**	82.9p	80.0p
Dividends paid per share*	**151.5p**	138.5p	148.5p
Net asset value plus dividends paid per share	**230.6p**	221.4p	228.5p
Mid-market share price at end of period	**75.5p**	76.75p	70.0p
Tax-free dividend yield (based on mid-market share price)			
Excluding special dividend	**7.9%**	7.8%	8.6%
Including special dividend	**14.6%**	16.9%	18.6%

*Excluding interim dividends not yet paid

Key dates

Half-yearly results announced
23 May 2017

Shares quoted ex dividend
1 June 2017

Interim dividend paid (to shareholders on register on 2 June 2017)
30 June 2017

Half-yearly management report

for the six months ended 31 March 2017

Your company has over the years developed the resilience to cope with changing circumstances and still produce satisfactory returns for shareholders, and we therefore take a broadly positive view of the future.

The past six months have been relatively quiet in terms of portfolio movements, but there has been considerable activity as the process of adapting to the recent changes to the VCT rules continues. We completed a small top-up share offer and achieved two significant investment sales, one of which occurred just after the March period end but has been valued at the sale price in the March balance sheet. Our cash position remains healthy and I am pleased to report that the board has decided to declare a special dividend of 5.0p per share in recognition of the investment gains recorded over the past 12 months, in addition to the normal 3.0p interim dividend. The flow of potential new investments is currently looking strong.

Results and dividend

The unaudited net asset value (NAV) per share at 31 March 2017 was 79.1p, compared with the audited figure of 80.0p at 30 September 2016. The total return per share before dividends for the six months ended 31 March 2017 as shown in the income statement was 2.1p (six months ended 31 March 2016 2.8p), equivalent to 2.6% of the NAV at the start of the period. Investment income was slightly higher than in the corresponding period last year at £1.4 million, but this reflected the benefit of a one-off receipt of £0.4 million from Optilan Group as mentioned below, and across the portfolio we have seen the beginning of an inevitable downward trend in investment income as the profile of the portfolio changes towards earlier stage investments in response to the new VCT rules. The revenue return per share for the period was unchanged at 0.9p.

We have declared an unchanged first interim dividend of 3.0p per share for the year ending 30 September 2017. There has been a strong inflow of cash from investment realisations since we last paid a special dividend in mid-2016, and the VCT rules allow only a relatively short six month period for re-investment of such receipts before they become non-qualifying if retained by the company. Accordingly the directors have also decided to declare a special dividend of 5.0p, which will be paid as a second interim dividend for the year ending 30 September 2017. The first and second interim dividends, totalling 8.0p per share, will be paid on 30 June 2017 to shareholders on the register on 2 June 2017.

We will continue to keep our dividend policy under review, and shareholders should bear in mind that in the short to medium term the move towards earlier-stage investments may have the effect of reducing the amounts of income and realised gains available for distribution.

Investments

One new VCT-qualifying holding was acquired during the period, when £1.0 million was invested in Intelling Group, a Manchester-based business which provides telemarketing and customer care services, mainly in the business-to-consumer market. NVM has reported an increase recently in the volume of work in progress on potential new investments, and we expect to see this reflected in further investment activity in the second half of the year.

Two significant exits have been achieved since our last report, one just before the March period end and one just after. Cawood Scientific was sold in March in a secondary buyout funded by Inflexion Private Equity, generating cash proceeds of £2.9 million and a gain of £1.8 million over the original cost; in April we sold Optilan Group to Blue Water Energy for proceeds of £2.2 million and a gain of £1.2 million, as well as recovering £0.4 million of accrued loan stock interest. These investments, held for seven years and nine years respectively, are excellent examples of how long-term funding from VCTs can be used by growing companies to enhance shareholder value whilst creating increased employment and contributing to the wider UK economy.

Our portfolio companies have generally continued to make good progress, and we hope to see further exit activity later in the year.

Shareholder issues

In January 2017 we launched a top-up offer of new ordinary shares to raise up to £4.3 million, in conjunction with similar offers by Northern 2 VCT and Northern 3 VCT. The offer was restricted to existing investors in the Northern VCTs and sold out almost immediately, demonstrating the strong level of market demand for new shares in well-established VCTs. A substantial number of applications had to be declined and we regret the disappointment felt by unsuccessful applicants. The possibility of future share issues will be kept under review, and will naturally depend on the rate of new investment and realisations from the existing portfolio.

Our dividend investment scheme, which enables shareholders to re-invest their dividends in new ordinary shares free of dealing costs and with the benefit of the tax reliefs available on new VCT share subscriptions, continues to operate.

We have maintained our policy of being willing to buy back the company's shares in the market at a 5% discount to NAV. During the period under review, however, secondary market demand was sufficient to accommodate would-be sellers without the need for buy-backs by the company.

VCT legislation

We have come through a period of rapid change in the VCT legislation, and VCTs and HM Revenue & Customs are still coming to terms with some of the practical implications. In November 2016 the Government announced its Patient Capital Review, with a remit to identify barriers to access to long-term finance for growing firms in the UK and to assess what changes in government policy may be needed to improve the supply of funding. In an uncertain economic climate, with the political landscape also changing, we believe that VCTs have continued to play a significant role in relation to this aspect of the UK economy.

VCT qualifying status

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

Outlook

The unforeseen events of the past 12 months, both in the UK and on a global stage, have emphasised the difficulty of making statements about what lies ahead. Your company has over the years developed the resilience to cope with changing circumstances and still produce satisfactory returns for shareholders, and we therefore take a broadly positive view of the future.

On behalf of the Board

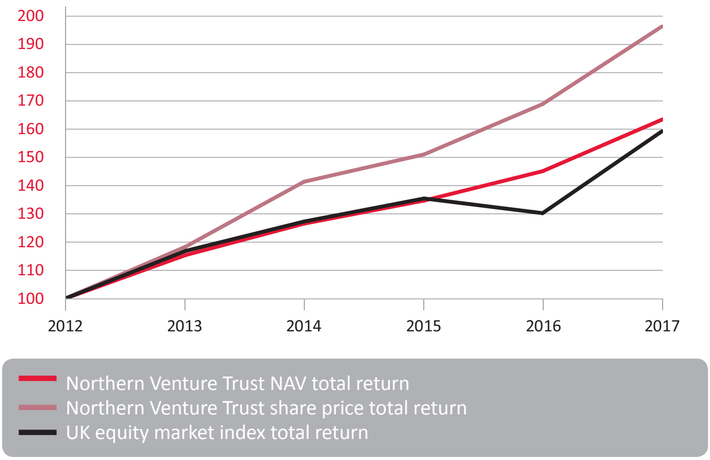
Simon Constantine
Chairman

23 May 2017

Five year performance

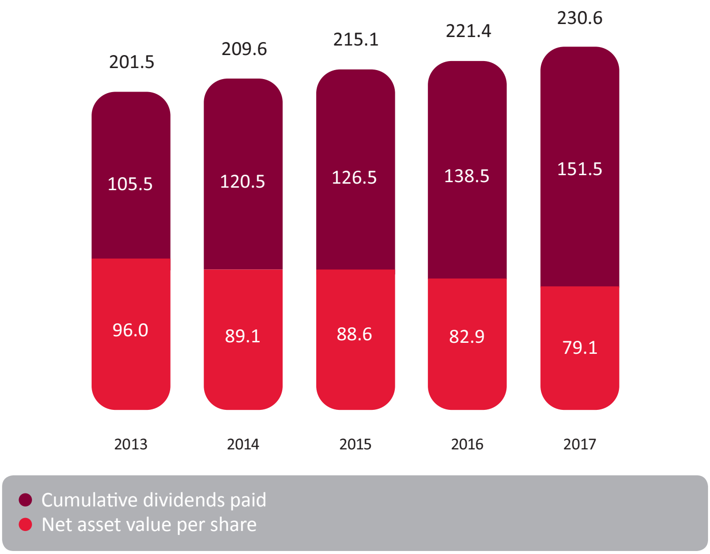
Comparative return to shareholders (assuming dividends re-invested)

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



Net asset value and cumulative dividends per share

As at 31 March (pence per share)



Investment portfolio

as at 31 March 2017

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments			
Entertainment Magpie Group	1,610	5,516	7.2
No 1 Lounges	2,006	4,012	5.2
Buoyant Upholstery	1,674	3,263	4.2
MSQ Partners Group	1,695	2,798	3.6
Lineup Systems	974	2,468	3.2
IDOX*	238	2,210	2.9
Optilan Group	1,000	2,196	2.9
Agilitas IT Holdings	1,662	1,865	2.4
Wear Inns	1,640	1,854	2.4
Biological Preparations Group	2,366	1,759	2.3
It's All Good	1,205	1,751	2.3
Closerstill Group	1,747	1,747	2.3
Volumatic Holdings	1,595	1,677	2.2
Weldex (International) Offshore Holdings	3,262	1,670	2.2
Graza	1,581	1,581	2.1
	24,255	**36,367**	**47.4**
Other venture capital investments	26,311	19,247	25.0
Total venture capital investments	**50,566**	**55,614**	**72.4**
Listed equity investments	5,183	6,373	8.3
Listed interest-bearing investments	4,831	4,871	6.3
Total fixed asset investments	**60,580**	**66,858**	**87.0**
Cash and cash equivalents		13,807	18.0
Debtors less creditors		(3,791)	(5.0)
Net assets		**76,874**	**100.0**

*Quoted on AIM

Income statement

(unaudited) for the six months ended 31 March 2017

	Six months ended 31 March 2017 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	759	759
Movements in fair value of investments	–	800	800
	–	1,559	1,559
Income	1,431	–	1,431
Investment management fee	(199)	(596)	(795)
Other expenses	(204)	–	(204)
Return on ordinary activities before tax	1,028	963	1,991
Tax on return on ordinary activities	(176)	176	–
Return on ordinary activities after tax	852	1,139	1,991
Return per share	0.9p	1.2p	2.1p

- The total column of the income statement is the statement of total comprehensive income of the company prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The supplementary revenue return and capital return columns have been prepared in accordance with the Statement of Recommended Practice *Financial Statements of Investment Trust Companies and Venture Capital Trusts* issued in November 2014 and updated in January 2017 with consequential amendments by the Association of Investment Companies (AIC SORP).
- There are no recognised gains or losses other than those included in the income statement.
- All items included in the income statement derive from continuing operations.
- The accompanying notes are an integral part of this statement.

	Six months ended 31 March 2016			Year ended 30 September 2016	
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
–	1,053	1,053	–	2,398	2,398
–	1,284	1,284	–	7,458	7,458
–	2,337	2,337	–	9,856	9,856
1,338	–	1,338	2,570	–	2,570
(207)	(622)	(829)	(404)	(2,054)	(2,458)
(206)	–	(206)	(397)	–	(397)
925	1,715	2,640	1,769	7,802	9,571
(104)	104	–	(240)	240	–
821	1,819	2,640	1,529	8,042	9,571
0.9p	1.9p	2.8p	1.6p	8.5p	10.1p

Balance sheet

(unaudited) as at 31 March 2017

	31 March 2017 £000	31 March 2016 £000	30 September 2016 £000
Fixed assets			
Investments	66,858	69,285	73,572
Current assets			
Debtors	597	330	369
Cash and cash equivalents	13,807	8,416	4,206
	14,404	8,746	4,575
Creditors (amounts falling due within one year)	(4,388)	(169)	(947)
Net current assets	10,016	8,577	3,628
Net assets	76,874	77,862	77,200
Capital and reserves			
Called-up equity share capital	24,302	23,490	24,110
Share premium	2,984	1,359	2,599
Capital redemption reserve	544	513	544
Capital reserve	40,805	47,521	40,514
Revaluation reserve	6,278	2,674	7,360
Revenue reserve	1,961	2,305	2,073
Total equity shareholders' funds	76,874	77,862	77,200
Net asset value per share	79.1p	82.9p	80.0p

Statement of changes in equity

(unaudited) for the six months ended 31 March 2017

	Called-up share capital £000	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Capital reserve £000	Revenue reserve £000	Total £000
	Non-distributable reserves				Distributable reserves		Total
Six months ended 31 March 2017							
At 1 October 2016	24,110	2,599	544	7,360	40,514	2,073	77,200
Return on ordinary activities after tax	–	–	–	(1,082)	2,221	852	1,991
Dividends paid	–	–	–	–	(1,930)	(964)	(2,894)
Net proceeds of share issues	192	385	–	–	–	–	577
At 31 March 2017	24,302	2,984	544	6,278	40,805	1,961	76,874
Six months ended 31 March 2016							
At 1 October 2015	23,775	1,359	228	3,367	47,787	2,432	78,948
Return on ordinary activities after tax	–	–	–	(693)	2,512	821	2,640
Dividends paid	–	–	–	–	(1,897)	(948)	(2,845)
Shares purchased for cancellation	(285)	–	285	–	(881)	–	(881)
At 31 March 2016	23,490	1,359	513	2,674	47,521	2,305	77,862
Year ended 30 September 2016							
At 1 October 2015	23,775	1,359	228	3,367	47,787	2,432	78,948
Return on ordinary activities after tax	–	–	–	3,993	4,049	1,529	9,571
Dividends paid	–	–	–	–	(10,354)	(1,888)	(12,242)
Net proceeds of share issues	651	1,240	–	–	–	–	1,891
Shares purchased for cancellation	(316)	–	316	–	(968)	–	(968)
At 30 September 2016	24,110	2,599	544	7,360	40,514	2,073	77,200

Statement of cash flows

(unaudited) for the six months ended 31 March 2017

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Cash flows from operating activities			
Return on ordinary activities before tax	1,991	2,640	9,571
Adjustments for:			
Gain on disposal of investments	(759)	(1,053)	(2,398)
Movements in fair value of investments	(800)	(1,284)	(7,458)
Increase in debtors	(266)	(28)	(29)
Increase/(decrease) in creditors	(856)	(283)	495
Net cash (outflow)/inflow from operating activities	(690)	(8)	181
Cash flows from investing activities			
Purchase of investments	(2,496)	(914)	(10,471)
Sale/repayment of investments	10,807	6,646	19,397
Net cash inflow from investing activities	8,311	5,732	8,926
Cash flows from financing activities			
Issue of ordinary shares	592	–	1,899
Share issue expenses	(15)	–	(8)
Share subscriptions held pending allotment	4,297	–	–
Purchase of ordinary shares for cancellation	–	(881)	(968)
Equity dividends paid	(2,894)	(2,845)	(12,242)
Net cash inflow/(outflow) from financing activities	1,980	(3,726)	(11,319)
Net increase/(decrease) in cash and cash equivalents	9,601	1,998	(2,212)
Cash and cash equivalents at beginning of period	4,206	6,418	6,418
Cash and cash equivalents at end of period	13,807	8,416	4,206

Notes to the financial statements

(unaudited) for the six months ended 31 March 2017

1 The financial statements have been prepared under FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and in accordance with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" issued in November 2014 and updated in January 2017 with consequential amendments by the Association of Investment Companies ("AIC SORP").

2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 31 March 2017 and on 96,859,127 (2016 94,713,918) 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 31 March 2017 divided by the 97,209,695 (2016 93,959,820) ordinary shares in issue at that date.

4 The first interim dividend of 3.0p per share and the second interim dividend of 5.0p per share for the year ending 30 September 2017 will be paid on 30 June 2017 to shareholders on the register at the close of business on 2 June 2017.

5 The unaudited half-yearly financial statements for the six months ended 31 March 2017 do not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006, have not been reviewed or audited by the company's independent auditor and have not been delivered to the Registrar of Companies. The comparative figures for the year ended 30 September 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 reference to matters to which the auditor drew attention by way of emphasis without qualifying the report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The half-yearly financial statements have been prepared on the basis of the accounting policies set out in the annual financial statements for the year ended 30 September 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 occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year, and (b) DTR 4.2.8R of the Disclosure Rules and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

7 Copies of this half-yearly report have been 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 large quoted companies. ***Mitigation:*** the directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the investment adviser on a regular basis.

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

Economic risk: events such as economic recession or general fluctuation in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value. ***Mitigation:*** the company invests in a diversified portfolio of investments spanning various industry sectors, and maintains sufficient cash reserves to be able to provide additional funding to investee companies where appropriate.

Stock market risk: some of the company's investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide. In times of adverse sentiment there can be very little, if any, market demand for shares in smaller companies quoted on AIM. ***Mitigation:*** the company's quoted investments are actively managed by specialist advisers and the board keeps the portfolio 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 investment adviser 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 investment adviser. 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 investment adviser keeps the company's VCT qualifying status under continual review and its reports are reviewed by the board on a quarterly basis. The board has also retained Philip Hare & Associates LLP to undertake an independent VCT status monitoring role.

Company information

Directors
Simon Constantine (Chairman)
Nigel Beer
Richard Green
Tim Levett
David Mayes
Hugh Younger

Secretary
Christopher Mellor FCA MCSI

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Designed and produced by The Roundhouse, Newcastle upon Tyne

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