

Northern 2 VCT PLC

Investor Guide

Offer for subscription in 2011/12 and 2012/13 tax years



“NVM is a top quality VCT manager with an enviable long term record. They certainly know how to manage VCTs.”

Ben Yearsley, Hargreaves Lansdown

“Northern 2 VCT's Offer provides investors with the opportunity to gain immediate access to a mature portfolio of investments across a range of sectors and an extremely attractive stream of tax-free dividends – at least 5.5p per share has been paid for seven successive financial years. All this from a VC house which has performed very strongly in recent times with some impressive exits generating healthy profits for investors.”

Matthew Woodbridge, Chelsea Financial Services

Offer highlights

Income: Target tax-free dividend yield of 9.7% p.a. on the Initial Offer Price net of 30% income tax relief

Diversification: Subscriptions spread across 43 companies

Tax relief: 30% income tax relief available subject to personal circumstances and five year holding period

Important notice

An investment in Northern 2 VCT PLC (“the Trust”) is suitable only for investors who are capable of evaluating the risks (see back page) and merits of such an investment and who have sufficient resources to bear any loss which might arise. Investors are advised to take appropriate financial advice before investing in the Trust.

Introduction

Venture Capital Trusts (“VCTs”) were introduced by the Government to encourage individuals, by offering them substantial tax benefits, to invest in a high risk portfolio of unquoted investments.

Why invest in an established VCT?

The Trust was launched in 1999 and now has net assets of over £45 million (at 30 September 2011). It invests mainly in unquoted venture capital holdings and aims to provide high long term returns to shareholders through a combination of dividend yield and capital growth. Investing in the Trust provides the following benefits compared to new VCT launches:

- **Visibility:** investors can see where the majority of their funds are being applied (see the Prospectus for a summary of the portfolio). Investors who apply for new VCT launches are investing 'blind' and are reliant on the manager to generate sufficient quality deal flow to carry out the intended investment strategy.
- **Significant diversification:** the Trust is already one of the largest VCTs in existence and has holdings in 43 different companies. An investment in the Trust may be lower risk than one in a new VCT that does not raise sufficient funds to diversify its portfolio.
- **Low running costs:** the costs of running VCTs are typically higher than many other types of investments. However, the Trust's running costs are low by VCT standards at 2.7% per annum (14 months to 31 March 2011).

Experienced manager

NVM Private Equity Limited (“NVM”) manages the Trust's venture capital portfolio and has the following characteristics (source: NVM):

- **VCT expertise:** NVM has been an active investor in smaller UK unquoted companies since 1988 and has over £200 million under management.
- **Large team:** 11 investment executives with a total of over 185 years in venture capital.
- **Strong deal flow:** since 1 January 2005, approximately £140 million has been invested by NVM funds in VCT qualifying companies. In the past 12 months, NVM funds have invested over £27 million in growing businesses.
- **Management commitment:** NVM employees directly hold shares worth £2.7 million (market value 31 October 2011) in NVM managed funds.

Track record of the manager

	Tax year of launch	Net cost ¹	Latest NAV date	Total return to date ²	Increase over net cost (%)
Northern Venture Trust	1995/96	80p	30 Sept 2011	184.3p	+130.4%
Northern 2 VCT	1998/99	80p	30 Sept 2011	135.4p	+69.3%
Northern 3 VCT	2001/02	80p	30 Sept 2011	124.8p	+56.0%

¹ Net cost is the initial offer price of 100p per share less 20% income tax relief available to investors in each of the VCTs at launch.

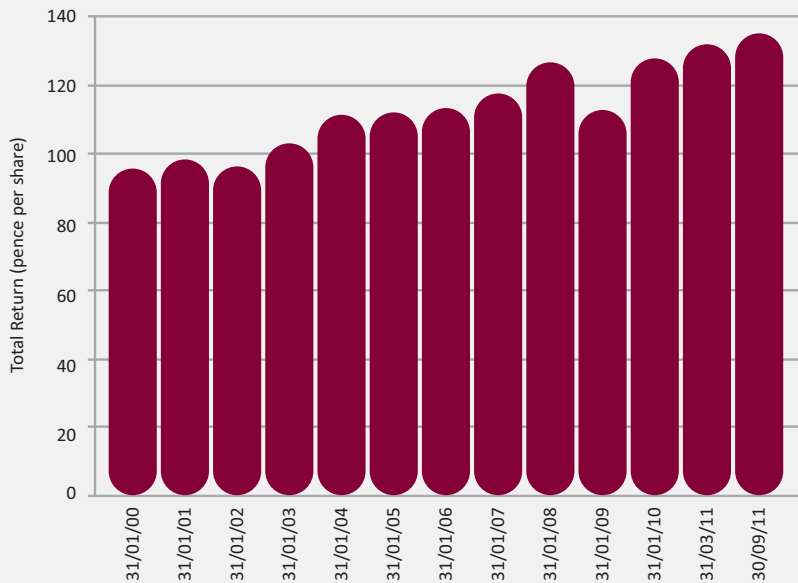
² Total return is cumulative dividends paid (including the tax credits where reclaimable) plus the most recently announced unaudited net asset value for each VCT in pence per share.

(source: announcements made by the relevant VCT through an RIS)

Performance of the Trust since inception

Set out below is a table showing the performance of the Trust since inception to 30 September 2011. It is based on total return (net asset value plus cumulative dividends paid) per share.

Please note that the past performance of the Trust is not a guide to the future performance of the Trust and no projection is implied or should be inferred.



Target dividend yield of 9.7% p.a. tax-free

The Trust has a stated objective of paying an annual dividend of at least 5.5p per share, subject to the availability of sufficient distributable profits, cash resources and regulations. Set out below is a table illustrating the returns to investors assuming an annual dividend of 5.5p per share is paid. In the last seven financial periods annual dividends of at least 5.5p per share have been paid. Investors should note that the target minimum annual dividend of 5.5p per share is an objective and is not guaranteed. No forecast is intended or implied.

Net of tax offer price ¹	Target annual dividends	Tax-free yield	Gross equivalent yield	
			40% taxpayer ²	50% taxpayer ²
56.7p	5.5p	9.7% p.a.	12.9% p.a.	15.0% p.a.

¹ The returns listed are based on the initial offer price of 81.0p multiplied by 70%, to reflect initial income tax relief of 30%. Investors should note that they will be required to pay the full offer price and claim the income tax relief separately.

² The gross equivalent yield is the yield on a non-VCT UK dividend that would result in a net yield of 9.7% (being a 5.5p dividend divided by 56.7p, the initial offer price less 30% to reflect initial income tax relief), assuming a 40% taxpayer and 50% taxpayer respectively.

Realisation of investment

Share buyback policy: the Trust will seek to buy back its shares at a discount of 15% to the latest published net asset value (NAV), subject to applicable regulations, market conditions at the time and the Trust having both funds and distributable reserves available for the purpose.

Tender offer: the Trust launched a tender offer on 9 November 2011 under which it will purchase up to 10% of the issued share capital of the Trust at a price representing a discount of 3% to the unaudited NAV at 30 September 2011. The Directors envisage that similar tender offers will be made periodically in the future, including one in 2017/18, subject to the availability of cash resources and distributable reserves.

Tax benefits to VCT investors

- **Income tax relief at 30%** of the amount subscribed, provided that the VCT shares are held for at least five years. Relief is restricted to the amount that reduces the investor's UK income tax liability to nil.
- **Tax-free dividends** from a VCT.
- **Capital gains tax exemption** on sale of VCT shares.

This is only a very brief summary of the VCT tax reliefs that currently apply and their value will depend on personal circumstances. The tax reliefs are subject to change and withdrawal (in the event of a breach of the VCT rules). Please refer to your tax adviser or HM Revenue & Customs' website for further guidance on VCT tax reliefs.

“ Northern 2 VCT is one of the few VCTs that has managed to maintain capital while paying high levels of dividends over a number of years. New investors should obtain a tax-free yield of approximately 10% p.a. on the net of tax price and will have their funds immediately spread across 43 investments, which both reduces risk and improves their chances of obtaining more immediate growth. ”

Martin Churchill, Tax Efficient Review

“ NVM's record in recent years has been at the forefront of the industry in terms of maintaining a high yield, in addition to upholding the net asset value amidst a difficult economic backdrop. New investors will be gaining immediate exposure to a diverse portfolio of companies under the stewardship of an experienced generalist manager. ”

Richard Allen, Allenbridge Group

Capital growth option

Investors who do not wish to receive income have the opportunity to re-invest the tax-free distributions into additional shares (which should qualify for further income tax relief), free of dealing costs. To sign up to the Trust's dividend investment scheme, simply tick the relevant box on the Application Form.

Offer details and charges

- **Closing dates:** 5 April 2012 (for 2011/12 tax year) and 30 April 2012 (for 2012/13 tax year)
- **Offer size:** up to £15 million
- **Offer price:** initially 81.0p per share (NAV less interim dividend, plus 5.5%, rounded up)
- **Minimum investment:** £5,000
- **Maximum investment:** £200,000 (per tax year)
- **Annual management fee:** 2.06% of net assets
- **Annual expenses:** 2.7% p.a. of net assets (14 months ended 31 March 2011) – capped at 3.0% p.a. from the close of the Offer
- **Performance related fee:** payable above a hurdle rate of return (see Securities Note for details)

Special terms

Applications from shareholders in NVM managed VCTs

Accepted valid applications from shareholders (including spouses) in VCTs managed by NVM, which are received by 6 February 2012, will attract additional shares equivalent to 2% of the amount subscribed under the Offer.

Applications from all other investors

Accepted valid applications received by 6 February 2012 will attract additional shares equivalent to 1% of the amount subscribed under the Offer.

The cost of these additional shares will be borne by Downing or NVM and will not, therefore, be an additional charge to the Trust.

Prospectus orders and enquiries

If you have any questions please contact Downing:

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Key risks

Set out below are the key risks associated with an investment in the Trust. Please read the Prospectus for a full list of the risk factors.

- **Liquidity:** it may prove difficult for shareholders to sell their shares. In addition, there is no guarantee that the market price of the shares will fully reflect their underlying net asset value or the ability to buy and sell at that price. Shares in VCTs normally trade at a discount to their NAV.
- **Investment performance:** the Trust will predominantly invest in small unquoted companies which, by their nature, are higher risk than larger "blue chip" companies. Shares in such companies may not be publicly traded or freely marketable and may, therefore, be difficult to realise.
- **Investment restrictions:** the Trust's ability to obtain maximum value from its investments may be limited by the VCT rules. Changes in legislation concerning VCTs may adversely affect the ability of the Trust to meet its objectives.
- **Speculative risk:** the value of shares may go down as well as up and shareholders may not receive back the full amount invested. In addition, there is no certainty as to the level of dividends.
- **Past performance:** the past performance of investments made by other NVM funds or the Trust should not be regarded as a guide to the future performance of the Trust.

Investments by the management team

Since March 2006, NVM's investment executives have been required to invest a proportion (usually 5%) of the total invested by the Trust and the other NVM funds in the ordinary shares of each new investee company (on the same terms as the NVM funds). At 30 September 2011, NVM's executives held investments in 28 portfolio companies acquired at a cost of £704,000.

Application procedure

Investors wishing to subscribe for shares in the Trust should complete the application form contained at the back of the Securities Note in accordance with the instructions set out therein.

Important notice

This document has been prepared for retail investors and has been approved and issued as a financial promotion under the Financial Services and Markets Act 2000 by Downing LLP ("Downing"), 10 Lower Grosvenor Place, London SW1W 0EN. This document is for information only and does not form part of any offer to purchase securities and no reliance should be placed on it. Any application for shares should be made solely on the basis of the Prospectus relating to the Trust. Downing is acting for the Trust and no one else and will not be responsible to anyone other than the Trust for providing the protections afforded to clients of Downing. Downing is authorised and regulated by the Financial Services Authority.

9 November 2011