

Northern 2 VCT PLC

Annual Report and
Financial Statements
31 March 2022



Welcome

Northern 2 VCT PLC is a Venture Capital Trust (VCT) managed by Mercia Fund Management Limited.

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

Contents

01	Financial summary
02	Venture capital portfolio summary
04	Chair's statement
07	Directors and advisers
09	Shareholder information
11	Strategic report
18	Investment portfolio
19	Fifteen largest venture capital investments
24	Environmental, social and governance
26	Directors' report
29	Directors' remuneration report
31	Corporate governance
36	Directors' responsibilities statement
37	Independent auditor's report
43	Income statement
44	Balance sheet
45	Statement of changes in equity
46	Statement of cash flows
47	Notes to the financial statements
63	Glossary of terms

Financial summary

Year ended 31 March	2022	2021
Net assets	£104.9m	£115.5m
Net asset value per share	64.4p	71.3p
Return per share		
Revenue	0.2p	0.3p
Capital	0.4p	21.5p
Total	0.6p	21.8p
Dividend per share for the year		
Interim dividend	2.0p	2.0p
Second interim (special) dividend	–	4.0p
Proposed final dividend	1.6p	1.5p
Total	3.6p	7.5p
Cumulative return to shareholders since launch		
Net asset value per share	64.4p	71.3p
Dividends paid per share*	132.4p	124.9p
Net asset value plus dividends paid per share	196.8p	196.2p
Mid-market share price at end of year	61.5p	61.0p
Share price discount to net asset value	4.5%	14.5%
Tax-free dividend yield**		
Excluding special dividend	5.0%	6.5%
Including special dividend	N/A	14.0%

* Excluding proposed final dividend payable on 19 August 2022.

** Based on net asset value per share at the start of the year

Definitions of the terms and alternative performance measures used in this report can be found in the Glossary of terms on page 63.

Key dates during 2022

15 June
Results announced

10 August
Annual general meeting,
11:30am*

28 July
Shares quoted
ex dividend

19 August
Final dividend paid

29 July
Record date for
final dividend

* To be convened at Royal College of General Practitioners, 30 Euston Square, London NW1 2FB, with optional remote access for shareholders through an online webinar facility.



For additional
information
visit our investor
area online
www.mercia.co.uk/vcts/



Venture capital portfolio summary

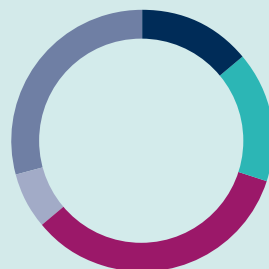
51

Portfolio companies

£60.2m

Cost of investments

Age of investment



Industry sector



Up to 1 year	14%
1-3 years	16%
3-5 years	34%
5-7 years	7%
7+ years	29%

Software/electronics	37%
Consumer	22%
Industrial/manufacturing	5%
Services	22%
Healthcare/biotechnology	14%

4.8 years

Average age of investment

£1.2m

Average cost of investment

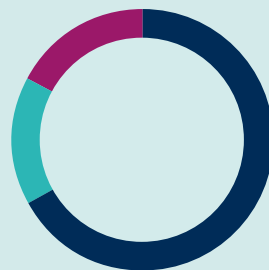
£68.7m

Portfolio valuation at 31 March 2022

£14.7m

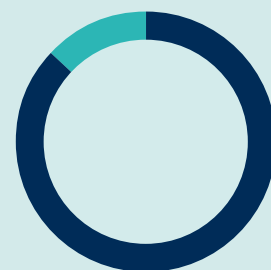
Invested in new and follow on investments

Financing stage



Development capital - post 2015	67%
Development capital - pre 2015	16%
Management buyout - pre 2015	17%

Quotation



Unquoted	96%
AIM	4%

9

Number of new investments this year

13

Number of portfolio companies that received follow on capital this year

9

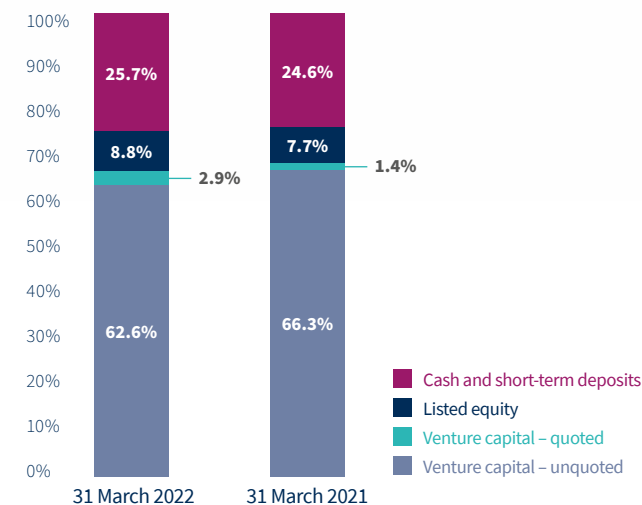
Number of partial and full realisations this year

£26.2m

Proceeds from all realisations in year

Note these charts are calculated by value of investments.

Asset allocation



Case study

CURRENTBODY

THE BEAUTY DEVICE EXPERTS

Northern 2 VCT PLC partially realises investment in Currentbody.com, a leading online retailer for beauty products.

The business

Cheadle-based Currentbody.com is an online retailer of home-use beauty products.

Amount invested

£1.9 million by Northern 2 VCT PLC. The total invested by the Northern VCTs was £5.8 million.

Growth of the business

Over the life of the investment sales have grown significantly, growing by 100% in 2020 alone. It has developed strong brand recognition in the home beauty market.

Exit in November 2021

Generated a return of 2.9 times the original cost over the life of the investment, which includes £1.5 million re-invested into the new owner's holding company.

Investment reach

Number of investments by region



Total venture capital holdings

51

Scotland

4

North East

3

North West

12

Yorkshire/Humberside

3

East Midlands

2

West Midlands

3

Wales

1

Anglia

2

London

12

South West

2

South East

7



Chair's statement



David Gravells

Chair

“Despite macroeconomic headwinds caused by domestic inflation and the residual impact of COVID-19 measures, your directors remain encouraged by the resilience of the portfolio to date.”

The past year's economic landscape has been dominated by two main drivers – the lingering impact of COVID-19 measures and, in the second half of the year, supply side shortages and inflationary pressures, which have introduced volatility into the financial markets.

Nonetheless, I am pleased to report that despite a degree of macroeconomic turbulence over the past 12 months, our investment portfolio has not been materially impacted overall and has continued to see strong realisation activity, consolidating the excellent performance reported in the preceding year. The proceeds of investments sold during the period totalled £26.2 million, compared with an initial cost of £11.6 million. Investment activity increased in the year, with £14.7 million invested across 22 investee companies. The cash generated from investment disposals, together with the proceeds of our fully subscribed £17.0 million public share offer, means that your company is well positioned both to pursue new opportunities to support small and medium businesses and to work with existing portfolio companies to realise their growth plans.

Results and dividend

In the year ended 31 March 2022, the company achieved a return of 0.6 pence per share (2021: 21.8 pence), equivalent to 0.8% of the opening net asset value (NAV) per share as a result of several profitable disposals. The NAV per share as at 31 March 2022, after deducting dividends paid during the year totalling 7.5 pence, was 64.4 pence compared with 71.3 pence as at 31 March 2021.

Several investment realisations were completed during the year, with a number of notable transactions either completed or in progress as at the balance sheet date. Highlights were the partial disposal of Oddbox, generating a return of 10.9 times the original cost, and the sales of Currentbody.com and Intelling Group, which registered returns of 2.9 times and 3.6 times cost respectively over their lifetimes (inclusive of loan interest received). The part disposal of musicMagpie on the company's flotation on AIM generated a return of 11.6 times

the original cost of the investment, although the value of the retained shareholding fell sharply in early 2022 reducing the lifetime return on the entire investment as at 31 March 2022 to 7.2 times cost.

Net realised gains of £14.6 million underpinned the annual performance. The return for the year also included a carefully considered reduction of £2.3 million in the directors' valuation of the unquoted portfolio. It is right to recognise where unquoted investments do not perform as anticipated. The very significant reduction in the number of air passengers during the pandemic resulted in the liquidation of No 1 Lounges, resulting in a loss of our investment, although the cost of this investment had already been provided against in the preceding financial year. In addition, the company's investment in Avid was sold at a loss against original cost, following a decision not to provide further funding to the company.

In 2018, we set an objective of paying an annual dividend representing a yield of at least 5% of the opening NAV per share in each year, whilst endeavouring to protect the NAV from erosion over the medium term. Over the three years since 31 March 2019, the NAV per share has decreased by 0.5% from 64.7 pence to 64.4 pence, after taking account of dividend payments totalling 15.0 pence over the same period. We have therefore broadly continued to meet our objective.

Having already declared an interim dividend of 2.0 pence per share, which was paid in January 2022, your directors now propose a final dividend of 1.6 pence. The total of 3.6 pence is equivalent to 5.0% of the opening NAV of 71.3 pence per share. The proposed final dividend will, subject to approval by shareholders at the annual general meeting (AGM), be paid on 19 August 2022.

The target dividend yield will remain subject to regular review and the level of future dividend distributions will continue to reflect the level of returns generated by the company in the medium term, the timing of investment realisations, the availability of distributable reserves and continuing compliance with the VCT scheme rules.



Investment portfolio

While COVID-19 continued to provide challenges to some of our portfolio companies, the changes it has driven in consumer habits and working practices provided opportunities for others. The software and electronics sub-sectors have broadly remained resilient throughout the pandemic and investments in these areas represent a little over 20% by cost of the portfolio. Your directors take great care when considering the valuations of the unquoted venture portfolio and have updated valuations to reflect current market conditions where appropriate.

In the first quarter of 2022, stock markets fell sharply in reaction to the news of inflationary pressures and the conflict in Ukraine. Despite this our portfolio of listed investments ended the year marginally ahead, rising by 3.9% compared to March 2021.

In response to the conflict in Ukraine, our investment manager undertook a review of the entire portfolio for links to sanctioned individuals and companies, and continues to monitor the situation carefully.

After the restrictions caused by COVID-19 in the year to March 2021, investment levels have recovered this year and have exceeded pre-pandemic levels, with £9.6 million of capital provided to nine new venture capital investments and £5.1 million of follow-on capital invested into the existing portfolio.

Since the year end we have also disposed of our holding in another recent early stage investment, Knowledgemotion, for initial net proceeds of £3.0 million, representing a 1.7x return on the original cost.

As of March 2022 33% by value of our venture capital portfolio comprised 'legacy' investments in more mature businesses acquired under the previous (pre-2015) VCT rules. This mature portfolio will continue to reduce as a percentage of overall capital invested as we realise our holdings in these investments, and we expect that it will continue to provide a series of profitable exits in the years to come, supporting the overall return of the company.

Your company is mindful of its Environmental, Social and Governance (ESG) responsibilities and we have outlined our evolving approach on page 24.

Investment manager

The transitional services agreement, covering the transfer of the company's administrative, accounting and company secretarial services, terminated on 31 March 2022. Mercia Fund Management now performs the functions in respect of the post-2015 investments, accounting and company secretarial services which were previously undertaken by NVM Private Equity prior to the novation of the company's investment management agreement in December 2019. NVM will continue to play an important role in managing part of the legacy portfolio of more mature investments. I would like to thank the directors and staff of both organisations for their hard work during the transitional period.

At the end of March 2022, Tim Levett retired from his position leading the fund manager's VCT investment team. Tim leaves behind an experienced team, led by the newly promoted VCT partners and overseen by Peter Dines, with whom he has worked closely since Mercia took over the fund management agreement. I would like to take this opportunity to thank Tim for his immense contribution to Northern 2 VCT PLC over the past 23 years, and we wish him a happy retirement.

Share offer and liquidity

As a result of the public share offer launched in January 2022, 25,597,510 new ordinary shares were issued in April 2022 for gross proceeds of £17.0 million.

Our dividend investment scheme, which enables shareholders to 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, with around 16% of total dividends reinvested by shareholders during the year.

Following the increase in the rate of investment in the past year, we will continue to monitor liquidity prior to taking a view on possible fundraising in the 2022/23 tax year.

Highlights

- Return per share for the year of 0.6 pence, equivalent to 0.8% of opening NAV
- NAV per share at year end of 64.4 pence
- Total proposed and declared dividends for the year of 3.6 pence per share, equivalent to 5.0% of opening NAV
- Nine investment disposals, delivering 9.0 pence per share realised return
- Nine new investments in innovative earlier stage companies added to the portfolio and 13 follow-on investments



Chair's statement continued

We have maintained our policy of being willing to buy back the company's shares in the market when necessary in order to maintain liquidity, at a 5% discount to NAV. During the year, a total of 2,089,334 shares were repurchased for cancellation, equivalent to approximately 1.3% of the opening share capital.

Annual general meeting

The company's annual general meeting (AGM) will take place on 10 August 2022. The AGM usually provides an excellent opportunity for shareholders, directors and the manager to meet in person and exchange views and comment, but in 2020 and 2021 we held the meetings remotely in view of Government advice concerning non-essential travel and social distancing. Subject to any subsequent restrictions being enforced, we intend to hold the 2022 AGM in person at The Royal College of General Practitioners, 30 Euston Square, London NW1 2FB. Following positive feedback received from the last two years, we also intend to offer remote access for shareholders through an online webinar facility for those who would prefer not to travel. Full details and formal notice of the AGM are set out in a separate document.

Board of directors

Your board recognises the need to consider succession planning and with due regard to developing its diversity. We are determined to only ever appoint when we have found high quality, value adding and experienced people who will contribute to the board in the interests of shareholders. As previously announced, Alastair Conn will retire as a director at the AGM in August 2022 and it is envisaged that two other directors will retire over the next two years.

On behalf of the board I would like to thank Alastair for his invaluable contribution during his period on the board. He co-founded NVM Private Equity along with Tim Levett and Michael Denny, and was managing director during the formative first decade of the VCT sector from 1995. He has worked with us through some very significant changes, notably in recent years the re-framing of the investing rules in 2015 and more recently the transfer of our management agreement from NVM to Mercia in 2019. We shall miss his expertise and guidance.

I am delighted to report that Ranjan Ramparia was appointed to the board on 27 May 2022. Ranjan has extensive experience in advising management teams, corporate finance, including valuations and investment management. We look forward to benefiting from her significant experience over the coming years.

As reported in previous years, the board goes through a rigorous appraisal process both collectively and individually during which it considers the independence of each director in the light of their performance at, and between, board meetings and when engaging with the manager. Shareholders can be assured that with the benefit of their wide experience and expertise your directors, individually and collectively, can be, and are, frequently extremely challenging to the manager in respect of the strategic direction of the company, their view of each investment, and the important issues around such matters as the valuation of unquoted assets, performance fees and fund raising.

All the directors who served throughout the year, with the exception of Alastair Conn, will be seeking re-election at the 2022 AGM in accordance with the AIC Code of Corporate Governance. Ranjan Ramparia will be seeking election as a director following her recent appointment.

VCT legislation and qualifying status

The company has continued to meet the stringent and complex qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. Mercia 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.

Whilst no further amendments to the VCT legislation were announced by the Chancellor in his 2022 Spring Budget statement, it is possible that further changes will be made in the future.

The upcoming 2025 'sunset clause' was a European state aid requirement when the VCT scheme received State-aid approval, which means that without a small change in legislation investors will not receive upfront tax relief when investing in VCTs after this date. The Treasury Select Committee has already issued a call for evidence on the venture capital market and we expect a review of all current tax advantaged schemes by the Government in the period up to 2025. The board considers that the company, and VCTs more generally, are successfully delivering against the Government's mandate, which is to channel money into higher-risk, early-stage businesses. Mercia is represented on the relevant committees of the various trade bodies working to demonstrate to Government the positive contribution that VCTs make to the UK economy.

We will continue to work closely with Mercia to maintain compliance with the scheme rules at all times.

Outlook

Despite macroeconomic headwinds caused by domestic inflation and the residual impact of COVID-19 measures and the possibility that the UK economy may slip into recession, your directors remain encouraged by the resilience of the portfolio to date.

We remain committed to supporting early stage businesses in the UK and believe that your company is set up and well placed to support both its existing portfolio and the exciting selection of new companies that are currently in the investment pipeline.

We thank our investors for their continuing support.

David Gravells

Chair

15 June 2022



Directors and advisers



David Gravells MSc JP
Chair

aged 72, an experienced entrepreneur who has been involved in a wide range of private equity financed businesses. He is a portfolio consultant to a number of developing companies and has interests in the public sector. He was appointed to the board in 2007 and became chair in 2008.



Alastair Conn FCA

aged 67, co-founded NVM Private Equity in 1988 and was managing director and then financial director before retiring from the firm in 2018, continuing as a consultant until March 2020. He is a non-executive director of North East Access To Finance and North East Social Investment Company. He was appointed to the board in 1999 and has indicated that he does not intend to seek re-election as a director at the AGM on 10 August 2022.



Simon Devonshire OBE

aged 54, has extensive business experience in corporate leadership, financial governance, strategy, communications and sales and marketing. He is currently entrepreneur in residence at Rolls Royce, the National Physical Laboratory and the Institute of Cancer Research. He is a serial entrepreneur and angel investor whose venture portfolio has raised more than £0.5 billion in capital finance. Simon was previously an entrepreneur in residence at the Department for Business, Energy and Industrial Strategy. He was appointed to the board in 2017.



Cecilia McAnulty CA
Chair of Audit Committee

aged 59, 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 is a non-executive director of Alcentra and of Polar Capital Financials Trust. Cecilia is also a member of the Industrial Development Advisory Board of the Department of Business, Energy and Industrial Strategy. She was appointed to the board in 2014.



Frank Neale MBA
Senior Independent Director

aged 71, is a partner in IRRfc, a private equity advisory business. He is a past vice-chair of the British Private Equity and Venture Capital Association. He was appointed to the board in 1999.



Ranjan Ramparia

aged 50, is an experienced business professional with a background in corporate finance and investment management. Her experience includes working with institutional investors as well as management teams advising on strategy, funding, business planning and corporate governance. She is a partner at advisory firm Prime Advantage Capital Partners. Her early career was as a fund manager, and she has over 14 years experience of investing in UK small and mid-cap stocks and private equity. She was appointed to the board in May 2022.



Directors and advisers continued

Secretary and registered office

Graham Venables ACG ACSI BFP ACA MAAT
Forward House
17 High Street
Henley-in-Arden B95 5AA
Telephone: 0330 223 1431
E-mail: vctshareholderenquiries@mercia.co.uk
Website: mercia.co.uk/vcts/n2vct/

Registered number

03695071

Investment manager

Mercia Fund Management Limited
Forward House
17 High Street
Henley-in-Arden B95 5AA

Listed investment adviser

Brewin Dolphin Limited
Time Central
32 Gallowgate
Newcastle upon Tyne NE1 4SR

Independent auditor

Mazars LLP
30 Old Bailey
London EC4M 7AU

Taxation advisers

Philip Hare & Associates LLP
6 Snow Hill
London EC1A 2AY

Solicitors

Reed Smith LLP
Broadgate Tower
20 Primrose Street
London EC2A 2RS

Stockbrokers

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Lloyds Bank PLC
25 Gresham Street
London EC2V 7HN

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA
Shareholder helpline: 0800 028 2349



Shareholder information

The company

Northern 2 VCT PLC is a Venture Capital Trust (VCT) which has been listed on the London Stock Exchange since January 1999. The company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of equity investments, quoted investment funds and bank deposits.

Northern 2 VCT PLC is managed by Mercia Fund Management Limited (Mercia), a wholly owned subsidiary of Mercia Asset Management PLC. Mercia is a specialist alternative asset manager with over 15 years' experience of providing capital to high-growth UK SMEs, meeting a large, growing and under-served need for long-term investment capital. Mercia offers high-growth UK SMEs a complete capital solution including private equity, debt, seed and venture capital (the latter category accounting for the majority of its investment activity). In being managed by Mercia, the VCTs have the opportunity to invest alongside other Mercia funds that are able to make larger investments and also provide replacement capital.

Mercia also acts as manager or adviser of Northern Venture Trust PLC and Northern 3 VCT PLC, in addition to various other investment funds. The company, Northern Venture Trust PLC and Northern 3 VCT PLC are generally known in the market as the Northern VCTs and are the only VCTs which Mercia manages or advises.

Mercia Asset Management PLC is quoted on AIM with the EPIC code 'MERC'.

Northern 2 VCT PLC is a member of the Association of Investment Companies.

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 80% by value of its investments in qualifying holdings, of which at least 70% 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 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.



Shareholder information continued

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

- investments made from 15 March 2018 are only qualifying if they meet the risk-to-capital condition. This principles based condition broadly requires the investee company 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 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; and
- investments made from 6 April 2019 in qualifying holdings must comprise, in aggregate, at least 70% of eligible shares, regardless of when the money used to fund the investment was raised.

Financial calendar

Subject to regular review by the directors, the company's financial calendar for the year ending 31 March 2023 is as follows:

December 2022

Half-yearly financial report for the six months ending 30 September 2022 published

January 2023

Interim dividend paid

June 2023

Final dividend and results for year ending 31 March 2023 announced

July 2023

Annual report and financial statements published

August 2023

AGM; final dividend paid

Share price

The company's share price is carried daily in the Financial Times and the Daily Telegraph. 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 8 for contact details for Equiniti Limited).

Share price information can also be obtained via the company's website.

Dividend investment scheme

The company operates a dividend investment scheme, giving shareholders the option of investing 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 8 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 were on the register as at 5 October 2021 and did not submit a preference will now receive electronic copies automatically. Shareholders who wish to change their preferences should visit www.shareview.co.uk (operated by the company's registrars, Equiniti Limited), register for a Shareview portfolio and select their preferred method of delivery of company communications.



Strategic report

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 37 to 42.

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 manager's key criteria of good 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 earlier stage 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 an excess of 3% of the company's total assets at the time of initial investment. 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.

Investment management

Mercia Fund Management Limited (Mercia) acts as investment manager and has done so since the company consented to the novation of its existing investment management agreement from NVM Private Equity LLP (NVM), effective on 23 December 2019.

The board's management engagement committee reviews the terms of Mercia's appointment as investment manager on a regular basis. Further information about the terms of the management agreement with Mercia and the remuneration payable to Mercia is set out in the directors' report on pages 26 to 28 and in Note 3 to the financial statements.

Co-investment arrangements

The company operates within a co-investment and allocation policy that applies to all funds managed by Mercia. Under the terms of this policy, where an investment opportunity is VCT-qualifying and the funding requirement is in excess of £2 million, the company and the other VCTs managed by Mercia are the preferred and sole lead investors. For these opportunities the company is entitled to participate pro rata to net assets alongside the other VCT funds managed by Mercia; save where the investment opportunity is located in Yorkshire, Humberside, Teesside or the North East, where minimum syndication requirements mean that certain other funds managed by Mercia can participate in the funding round alongside the Northern VCTs; with an allocation of up to (but not exceeding) 20% (10% in the North East). Where the funding round for a new opportunity is under £2 million the VCTs will not be the lead investors; but if any such deal is in excess of £1.5 million, the Northern VCT funds have the right to participate at a de minimis level of £0.5 million.

In relation to follow-on rounds of investment, where the company and other Northern VCTs are existing investors, the company, alongside the other Northern VCT funds, shall have priority to determine how much they wish to invest, with no requirement to offer such investment opportunity to the other funds managed or advised by Mercia (although they are free to do so if so determined by the manager).

Under a co-investment scheme, members of the VCT investment team and certain key Mercia executives are required to invest personally alongside the funds in each VCT-qualifying investment on a predetermined basis.



Overview of the year

During the year under review, Northern 2 VCT PLC achieved a total return, before dividends, of 0.6 pence per share, equivalent to 0.8% of the opening net asset value per share of 71.3 pence. The movement in NAV due to disposals and changes in fair value was £2.2 million due to several strong realisations, in part mitigated by volatile listed markets, notably the valuation of musicMagpie. This compares to the £38.0 million increase recorded in the year to 31 March 2021 resulting from several strong investment realisations and an increase in unrealised fair value reflecting post-year end realisation values. The movement in total net assets and net asset value per share is summarised in Table 2.

Total income from investments during the year decreased slightly to £1.3 million (2021: £1.4 million). As the proportion of earlier stage investments in the unquoted portfolio increases as intended, it is expected that investment income will decrease as the potential returns targeted become more focused on capital growth rather than income generation. The basic investment management fee payable to the manager was £2.2 million (2021: £1.8 million); the increase is due to an increase in the average NAV across the year versus the prior year. There was no performance-related management fee payable in respect of the current year (2021: £1.7 million).

The net cash inflow from the venture capital portfolio during the year was £11.4 million, comprising disposal proceeds of £26.2 million less investments of £14.7 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, including dividend payments of £12.1 million, the company's total cash balances decreased over the year by £1.5 million to £27.1 million. In addition the company holds quoted equity investments and interest-bearing investments valued at £9.2 million, compared with £8.9 million as at 31 March 2021.

Dividends

The directors have declared or proposed dividends totalling 3.6 pence per share in respect of the year, comprising a 0.2 pence revenue dividend and a 3.4 pence capital dividend.

Venture capital investment portfolio

The last 12 months have been impacted by the lingering impact of COVID-19 measures and, more recently, supply side shortages and inflationary pressures. During this period our investment manager has worked with portfolio management teams to navigate the fast evolving landscape. In all cases Mercia has been working very closely with investee management teams to support them to overcome liquidity or operational challenges.

Venture capital investment activity

During the year ended 31 March 2022, nine new venture capital investments were completed at a cost of £9.6 million, and additional funding totalling £5.1 million was invested in 13 existing portfolio companies, by way of follow-on-funding rounds. The proportion of follow on investments is increasing in line with the shift in focus to earlier-stage companies, which often require multiple rounds of growth finance to realise their potential.

A summary of the venture capital holdings at 31 March 2022 is given on page 18, with information on the fifteen largest investments on pages 19 to 23.

Table 1: Venture capital portfolio cash flow

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/(outflow) £000
2018	10,060	6,975	(3,085)
2019	10,299	11,541	1,242
2020	10,125	6,180	(3,945)
2021	6,744	16,796	10,052
2022	14,683	26,154	11,471
Total	51,911	67,646	15,735

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

	£000	Pence per ordinary share
Net asset value at 31 March 2021	115,500	71.3
Net revenue (investment income less revenue expenses and tax)	315	0.2
Capital surplus arising on investments:		
Realised net gains on disposals	4,491	2.8
Movements in fair value of investments	(2,265)	(1.4)
Expenses allocated to capital account (net of tax relief)	(1,618)	(1.0)
Total return for the year as shown in income statement	923	0.6
Proceeds of issue of new shares (net of expenses)	1,984	–
Shares re-purchased for cancellation	(1,448)	–
Net movement for the year before dividends	1,459	0.6
Net asset value at 31 March 2022 before dividends recognised	116,959	71.9
Dividends recognised in the financial statements for the year	(12,105)	(7.5)
Net asset value at 31 March 2022	104,854	64.4



New investments

The new investments completed during the year were:

Intechnica (£1,607,000)

Technology consultancy, cyber security and website management

Project Glow Topco T/A Currentbody.com (£1,544,000)

Online retailer for home-use beauty devices – this was a re-investment of part of the funds received from the Currentbody.com realisation

Broker Insights (£1,318,000)

Platform connecting insurers and brokers

Adludio (£1,278,000)

Marketing services provider helping brands run online campaigns

Pimberly (£918,000)

Product information management software

Forensic Analytics (£878,000)

Call data communications analytics software for police forces

Locate Bio (£798,000)

Orthobiologics company focused on delivering solutions for surgeons

Naitive Technologies (£731,000)

Platform to detect undiagnosed chronic disease with image machine learning

Synthesized (£482,000)

Data product enterprise software

Investment realisations

Details of investment disposals during the year are given in Note 9 on page 54. The most significant disposals (original cost or proceeds in excess of £1.0 million) are summarised in Table 3.

Entertainment Magpie Group was admitted to trading on AIM, raising new proceeds of £15 million to support future growth. As part of the transaction, Northern 2 VCT PLC realised half of its equity holding for cash and retained half in the newly listed parent company, **musicMagpie**. The value of the retained holding, measured at the admission price, combined with the cash proceeds received over the life of the investment to IPO delivered a return of 11.6x. Despite this strong partial disposal early in the financial year, in the period to 31 March 2022, musicMagpie's share price fell by almost 75% due to disappointing news on its expected FY22 margin. The company continues to hold its unrealised equity stake.

Oddbox, the subscription delivery business supplying households with fruit and vegetables, made considerable progress during the year, growing both its customer base and geographical reach. A further funding round was undertaken supplying significant capital to support the national expansion plans. As part of the transaction, Northern 2 VCT PLC realised half of its holding for proceeds of £3.2 million, a return of over 10x cost, and together with the other Northern VCTs retains a significant minority stake in the business.

Currentbody is an online retailer for home-use beauty products. In November 2021, Northern 2 VCT PLC realised part of its investment for cash proceeds of £3.6 million and retained an investment of £1.5 million in the new owner's holding vehicle. Including loan interest income received over the life of this investment, this represented a 2.9x lifetime return.

Intelling, a communications specialist providing customer support solutions secured a significant contract which evolved into part of the COVID-19 Track and Trace initiative. In October 2021, Northern 2 VCT PLC realised its investment for proceeds of £3.4 million. Including loan interest income received over the life of this investment, this represented a 3.9x lifetime return.

In addition to the above, the company has also realised investments in Hello Soda, Mojo Mortgages and Avid Technology for 1.6x, 1.6x and 0.5x lifetime returns (inclusive of any loan interest income received over the life of the investment) respectively.

Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Entertainment Magpie Group	2015	1,281	8,814	7,533
Currentbody.com	2018	1,867	5,149	3,282
Intelling Group	2017	1,142	3,381	2,239
Oddbox	2020	293	3,190	2,897
Mojo Mortgages	2019	1,441	2,244	803
Hello Soda	2017	1,499	2,118	619
Avid Technology	2016	1,769	431	(1,338)
No1 Lounges	2014	1,977	–	(1,977)



Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 47, which follows the International Private Equity and Venture Capital Valuation (IPEV) guidelines, being the industry accepted best practice.

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. For investments in earlier stage businesses, where a material arm's length transaction has recently been concluded, this is usually taken as the starting point for fair value, and subsequently tested and recalibrated to reflect changes in market conditions or company specific performance. Performance is typically considered using a range of metrics such as annual recurring revenue, customer wins, cash runway and budget accuracy. Provision against cost is made where an investment is under-performing significantly.

As at 31 March 2022 the number of venture capital investments falling into each valuation category was as shown in Table 4.

Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Revenue/earnings multiple	15	22,670	33.0%
Price of a recent investment subsequently calibrated as appropriate	31	42,985	62.6%
Quoted investments at bid price			
Quoted on AIM	5	3,001	4.4%
Total	51	68,656	100.0%

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:

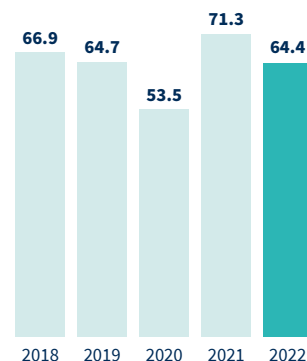
the charts opposite show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years.

Dividend distributions: the charts opposite 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 opposite 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.

Net asset value (p)

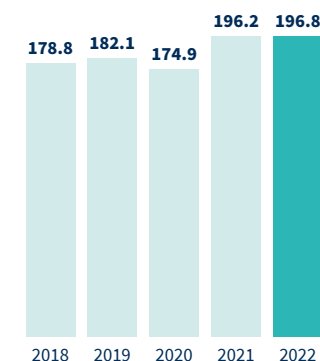


Dividends per share (p)



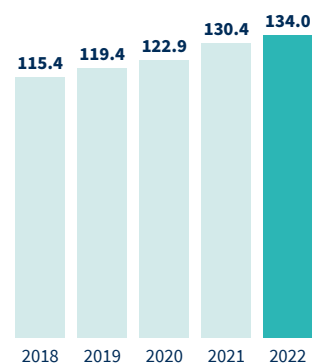
* special dividend

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

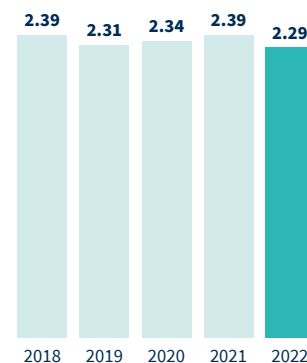


* excludes dividends proposed but not yet paid

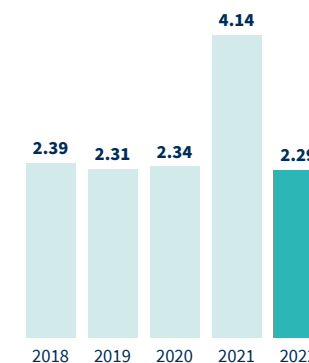
Cumulative dividends per share (p)



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



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



Risk management

The board carries out a regular and robust assessment of the risk environment in which the company operates and seeks to identify new risks as they emerge. The principal and emerging 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 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.

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, within the rules of the VCT scheme. 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 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 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. The level of economic risk has been elevated by the lingering impact of the COVID-19 pandemic, inflationary pressures, and conflict in Ukraine.

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 it is appropriate and in the interests of the company to do so. The manager typically provides an investment executive to actively support the board of each unquoted investee company. At all times, and particularly during periods of heightened economic uncertainty, the investment executives share best practice from across the portfolio with investee management teams in order to mitigate economic risk.

UK's ongoing relationship with the European Union risk: following the UK's withdrawal from the European Union in January 2020, the ongoing relationship is evolving which may impact on the trading activities of some investee companies.

Mitigation: whilst we do not expect any significant impact on the operations of Northern 2 VCT PLC itself, the board and the manager follow developments closely with a view to identifying changes which might affect the company's investment portfolio. The manager works closely with investee companies in order to plan for a range of possible outcomes.

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 the conflict in Ukraine, terrorist activity or global health crises, such as the COVID-19 pandemic, 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 Mercia in the case of the 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. Changes to UK legislation 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 which is able to operate effectively even during times of disruption, such as that caused by COVID-19.

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 Section 172 Statement

Section 172 of the Companies Act 2006 requires a director to promote the success of the company. In doing this they must act in the way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this our directors are required to have a regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- need to foster the company's business relationships with suppliers and others;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging their duties each director has regard to the factors set out above and to other factors which they consider relevant to the decision being made. Those factors may include, for example, the interests and views of our shareholders, suppliers and regulators. The board's aim is to make sure that decisions are consistent and predictable.

Details on how the board operates and the way directors reach decisions, including some of the matters discussed and debated during the year, the key stakeholder considerations that were central to those discussions and the way in which directors had regard to the need to foster the company's long-term relationship with shareholders and other stakeholders, are included in the corporate governance section of this report on pages 31 to 35. An example of a key decision reached by the board during the year is the level of dividends paid or proposed. In reaching their final decision on this matter, the board considered the level of returns generated by the company, the potential timing of investment realisations, the potential future capital requirements of portfolio companies and continuing compliance with the VCT scheme rules.

Key stakeholders Employees

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

Shareholders

The directors recognise the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the year-end, and an opportunity is given to shareholders at the AGM 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 and the directors attend.

The directors' decisions are intended to achieve the company's corporate objective. Maintaining the company's status as a VCT is a critical element of this.

Investment manager

The company's most critical business relationship is with the investment manager, Mercia. There is regular contact with Mercia and members of Mercia's executive committee attend all of the company's board meetings.

Portfolio companies

The company holds minority investments in its portfolio companies and it has appointed Mercia to manage the portfolio. Whilst day to day interaction with portfolio companies is delegated via the investment management agreement to Mercia, updates are received by the board at least quarterly. The directors take an active interest in the challenges faced by portfolio companies.

The environment and climate change

Using the Greenhouse Gas Protocol (GHG Protocol) definitions, as an externally managed investment company, the company does not produce any scope 1 (directly generated) or 2 (indirectly generated through consumption of purchased energy) emissions, and minimal scope 3 (other indirect) emissions in the course of its operations (excluding impact of its investments). The company falls below the de minimis limit for required reporting under the Streamlined Energy and Carbon Reporting Regulations (SECR). Mercia monitors the activities of the portfolio and is proactive in managing ESG issues. For further information please see page 24.

Future prospects

The lingering impact of COVID-19 mitigation policies, increasing inflation, and supply side pressures continue to present challenges for UK businesses, however your directors have been encouraged by the resilience exhibited by the portfolio as a whole. The directors regularly monitor the service received from the company's manager, registrars and custodians who all continue to operate effectively.

We remain committed to supporting the development and prosperity of entrepreneurial early stage businesses in the UK and believe that your company remains well placed to do so.

By order of the Board

Graham Venables

Secretary
15 June 2022



Investment portfolio

as at 31 March 2022

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 19 to 23)			
1. Lineup Systems	975	7,222	6.9%
2. Evotix (formerly SHE Software Group)	2,518	5,395	5.1%
3. Volumatic Holdings	216	3,339	3.2%
4. Grip-UK (ta. Climbing Hangar)	3,213	3,213	3.1%
5. Oddbox	355	3,098	3.0%
6. Knowledgemotion	1,778	3,040	2.9%
7. Buoyant Upholstery	1,056	2,694	2.6%
8. musicMaggie*	222	2,074	2.0%
9. Biological Preparations Group	2,166	1,947	1.9%
10. Newcells Biotech	1,612	1,928	1.8%
11. Clarilis	1,828	1,911	1.8%
12. Rockar	1,693	1,880	1.8%
13. Intechnica	1,607	1,770	1.7%
14. Tutora (ta. Tutorful)	1,843	1,765	1.7%
15. Project Glow Topco (T/A Currentbody.com)	1,544	1,544	1.5%
Other venture capital investments			
16. Administrate	1,920	1,380	1.3%
17. Fresh Approach (UK) Holdings	1,454	1,360	1.3%
18. Pure Pet Food	1,284	1,344	1.3%
19. Medovate	1,450	1,332	1.3%
20. Broker Insights	1,318	1,318	1.3%
21. Adludio	1,278	1,278	1.2%
22. Gentronix	1,164	1,253	1.2%
23. VoxPopMe	1,114	1,242	1.2%
24. Quotevine	1,187	1,180	1.1%
25. Ridge Pharma	1,142	1,142	1.1%
26. Northrow	1,083	1,011	1.0%
27. Duke & Dexter	970	970	0.9%

	Cost £000	Valuation £000	% of net assets by value
28. Pimberly	918	918	0.9%
29. Forensic Analytics	878	878	0.8%
30. Moonshot	812	812	0.8%
31. Locate Bio	798	798	0.8%
32. Naitive Technologies	731	731	0.7%
33. Enate	720	720	0.7%
34. Thanksbox (T/A Mo)	1,282	686	0.7%
35. Atlas Cloud	648	641	0.6%
36. Intuitive Holding	1,508	588	0.6%
37. Axial Systems Holdings	1,004	567	0.5%
38. Seahawk Bidco	479	519	0.5%
39. Synthesized	482	482	0.5%
40. Rego Technologies (T/A Upp)(formerly Volo)	2,114	434	0.4%
41. Angle*	134	375	0.4%
42. Nutshell	515	363	0.3%
43. Channel Mum	1,355	332	0.3%
44. Adept Telecom	235	272	0.3%
45. Ideagen*	42	262	0.3%
46. Arnlea Holdings	1,287	204	0.2%
47. Sorted	2,716	177	0.2%
48. Haystack Dryers	1,497	137	0.1%
49. Customs Connect Group	1,437	112	0.1%
50. Velocity Composites*	97	18	
51. Ablatus Therapeutics	559	–	
Total venture capital investments	60,238	68,656	65.9%
Total listed equity investments	6,549	7,932	7.6%
Total listed interest bearing-investments	1,326	1,290	1.2%
Total fixed asset investments	68,113	77,878	74.7%
Net current assets		26,976	25.3%
Net assets		104,854	100.0%

* Quoted on AIM



Fifteen largest venture capital investments

1 Lineup Systems

£975,000 : **£7,222,000**

Cost

Valuation

Basis of valuation Revenue multiple

Equity held 17.4% (Mercia 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 Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest £24,000

2 Evotix (formerly SHE Software Group)

£2,518,00 : **£5,395,000**

Cost

Valuation

Basis of valuation Revenue multiple

Equity held 10.9% (Mercia funds total 33.7%)

Business/location Health & Safety platform provider, East Kilbride

History Investment in February 2018, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

3 Volumatic Holdings

£216,000 : **£3,339,000**

Cost

Valuation

Basis of valuation Earnings multiple

Equity held 24.8% (Mercia funds total 77.7%)

Business/location Manufacturer of intelligent cash handling equipment, Coventry

History Management buy-out, March 2012, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends £92,000, loan stock interest nil

Audited financial information:

Year ended 30 June	2021 £m	2020 £m
Sales	13.2	12.2
EBITDA	0.5	0.5
Profit before tax	0.5	0.3
Profit after tax	0.5	0.4
Net assets	0.4	0.2

Audited financial information:

Year ended 31 March	2021 £m	2020 £m
Sales	6.7	3.5
EBITDA	(2.8)	(3.1)
Loss before tax	(3.0)	(3.1)
Loss after tax	(2.9)	(3.8)
Net assets	0.7	3.3

Audited financial information:

Year ended 31 March	2021 £m	2020 £m
Sales	10.6	8.5
EBITDA	2.5	1.6
Profit before tax	2.4	1.4
Profit after tax	2.2	1.6
Net assets	8.8	7.3



Fifteen largest venture capital investments continued

4 Grip UK (T/A Climbing Hangar)

£3,213,000 | **£3,213,000**

Cost

Valuation

Basis of valuation Price of a recent investment

Equity held 20.1% (Mercia funds total 63.2%)

Business/location Operator of indoor climbing and leisure facilities

History Development capital financing, July 2018, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

5 Oddbox

£355,000 | **£3,098,000**

Cost

Valuation

Basis of valuation Revenue multiple

Equity held 4.2% (Mercia funds total 17.1%)

Business/location Supply and delivery of fruit and vegetable boxes, London

Initial investment Development capital financing, March 2020, led by Mercia Fund Management

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

6 Knowledgemotion

£1,778,000 | **£3,040,000**

Cost

Valuation

Basis of valuation Revenue multiple

Equity held 10.7% (Mercia funds total 32.7%)

Business/location Online educational content platform, London

History Development capital financing, July 2017, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

Audited financial information:

Year ended 30 September	2021 £m	2020 £m
Sales	2.3	2.0
EBITDA	(1.5)	(1.0)
Loss before tax	(1.5)	(1.0)
Loss after tax	(1.5)	(0.9)
Net assets	6.7	4.2

Audited financial information:

Year ended 30 June	2021 £m	2020 £m
Sales	29.7	8.8
EBITDA	0.5	(0.4)
Profit/(loss) before tax	0.5	(0.4)
Profit/(loss) after tax	0.5	(0.3)
Net assets	2.8	2.2

Audited financial information:

Year ended 31 December	2020 £m	2019 £m
Sales	3.7	1.5
EBITDA	(1.4)	(3.2)
Loss before tax	(1.4)	(3.2)
Loss after tax	(1.4)	(3.0)
Net assets	1.1	2.5



Fifteen largest venture capital investments continued

7 Buoyant Upholstery

£1,056,000 : **£2,694,000**

Cost

Valuation

Basis of valuation Earnings multiple

Equity held 11.5% (Mercia funds total 35.9%)

Business/location Design and manufacture of upholstered furniture, Nelson

History Development capital financing, July 2013, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest £72,000

8 musicMagpie

£222,000 : **£2,074,000**

Cost

Valuation

Basis of valuation Bid Price (AIM)

Equity held 3.8% (Mercia funds total 12.6%)

Business/location Re-commerce website for pre-owned entertainment media and electronic items, Manchester

History Management buy-out 2015, IPO 2021

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest £274,000

9 Biological Preparations Group

£2,166,000 : **£1,947,000**

Cost

Valuation

Basis of valuation Earnings multiple

Equity held 15.8% (Mercia 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 Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

Audited financial information:

Year ended 30 September	2020 £m	2019 £m
Sales	36.3	46.8
EBITDA	1.5	2.1
(Loss)/profit before tax	(0.2)	0.3
(Loss)/profit after tax	(0.4)	0.0
Net assets	4.7	5.1

Audited financial information:

Year ended 30 November	2021 £m	2020 £m
Sales	145.6	153.3
EBITDA	3.8	1.7
Loss/profit before tax	(13.5)	9.6
Loss/profit after tax	(12.1)	8.6
Net assets	24.2	2.4

Audited financial information:

Year ended 31 December	2020 £m	2019 £m
Sales	9.6	7.5
EBITDA	1.0	1.0
Loss before tax	(0.4)	(0.6)
Loss after tax	(0.5)	(0.7)
Net liabilities	(3.3)	(2.8)



Fifteen largest venture capital investments continued

10 Newcells Biotech

£1,612,000 : **£1,928,000**

Cost

Valuation

Basis of valuation Price of a recent investment

Equity held 15.7% (Mercia funds total 48.3%)

Business/location Supplies assay products to the drug and chemical development markets, Newcastle

History Development capital financing, June 2018, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

11 Clarilis

£1,828,000 : **£1,911,000**

Cost

Valuation

Basis of valuation Price of a recent investment

Equity held 9.2% (Mercia funds total 28.1%)

Business/location Provides automated legal document preparation software, Leamington Spa

History Development capital financing, June 2018, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

12 Rockar

£1,693,000 : **£1,880,000**

Cost

Valuation

Basis of valuation Price of a recent investment

Equity held 8.1% (Mercia funds total 22.7%)

Business/location E-Commerce & fulfilment platform for the new car sales industry, Hull

History Management buy-out financing, July 2016, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil loan stock interest £14,000

Audited financial information:

Year ended 31 January	2021 £m	2020 £m
Sales	1.3	0.8
EBITDA	(1.2)	(0.7)
Loss before tax	(1.3)	(0.7)
Loss after tax	(1.1)	(0.6)
Net assets	4.9	1.1

Unaudited financial information:

Year ended 31 December	2020 £m	2019 £m
Sales	1.6	1.2
EBITDA	(1.3)	(1.6)
Loss before tax	(1.3)	(1.6)
Loss after tax	(1.1)	(1.3)
Net assets	5.1	0.4

Audited financial information:

Year ended 31 December	2020 £m	2019 £m
Sales	43.9	51.8
EBITDA	0.3	0.3
Loss before tax	(1.0)	(0.3)
Loss after tax	(0.9)	(0.1)
Net assets	3.4	0.7



Fifteen largest venture capital investments continued

13 Intechnica

£1,607,000 : **£1,770,000**

Cost

Valuation

Basis of valuation Revenue multiple

Equity held 3.9% (Mercia funds total 58.2%)

Business/location Technology consultancy, cyber security and website load management

History Development capital financing, December 2021, led by Mercia Fund Management

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC, Mercia Direct Portfolio, Northern Powerhouse Investment Fund, North West Venture Fund

Income in year Dividends nil, loan stock interest nil

14 Tutora (T/A Tutorful)

£1,843,000 : **£1,765,000**

Cost

Valuation

Basis of valuation Revenue multiple

Equity held 10.1% (Mercia funds total 31.1%)

Business/location Online platform for private tutors

History Development capital financing, October 2019, led by NVM Private Equity

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

15 Project Glow Topco

(T/A Currentbody.com)

£1,544,000 : **£1,544,000**

Cost

Valuation

Basis of valuation Price of a recent investment

Equity held 3.3% (Mercia funds total 10.3%)

Business/location Online retailer for home-use beauty devices

History Development capital financing, November 2021, led by Mercia Fund Management

Other Mercia funds investing Northern Venture Trust PLC, Northern 3 VCT PLC

Income in year Dividends nil, loan stock interest nil

Audited financial information:

Year ended 31 March	2021 £m	2020 £m
Sales	11.4	8.9
EBITDA	(2.2)	(4.3)
Loss before tax	(2.8)	(4.3)
Loss after tax	(2.2)	(3.6)
Net liabilities	(2.6)	(0.4)

Audited financial information:

Year ended 31 December	2020 £m	2019 £m
Sales	2.5	2.2
EBITDA	(1.0)	(0.9)
Loss before tax	(1.0)	(0.9)
Loss after tax	(0.9)	(0.9)
Net assets	2.1	3.0

Audited financial information (Currentbody):

Year ended 31 January	2021 £m	2020 £m
Sales	34.0	15.8
EBITDA	1.0	(0.7)
Profit/(loss) before tax	0.3	(1.1)
Profit/(loss) after tax	0.3	(0.7)
Net assets	1.2	1.0



Environmental, Social and Governance

The company is committed to conducting its affairs responsibly and Mercia, as its investment manager, considers ESG issues when making investment recommendations.

In addition to targeting strong financial results, the board is mindful of the impact of the company and its portfolio companies on the environment alongside its social and corporate governance responsibilities. We recognise that the ESG regulatory and reporting landscape is subject to rapid change, and therefore the company works closely with its manager to ensure compliance and develop initiatives.

In this financial year the company has formalised ESG considerations within its investment process. Each investment recommendation from our investment manager now includes a dedicated section discussing ESG-specific risks and value creation opportunities. In the next financial year ESG key performance indicators will also be agreed to enable monitoring of ESG metrics alongside financial data.

As communicated in late 2021, the company will no longer automatically print and post annual and half year reports to shareholders. These reports will be made available on the company's website and we hope to save a great deal of paper and reduce postage emissions as a result of this change. It is still possible to opt in to paper copies, if preferred, and details of how to do so can be found on the company's website.

Over the coming year, the company will continue to work with its manager to develop ESG initiatives and bolster its ability to track and report on progress made.

Mercia's Approach to Responsible Investment

Mercia has always been a purpose-led business; providing growth capital and tailored investment solutions to thriving regional businesses to create long-term shareholder value. Mercia has formed a Responsible Investment Committee, which meets monthly and comprises a number of employees from across the business, including a number from the VCT investment team.

In addition, ESG matters are considered by Mercia's investment committees when reviewing investment opportunities. All staff have ESG objectives that are agreed with their line manager as part of the annual performance appraisal process, and Mercia organises regular training sessions to develop its investment team's awareness of key issues.

Mercia's approach is now entrenched with the establishment of its Responsible Investment Committee, which ensures delivery against three guiding principles, inspired by the UN's Sustainable Development Goals ('SDGs'):

Figure 1:



Mercia has recently performed a review of its corporate carbon emissions, in collaboration with Positive Planet. In addition to offsetting its emissions for the year to March 2022, it is working on a carbon reduction plan. More information can be found in Mercia's annual report.



As the company's investment manager, Mercia will continue to work with your directors to develop initiatives and support the company's ESG targets.

Sustainable economic growth

- Provide support for entrepreneurship and SME growth
- Support and promote job creation and talent development
- Focus on technological innovation

Reducing inequalities within our communities

- Reduce inequalities across the UK and within UK regions
- Empower and promote diversity and inclusion

Health & wellbeing for all

- Promote health and well-being
- Support R&D of effective and essential treatments and other healthcare services



Case study



The box that helps save the planet by fighting food waste. Oddbox rescues farm-fresh fruit and vegetables that could otherwise have gone to waste and delivers it straight to your door.

Amount invested

The Northern VCTs invested £2.0 million in March 2020 to support its nationwide expansion plan.

Growth of the business

Since the company's initial investment Oddbox has experienced strong growth and expanded nationally. In August 2021 the company secured £16 million of follow-on funding, with the Northern VCTs realising a return of 10.9x by selling 45% of their holding and retaining 55% to continue to support the company as it grows.



Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2022.

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.

A consideration of the environmental impact of the company's activities is set out on page 17.

Corporate governance

The statement on corporate governance set out on pages 31 to 35 is included in the directors' report by reference.

Results and dividend

The return after tax for the year of £923,000 (2021: return of £35,418,000) has been transferred to reserves.

The final dividend of 1.5 pence per share and the second interim (special) dividend of 4.0 pence per share in respect of the year ended 31 March 2021 and interim dividend of 2.0 pence per share in respect of the year ended 31 March 2022 were paid during the year at a cost of £12,105,000 and have been charged to reserves.

The directors have proposed a final dividend of 1.6 pence per share for the year ended 31 March 2022. Subject to approval of the final dividend at the AGM, the final dividend will be paid on 19 August 2022 to shareholders on the register on 29 July 2022.

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 could reasonably be expected 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 the requirements of the AIC Code of Corporate Governance, the directors have assessed the prospects of the company over the three-year period to March 2025. 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 16 for further details on risk management). The directors have considered the ability of the company to comply on an ongoing basis with the conditions for maintaining VCT approved status. 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. When assessing the potential future cashflows of the company, the directors have considered various scenarios including a 'downside case' where potential cash inflows are severely impacted by economic disruption. As detailed on page 33, the management engagement committee has also considered the company's relationship with the investment manager, Mercia, by reference to the performance of the venture capital portfolio and the expertise demonstrated by Mercia 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

The financial statements have been prepared on a going concern basis.

The directors performed an assessment of the company's ability to meet its liabilities as they fall due. In performing this assessment, the directors took into consideration the uncertain economic outlook including:

- the investments and liquid resources held by the company;
- the fact that the company has no debt or capital commitments;
- the ability of the company to meet all of its liabilities and ongoing expenses from its assets, including its year-end cash balance;
- revenue and operating cost forecasts for the forthcoming year;
- the ability of third-party service providers to continue to provide services; and
- potential downside scenarios including a fall in the valuation of the investment portfolio or levels of investment income.

Based on this assessment, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore determine the going concern basis to be appropriate.

An explanation of the significant post-balance sheet events are given in the investment realisations section of the strategic report and in Note 20 of 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. A list of each director who has served during the year is given on page 7.

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

Mercia took over management of the company's investment affairs after the novation of the pre-existing management agreement between the company and NVM Private Equity LLP (NVM), who had acted as manager since the company's inception. The principal terms of the company's management agreement with Mercia are set out in Note 3 to the financial statements. Prior to March 2022 Mercia had contractually delegated certain of its duties to provide financial, administrative and company secretarial advice and services to NVM. As of 31 March 2022 this agreement ceased and all previously delegated functions are now performed by employees of Mercia.

The management engagement committee carries out a regular review of the terms of Mercia's appointment with a view to ensuring that Mercia'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 Mercia 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 Mercia to the company.

Remuneration receivable by the manager

The remuneration receivable by the manager by virtue of the management agreement with Northern 2 VCT PLC comprises the following:

Remuneration payable by Northern 2 VCT PLC

Basic management fee: the manager 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. In consenting to the novation of the management agreement to Mercia in December 2019, it was agreed that the fee due on the value of liquid assets above the threshold of £20 million would continue to attract a reduced rate of 1% per annum on a permanent basis. In the year ended 31 March 2022 the basic annual management fee was £2,162,000 (preceding year: £1,839,000).

Performance-related management fee: the manager 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 2022 was 6.0% (preceding year: 6.0%). There was no performance-related management fee due for the year ended 31 March 2022 (2021: £1,673,000). The performance-related management fee is subject to an overall cap of 2.25% of net assets.

Accounting and secretarial fee: the manager is responsible for providing accounting, administrative and secretarial services to the company for an annual fee of £62,000 (preceding year: £62,000), linked to the movement in the RPI.

The total remuneration payable in aggregate to the manager by Northern 2 VCT PLC in respect of the year, comprising the basic management fee, the performance fee and the accounting and secretarial fee, was £2,224,000 (preceding year: £3,547,000).

Under current tax legislation the fees paid by the company to the manager 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 the manager's basic management fee. The annual running costs of the company for the year ended 31 March 2022 were equivalent to 2.29% of average net assets (preceding year: 2.39%).

Remuneration payable by investee companies

Under the management agreement, the manager 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. The manager 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 2022 the arrangement fees receivable by the manager from investee companies which were attributable to investments made by Northern 2 VCT PLC amounted to £351,000 (preceding year: £194,000), and directors' and monitoring fees amounted to £364,000 (preceding year: £348,000).



Executive co-investment scheme

Since 2006 the company has, together with the other VCT funds managed by Mercia, participated in a co-investment scheme with the objective of enabling the manager 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 VCT funds managed by Mercia) 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 VCT funds managed by Mercia 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 Northern VCT 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 Northern VCT funds. At 31 March 2022 the co-investment scheme held investments in 52 investee companies acquired at a total cost of £1,328,000, of which £432,000 was attributable to investments made by Northern 2 VCT PLC.

Share capital – purchase of shares

During the year the company purchased for cancellation 2,089,334 of its own shares, representing 1.29% of the called-up share capital of the company at the beginning of the year, for a consideration of £1,388,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2021 AGM, held on 31 August 2021, shareholders authorised the company to purchase in the market up to 19,251,827 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 5.0 pence 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 2022 this authority remained effective in respect of 18,189,343 shares; the authority will lapse at the conclusion of the 2022 AGM of the company on 10 August 2022.

Share capital – issue of shares

During the year the company issued 2,970,747 new ordinary shares for a cash consideration of £1,984,000.

Fixed assets

Movements in fixed asset investments during the year are set out in Note 8 to the financial statements.

Financial Instruments

The company's financial instruments comprise its investment portfolio, cash balances, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the company to risk are disclosed in Note 17 to the financial statements.

Annual General Meeting

Notice of the 2022 AGM to be held on 10 August 2022 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

Mazars 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 AGM.

By order of the Board

Graham Venables

Secretary

15 June 2022



Directors' remuneration report



David Gravells

Chair of Nomination Committee

This report has been prepared by the directors in accordance with the requirements of Section 410 of the Companies Act 2006. A resolution to approve the directors' remuneration report will be proposed at the AGM on 10 August 2022.

The company's independent auditor, Mazars 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 37 to 42.

Directors' remuneration policy

The board currently comprises six 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 (other than Mr A M Conn), 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 either new or existing 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.

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 AGM after their appointment and that any director who was not appointed or re-appointed at one of the preceding two AGMs shall retire and be subject to re-election at each AGM. As a matter of good practice, the board has adopted the 2019 AIC code recommendation that all directors should seek annual re-election. 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 2022 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2022 and 31 March 2021, 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 tables comparing employee pay to that of the directors, or comparing remuneration paid to employees with distributions to shareholders.



Directors' remuneration report continued

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 2022 with the total return from a broad UK equity market index over the same period.

Statement of voting at AGM

At the AGM on 31 August 2021 the resolution to approve the directors' remuneration report for the year ended 31 March 2021 was approved by a show of hands. 94.9% of the proxy votes received in relation to the resolution were either for or discretionary.

Statement by the Chair of the nomination committee

In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 9 February 2022, when it was decided that fees should increase to £30,000 for the chair, £26,000 for the chair of the audit committee and the senior independent director and £24,000 for the remaining directors for the year to 31 March 2023. The directors' fees were last amended in April 2020. There have been considerable changes to the VCT legislation in recent years leading to an increase in the volume of investment activity of the company. This has required a greater time commitment from the directors in order to discharge their duties effectively and accordingly, it was recommended that the directors' remuneration should be increased as detailed above. By setting the fees at a level which reflects the current requirements of the roles, we aim to ensure that we are able to attract high quality people as we refresh the board over time.

By order of the Board

David Gravells

Chair of the Nomination Committee
15 June 2022

Table 1: Directors' fees

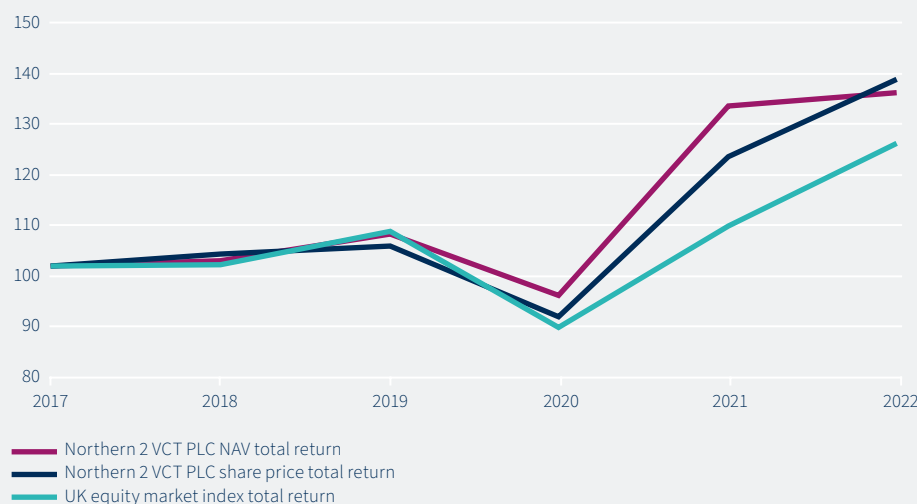
	Year ended 31 March 2022 £	Year ended 31 March 2021 £
D P A Gravells (Chair)	27,500	27,500
A M Conn	22,000	22,000
S P Devonshire	22,000	22,000
C A McNulty (Chair of audit committee)	24,000	24,000
F L G Neale (Senior independent director)	24,000	24,000
Total	119,500	119,500

Table 2: Directors' interests in ordinary shares

	15 June 2022 Number of shares	31 March 2022 Number of shares	31 March 2021 Number of shares
D P A Gravells (Chair)	53,756	44,668	44,668
A M Conn	557,288	542,142	542,142
S P Devonshire	–	–	–
C A McNulty	108,604	85,884	85,884
F L G Neale	191,228	176,082	176,082
R K Ramparia (appointed 27 May 2022)	–	N/A	N/A

Return to shareholders in Northern 2 VCT PLC

Five years to 31 March 2022 (March 2017= 100)



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). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the company.

The board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders than reporting against the UK Code.

The company is committed to maintaining high standards in corporate governance and during the year ended 31 March 2022 has complied with the Principles and Provisions of the AIC Code, except as set out below. The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The UK 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 Code, and in the preamble to the UK 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 six non-executive directors, who are considered to be independent of the company's investment manager, Mercia Fund Management Limited (Mercia) and the majority of whom are considered to be independent of the company's previous investment manager, NVM Private Equity. The board meets regularly in person or by conference call six times each year, 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 7.

The chair, Mr D P A Gravells, leads the board in the determination of its strategy and in the achievement of its objectives. The chair 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 chair, 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 chair 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 G Venables, is responsible for advising the board through the chair on all governance matters. 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 AGM after their appointment and that any director who was not appointed or re-appointed at one of the preceding two AGMs shall retire and be subject to re-election at each AGM. However the board has as a matter of good practice adopted the AIC Code recommendation that all directors should seek annual re-election.

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 employee of NVM until 31 March 2020).

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 directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. The company does not have a set limit on the tenure of the members of the board and the chair, however the board has, as a matter of good practice, adopted the AIC Code recommendation that all directors 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 29 and 30.



Audit Committee

During the year the audit committee comprised:

Miss C A McAnulty (Chair)

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 company's website. The audit committee ordinarily meets three times per year and has direct access to Mazars 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 chair of the committee meets the requirements of the UK Code as to recent and relevant financial experience. We note that the chair, Mr D P A Gravells, is a member of the audit committee. Whilst this is not compliant with the provisions of the UK Code, it is compliant with the provisions of the AIC Code. As all members of the audit committee are independent non-executive directors, we believe that this is appropriate.

During the year ended 31 March 2022 the company did not have an independent internal audit function as it is not deemed necessary 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 2022 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 the manager'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 the manager'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; and
- considering the effectiveness of the external audit process.

The key area of risk that has been identified and considered by the audit committee in relation to the business activities and financial statements of the company is the valuation and existence of unquoted investments, particularly in light of the current economic uncertainty. Another important area of risk that is considered by the audit committee is 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.

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 (including the supplementary guidance issued by IPEV on 31 March 2020), taking account of the latest available information about investee companies and current market data. The audit committee reviewed the estimates and judgements used 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.



Corporate governance continued

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 Mazars LLP has carried out its duties as auditor in a diligent and professional manner.

Following a detailed review of the draft annual report, the audit committee concluded that, taken as a whole, it was considered it to be fair, balanced and understandable. The audit committee recommended to the board that the directors' responsibilities statement in respect of the annual report and the financial statements, should be signed accordingly.

The committee regularly reviews and monitors the auditor's effectiveness and independence. Mazars LLP has confirmed that it is independent of the company and has complied with the applicable auditing standards. In accordance with professional guidelines the engagement leader is rotated after at most five years, this is the second year that the current partner has served. 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. There were no non-audit services contracted for during the year.

Nomination Committee

During the year the nomination committee comprised:

Mr D P A Gravells (Chair)
Mr S P Devonshire
Miss C A McAnulty
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. The committee recognises the benefits of diversity in the constitution of the board and it is the committee's intention that the diversity of representation on the board will continue to increase over time. 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 company's website.

Management Engagement Committee

During the year the management engagement committee comprised:

Mr D P A Gravells (Chair)
Mr S P Devonshire
Miss C A McAnulty
Mr F L G Neale

The management engagement committee undertakes a periodic review of the performance of the investment manager, Mercia, 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 49.

Following the latest review by the committee, the board concluded that the continuing appointment of Mercia was in the interests of the company and its shareholders as a whole. Mercia has demonstrated its commitment to and expertise in venture capital investment since their appointment. Mercia has also performed its company secretarial and accounting duties efficiently and effectively.

Table 1: Directors' attendance at meetings

	Board	Audit committee	Nomination committee	Management engagement committee
Number of meetings held	6*	3	1	1
Attendance (actual/possible):				
D P A Gravells (Chair)	6/6	3/3	1/1	1/1
A M Conn	6/6	N/A	N/A	N/A
S P Devonshire	6/6	3/3	1/1	1/1
C A McAnulty	6/6	3/3	1/1	1/1
F L G Neale	6/6	3/3	1/1	1/1

* In addition to the six substantive meetings of the board held during the year, there were a further six meetings held by conference call.



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 2022 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 Chair's obligations under the UK Code, the Chair 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 year-end, and an opportunity is given to shareholders at the AGM 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 company's website.

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 Mercia under the management agreement. Mercia 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 16.

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

As at 31 March 2022 there were 162,907,914 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.

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 a 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 as director at any general meeting unless he or she 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 AGM of the company following his appointment. At each AGM of the company, any director who was not appointed or re-appointed at one of the preceding two AGMs 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 2021 AGM to make market purchases of up to 19,251,827 ordinary shares at any time up to the 2021 AGM and otherwise on the terms set out in the relevant resolution, and authority is being sought at the AGM to be held on 10 August 2022 as set out in a separate circular.

By order of the Board

Graham Venables

Secretary
15 June 2022



Directors' responsibilities statement

The directors are responsible for preparing the annual report and 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 are required 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 these 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
- use 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 its 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 complies 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 2022

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 strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer, 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

Graham Venables

Secretary

15 June 2022



Independent Auditor's Report

to the members of Northern 2 VCT PLC

Opinion

We have audited the financial statements of Northern 2 VCT PLC (the 'company') for the year ended 31 March 2022 which comprise the income statement, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of the company's return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard, as applied to listed entities and public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Reviewing the directors' going concern assessment based on a 'most likely' (base case) scenario and a 'downside case' scenario, as approved by the board of directors;
- Making enquiries of directors to understand the period of assessment considered by the directors, the completeness of the adjustments taken into account and implications of those when assessing the 'base case' scenario and the 'downside case' scenario. This included examining the minimum cash inflow and committed outgoings under the 'base case' cash flow forecasts and evaluating whether the directors' conclusion concerning the liquidity headroom remaining in all events is reasonable;
- Assessing and challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios;
- Assessing and challenging key assumptions and mitigating actions put in place in response to the COVID-19 pandemic;
- Examining the cash flow forecasts, assessing the historical accuracy of forecasts prepared by the directors, and evaluating whether the directors' conclusions on the liquidity position of the company are reasonable;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

In relation to the company's reporting on how it has applied the UK Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.



Independent Auditor's Report^{continued}

to the members of Northern 2 VCT PLC

Valuation and existence of the unquoted investments portfolio

The company has a significant portfolio of unquoted investments totalling £65.7 million (2021: £76.6 million). These are measured at fair value, which is determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent transactions subsequently calibrated, earnings multiples, and net assets. Therefore, the valuations incorporate a significant level of judgements to ascertain fair value. Please refer to Note 8 in the financial statements and accounting policy for the valuation of investments described in Note 1(c).

There is therefore a risk that the judgements made in the course of the valuations may lead to a misstatement of the investment values, including through a risk of fraud. Additionally, there is a risk that investments recorded might not exist or might not be owned by the company.

We therefore identified valuation and existence of unquoted investments as a key audit matter as it had a significant effect on our overall audit strategy and allocation of resources.

How our scope addressed this matter

Our audit work included but was not limited to:

- Understanding and evaluating management's process around investment recording and valuations;
- Engaging our valuation experts in considering whether the techniques and methodologies applied for valuing unquoted investments were in accordance with published guidance, principally the International Private Equity and Venture Capital Valuation Guidelines. This included reviewing and challenging the principles and key assumptions used in the valuation of unquoted investments;
- Examining past date comparison points to understand variations in data and valuation model drivers;

- For investments valued using the recent transaction method, we obtained an understanding of the circumstances surrounding the transaction, as well as supporting evidence for the transaction price, and considered whether it was carried out on an arms-length basis, and therefore suitable as an input to the valuation;
- Ascertaining the existence of investment holdings by agreeing the holdings to share certificates, and reviewing Companies House documentation to verify total share capital of the investees; and
- Reviewing the adequacy and appropriateness of disclosures of unquoted investments in accordance with relevant accounting standards, including considerations of the potential effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Our observations

Based on the work performed and evidence obtained, we found that the unquoted investments are materially stated as at 31 March 2022 in accordance with FRS 102. We did not identify any issues with regards to the existence of the unquoted investment portfolio held as at 31 March 2022.

Accuracy, completeness and cut-off of revenue recognised

The company has recognised significant income earned on its investments in its income statement totalling £1.3 million (2021: £1.4 million). According to the Statement of Recommended Practice issued by the Association of Investment Companies ('AIC SORP'), recognition of revenue relies upon evidence such as dividend announcements and distribution notices, with an emphasis on timely recognition on an accruals basis and accurate separation between capital and income items. Please refer to Note 2 and accounting policy on revenue recognition in Note 1(d).

We therefore identified accuracy, completeness and cut-off of revenue, including a fraud risk over revenue recognition, as a key audit matter as it had a significant effect on our overall audit strategy and the allocation of resources.

How our scope addressed this matter

Our audit work included but was not limited to:

- Understanding and assessing management's process for revenue recognition, including considering whether the processes for revenue recognition are in accordance with the requirements of FRS 102 and the AIC SORP;
- For a sample of quoted investment income items, forming an expectation using dividend announcements on recognised stock exchanges where applicable and checking the point of recognition, including further detailed testing on dividend announcements one month either side of the year-end to verify that dividends were recorded in the correct period;
- For unquoted investment income, agreeing a sample of dividends to distribution notices from the investees and cash receipts during the year directly from investees' funds;
- For a sample of interest income on interest-bearing unquoted investments, verifying the key input data and re-performing the calculation of income received, as well as agreeing cash receipts;
- Testing the realised movements on investments by agreeing the proceeds to the bank statements and investment sale agreements, as well as recalculating the movement based on book cost and proceeds; and
- Performing cut-off testing to verify that dividend income and any investment sales during the year have been recorded in the appropriate period.

Our observations

Based on the work performed and evidence obtained, we found that the revenue recognised is materially stated for the year ended 31 March 2022 in accordance with FRS 102.



Independent Auditor's Report^{continued}

to the members of Northern 2 VCT PLC

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,049,000 (2021: £1,184,000)
How we determined it	The overall materiality level has been calculated with reference to the company's net assets, of which it represents approximately 1%. (2021: 1%).
Rationale for benchmark applied	Net assets have been identified as the principal benchmark within the financial statements of the company given its investment base. The significant degree of judgements underpinning unquoted investments' valuations are the main rationale behind the risk of errors in valuations that could cause a material misstatement.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Based on our risk assessments, together with our assessment of the overall control environment, our performance materiality was assessed at £786,000 (2021: £769,000), which is approximately 75% (2021: 65%) of overall materiality.
Reporting threshold	We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £31,000 (2021: £36,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the company, its environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.



Independent Auditor's Report continued

to the members of Northern 2 VCT PLC

Other information

The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA rules.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic report or the Directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company 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; or
- a corporate governance statement has not been prepared by the company.



Independent Auditor's Report^{continued}

to the members of Northern 2 VCT PLC

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 26;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on page 26;
- Directors' statement on fair, balanced and understandable set out on page 33;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 34;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 16 and 17; and
- The section describing the work of the audit committee set out on page 32.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and 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 the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with UK tax legislation and FCA regulations might have a material effect on the financial statements.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- At planning stage, we gained an understanding of the legal and regulatory framework applicable to the company and considered the risk of acts by the company contrary to the applicable laws and regulations;
- We discussed with the directors the policies and procedures in place regarding compliance with laws and regulations;
- We discussed amongst the engagement team the identified laws and regulations, and remained alert to any indications of non-compliance; and
- We identified the risk of non-compliance with the provisions of Section 274 of the Income Tax Act 2007, as well as the conditions under the Finance Act 2018 for the maintenance of the VCT approved status, as the principal area of laws and regulations that could have a material impact on the continuance of the company. We have engaged internal tax experts to perform a review of the compliance with the applicable regulations. As required by the ISAs UK, we have also inspected the regulatory and legal correspondence of the company and the minutes of the board meetings to identify any indications of breaches of regulatory requirements.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as Companies Act 2006.



Independent Auditor's Report continued

to the members of Northern 2 VCT PLC

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to valuation of unquoted investments and revenue recognition (as described in the 'Key audit matters' section of our report) and significant one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- Making inquiries of management and directors, including the confirmation of whether they have knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risk related to fraud;
- Holding discussions amongst the engagement team regarding risk of fraud; and
- Addressing the risk of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the 'Key audit matters' section of this report.

A further description of our responsibilities is available on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the board of directors on 22 December 2020 to audit the financial statements for the year ended 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 31 March 2021 and 31 March 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

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.

Stephen Eames (Senior Statutory Auditor)

for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

Date: 15 June 2022



Income statement

for the year ended 31 March 2022

	Notes	Year ended 31 March 2022			Year ended 31 March 2021		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	8	–	4,491	4,491	–	8,998	8,998
Movements in fair value of investments	8	–	(2,265)	(2,265)	–	28,956	28,956
		–	2,226	2,226	–	37,954	37,954
Income	2	1,314	–	1,314	1,421	–	1,421
Investment management fee	3	(541)	(1,621)	(2,162)	(460)	(3,052)	(3,512)
Other expenses	4	(455)	–	(455)	(445)	–	(445)
Return before tax		318	605	923	516	34,902	35,418
Tax on return	5	(3)	3	–	(83)	83	–
Return after tax		315	608	923	433	34,985	35,418
Return per share	7	0.2p	0.4p	0.6p	0.3p	21.5p	21.8p

- 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 supplemental 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 April 2021 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 2022

	Notes	31 March 2022 £000	31 March 2021 £000
Fixed assets			
Investments	8	77,878	87,078
Current assets			
Debtors	12	43	1,662
Cash and cash equivalents		27,086	28,567
		27,129	30,229
Creditors (amounts falling due within one year)	13	(153)	(1,807)
Net current assets		26,976	28,422
Net assets		104,854	115,500
Capital and reserves			
Called-up equity share capital	14	8,145	8,102
Share premium	15	21,952	20,175
Capital redemption reserve	15	615	511
Capital reserve	15	63,642	63,547
Revaluation reserve	15	9,765	22,343
Revenue reserve	15	735	822
Total equity shareholders' funds		104,854	115,500
Net asset value per share	16	64.4p	71.3p

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

The financial statements on pages 43 to 62 were approved by the directors on 15 June 2022 and are signed on their behalf by:

David Gravells

Director



Statement of changes in equity

for the year ended 31 March 2022

	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 2021		8,102	20,175	511	22,343	63,547	822	115,500
Return after tax		–	–	–	(12,578)	13,186	315	923
Dividends paid	6	–	–	–	–	(11,703)	(402)	(12,105)
Net proceeds of share issues	15	147	1,837	–	–	–	–	1,984
Shares purchased for cancellation	15	(104)	(60)	104	–	(1,388)	–	(1,448)
At 31 March 2022		8,145	21,952	615	9,765	63,642	735	104,854

Year ended 31 March 2021

	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 2020		6,945	8,401	367	(2,993)	61,247	389	74,356
Return after tax		–	–	–	25,336	9,649	433	35,418
Dividends paid	6	–	–	–	–	(5,690)	–	(5,690)
Net proceeds of share issues	15	1,301	11,774	–	–	–	–	13,075
Shares purchased for cancellation	15	(144)	–	144	–	(1,659)	–	(1,659)
At 31 March 2021		8,102	20,175	511	22,343	63,547	822	115,500

* The revaluation reserve is generally non-distributable other than that part of the reserve relating to gains/losses on readily realisable quoted investments, which is distributable.

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



Statement of cash flows

for the year ended 31 March 2022

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Cash flows from operating activities		
Return before tax	923	35,418
Adjustments for:		
(Gain)/loss on disposal of investments	(4,491)	(8,998)
Movements in fair value of investments	2,265	(28,956)
(Increase)/decrease in debtors	1,619	(460)
Increase/(decrease) in creditors	(1,654)	1,690
Net cash outflow from operating activities	(1,338)	(1,306)
Cash flows from investing activities		
Purchase of investments	(16,414)	(9,973)
Sale/repayment of investments	27,840	18,917
Net cash inflow/(outflow) from investing activities	11,426	8,944
Cash flows from financing activities		
Issue of ordinary shares	1,984	13,427
Share issue expenses	(60)	(352)
Purchase of ordinary shares for cancellation	(1,388)	(1,659)
Equity dividends paid	(12,105)	(5,690)
Net cash inflow/(outflow) from financing activities	(11,569)	5,726
Increase/(decrease) in cash and cash equivalents	(1,481)	13,364
Cash and cash equivalents at beginning of year	28,567	15,203
Cash and cash equivalents at end of year	27,086	28,567



Notes to the financial statements

for the year ended 31 March 2022

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 April 2021 by the Association of Investment Companies (AIC SORP).

The financial statements are prepared in sterling which is the functional and presentational currency of the company and rounded to the nearest £000.

The financial statements have been prepared on a going concern basis.

The directors performed an assessment of the company's ability to meet its liabilities as they fall due. In performing this assessment, the directors took into consideration the uncertain economic outlook in light of the COVID-19 pandemic including:

- the investments and liquid resources held by the company;
- the fact that the company has no debt or capital commitments;
- the ability of the company to meet all of its liabilities and ongoing expenses from its assets, including its year-end cash balance;
- revenue and operating cost forecasts for the forthcoming year;
- the ability of third-party service providers to continue to provide services; and
- potential downside scenarios including a fall in the valuation of the investment portfolio or levels of investment income.

Based on this assessment, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements, and therefore determine the going concern basis to be appropriate.

(b) 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. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates. A price sensitivity analysis is provided in the other price risk sensitivity section of Note 17 on page 58.

The key estimate in the financial statements is the determination of the fair value of the unlisted investments by the directors as it significantly impacts the valuation of the unlisted investments at the balance sheet date. The fair valuation process involves estimates using inputs that are unobservable.

The key judgement in the valuation of the unquoted investments process is the directors' determination of the appropriate application of the International Private Equity and Venture Capital (IPEV) guidelines to each unlisted investment. The judgement applied in the selection of the methodology used for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

(c) Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date).

The company's transaction (trade date). The company's investments are recorded at fair value as the point of acquisition and are measured at subsequent reporting dates at fair value, with any changes being recognised in profit or loss. 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 IPEV guidelines by using measurements of value such as calibrating to the price of recent investment and earnings or revenue multiples; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary. The key assumption when using the price of a recent investment as an input to the valuation is that the price obtained remains a reasonable proxy for fair value for a period of time such that an enterprise value can be inferred and subsequently recalibrated where necessary to take account of changes to either the prevailing market conditions or performance of the investee. The price of a recent investment is not a default position for establishing fair value as at the measurement date and when this technique is employed, the resultant valuations are cross-checked for reasonableness by employing an alternative valuation technique. The key assumptions for the multiples approach are the selection of the most appropriate earnings or revenue measure (historic or forecast) and the selection of the multiple itself which may be influenced by the multiples achieved by a range of comparable companies in either private or public transactions.

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.

As permitted by FRS 102, 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.



Notes to the financial statements continued

for the year ended 31 March 2022

1. Accounting policies continued

(d) Income

Dividends receivable on quoted equity shares are recognised on the ex-dividend date. Dividends receivable on unquoted equity shares are recognised 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.

(e) 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 is charged 100% to capital return.

(f) 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.

(g) 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.

(h) Dividends payable

Dividends payable are recognised as distributions in the financial statements when the company's liability to make payment has been established.

(i) 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.

(j) Share capital account

The share capital account represents the nominal value of all shares issued by the company.

(k) Share premium

The share premium account represents the value paid by shareholders for shares above the nominal value.

(l) Capital redemption reserve

The capital redemption reserve is a non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares.

(m) Revaluation reserve

Changes in the fair value of investments are dealt with in this reserve.

(n) Capital reserve

The following are accounted for in the capital reserve: gains or losses on the realisation of investments; 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.

(o) Revenue reserve

The revenue reserve comprises the retained earnings of a business from profits made in the current and prior periods.

(p) Segmental reporting

The company has a single operating segment carrying out the investment activity of the company.



Notes to the financial statements continued

for the year ended 31 March 2022

2 Income

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Investment income:		
Dividends from unquoted companies	181	10
Dividends from quoted companies	120	70
Interest receivable:		
Bank deposits*	3	8
Loans to unquoted companies	1,002	1,314
Listed interest-bearing investments	8	19
	1,314	1,421

* Denotes income arising from investments not treated as fair value through profit or loss at the time of acquisition.

3 Investment management fee

	Year ended 31 March 2022			Year ended 31 March 2021		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Basic investment management fee	541	1,621	2,162	460	1,379	1,839
Performance-related fee	–	–	–	–	1,673	1,673
	541	1,621	2,162	460	3,052	3,512

Mercia Fund Management Limited (Mercia) 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.

The manager 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. The fee due on the value of liquid assets above the threshold of £20 million attracts a reduced rate of 1% per annum. The manager bears the cost of the fees of Brewin Dolphin for managing the listed interest-bearing and equity portfolios. The manager also provides administrative and secretarial services to the company for a fee of £62,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4).

The manager is 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 2022 was 6.0% (year ended 31 March 2021: 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 2022 (2021: £1,673,000).

The total running costs of the company, excluding performance-related management fees, are capped at 2.9% of its net assets and Mercia has agreed that any excess will be refunded by way of a reduction in its fees.

4 Other expenses

	Year ended 31 March 2022 £000	Year ended 31 March 2021 £000
Administrative and secretarial services	62	62
Directors' remuneration	120	120
Auditor's remuneration – audit services	38	42
– non-audit services	–	–
Legal and professional expenses	38	34
Share issue promoter's commission	43	32
Irrecoverable VAT	32	34
Other expenses	122	121
	455	445

Information on directors' remuneration is given in the directors' remuneration report on pages 29 and 30.



Notes to the financial statements continued

for the year ended 31 March 2022

5 Tax on return for the year

	Year ended 31 March 2022			Year ended 31 March 2021		
	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	3	(3)	–	83	(83)	–
(b) Tax reconciliation						
Return before tax	318	605	923	516	34,902	35,418
Return multiplied by the standard rate of UK corporation tax of 19.0% (2021 19.0%)	60	115	175	98	6,631	6,729
Effect of:						
UK dividends not subject to tax	(57)	–	(57)	(15)	–	(15)
Capital returns not subject to tax	–	(853)	(853)	–	(1,710)	(1,710)
Movements in fair value of investments not subject to tax	–	430	430	–	(5,502)	(5,502)
Increase in surplus management expense	–	305	305	–	498	498
Tax charge/(credit) for the year	3	(3)	–	83	(83)	–

(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 £5,790,000 (31 March 2021: £4,213,000), 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.



Notes to the financial statements continued

for the year ended 31 March 2022

6 Dividends

	Year ended 31 March 2022			Year ended 31 March 2021		
	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 and final dividend	402	8,453	8,855	–	2,446	2,446
Current year's interim dividend	–	3,250	3,250	–	3,244	3,244
	402	11,703	12,105	–	5,690	5,690
(b) Paid and proposed in respect of the year						
Interim paid – 2.0p (2021 2.0p) per share	–	3,250	3,250	–	3,244	3,244
Second interim declared – 0p (2021 4.0p) per share	–	–	–	–	6,481	6,481
Final proposed – 2.0p (2021 1.5p) per share	326	2,280	2,606	405	2,025	2,430
	326	5,530	5,856	405	11,750	12,155

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 profit after tax for the year of £923,000 (2021: £35,418,000) and on 162,327,282 (2021: 162,830,534) shares, being the weighted average number of shares in issue during the year.



Notes to the financial statements continued

for the year ended 31 March 2022

8 Investments

All investments are accounted for as fair value through profit or loss on initial recognition, therefore all gains and losses arise on these investments are reflected through the profit or loss.

FRS 102, including subsequent amendments, 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 that are unobservable (ie for which market data is unavailable) for the asset or liability.

	31 March 2022 £000	31 March 2021 £000
Level 1		
Quoted venture capital investments	3,001	1,619
Listed equity investment funds	7,932	7,582
Level 2		
Listed interest-bearing investment funds	1,290	1,295
Level 3		
Unquoted venture capital investments	65,655	76,582
	77,878	87,078



Notes to the financial statements continued

for the year ended 31 March 2022

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 2021	56,351	780	6,336	1,268	64,735
Fair value adjustment at 31 March 2021	20,231	839	1,246	27	22,343
Fair value at 31 March 2021	76,582	1,619	7,582	1,295	87,078
Movements in the year:					
Purchases at cost	14,683	–	1,731	–	16,414
Disposals – proceeds	(25,385)	(769)	(1,562)	(124)	(27,840)
– net realised gains/(losses) on disposal	4,034	231	224	2	4,491
Cost of investments listed on the AIM market	(222)	222	–	–	–
Movements in fair value	(4,037)	1,698	(43)	117	(2,265)
Fair value at 31 March 2022	65,655	3,001	7,932	1,290	77,878
Comprising:					
Book cost at 31 March 2022	59,507	731	6,549	1,326	68,113
Fair value adjustment at 31 March 2022	6,148	2,270	1,383	(36)	9,765
	65,655	3,001	7,932	1,290	77,878
Equity shares	52,555	3,001	7,932	–	63,488
Preference shares	3,920	–	–	–	3,920
Interest-bearing securities	9,180	–	–	1,290	10,470
	65,655	3,001	7,932	1,290	77,878

The gains and losses included in the above table have all been recognised in the income statement on page 43. The listed equity category in the table above comprises quoted investment funds which hold listed equity securities. The listed interest-bearing category in the table above comprises quoted investment funds which hold listed interest-bearing securities.

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. See Note 17 for details of the impact of sensitivity analysis on the financial statements.

At 31 March 2022 there were no commitments (31 March 2021: £1,123,000) in respect of investments approved by the manager but not yet completed.



Notes to the financial statements continued

for the year ended 31 March 2022

9 Investment disposals

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

	Original cost £000	Carrying value at 31 March 2021 £000	Disposal proceeds £000	Realised gain against carrying value £000
Oddbox – partial disposal	293	1,427	3,190	1,763
Vectura Group – disposal of entire holding	272	538	769	231
No1 Lounges – in liquidation	1,977	–	–	–
AVID Technology Group – disposal of entire holding	1,769	437	431	(6)
Mojo Mortgages – disposal of entire holding	1,441	1,156	2,244	1,088
Customs Connect Group – amortisation of loan notes	34	34	34	–
Soda Software Labs (T/A Hello Soda) – disposal of entire holding	1,499	1,574	2,118	544
Intelling Group – disposal of entire holding	1,142	3,416	3,381	(35)
Curentbody.com – disposal of entire holding	1,867	4,221	5,149	928
musicMagpie – partial disposal	1,281	9,086	8,814	(272)
S&P Coil – deferred proceeds	–	–	24	24
	11,575	21,889	26,154	4,265

The cost of the venture capital investments disposed of in the preceding financial year was £4,168,000, for disposal proceeds totalling £16,796,000.



Notes to the financial statements continued

for the year ended 31 March 2022

10 Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2022 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on page 18, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 March 2022		31 March 2021	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Lineup Systems				
Ordinary shares	175	6,422	175	4,643
Loan stock	800	800	800	800
	975	7,222	975	5,443
Evotix (formerly SHE Software Group)				
Ordinary shares	1,874	4,751	1,873	3,307
Preference shares	644	644	322	322
	2,518	5,395	2,195	3,629
Volumatic Holdings				
Ordinary shares	216	3,339	216	2,228
	216	3,339	216	2,228
GRIP-UK (T/A Climbing Hangar)				
Ordinary shares	513	513	308	–
Preference shares	2,700	2,700	1,620	1,374
	3,213	3,213	1,928	1,374
Oddbox				
Ordinary shares	355	3,098	648	3,157
	355	3,098	648	3,157
Knowledgemotion				
Ordinary shares	1,778	3,040	1,778	1,781
	1,778	3,040	1,778	1,781

	31 March 2022		31 March 2021	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Buoyant Upholstery				
Ordinary shares	153	1,791	153	1,597
Loan stock	903	903	903	903
	1,056	2,694	1,056	2,500
musicMagpie				
Ordinary shares	222	2,074	168	15,472
Preference shares	–	–	277	319
Loan stock	–	–	1,058	1,323
	222	2,074	1,503	17,114
Biological Preparations Group				
Ordinary shares	221	2	221	13
Preference shares	340	340	340	340
Loan stock	1,605	1,605	1,605	1,605
	2,166	1,947	2,166	1,958
Newcells Biotech				
Ordinary shares	1,612	1,928	1,612	1,917
	1,612	1,928	1,612	1,917
Clarilis				
Ordinary shares	1,828	1,911	1,828	2,374
	1,828	1,911	1,828	2,374
Rockar				
Ordinary shares	1,414	1,161	1,398	1,202
Loan stock	279	719	279	629
	1,693	1,880	1,677	1,831
Intechinca				
Ordinary shares	1,607	1,770	–	–
	1,607	1,770	–	–



Notes to the financial statements continued

for the year ended 31 March 2022

10 Unquoted investments continued

	31 March 2022		31 March 2021	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Tutora (T/A Tutorful)				
Ordinary shares	1,035	919	–	–
Loan stock	808	846	–	–
	1,843	1,765	–	–
Project Glow Topco (T/A Currentbody.com)				
Ordinary shares	1,544	1,544	–	–
	1,544	1,544	–	–
Medovate				
Ordinary shares	1,450	1,332	802	693
Loan stock	–	–	648	648
	1,450	1,332	1,450	1,341
Sorted Holdings				
Ordinary shares	2,552	–	2,552	2,881
Loan stock	164	177	164	164
	2,716	177	2,716	3,045
Currentbody.com				
Ordinary shares	–	–	669	2,788
Loan stock	–	–	1,198	1,434
	–	–	1,867	4,222
Intelling Group				
Ordinary shares	–	–	109	2,383
Preferred shares	–	–	230	230
Loan stock	–	–	804	804
	–	–	1,143	3,417
Soda Software Labs (T/A Hello Soda)				
Ordinary shares	–	–	385	460
Loan stock	–	–	1,114	1,114
	–	–	1,499	1,574

Additional information relating to material investments in unquoted companies is given on pages 19 to 23.

11 Significant interests

The company has chosen not to rebut the presumption that the following holdings are investments in associates, owing to the proportion of equity held and representation on the board representing significant influence over the operations of the company. The investments are held as part of an investment portfolio, and are therefore measured at fair value through the profit and loss, as detailed in Note 1, rather than using the equity method, as permitted by Section 14 of FRS 102:

Company	Investment type	Class of shares	Number held	Proportion of class held	Net assets/ (liabilities)	Results for the year ended
Gentronix Limited	Unquoted	B ordinary	16,568	32.0%	1,526	31-Aug-20
Gentronix Limited	Unquoted	C ordinary	16,788	28.4%	1,526	31-Aug-20
Gentronix Limited	Unquoted	E1	202,146	31.8%	1,526	31-Aug-20
Gentronix Limited	Unquoted	E2	19,822	30.9%	1,526	31-Aug-20

During the year Northern 2 VCT PLC received loan note interest totalling £10,000 from Gentronix Limited. Gentronix is incorporated in England, its registered address is Alderley Park, Alderley Edge, Cheshire, SK10 4TG.

12 Debtors

	31 March 2022 £000	31 March 2021 £000
Amounts held on deposit by solicitors pending investment	–	1,123
Prepayments and accrued income	43	539
	43	1,662

13 Creditors (amounts falling due within one year)

	31 March 2022 £000	31 March 2021 £000
Accruals and deferred income	153	1,807



Notes to the financial statements continued

for the year ended 31 March 2022

14 Called-up equity share capital

	31 March 2022 £000	31 March 2021 £000
Allotted and fully paid: 162,907,914 (2021: 162,026,501) ordinary shares of 5.0p	8,145	8,102

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 11. The company is not subject to externally imposed capital requirements.

During the year the company issued 2,970,747 ordinary shares of 5.0p for cash at an average premium of 61.8p per share. 2,089,334 ordinary shares were re-purchased for cancellation during the year at a cost of £1,388,000.

15 Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2021	20,175	511	63,547	22,343	822
Premium on issue of ordinary shares	1,837	–	–	–	–
Share issue expenses	(60)	–	–	–	–
Shares purchased for cancellation	–	104	(1,388)	–	–
Realised on disposal of investments	–	–	4,491	–	–
Transfer on disposal of investments	–	–	10,313	(10,313)	–
Movements in fair value of investments	–	–	–	(2,265)	–
Management fee charged to capital net of associated tax	–	–	(1,618)	–	–
Revenue return after tax	–	–	–	–	315
Dividends recognised in the year	–	–	(11,703)	–	(402)
At 31 March 2022	21,952	615	63,642	9,765	735

At 31 March 2022 distributable reserves amounted to £65,722,000 (2021: £65,724,000), 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.



Notes to the financial statements continued

for the year ended 31 March 2022

16 Net asset value per share

The calculation of net asset value per share as at 31 March 2022 is based on net assets of £104,854,000 (2021: £115,500,000) divided by the 162,907,914 (2021: 162,026,501) 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, other price sensitivity 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.

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 11. 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 31 to 35, 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 18. An analysis of investments between debt and equity instruments is given in Note 8.

10.3% (2021: 8.0%) 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 2022 would have increased net assets and the total return for the year by £547,000 (31 March 2021: £460,000); a corresponding fall would have reduced net assets and the total return for the year by the same amount.

Other price sensitivity risk

63.1% (2021: 66.3%) by value of the company's net assets comprises investments in unquoted companies held at fair value. A sensitivity analysis is provided below which recognises that the valuation methodologies employed involve subjectivity in the selection of the key inputs, as described in the valuation policy on page 47. Although the directors believe that the estimates of fair value are appropriate, the use of different methodologies or assumptions regarding the inputs could lead to different measurements of fair value. Each portfolio company has been categorised as being subject to potentially higher or lower estimation uncertainty by considering a range of factors including the potential disruption to business activities and the availability and extent of cash resources. A greater sensitivity factor has been applied to those investments assessed as being susceptible to higher estimation uncertainty. Whilst the sensitivities applied illustrate the impact of varying the key inputs by the levels specified, it is possible that applying reasonable alternative assumptions to individual investments could lead to measurements of fair value which vary to a greater extent than that illustrated.



Notes to the financial statements continued

for the year ended 31 March 2022

As at 31 March 2022
Valuation basis

	Fair value of unquoted investments £000	Variable input sensitivity	Impact: increase*		Impact: decrease*	
			£000*	% of net assets	£000*	% of net assets
Earnings/revenue multiple						
Higher sensitivity	7,320	+/- 20%	2,018	1.9%	596	0.6%
Lower sensitivity	15,350	+/- 10%	1,489	1.4%	1,449	1.4%
Price of a recent investment subsequently calibrated as appropriate						
Higher sensitivity	15,921	+/- 20%	2,857	2.7%	3,088	2.9%
Lower sensitivity	27,064	+/- 10%	2,792	2.7%	1,474	1.4%
Total unquoted investments	65,655		9,156	8.7%	6,607	6.3%

As at 31 March 2021
Valuation basis

	Fair value of unquoted investments £000	Variable input sensitivity	Impact: increase*		Impact: decrease*	
			£000*	% of net assets	£000*	% of net assets
Earnings/revenue multiple						
Higher sensitivity	11,454	+/- 20%	1,929	1.7%	1,928	1.7%
Lower sensitivity	21,441	+/- 10%	1,892	1.6%	1,983	1.7%
Price of a recent investment subsequently calibrated as appropriate						
Higher sensitivity	9,640	+/- 20%	1,483	1.3%	1,586	1.4%
Lower sensitivity	33,723	+/- 10%	1,424	1.2%	1,250	1.1%
Original cost subsequently calibrated as appropriate						
Higher sensitivity	–	+/- 20%	–	–	–	–
Lower sensitivity	324	+/- 10%	32	0.0%	32	0.0%
Total unquoted investments	76,582		6,760	5.8%	6,779	5.9%

* Impact on net assets and net return after taxation.



Notes to the financial statements continued

for the year ended 31 March 2022

17 Financial instruments continued

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:

	31 March 2022			31 March 2021		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Fixed-rate investments in unquoted companies	4,938	8.8%	1.8	8,484	8.3%	1.3

As the interest rates for these instruments is fixed, an increase or decrease of 25 basis points in market interest rates as at the reporting date would have no impact 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 0.75% at 31 March 2022 (31 March 2021: 0.1%) and the LIBOR three month GBP rate for floating rate loans to unquoted companies, which was 1.04% at 31 March 2022 (31 March 2021: 0.09%). 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 2022 £000	31 March 2021 £000
Floating rate loans to unquoted companies	4,242	4,116
Quoted interest-bearing investment funds	1,290	1,294
Interest-bearing deposit accounts	27,086	28,568
	32,618	33,978

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. The investment manager and the board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.



Notes to the financial statements continued

for the year ended 31 March 2022

At 31 March 2022 the company's financial assets exposed to credit risk comprised the following:

	31 March 2022 £000	31 March 2021 £000
Fixed-rate investments in unquoted companies	4,938	8,484
Floating rate loans to unquoted companies	4,242	4,116
Interest-bearing investment funds	1,290	1,294
Interest-bearing deposit accounts	27,086	28,568
Accrued dividends and interest receivable	14	512
	37,570	42,974

Credit risk relating to interest-bearing investment funds 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. The balances included within unquoted loan investments related to loans which were past due as at 31 March 2022 is nil (31 March 2021: nil). The exposure to credit risk on accrued income is mitigated by performing loan affordability evaluations on investee companies as part of the investment due diligence process.

Those assets of the company which are traded on recognised stock exchanges and quoted investment funds are held on the company's behalf by a third party custodian, a nominee company of Brewin Dolphin Limited. 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 2022 or 31 March 2021.

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 interest-bearing investment fund 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 2022 these investments were valued at £36,307,000 (31 March 2021: £37,444,000).

18 Contingencies

At 31 March 2022 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £838,000 (31 March 2021: £184,000). 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 2022 or 31 March 2021.



Notes to the financial statements continued

for the year ended 31 March 2022

19 Related party transactions

Fees payable during the year to the directors and their interest in shares of the company are disclosed within the directors' remuneration report on pages 29 and 30.

There were no amounts outstanding and due to the directors as at 31 March 2022 (31 March 2021: nil).

20 Post balance sheet events

After the year end, on 1 April 2022, the company issued 25,597,510 ordinary shares for a consideration of £16,562,030, as a result of a prospectus share offer launched during the year ended 31 March 2022.

On 12 April 2022, the company invested £185,000 in existing portfolio company, Northrow, by way of a follow-on funding round.

On 31 May 2022, the company invested £109,000 in existing portfolio company, Upp Technologies, by way of a follow-on funding round.

On 31 May 2022, the company invested £820,000 in new portfolio company LMC Software, a provider of social care management software to care homes.

On 7 June 2022, the investment in Knowledgemotion was sold. The transaction was advanced at the balance sheet date, and as a result the valuation of the investment has been included at the sale price achieved.



Glossary of terms

Alternative performance measure or APM

APMs are not prescribed by accounting standards but are industry specific performance measures which help users of the annual accounts and financial statements to better interpret and understand performance. Some of the terms in this glossary have been identified as APMs.

Cumulative return per share (APM)

The sum of the published NAV per share plus cumulative dividends paid per share since the company was launched. We use this measure as it enables comparisons to be made between different VCTs over the whole life of each fund. The cumulative return per share for Northern 2 VCT PLC as at 31 March 2022 comprises the NAV per share of 64.4 pence (2021: 71.3 pence) plus the cumulative dividends paid of 132.4 pence (2021: 124.9 pence) giving a result of 196.6 pence per share (2021: 196.2 pence per share).

Cumulative dividends paid

The total amount of shareholder dividend distributions paid since the company was launched.

Distributable reserves

The sum of the capital reserve, revenue reserve and that part of the revaluation reserve which is related to readily realisable investments.

Dividend yield (APM)

The sum of dividends proposed or paid in respect of the last 12 months as at a given date expressed as a percentage of the net asset value per share at the start of the period. We use this measure as it shows the dividend income receivable by shareholders over a 12 month period expressed as a theoretical yield based on acquiring a single share at the NAV per share at the start of the period. The dividend yield as at 31 March 2022 is calculated by dividing the dividend per share paid or proposed over the preceding 12 months of 3.6 pence (2021: 7.5 pence) by the NAV per share at the start of the period of 71.3 pence (2021: 53.5 pence) giving a result of 5.0% (2021: 14.0%).

Ex-dividend date

The date immediately preceding the record date for a given dividend. Shareholders who acquire their shares on or after the ex-dividend date will not be eligible to receive the relevant dividend.

Gain/loss on disposal of investments

The profit or loss on the sale of an investment during the year calculated by reference to the proceeds received on sale of the investment less the valuation of the investment at the last annual report date.

NAV total return (APM)

The theoretical return to a shareholder over a given period based on acquiring shares at the start of the period at the latest published NAV per share then utilising the proceeds of each dividend paid during the period to acquire further shares at the latest published NAV per share as at each ex-dividend date. We use this measure as it enables comparisons to be drawn against an investment index in order to benchmark performance. The result is plotted on page 30 and the calculation follows the method prescribed by the Association of Investment Companies.

	31 March 2022	31 March 2021	
Closing NAV per share (p)	64.4p	71.3p	a
Dividends paid out (p)	7.5p	3.5p	b
Effect of re-investing dividends (p)	(1.9)p	0.7p	c
Adjusted NAV per share (p)	70.0p	75.5p	d = a + b + c
Opening NAV per share (p)	71.3p	53.5p	e
NAV total return (%)	(1.8)%	41.2%	= (d / e) - 1

Net asset value or NAV

The amount by which total assets of the company exceed its total liabilities. It is equal to the total equity shareholders' funds.

Net asset value per share or NAV per share

Net asset value divided by the number of ordinary shares.



Glossary of terms continued

Ongoing charges excluding performance fees (APM)

The total of investment management fees and other expenses as shown in the income statement, as a percentage of the average net asset value. This measure is disclosed to provide information to shareholders, in line with industry best practice.

	31 March 2022	31 March 2021
Investment management fee	2,162	1,839
Other expenses	456	445
Total expenses (a)	2,618	2,284
Annualised average net assets (b)	114,108	95,638
Ongoing charges (a) / (b) (expressed as a percentage)	2.29%	2.39%

Record date

The cut-off date on which a shareholder needs to be beneficially entitled to a share on the share register of the company in order to qualify for a forthcoming dividend.

Share price total return (APM)

The theoretical return to a shareholder over a given period based on acquiring shares at the start of the period at the prevailing mid-market share price then utilising the proceeds of each dividend paid during the period to acquire further shares at the share price as at each ex-dividend date. We use this measure as it enables comparisons to be drawn against an investment index in order to benchmark performance. The result is plotted on page 30 and the calculation

follows the method prescribed by the Association of Investment Companies.

	31 March 2022	31 March 2021	
Closing price per share (p)	61.5p	61.0p	a
Dividends paid out (p)	7.5p	3.5p	b
Effect of re-investing dividends (p)	(1.4)p	0.4p	c
Adjusted price per share (p)	67.6p	64.9p	d = a + b + c
Opening price per share (p)	61.0p	47.5p	e
Share price total return (%)	10.8%	36.7%	= (d/e) - 1

Total return for the year

The total income, gain or loss on disposal of investments and movements in the fair value of investments less ongoing charges for the period, as shown in the income statement.



