British Smaller Companies VCT2 plc

Interim Management Statement

For the quarter ended 30 September 2017

British Smaller Companies VCT2 plc (the "Company") presents its interim management statement for the quarter ended 30 September 2017. The statement also includes relevant financial information between the end of the quarter and the date of this statement. A copy of this interim management statement can be found at www.bscfunds.com.

Overview

The Company has continued to make progress in the quarter with total return rising to 113.4 pence per ordinary share. This is an increase of 0.4 pence per ordinary share.

It is pleasing that improved profitability across a number of investments contributed to the £0.5 million increase in Net Asset Value ("NAV") in the period, prior to the payment of the interim dividend. The performances from GTK, Deep-Secure, Intelligent Office and Matillion in particular were strong contributors in the period. DisplayPlan has had a more difficult trading period, albeit it is very well funded to be able to cope with the challenges and whilst the additional investment in the sales channel by Business Collaborator is slower to come through than anticipated the business remains confident in being able to deliver on its medium-term growth plans.

Performance

	30 September 2017	**Movement**	**30 June 2017**
Net Assets (£m)	**58.6**	**(0.8)**	**59.4**
NAV per share (PPS)	**57.9p**	**(1.1p)**	**59.0p**
Cumulative dividends paid (PPS)	**55.5p**	**1.5p**	**54.0p**
Total Return (PPS)	**113.4p**	**0.4p**	**113.0p**
Shares in issue	**101,091,180**	**456,434**	**100,634,746**

The total return at 30 September 2017, calculated by reference to the NAV per ordinary share and the cumulative dividends paid per ordinary share, was 113.4 pence per ordinary share compared to 113.0 pence per ordinary share at 30 June 2017. Cumulative dividends paid were up 1.5 pence per ordinary share at 55.5 pence per ordinary share (30 June 2017: 54.0 pence per ordinary share).

The unaudited NAV per ordinary share as at 30 September 2017 was 57.9 pence per ordinary share (30 June 2017: 59.0 pence per ordinary share) representing a decrease of 1.1 pence per ordinary share. The decrease in NAV per ordinary share is primarily due to the interim dividend of 1.5 pence per ordinary share for the year ending 31 December 2017, offset by the net upward movement in the overall portfolio valuation.

Dividends and shares in issue

On 27 September 2017 the Company purchased 150,000 ordinary shares of 10 pence each at a price of 55.13 pence per ordinary share. These shares were placed in treasury.

Pursuant to its dividend re-investment scheme on 29 September 2017 the Company issued 606,434 ordinary shares at a price of 54.63 pence per ordinary share.

The number of ordinary shares in issue at 30 September 2017 was 101,091,180 (30 June 2017: 100,634,746). In addition, at 30 September 2017 the Company held 3,405,746 ordinary shares in treasury (30 June 2017: 3,255,746).

Subsequent to the quarter end on 20 October 2017 the Company purchased 290,605 ordinary shares of 10 pence each at a price of 55.13 pence per ordinary share. These shares were placed in treasury.

Net assets

Net assets at 30 September 2017 comprised the following:

	£000	**% of net assets**
Unquoted investments at fair value	**38,392**	65.6
Quoted investments at bid price	**2,073**	3.5
Total investments	**40,465**	69.1
Cash and cash equivalents	**16,948**	28.9
Other net current assets	**1,158**	2.0
Net assets	**58,571**	100.0

The investment portfolio at 30 September 2017 was comprised as follows:

	Valuation £000	**Valuation as a % of net assets**
ACC Aviation	**3,704**	6.3
Intelligent Office	**3,264**	5.6
Mangar Health Limited	**2,654**	4.5
KeTech Enterprises Limited	**2,123**	3.6
Springboard Research Holdings Limited	**1,922**	3.3
GTK (Holdco) Limited	**1,790**	3.1
Gill Marine Holdings Limited	**1,761**	3.0
Business Collaborator Limited	**1,650**	2.8
Immunobiology Limited	**1,612**	2.8
Matillion Limited	**1,569**	2.7
	22,049	37.7
Other investments	**18,416**	31.4
Total investments	**40,465**	69.1

During the quarter to 30 September 2017 the Company made two new investments of £1.2 million into Friska Limited, a Bristol based chain of restaurants and £0.6 million into e2E Engineering Limited, a leading technical consultancy operating in the telecommunications market with particular expertise in satellite communications.

In the quarter to 30 September 2017 the realisation and repayment of investments generated cash proceeds of £0.6 million, including £0.2 million from the realisation of the Company's final interest in Harvey Jones. This takes the total return on this investment to £2.2 million, a multiple of 1.4x cost.

Portfolio Performance

Over the quarter to 30 September 2017 aggregate unrealised portfolio valuations have increased by £0.5 million.

The Board continues to follow its policy of maintaining a diversified portfolio. At 30 September 2017, only two investments represented more than 5 per cent of the Company's NAV.

Recent budget

It was pleasing that the Government reaffirmed its commitment to the Venture Capital Trust Schemes as one of the tools to support investment in the UK's small businesses which remain an engine of future growth and innovation. The changes announced seek to focus investment on earlier stage higher risk businesses and away from any capital preservation/asset-backed investments and also to achieve higher levels of investment in qualifying companies.

A new "risk-based principles" test is to be introduced to help achieve the focussing of investments, with guidelines expected to be published on 1 December 2017. Whilst the test will not formally be brought into law until the Finance Bill is given Royal Assent, it is believed that the advance assurance will operate from 1 December 2017 as if the new test applied. Your Board and Investment Adviser welcome the new test and do not believe that its introduction will have a material impact on the Company's operations or investment policy.

There are two new qualifying investment tests; the first is that for the Company as a whole 80 per cent of its investments will have to be held in Qualifying Investments as opposed to the current test of 70 per cent; for the Company this comes into force from 1 January 2020. The second test applies to financial years commencing on or after 6 April 2019 where 30 per cent of any new funds raised have to be invested in Qualifying Investments within 12 months. This will apply for the year ending 31 December 2020. It is not believed that either of these changes will significantly impact the Company.

Outlook

Although we remain in uncertain times and it is unclear what the full implications of the UK's decision to leave the European Union will mean for many businesses, your Board is confident that the businesses in your Company's portfolio should be able to adapt to the new economic environment and the pipeline of new investments is continuing to develop.

The Company is pleased to note the increased level of investment opportunities and, as last year, will be seeking to raise up to €5 million by way of a non-prospectus top-up that it plans to launch on 11 January 2018.

Your Board will continue to seek to grow and diversify the portfolio, recognising that due to the regulatory environment, its composition will change over time as the current portfolio is realised and replaced with growth capital investments in earlier stage, younger businesses. While the current portfolio should continue to generate more consistent returns, in the medium to long term there is likely to be a greater volatility of returns and your Board will continue to monitor its dividend and buy-back policies through this transition.

Your Board remains committed to continuing to build a strong and diversified portfolio to deliver long-term value to shareholders.

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

30 November 2017

For further information please contact:

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