



2009

Northern 2
VCT PLC

Half-yearly Financial Report
31 July 2009

Financial Summary

Six months ended 31 July	2009	2008
Net assets	£44.0m	£47.3m
Net asset value per share	77.1p	83.3p
Return per share		
Revenue	1.5p	1.6p
Capital	9.3p	(4.4)p
Total	10.8p	(2.8)p
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 return to shareholders since launch		
Net asset value per share	77.1p	83.3p
Dividends paid per share*	44.9p	39.4p
Net asset value plus dividends paid per share	122.0p	122.7p
Share price at end of period	49.5p	76.5p

*Excluding proposed interim dividend

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.

Key dates

Half-yearly results announced

22 September 2009

Shares quoted ex dividend

4 November 2009

Interim dividend paid (to shareholders on register on 6 November 2009)

4 December 2009

Half-yearly Management Report

Over the past half year our portfolio has shown a measure of resilience against the effects of recession.

The six months to 31 July 2009 saw some recovery in the financial markets, with the FTSE All-Share index rising by 13% over the period, but there was relatively little evidence of a sustainable improvement in the UK economy. The operating environment for small and medium-sized companies has continued to be very difficult and seems likely to remain so for some time to come. This presents significant challenges to investors in such companies, and it is therefore encouraging to report that over the past half year our portfolio has shown a measure of resilience against the effects of recession. We are also pleased to announce a highly successful exit from the molecular diagnostics developer **DxS**, which was our largest investment by value at 31 July 2009.

Results and dividend

The net asset value (NAV) per share at 31 July 2009, after deducting the 2008/09 final dividend of 3.5p per share paid in June 2009, was 77.1p (31 January 2009 69.8p) – an increase of 10.5% during the half year. The return per share for the period before dividends, as shown in the income statement, was 10.8p compared with a negative return of 2.8p for the corresponding period last year. This is a good result against the background of continuing uncertainty in the economy and financial markets.

Investment income for the period remained steady at £1.4 million, and the revenue return per share was down marginally from 1.6p to 1.5p. These figures reflect the benefit of a significant one-off income receipt from DxS, without which both income and revenue return per share would have been considerably lower than in the corresponding period. The principal factors affecting income generation have been firstly

the continuing reduction in interest rates, culminating in base rate being reduced in March 2009 to 0.5% – a level which would have seemed almost inconceivable twelve months earlier – and secondly the fact that a number of our unquoted investee companies have come under pressure from their bankers to defer interest and dividend payments in order to reduce borrowings. We are likely to feel the impact of this more keenly in the second half of the current financial year. However the capital return per share recovered strongly to 9.3p, from minus 4.4p in the corresponding period, through a combination of realised gains and unrealised revaluation increases.

The board has declared an unchanged interim dividend of 2.0p per share, comprising 1.0p revenue and 1.0p capital distribution, which will be paid on 4 December 2009 to shareholders on the register on 6 November 2009. Our stated objective is to maintain the annual dividend at not less than 5.5p per share; in the current climate this is a demanding target but we presently expect, in the light of recent encouraging progress, to declare a final dividend of 3.5p per share so as to match last year's total.

Investments

The rate of new investment has remained slow and one new unquoted holding was added during the period: £995,000 was invested in **Ingleby (1817)**, a new company formed by an experienced pharmaceutical industry entrepreneur to acquire high-potential drug development businesses. At this stage in the economic cycle our managers expect to see some interesting new opportunities at realistic valuations and this should lead to an increase in investment activity.

Half-yearly Management Report continued

During the period there were two significant realisations in the portfolio. In March **Pivotal Laboratories Holdings** was sold to the US-based clinical research services firm ACM, realising proceeds of £1.6 million and a gain over original cost of £0.7 million, and in July the public sector software developer **Liquidlogic** was sold to the AIM-quoted System C Healthcare for proceeds of £1.2 million and a gain of £1.0 million. In both cases there may be a further payment to come depending on future performance.

Subsequent to 31 July 2009, as referred to above, the company's investment in **DxS** has been sold for initial proceeds of £4.4 million in cash. DxS, which provides molecular diagnostic products and services to the healthcare sector, has achieved significant growth since our original early-stage investment in 2001 and this is a very satisfactory outcome, representing an overall cash return of over seven times the money invested. The initial sale price has been reflected in the directors' valuation of the investment at 31 July 2009 and we have also been able to recognise some £0.6 million of accrued investment income which was paid at completion. Northern 2 VCT may become entitled to receive further capital payments of up to £3.2 million over the next three years depending on the achievement by DxS of specified objectives, but no account has been taken of these in the financial statements at this stage.

The valuation of the continuing portfolio has as usual been subjected to a careful review, based on a cautious perception of the current economic outlook and an awareness that many companies are finding it difficult to maintain their bank borrowing facilities at previous levels. This has led to some further reductions in individual company valuations but we have also been able to recognise a number of cases where good progress is being made and value has been enhanced. However the investment in **Foreman Roberts Group**, which was written down to nil value at 31 January 2009, was radically restructured in July and has now in effect been permanently written off.

The reserve of cash and near-cash assets available for future investment remains strong, with approximately £17 million of liquid resources on the balance sheet at 31 July 2009.

Shareholder issues

We reported six months ago on the difficulties which had been experienced in relation to the provision of corporate broking and market-making services to the company. In April 2009, following a review of available options, the board appointed Singer Capital Markets as brokers. The mid-market share price, which reached a low point of 34.5p in April, has subsequently recovered to 49.5p at 31 July. This still represents a discount of over 30% to NAV, and a tax-free income yield of 11.1% based on a 5.5p annual dividend.

The directors remain willing to use the company's powers to re-purchase its own shares in order to support market liquidity. The buy-back authority granted by shareholders caps the price at which we can deal at a maximum of 105% of the latest mid-market share price, which currently prevents us from buying shares at our target discount to NAV of 10%. Given this restriction, and having regard to the general volatility in the financial markets, we have concluded (as have a number of other VCT boards) that maintaining a fixed 10% discount is not currently feasible and that for the foreseeable future we should be prepared to buy back at a wider discount, subject to market conditions. This matter will be kept under continuing review.

At the same time our managers and their colleagues in the VCT sector are continuing their efforts, supported by the Association of Investment Companies, to promote the merits of acquiring and retaining VCT shares as a means of generating substantial tax-free yields in the long term, at a time when the higher rate of income tax is about to increase and conventional methods of pension provision have been proving less than wholly adequate. We believe that a wider appreciation by investors of the attractions of VCT shares could help to reduce discounts to NAV in the sector generally.



David Gravells
Chairman



VAT on management fees

Following HM Revenue & Customs' acceptance that investment management fees paid by VCTs should be exempt from VAT, a credit of £414,000 was recognised in the financial statements for the year ended 31 January 2009 in respect of VAT recoverable for earlier periods. Discussions are continuing with a view to possible further recoveries, but the outcome is not yet sufficiently certain to be reflected in the current financial statements.

VCT qualifying status

The company has continued to meet the qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The board retains PricewaterhouseCoopers LLP as independent advisers on VCT taxation matters.

Risk management

The board carries out a regular review of the risk environment in which the company operates. There has been no significant change to the key risks discussed on page 10 of the annual report for the year ended 31 January 2009, including those resulting from the size and relative illiquidity of the unquoted and AIM-quoted investments held by the company.

Prospects

The recent upturn in the financial markets has been taken in some quarters as an indicator of imminent recovery in the economy. At this stage your board and managers consider it appropriate to take a more cautious view, believing that a return to economic prosperity may be only gradual while the effects of recent events work their way through the system. This will inevitably have an impact on the short-term prospects for our own investments. Nevertheless the portfolio is showing some encouraging signs and this should lead to further progress being made in the medium term.

On behalf of the Board

David Gravells
Chairman

Income Statement

(unaudited) for the six months ended 31 July 2009

	Six months ended 31 July 2009		
	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	–	703	703
Movements in fair value of investments	–	4,768	4,768
	–	5,471	5,471
Income	1,369	–	1,369
Investment management fee	(102)	(307)	(409)
Recoverable VAT	–	–	–
Other expenses	(155)	–	(155)
Return on ordinary activities before tax	1,112	5,164	6,276
Tax on return on ordinary activities	(242)	89	(153)
Return on ordinary activities after tax	870	5,253	6,123
Return per share	1.5p	9.3p	10.8p

- 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 2009

	Six months ended 31 July 2009 £000
Equity shareholders' funds at 1 February 2009	39,702
Return on ordinary activities after tax	6,123
Dividends recognised in the period	(1,990)
Net proceeds of share issues	173
Shares purchased for cancellation	(36)
Equity shareholders' funds at 31 July 2009	43,972

Six months ended 31 July 2008			Year ended 31 January 2009		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
-	159	159	-	784	784
-	(2,559)	(2,559)	-	(9,985)	(9,985)
-	(2,400)	(2,400)	-	(9,201)	(9,201)
1,377	-	1,377	2,456	-	2,456
(129)	(386)	(515)	(246)	(740)	(986)
119	381	500	99	315	414
(150)	-	(150)	(298)	-	(298)
1,217	(2,405)	(1,188)	2,011	(9,626)	(7,615)
(321)	2	(319)	(538)	120	(418)
896	(2,403)	(1,507)	1,473	(9,506)	(8,033)
1.6p	(4.4)p	(2.8)p	2.6p	(16.8)p	(14.2)p

Six months ended 31 July 2008 £000	Year ended 31 January 2009 £000
43,753	43,753
(1,507)	(8,033)
(1,870)	(3,005)
7,466	7,573
(586)	(586)
47,256	39,702

Balance Sheet

(unaudited) as at 31 July 2009

	31 July 2009 £000	31 July 2008 £000	31 January 2009 £000
Fixed asset investments			
Venture capital investments			
Unquoted	23,577	25,779	21,090
Quoted	2,544	2,053	1,823
Total venture capital investments	26,121	27,832	22,913
Listed fixed-interest investments	5,018	17,548	4,636
Total fixed asset investments	31,139	45,380	27,549
Current assets			
Debtors	1,465	872	813
Cash and deposits	12,008	1,565	11,891
	13,473	2,437	12,704
Creditors (amounts falling due within one year)	(640)	(561)	(551)
Net current assets	12,833	1,876	12,153
Net assets	43,972	47,256	39,702
Capital and reserves			
Called-up equity share capital	2,852	2,835	2,843
Share premium	34,181	33,922	34,021
Capital redemption reserve	341	337	337
Capital reserve	7,472	8,028	8,157
Revaluation reserve	(2,098)	937	(6,863)
Revenue reserve	1,224	1,197	1,207
Total equity shareholders' funds	43,972	47,256	39,702
Net asset value per share	77.1p	83.3p	69.8p

Cash Flow Statement

(unaudited) for the six months ended 31 July 2009

	Six months ended 31 July 2009 £000	Six months ended 31 July 2008 £000	Year ended 31 January 2009 £000
Net cash inflow from operating activities	89	142	574
Taxation:			
Corporation tax paid	–	–	(108)
Financial investment			
Purchase of investments	(1,528)	(22,619)	(7,864)
Sale/repayment of investments	3,409	11,580	7,855
Net cash inflow/(outflow) from financial investment	1,881	(11,039)	(9)
Equity dividends paid	(1,990)	(1,870)	(3,005)
Net cash outflow before financing	(20)	(12,767)	(2,548)
Financing			
Issue of ordinary shares	189	7,886	7,999
Share issue expenses	(16)	(420)	(426)
Purchase of ordinary shares for cancellation	(36)	(586)	(586)
Net cash inflow from financing	137	6,880	6,987
Increase/(decrease) in cash and deposits	117	(5,887)	4,439
Reconciliation of return before tax to net cash flow from operating activities			
Return on ordinary activities before tax	6,276	(1,188)	(7,615)
Gain on disposal of investments	(703)	(159)	(784)
Movements in fair value of investments	(4,768)	2,559	9,985
Increase in debtors	(652)	(517)	(458)
Decrease in creditors	(64)	(553)	(554)
Net cash inflow from operating activities	89	142	574
Analysis of movement in net funds	1 February 2009 £000	Cash flows £000	31 July 2009 £000
Cash and deposits	11,891	117	12,008

Notes to the Financial Statements

(unaudited) for the six months ended 31 July 2009

- 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 January 2009, 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 2009 and on 56,924,548 (2008 54,434,646) 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 2009 divided by the 57,036,608 (2008 56,703,730) ordinary shares in issue at that date.
- 4 The proposed interim dividend of 2.0p per share for the year ending 31 January 2010 will be paid on 4 December 2009 to shareholders on the register at the close of business on 6 November 2009.
- 5 The unaudited half-yearly financial statements for the six months ended 31 July 2009 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 2009 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 2009.
- 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 2009

	Cost £000	Valuation £000	% of net assets by value
DxS	685	4,395	10.0
Paladin Group	1,307	1,823	4.1
Envirotec	975	1,785	4.1
Crantock Bakery	1,107	1,412	3.2
Britspace Holdings	2,230	1,365	3.1
Axial Systems Holdings	1,004	1,164	2.6
Abermed	725	1,059	2.4
CloserStill Holdings	1,000	1,000	2.3
Ingleby (1817)	995	995	2.3
S&P Coil Products	620	994	2.3
Longhirst Venues	375	965	2.2
Arleigh International	435	888	2.0
Advanced Computer Software*	429	884	2.0
Optilan Group	1,000	821	1.9
IG Doors	1,000	750	1.7
Fifteen largest venture capital investments	13,887	20,300	46.2
Other venture capital investments	14,090	5,821	13.2
Total venture capital investments	27,977	26,121	59.4
Listed fixed-interest investments	5,260	5,018	11.4
Total fixed asset investments	33,237	31,139	70.8
Net current assets		12,833	29.2
Net assets		43,972	100.0

*Quoted on AIM

Company Information

Directors

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Alastair Conn
Michael Denny
Christopher Fletcher
Professor Sir Frederick Holliday
Frank Neale

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Christopher Mellor FCA MSI

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