

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the action to be taken, you should immediately consult your bank manager, stockbroker, solicitor, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares in British Smaller Companies VCT2 plc, please send this document and accompanying documents, as soon as possible, to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for delivery to the purchaser or transferee.

British Smaller Companies VCT2 plc

Registered in England and Wales, Co No: 04084003

AMENDMENT TO THE TERMS AND CONDITIONS OF THE COMPANY'S DIVIDEND RE-INVESTMENT SCHEME

BRITISH SMALLER COMPANIES VCT2 PLC

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Directors

Peter Waller
Roger McDowell
Barbara Anderson
Robert Pettigrew

Dear Shareholder

11 December 2020

British Smaller Companies VCT2 plc (the “Company”): Amendment to the Terms and Conditions of the Company’s Dividend Re-investment Scheme (“DRIS”)

The Company’s DRIS has proved extremely effective in allowing Shareholders the opportunity to re-invest dividends in the Company and this has led to a regular and consistent re-investment by many Shareholders.

Currently ordinary shares issued under the Company’s DRIS (“DRIS Shares”) are re-invested at a five per cent discount to the last reported net asset value per ordinary share (“NAV”), as adjusted for the relevant dividend in question, if this has not already been recognised. As recently announced by the Company in its unaudited interim results and interim management report for the six months ended 30 September 2020, following a review of current market practice, the directors of the Company have decided that future issues of DRIS Shares will be re-invested at the last reported net asset value per ordinary share, as adjusted for the relevant dividend in question if this has not already been recognised. This letter gives formal notice of the above change as required under paragraph 18 of the terms and conditions of the DRIS.

Issuing DRIS Shares at a discount to the last reported NAV provides an advantage to those Shareholders in the DRIS and dilutes the value of those Shareholders not in the DRIS. In addition, all other generalist VCTs that operate a DRIS, or equivalent, issue DRIS Shares at the net asset value per ordinary share. The directors have therefore concluded that it is appropriate for the Company to issue future DRIS Shares at the net asset value per ordinary share.

The terms and conditions of the DRIS, amended as above, which include instructions on joining the DRIS and terminating participation in the DRIS, are set out in the appendix to this letter and are available from the Company’s website at www.bscfunds.com

Further Information on the DRIS

The DRIS provides the Company’s Shareholders with the opportunity to re-invest the cash dividends paid by the Company through the issue of new DRIS Shares.

DRIS Shares issued by the Company under the DRIS will be new ordinary shares issued by the Company and will, subject to an individual Shareholder’s particular circumstances, attract VCT tax reliefs applicable for the tax year in which the DRIS Shares are allotted. The upfront UK income tax relief currently available to an investor in new VCT shares is 30% of the amount invested (subject to the annual restrictions on VCT investment of £200,000, including subscriptions pursuant to dividend re-investment schemes).

The tax consequences of a Shareholder choosing to participate in the DRIS will depend on their personal circumstances and specialist independent tax and financial advice should be obtained before entering the DRIS.

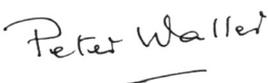
Further Information

If you have any queries regarding the contents of this letter or the DRIS in general, please contact Link Group:

By telephone: 0371 664 0324 (lines are open from 9.00am to 5.30pm Monday to Friday and calls to this number are charged at local rate); or

By post: Corporate Actions, Link Group, Central Square, 29 Wellington Street, Leeds LS1 4DL.

Yours faithfully



Peter Waller
Chairman

Terms and Conditions of the BSC2 Dividend Re-investment Scheme

- 1 Shareholders on the register of members of the Company at the close of business on the relevant Record Date may elect to receive New Ordinary Shares, credited as fully paid, instead of receiving the dividend in cash for the relevant financial period (“the full cash dividend”). The election may, subject to conditions 4(d) and 4(e) below, only be made by Shareholders in respect of the whole (and not part only) of their holding of Ordinary Shares and shall, subject to conditions 7 and 16 below, operate as a mandate in respect of all future dividends declared in respect of their Ordinary Shares after the date on which the Shareholder joins the Scheme whilst the Scheme continues to be operated by the Company, unless and until the Shareholder gives notice to terminate his or her participation in the Scheme in accordance with the terms of the Scheme.
- 2 Shareholders may only join the Scheme if all dividends on the Ordinary Shares registered in their name are mandated to the Scheme. Any additional Ordinary Shares which the Participating Shareholder buys, and which are registered in their name prior to the relevant Record Date for any dividend they are entitled to, will be covered by the Mandate Form they have submitted and such Participating Shareholder will receive New Ordinary Shares instead of cash dividends for their entire holding of Ordinary Shares.

If a Shareholder buys Ordinary Shares on or after the ex-dividend date for any relevant dividend, that Shareholder will not be entitled to receive that dividend in respect of those Ordinary Shares.
- 3 The Company shall invest the monies held within the Scheme (being dividends paid on Ordinary Shares by, or on behalf of, Participating Shareholders) in the subscription of New Ordinary Shares in the Company. The Company shall not have the discretion to vary such investments and Shareholders may not instruct the Company to make any other investments.
- 4 (a) On or as soon as practicable after a day on which any dividend is paid to Shareholders (a “Re-investment Day”), the funds held by the Company on behalf of each Participating Shareholder shall be applied on behalf of that Shareholder in the subscription for the maximum number of New Ordinary Shares as can be acquired with those funds.

(b) The number of New Ordinary Shares issued to a Participating Shareholder pursuant to condition 4(a) above shall be calculated by dividing the aggregate value of the dividends paid on the Ordinary Shares to which the Participating Shareholder is entitled by the greater of (i) the net asset value per Ordinary Share being the most recently announced net asset value per Ordinary Share as at the date the dividend is paid (as adjusted for the relevant dividend in question if this has not already been recognised in the most recently announced net asset value); and (ii) the nominal value per Ordinary Share.

(c) No fractions of New Ordinary Shares will be issued under the Scheme and subject to conditions 4(d) and 4(e) below the election may only be made by Shareholders in respect of the whole and not part of their shareholdings. Any balance of cash remaining with the Company after the subscription shall be held by the Company on behalf of the Participating Shareholder to whom it relates and added to the cash available in respect of that Shareholder for the subscription of New Ordinary Shares on the next Re-investment Day. No interest shall accrue or be payable by the Company in favour of any Shareholder on any such cash balances.

(d) The Scheme involves the re-investment of the whole dividend paid on each shareholding each time a dividend is paid by the Company, together with any cash residue brought forward from the previous dividend. The Directors may, at their discretion, allow Shareholders to make a partial re-investment of

dividends, where they are acting on behalf of more than one beneficial holder, for example, through a nominee shareholding made in CREST or other custodians, nominees or trustees. A CREST Dividend Election Input Message must contain the number of Ordinary Shares for which the election is being made. A cash dividend will automatically be paid on any Ordinary Shares which are not specified in a CREST Dividend Election Input Message.

- (e) Shareholders holding Ordinary Shares in certificated form who might wish to make a partial election should contact Link Asset Services to find out how to divide their holding so that they can make a re-investment election on the required number of Ordinary Shares.
- 5 The Company shall on the relevant Re-investment Day take all necessary steps to ensure that the Participating Shareholders are entered onto the share register of the Company as the registered holders of the New Ordinary Shares (as the case may be), issued to them under the Scheme, and that share certificates in respect of such Shares issued are posted to the Participating Shareholders at their own risk as soon as is reasonably practical. CREST members who have validly elected to receive New Ordinary Shares will have their CREST accounts credited directly with the relevant New Ordinary Shares.
- 6 To assist Participating Shareholders with their tax returns, attached to the new share certificates will be a Statement of Entitlement, or if shares are held in uncertificated form (that is CREST), a Statement of Entitlement will be sent to the Participating Shareholder's nominee separately, detailing the following:- (i) the total dividend payable; (ii) the subscription price per New Ordinary Share; (iii) the number of New Ordinary Shares allotted to a Participating Shareholder; (iv) the residual cash balance (if any) representing an entitlement to a fraction of a New Ordinary Share to be carried forward to the next dividend; and (v) the cash equivalent of the New Ordinary Shares issued, together with any such other information as shall be required under the Listing Rules of the Financial Conduct Authority.
- 7 Application to join the Scheme can be made at any time. If you hold your Shares in certificated form this can be done by returning a completed Mandate Form so as to be received by the Company's registrars, Corporate Actions, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by no later than 5.00pm on the Election Date of a dividend which is to be re-invested. Mandate Forms received by that time on an Election Date shall be effective in relation to the dividend to which the Election Date relates and any future dividends in respect of which the Directors offer a dividend re-investment alternative. Mandate Forms received after 5.00pm on an Election Date shall not be effective in relation to the dividend to which the Election Date relates but shall be effective in respect of any future dividends in respect of which the Directors offer a dividend re-investment alternative. Please note that no acknowledgement of receipt of Mandate Forms will be issued by the Company or by Link Asset Services.
- Shareholders who hold their Ordinary Shares in CREST can only elect to receive relevant dividends in the form of New Ordinary Shares by use of the CREST Dividend Election Input Message. A CREST Dividend Election Input Message must be received by 5.00pm on the Election Date for the relevant dividend to be effective. Shareholders holding their Ordinary Shares through CREST should note that any election made to participate in the Scheme via a CREST Dividend Election Input Message will only apply to the dividend in question and not to any subsequent dividends in respect of which the Directors offer a dividend re-investment alternative. Such Shareholders will need to make a separate election using the CREST Dividend Election Input Message each time the Directors offer a dividend re-investment alternative for a particular dividend.
- 8 If, prior to the day on which the Ordinary Shares became ex-dividend, a Shareholder has sold all or some of his or her holdings in Ordinary Shares, the Shareholder should consult his or her stockbroker or agent without delay.

9 An application will be made to the Financial Conduct Authority for admission of the New Ordinary Shares to the Official List and to the London Stock Exchange plc for admission to trading on the London Stock Exchange plc's market for listed securities (together "Admission"). On issue, the New Ordinary Shares will rank *pari passu* in all respects with the existing issued Ordinary Shares and will rank so for future dividends. Subject to Admission, definitive share certificates for the New Ordinary Shares will be posted as soon as practicable following Admission at the risk of the persons entitled to them. Where New Ordinary Shares are issued as uncertificated shares, as soon as practicable following Admission, the Company will arrange for the relevant Participating Shareholders' stock accounts in CREST to be credited with their entitlement to New Ordinary Shares and a Statement of Entitlement (as detailed in condition 6) will be posted to their nominee. New Ordinary Shares will be allotted as and when the Directors determine it appropriate, with Admission and Dealings expected within 10 Business Days of allotment.

In the event that Admission does not become effective, Mandate Forms and/or CREST Dividend Election Input Messages will be disregarded in respect of the dividend and the full cash dividend will be paid as soon as possible in the usual way.

10 Further copies of this document and/or Mandate Forms and/or instructions for submitting a CREST Dividend Election Input Message may be obtained from Corporate Actions, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or from the Company's website at www.bscfunds.com

11 All costs and expenses incurred in administering the Scheme will be borne by the Company.

12 Each Shareholder applying to participate in the Scheme will be deemed to warrant to the Company in the Mandate Form or CREST Dividend Election Input Message that (i) during the continuance of his or her participation in the Scheme he or she will remain the sole beneficial owner of the Ordinary Shares mandated to the Scheme free from encumbrances or security interests; and (ii) all information set out in the Mandate Form or CREST Dividend Election Input Message is correct and, to the extent any of the information changes, he or she will notify the changes to the Company.

13 Each Participating Shareholder acknowledges that neither the Company nor Link Asset Services nor YFM is providing a discretionary management service. Neither Link Asset Services, nor YFM nor the Company shall be responsible for any loss or damage to Participating Shareholders as a result of their participation in the Scheme unless due to the wilful negligence or default of the Company, its servants or agents.

14 The financial calendar and procedure for future dividends (and any dividend re-investment alternative offered under the Scheme) both as to any final and/or interim and/or special interim dividend will be notified in writing to Shareholders and/or published through a regulatory information service.

15 A Participating Shareholder who does not hold their Ordinary Shares in CREST may at any time, by giving written notice to Link Asset Services by 5.00pm on the Election Date prior to the relevant Re-investment Day, terminate his or her participation in the Scheme. A Participating Shareholder who holds their Ordinary Shares in CREST may cancel a CREST Dividend Election Input Message by no later than 5.00pm on the Election Date. If a Participating Shareholder shall at any time cease to hold any Ordinary Shares in the Company, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme in respect of such shares. If a Shareholder in whose name Ordinary Shares are held on behalf of a Participating Shareholder shall at any time cease to hold any such shares on behalf of that Participating Shareholder, he or she shall be deemed to have served such a notice in respect of his or her participation in the Scheme.

- 16 The Company shall be entitled, at any time and from time to time, to suspend the operation of the Scheme in whole or in part and/or to terminate the Scheme without notice to the Participating Shareholders. Circumstances under which the Company, acting by its Directors, might suspend or terminate the Scheme include, but are not limited to, changes in legislation governing Venture Capital Trusts (including changes in available tax reliefs) and adverse market conditions in the public markets. The Directors shall also be entitled, at any time and from time to time, to give each Participating Shareholder the opportunity to choose to dis-apply their mandate in respect of a particular special interim dividend, as may at any time and from time to time be declared by the Company, to which the Participating Shareholder is entitled, and to instead receive the full cash dividend.
- 17 All notices and instructions to be given to the Company shall be in writing and delivered or posted to Corporate Actions, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Applications to participate in the Scheme will be made by way of a Mandate Form in the prescribed form (as may be amended from time to time) as provided by the Company.
- 18 The Company shall be entitled to amend the Scheme's terms and conditions on giving one month's notice in writing to all Participating Shareholders. If such amendments have arisen as a result of any change in statutory or other regulatory requirements, notice of such amendment will not be given to Participating Shareholders unless in the Company's opinion, the change materially affects the interests of Participating Shareholders. Amendments to the Scheme's terms and conditions which are of a formal, minor or technical nature, or made to correct a manifest error and which do not adversely affect the interests of Participating Shareholders, may be effected without notice.
- 19 By completing and delivering a Mandate Form and/or a CREST Dividend Election Input Message the Participating Shareholder will (i) be deemed to have agreed to provide the Company with any information which it may request in connection with such application and to comply with legislation relating to Venture Capital Trusts or other relevant legislation (as the same may be amended from time to time) and (ii) be deemed to have declared that no loan has been made to the Participating Shareholder or any associate, which would not have been made, or not have been made on the same terms but for the Participating Shareholder offering to subscribe for, or acquiring, New Ordinary Shares, and that the Shares are being acquired for bona fide commercial purposes and not as part of a scheme or arrangement, the main purpose of which is the avoidance of tax.
- 20 Subscriptions for Venture Capital Trust shares only attract tax reliefs if in any tax year subscriptions to all Venture Capital Trusts do not exceed £200,000 (including subscriptions pursuant to dividend re-investment schemes). From 17 July 2014, investors can subscribe for VCT shares via a nominee and obtain income tax relief for their subscription. Participating Shareholders under the Scheme are responsible for ascertaining their own tax status and liabilities and the Company cannot and does not accept any liability in the event they do not receive any Venture Capital Trust tax reliefs, or such reliefs are reduced or restricted in any way.
- 21 Since dividends on Venture Capital Trust shares (including subscriptions pursuant to dividend re-investment schemes) acquired in excess of £200,000 in any tax year will not be exempted from income tax in the same way as VCT shares acquired within this limit, Participating Shareholders will generally be liable to tax on such dividends.

22 The election to receive New Ordinary Shares in place of the cash dividend is not being offered to, or for the benefit of, any citizen of the United States, Canada or Australia, any corporation, partnership or other entity created or organised in, or under the laws of the United States, Canada or Australia or any political sub-division thereof or with a registered office in any of these countries or any estate or trust, the income of which is subject to United States Federal, or Canadian, or Australian income taxation regardless of its source. "United States" means United States of America (including the District of Columbia). References to the United States, Canada and Australia include their territories, possessions and all areas subject to their jurisdiction.

No person receiving a copy of this Circular and/or the Mandate Form and/or the CREST Dividend Election Input Message in any territory other than the United Kingdom may treat it as constituting an invitation to him or her unless in the relevant territory such an invitation could lawfully be made to him or her without complying with any registration or other legal requirements. **It is the responsibility of the Shareholder outside the United Kingdom wishing to elect to receive New Ordinary Shares to satisfy himself or herself as to the full observance of the laws of the relevant territory in connection with the offer, including obtaining any governmental or other consents which may be necessary and observing any other formalities requiring to be observed in such territory.**

23 The Company shall not be required to issue New Ordinary Shares hereunder if the Directors so decide.

24 These Scheme terms and conditions shall be governed by, and construed in accordance with, English law and each Participating Shareholder submits to the jurisdiction of the English courts and agrees that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with the Scheme in any other manner permitted by law or in any court of competent jurisdiction.

Shareholders in any doubt about their tax position should consult their independent professional adviser.