



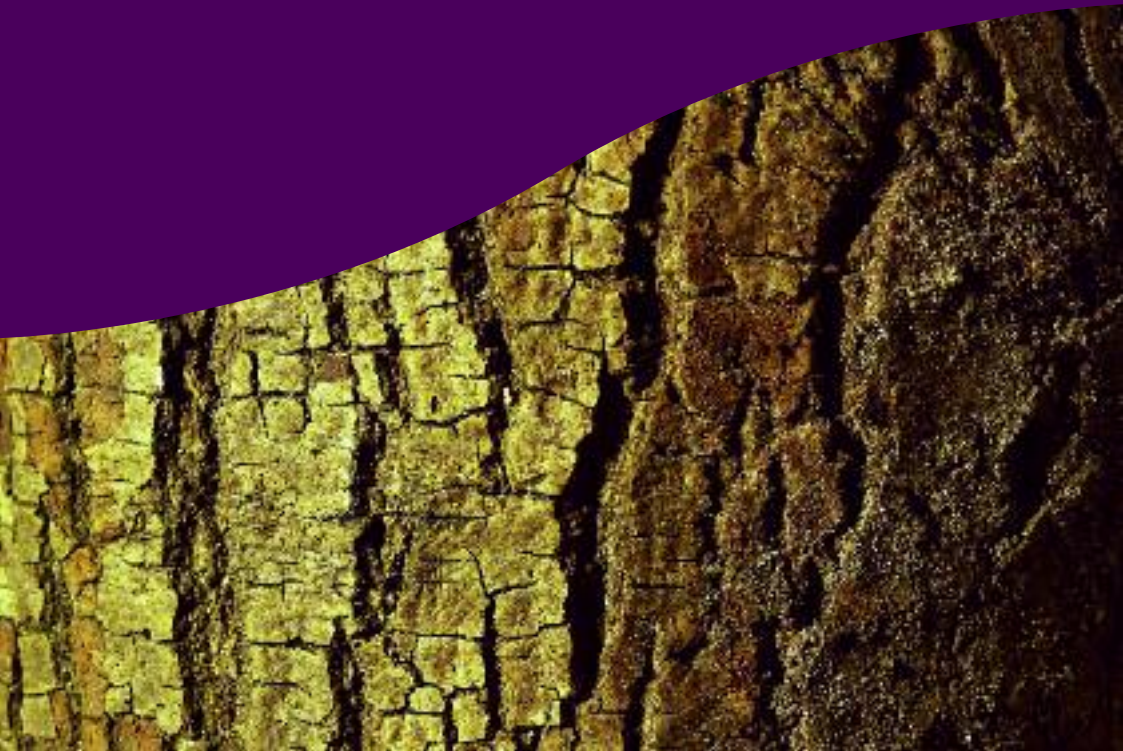
2008

Northern 2
VCT PLC

Half-yearly Financial Report
31 July 2008

Northern 2 VCT 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.

Financial summary	1
Half-yearly management report	2
Income statement	4
Reconciliation of movements in shareholders' funds	4
Balance sheet	6
Cash flow statement	7
Notes to the financial statements	8
Investment portfolio summary	9



Financial Summary

Six months ended 31 July	2008	2007
Net assets	£47.3m	£43.1m
Net asset value per share	83.3p	90.1p
Return per share		
Revenue	1.6p	1.2p
Capital	(4.4)p	4.4p
Total	(2.8)p	5.6p
Interim dividend per share in respect of the period		
Revenue	1.0p	1.0p
Capital	1.0p	1.0p
Total	2.0p	2.0p
Cumulative returns to shareholders since launch		
Net asset value per share	83.3p	90.1p
Dividends paid per share*	39.4p	33.4p
Net asset value plus dividends paid per share	122.7p	123.5p
Share price at end of period	76.5p	77.0p

*Excluding proposed interim dividend

Key dates

Half-yearly results announced	19 September 2008
Shares quoted ex dividend	5 November 2008
Interim dividend paid (to shareholders on register on 7 November 2008)	5 December 2008

Half-yearly Management Report

There is no indication that the UK economy has reached its low point in the current cycle.

I am pleased to submit my first report to shareholders following my appointment as chairman on 30 April 2008. In so doing I would like to begin by thanking my predecessor, Matt Ridley, for his outstanding contribution to the company over the first nine years of its life.

The past half year has been a period of turmoil in the UK economy and world financial markets. The prevailing conditions have inevitably had an effect on the level of new investment activity, on company valuations and on the availability of exit opportunities. This situation is likely to persist for some time.

Nonetheless your directors believe that the company has continued to make encouraging progress.

Results and dividend

The net asset value per share at 31 July 2008, after deducting the 2007/08 final dividend of 4.0p per share paid in June 2008, was 83.3p (31 January 2008 89.1p). The cumulative return to shareholders (net asset value plus dividends paid since launch) fell back marginally during the half year from 124.5p to 122.7p.

The revenue return per share for the half year rose from 1.2p to 1.6p. This was due in part to the exceptional VAT credit referred to below and in part to the fact that investment income was higher than in the corresponding period, even after allowing for the effect of the increase in the issued share capital. However the half year capital return was minus 4.4p compared with a positive return of 4.4p per share in the corresponding period, reflecting the impact on our portfolio valuation of declining price-earnings ratios and, in some cases, reduced profitability in the underlying companies.

The board has declared an interim revenue dividend of 1.0p per share (last year 1.0p) and an interim

capital dividend of 1.0p (last year 1.0p), making a total interim dividend of 2.0p per share which will be paid on 5 December 2008 to shareholders on the register on 7 November 2008. A year ago we announced that it was our objective to maintain an annual dividend of not less than 5.5p per share and this remains our policy notwithstanding current market conditions. It is therefore envisaged that a final dividend of not less than 3.5p will be proposed in due course.

Investments

Our managers have taken a cautious approach to new investment. Three new venture capital investments totalling £2.5 million were completed during the half year:

- **Optilan Group (£1,000,000)** – telecommunications systems integrator, Coventry
- **Axial Systems Holdings (£1,000,000)** – supplier of IT network management systems, Maidenhead
- **Tikit Group (£525,000)** – AIM-quoted provider of IT solutions and support services to legal and accounting firms, London (acquired in part exchange for the previous holding in **TFB Group**).

Since 31 July an investment of £429,000 has been made in **Advanced Computer Software**, an AIM-quoted acquisition vehicle managed by a team who have achieved successful results for us elsewhere in the past.

During the period there were two significant realisations in the portfolio. In April the legal software developer **TFB Group** was sold to Tikit Group plc for £1.5 million in shares and cash, realising a gain of £0.9 million over cost. In May **Product Support (Holdings)** was acquired



David Gravells
Chairman



by Wincanton plc in an all-cash deal from which we realised £2.0 million from an original investment of £1.0 million, with the possibility of a small further payment to come depending on future performance. Profitable exits for cash were also achieved from the investments in **Arrow Industrial Group** and **Inspicio**. However there was a disappointing outcome to our long-standing investment in **DMN**, which was sold for a nominal consideration after continuing difficulties with a major contract. The investment had been substantially written down in value in our last annual accounts but a further loss of £0.5 million was crystallised in the current period.

A number of companies in the portfolio are suffering from challenging trading conditions and your directors have as always taken a conservative approach to the valuation of the unquoted holdings. The AIM-quoted part of the portfolio has also fallen in value, with the FTSE AIM index down by over 15% during the half year. Whilst our primary concern must be to protect the value of the existing portfolio as far as possible, we are also conscious that difficult markets can produce good investment opportunities.

Shareholder issues

As previously reported, the company's public offer of new ordinary shares for subscription in the 2007/08 and 2008/09 tax years closed in April 2008 having raised a total of £9.5 million before expenses. This was a highly satisfactory outcome in difficult market conditions.

The mid-market share price fell from 80½p to 76½p during the six months to 31 July. The company has continued its policy of buying back shares in the market at a 10% discount to net asset value and during the period 742,786 shares, representing approximately 1.3% of the issued share capital at the end of the period, were purchased for cancellation at an average price of 78p. 229,923 new shares were issued in June under the company's dividend re-investment scheme.

VAT on management fees

The Government announced in the 2008 Budget that, with effect from 1 October 2008, investment management fees paid by VCTs would be exempt from VAT. HM Revenue & Customs has subsequently accepted that under European Union VAT law this exemption should have applied from 1 January 1990 onwards, and has indicated that claims may be made for repayment of VAT previously paid by VCTs on management fees, subject to certain restrictive time limits.

At this stage the directors are reasonably certain that the amount of VAT recoverable by Northern 2 VCT will be at least £500,000 and an asset of this amount has been recognised in the half-yearly accounts as an exceptional credit in the income statement. A further update will be given in due course.

VCT qualifying status

The company has continued to satisfy the qualifying conditions laid down by HM Revenue & Customs for approval as a VCT. We retain PricewaterhouseCoopers LLP to advise the board in relation to VCT taxation matters.

The future

There is no indication that the UK economy has reached its low point in the current cycle and the general outlook for the immediate future is not good. Your board and managers continue to monitor the company's portfolio closely with the objective of ensuring that it emerges from the present downturn in an overall sound position, but it is possible that there may be some casualties among our holdings along the way. However our company has a strong balance sheet with ample liquidity to take advantage of opportunities on a selective basis as they arise, and we continue to take a positive view of medium to long term prospects.

On behalf of the Board

David Gravells
Chairman

19 September 2008

Income Statement

(unaudited) for the six months ended 31 July 2008

	Six months ended 31 July 2008		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	159	159
Adjustments to fair value of investments	–	(2,559)	(2,559)
	–	(2,400)	(2,400)
Income	1,377	–	1,377
Investment management fee	(129)	(386)	(515)
Recoverable VAT	119	381	500
Other expenses	(150)	–	(150)
Return on ordinary activities before tax	1,217	(2,405)	(1,188)
Tax on return on ordinary activities	(321)	2	(319)
Return on ordinary activities after tax	896	(2,403)	(1,507)
Return per share	1.6p	(4.4)p	(2.8)p

- 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.

Reconciliation of Movements in Shareholders' Funds

(unaudited) for the six months ended 31 July 2008

	Six months ended 31 July 2008 £000
Equity shareholders' funds at 1 February 2008	43,753
Return on ordinary activities after tax	(1,507)
Dividends recognised in the period	(1,870)
Net proceeds of share issues	7,466
Shares purchased for cancellation	(586)
Equity shareholders' funds at 31 July 2008	47,256

Six months ended 31 July 2007			Year ended 31 January 2008		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
-	553	553	-	1,759	1,759
-	1,815	1,815	-	802	802
-	2,368	2,368	-	2,561	2,561
1,005	-	1,005	2,111	-	2,111
(126)	(378)	(504)	(253)	(968)	(1,221)
-	-	-	-	-	-
(125)	-	(125)	(266)	-	(266)
754	1,990	2,744	1,592	1,593	3,185
(179)	119	(60)	(416)	303	(113)
575	2,109	2,684	1,176	1,896	3,072
1.2p	4.4p	5.6p	2.5p	3.9p	6.4p

Six months ended 31 July 2007 £000	Year ended 31 January 2008 £000
42,909	42,909
2,684	3,072
(2,160)	(3,109)
211	2,038
(591)	(1,157)
43,053	43,753

Balance Sheet

(unaudited) as at 31 July 2008

	31 July 2008 £000	31 July 2007 £000	31 January 2008 £000
Fixed asset investments			
Venture capital investments			
Unquoted	25,779	32,739	29,326
Quoted	2,053	3,370	2,349
Total venture capital investments	27,832	36,109	31,675
Listed fixed-interest investments	17,548	5,073	5,066
Total fixed asset investments	45,380	41,182	36,741
Current assets			
Debtors	872	468	355
Cash at bank	1,565	1,642	7,452
	2,437	2,110	7,807
Creditors (amounts falling due within one year)	(561)	(239)	(795)
Net current assets	1,876	1,871	7,012
Net assets	47,256	43,053	43,753
Capital and reserves			
Called-up equity share capital	2,835	2,389	2,456
Share premium	33,922	25,147	26,872
Capital redemption reserve	337	265	300
Capital reserve - realised	8,028	8,868	8,727
Capital reserve - unrealised	937	5,507	4,396
Revenue reserve	1,197	877	1,002
Total equity shareholders' funds	47,256	43,053	43,753
Net asset value per share	83.3p	90.1p	89.1p

Cash Flow Statement

(unaudited) for the six months ended 31 July 2008

	Six months ended 31 July 2008 £000	Six months ended 31 July 2007 £000	Year ended 31 January 2008 £000
Net cash inflow from operating activities	142	313	1,283
Taxation			
Corporation tax paid	–	–	(106)
Financial investment			
Purchase of investments	(22,619)	(6,730)	(8,066)
Sale/repayment of investments	11,580	8,189	14,159
Net cash inflow/(outflow) from financial investment	(11,039)	1,459	6,093
Equity dividends paid	(1,870)	(2,160)	(3,109)
Net cash inflow/(outflow) before financing	(12,767)	(388)	4,161
Financing			
Issue of ordinary shares	7,886	215	2,146
Share issue expenses	(420)	(4)	(108)
Purchase of ordinary shares for cancellation	(586)	(591)	(1,157)
Net cash inflow/(outflow) from financing	6,880	(380)	881
Increase/(decrease) in cash at bank	(5,887)	(768)	5,042
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	(1,188)	2,744	3,185
Gain on disposal of investments	(159)	(553)	(1,759)
Adjustments to fair value of investments	2,559	(1,815)	(802)
(Increase)/decrease in debtors	(517)	3	116
Increase/(decrease) in creditors	(553)	(66)	543
Net cash inflow from operating activities	142	313	1,283
Analysis of movement in net funds	1 February 2008 £000	Cash flows £000	31 July 2008 £000
Cash at bank	7,452	(5,887)	1,565

Notes to the Financial Statements

(unaudited) for the six months ended 31 July 2008

- 1 The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in December 2005, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.
- 2 The calculation of return per share is based on the return on ordinary activities after tax for the six months ended 31 July 2008 and on 54,434,646 (2007 48,020,971) 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 July 2008 divided by the 56,703,730 (2007 47,778,467) ordinary shares in issue at that date.
- 4 The proposed interim dividend of 2.0p per share for the year ending 31 January 2009 will be paid on 5 December 2008 to shareholders on the register at the close of business on 7 November 2008.
- 5 The unaudited half-yearly financial statements for the six months ended 31 July 2008 do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The figures for the year ended 31 January 2008 have been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies; the independent auditors' report on those financial statements under Section 235 of the Companies Act 1985 was unqualified. 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 January 2008.
- 6 The directors confirm 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 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 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.

Investment Portfolio Summary

as at 31 July 2008

	Cost £000	Valuation £000	% of net assets by value
Stainton Metal Company	1,002	2,176	4.6
Envirotec	975	2,159	4.6
Paladin Group	1,307	1,984	4.2
Liquidlogic	282	1,497	3.2
Pivotal Laboratories Holdings	857	1,319	2.8
Longhirst Venues	353	1,295	2.7
Crantock Bakery	1,107	1,267	2.7
Abermed	725	1,154	2.5
S&P Coil Products	620	1,083	2.3
Promanex Group Holdings	1,000	1,000	2.1
Optilan Group	1,000	1,000	2.1
Axial Systems Holdings	1,000	1,000	2.1
DxS	684	963	2.0
Arleigh International	435	916	1.9
Britspace Holdings	1,091	884	1.9
Fifteen largest venture capital investments	12,438	19,697	41.7
Other venture capital investments	14,457	8,135	17.2
Total venture capital investments	26,895	27,832	58.9
Listed fixed-interest investments	17,674	17,548	37.1
Total fixed asset investments	44,569	45,380	96.0
Net current assets		1,876	4.0
Net assets		47,256	100.0

Company Information

Directors

David Gravells (Chairman)
Alastair Conn
Michael Denny
Christopher Fletcher
Professor Sir Frederick Holliday
Frank Neale

Secretary

Christopher Mellor FCA MSI

Registered Office

Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER
Telephone: 0191 244 6000
E-mail: n2vct@nvm.co.uk
Website: www.nvm.co.uk

Investment Manager

NVM Private Equity Limited
Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER

Fixed-interest Investment Advisers

Sarasin & Partners LLP
Juxon House
100 St Paul's Churchyard
London EC4M 8BU

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA
Shareholder helpline: 0870 601 5366

Northern 2 VCT PLC

Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER
Tel: 0191 244 6000
Fax: 0191 244 6001
E-mail: n2vct@nvm.co.uk
www.nvm.co.uk