Octopus AIM VCT 2 plc

Annual report and accounts for the year ended 30 November 2023

Company number: 05528235

For UK investors only

octopus investments

Octopus AIM VCT 2 plc (the 'Company') is a venture capital trust (VCT) which aims to provide shareholders with attractive tax-free dividends and long-term capital growth by investing in a diverse portfolio of predominantly AIM-traded companies. The Company is managed by Octopus Investments Limited ('Octopus' or the 'Investment Manager').

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Financial summary

	30 November 2023	30 November 2022
Net assets (£'000)	**84,690**	101,794
Loss after tax (£'000)	**(15,709)**	(36,695)
Net asset value (NAV) per share (p)	**47.9**	61.6
Dividends per share paid in year (p)	**4.1**	4.2
Total return (%)[1]	**(15.6)**	(27.5)
Final dividend proposed (p)[2]	**1.8**	2.3
Special dividend proposed (p)[2]	**3.6**	–
Ongoing Charges (%)[3]	**2.2**	2.2

[1]Total return is an alternative performance measure calculated as movement in NAV per share in the period plus dividends paid in the period, divided by the NAV per share at the beginning of the period.

[2]Subject to shareholder approval at the Annual General Meeting, the proposed final and special dividends will be paid on 27 June 2024 to shareholders on the register on 31 May 2024.

[3]Ongoing Charges is an alternative performance measure calculated using the AIC recommended methodology, refer to page 24 for commentary on the movement.

Definitions of key terms and alternative performance measures shown above and throughout this report are shown in the Glossary of Terms on page 74.

Key dates

Annual General Meeting	16 May 2024
Final dividend payment date	27 June 2024
Half-yearly results to 31 May 2024 announced	August 2024
Annual results to 30 November 2024 announced	March 2025

Chair's statement

Introduction
Firstly, I would like to welcome all new shareholders who have joined us in the past year.

The year to 30 November 2023 has been another extremely challenging period for stock markets in general, and smaller companies in particular, with the Alternative Investment Market ('AIM') Index once again the worst performer in 2023. The very real issue of inflation and the need to tighten monetary policy by raising interest rates further than had been anticipated when I wrote this statement a year ago has prolonged the pain for the share prices of companies exposed to growth sectors. It has also posed a particular challenge to the early stage companies in the portfolio which have yet to attain profitability. Against this background, the net asset value (NAV), which had already fallen by 8.8% on a total return basis in the first half of the year, declined further, ending the year 15.6% behind on a total return basis, in line with the AIM Index.

In the year under review AIM raised £1.6 billion of new capital, for new and existing companies, a decrease on the £3.0 billion raised in the previous year and a substantial fall from the high of £8.7 billion in 2021, reflecting continuing volatile market conditions. For the second year running new issues were very subdued and the majority of fundraisings in 2023 were for existing AIM companies seeking further capital. The Investment Manager made £3.9 million of new qualifying investments, down from £6.1 million the previous year. Although significant geo-political risks remain, market sentiment has improved more recently, with market commentators and economists taking a more optimistic stance on inflation and interest rates in 2024. The Investment Manager expects the pipeline of potential new issues to strengthen later this year, supplementing existing companies seeking further finance.

Performance
The NAV on 30 November 2023 was 47.9p per share, a sharp decline from the NAV of 61.6p per share reported at 30 November 2022. Adding back the 4.1p of dividends paid in the year, to adjust the year-end NAV to 52.0p, gives a total return decrease of 15.6%. In the same year, the FTSE AIM All-Share Index fell by 14.2%, the FTSE SmallCap (excluding investment trusts) Index increased by 2.7% and the FTSE All-Share Index rose by 1.8%, all on a total return basis.

As always, it was stock-specific factors that had the most significant impact on performance, and these are covered in more detail in the Investment Manager's Review. As interest rates rose during the year investors became less willing to take risks and this had the greatest impact on the earlier stage companies exposed to the new economy (emerging, high growth industries expected to boost economic growth and productivity) which make up a significant proportion of our investment portfolio. The purpose of a VCT is to provide capital for small, growth companies at an early stage and the benefits of doing so have been clear in past periods. However, in the year under review it was the smallest AIM companies which were the worst performers. Additionally, AIM as a whole trailed the other UK indices because of its concentration of growth stocks and the larger and more profitable holdings in the portfolio saw valuations retreat to levels last seen at the time of the financial crisis. The FTSE Small Cap Index (excluding Investment Trusts) fared much better, helped by a strong recovery in November. It has a much narrower membership and its constituents were less affected by the conditions described above.

Dividends
In November 2023 an interim dividend of 1.8p was paid to all shareholders. The Board is recommending a final dividend in respect of the year to 30 November 2023 of 1.8p per share totalling 3.6p in respect of the year, which is a 6.2% yield on the prior year closing share price of 58.0p, all paid from special distributable reserves. In addition, as a result of taking exceptional profits in a number of long-term holdings during the year, most notably the full disposal of Ergomed, the Board is proposing a special dividend of 3.6p which will be paid at the same time as the final dividend. Including the special dividend, the total dividend in respect of the year is 7.2p which is a 12.4% yield on the prior year closing share price. Subject to the approval of shareholders at the Annual General Meeting ('AGM'), both dividends will be paid on 27 June 2024 to shareholders on the register on 31 May 2024. It remains the Board's intention to maintain a minimum annual dividend payment of 3.6p per share or a 5% yield based on the prior year closing share price, whichever is greater. This will usually be paid in two instalments during each year.

Shareholders are encouraged to ensure that the details held for them by the registrar remain accurate and to check whether they have received all dividends payable to them. This is particularly important for those who move house or change their bank account or email address. We are aware that some dividends remain unclaimed by shareholders, so if you believe you are impacted by this, please contact our registrar, Computershare, at the details provided on page 75.

Cancellation of share premium account
At the last AGM, shareholders voted to cancel share premium to increase the pool of distributable reserves by the amount of £13.6 million. This is a regular occurrence to enable the continued payment of dividends and buyback of shares.

Board changes
There have been no board changes during the year although Elizabeth Kennedy has announced her intention to step down at the AGM in May. We thank her for her years of service to the Board, and wish her well in retirement. The Board have undertaken a recruitment process and were delighted to announce the appointment of Virginia Bull as a Director from 1 January 2024.

Dividend reinvestment scheme
In common with a number of other VCTs, the Company has established a dividend reinvestment scheme (DRIS) following approval at the AGM in 2014. Some shareholders have already taken advantage of this opportunity. For investors who do

not need income, but value the additional tax relief on their reinvested dividends, this is an attractive scheme and I hope that more shareholders will find it useful. Over the course of the year 2,557,239 new shares have been issued under this scheme, returning £1.3 million to the Company. The final and special dividends referred to above will be eligible for the DRIS.

Share buybacks
During the year to 30 November 2023 the Company continued to buy back shares in the market from selling shareholders and purchased 6,011,097 Ordinary shares for a total consideration of £3.1 million. We have maintained a discount of approximately 4.5% to NAV (equating to up to a 5% discount to the selling shareholder after costs), which the Board monitors and intends to retain as a policy which fairly balances the interests of both remaining and selling shareholders. Buybacks remain an essential practice for VCTs, as providing a means of selling is an important part of the initial investment decision and has enabled the Company to grow. As such, I hope you will all support the appropriate resolution at the AGM.

Share issues
On 14 September 2023, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million, with a £10 million over-allotment facility. The offer closed fully subscribed on 21 December 2023 with £11.4 million being raised for the Company, £7.0 million of which was raised in the year to 30 November 2023. A total of 17,713,658 shares were issued during the year, raising £8.4 million after costs for the Company.

Liquidity
The issue of liquidity within investment funds has remained a topic of discussion this year. Shareholders may be interested to know that at the year end, 37.5% of the Company's net assets were held in cash or collective investment funds including funds managed by the team at Octopus and money market funds, providing short-term liquidity, 54.3% in individual quoted shares and 8.6% was held in unquoted single company investments. Shareholders should be aware that a proportion of the quoted securities may have limited liquidity owing to the size of the portfolio company and the overall proportion held by the Company.

VCT status
Shoosmiths LLP provide the Board and Investment Manager with advice concerning continuing compliance with HMRC regulations for VCTs. The Board has been advised that the Company is in compliance with the conditions laid down by HMRC for maintaining approval as a VCT. A key requirement is to maintain at least an 80% qualifying investment level. As at 30 November 2023, the level was 85.4%.

Annual General Meeting
The AGM will take place on 16 May 2024 at 12.00pm. Further information can be found in the Notice of Annual General Meeting on pages 76 to 79. The Investment Manager will provide an update on the Company's activities and future plans at the AGM.

Formal notices will be sent to shareholders by their preferred method (email or post) and shareholders are encouraged to submit their votes by proxy. We always welcome questions from our shareholders at the AGM. Please send these via email to **AIMVCT2AGM@octopusinvestments.com** by 5.00pm on 13 May 2024 if you are unable to attend the AGM in person.

If your shares are held through a nominee account, formal notices will be sent to your nominee.

Outlook
Although significant geo-political and economic risks remain, the positive stock market reaction to lower inflation figures in November demonstrated how quickly share prices can turn when commentators start to believe that interest rates will start to fall in response to a more positive macro-economic environment. Strategists are now aligned on interest rate cuts later in 2024 which will be supportive of a recovery in equity markets following a very challenging period. Meanwhile GDP and corporate earnings continue to hold up better than many analysts were predicting, reinforcing the Investment Manager's belief that any further impact on corporate earnings is already reflected in share prices at current valuations.

The portfolio contains 83 holdings across a range of sectors with exposure to some exciting new technologies in the environmental and healthcare sectors. Although the current market environment remains challenging for those companies in need of further funding, this can provide the Investment Manager with good opportunities to invest newly raised cash at attractive valuations. The balance of the portfolio towards profitable companies remains, with the majority of these now trading at a significant valuation discount to their long term averages.

We are also pleased that the sunset clause in place for April 2025, regarding eligibility of VCT's for tax relief, has been extended to April 2035 and seems likely to be removed all together in due course.

Keith Mullins

Keith Mullins
Chair
7 March 2024

Investment Manager's review

Introduction

Many of the equity market and economic trends seen in 2022 flowed through into 2023. Concerns about rising inflation, continued interest rate hikes, the possibility of a protracted recession and a consumer credit crunch affected sentiment for most of the year. Moreover, geo-political conflict continues unabated, from Russia's war with Ukraine to violence in the Middle East. This dampened investor sentiment and, in its wake, fuelled equity market volatility for most of the year. However, we ended the year with inflation data confirming that UK inflation had begun to ebb and that the widely anticipated recession might not appear. Furthermore, this led to a growing consensus amongst strategists and economists, that the UK (and other major global economies) will see a fall in interest rates in the coming year. This should provide much needed and long-awaited support for equity markets, particularly small growth companies, following a very challenging period. In 2024, the debate amongst market strategists and economists is focused on whether inflation will stay on its downward path, interest rates will be cut aggressively, and if upcoming elections will bring in any impactful changes.

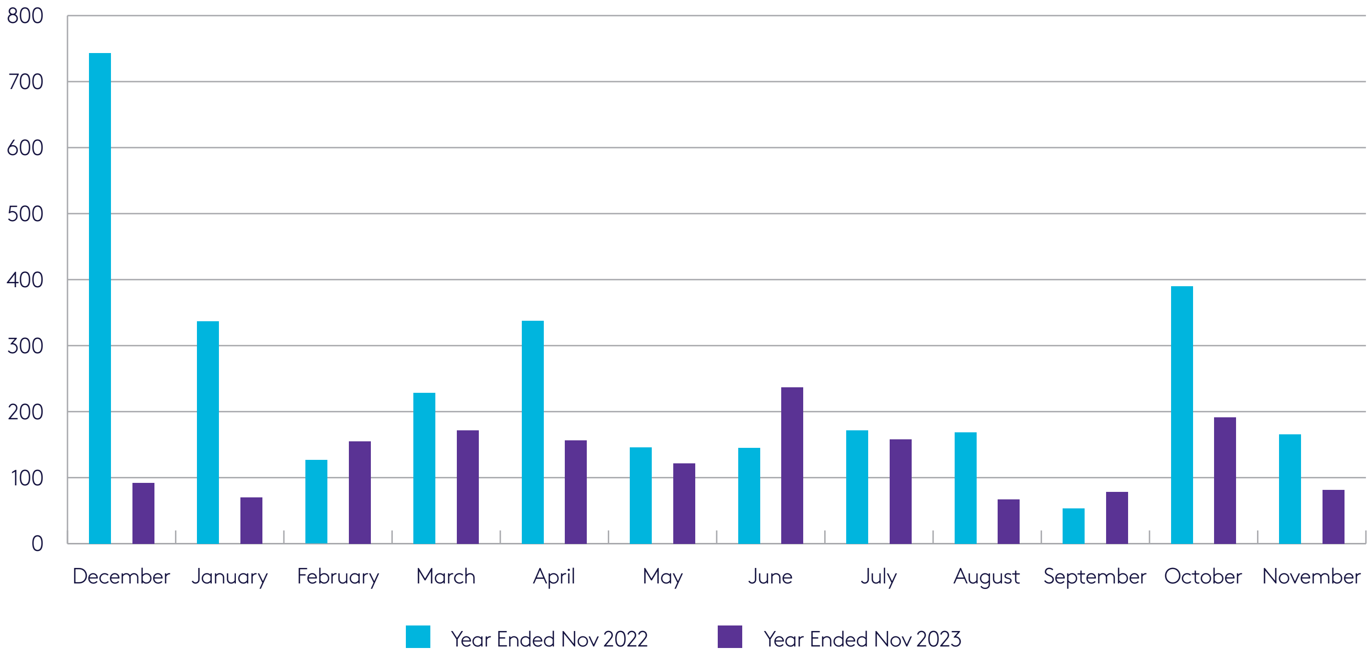
Against a challenging macro-economic and stock market environment, AIM continued to retreat over the period signalling that small, growth companies remained out of favour. Despite this, AIM raised further capital for existing listed companies and the AIM Initial Public Offering ('IPO') market (albeit slower), was still active in the second half of the year. With the appetite for risk still to rebound, small, growth companies in the UK remain undervalued and well below their long-term valuation range, which in turn creates a strong opportunity for potential revaluation when stock markets recover. Since the period end some confidence has been restored, helped by encouraging January and February trading updates.

The Alternative Investment Market

The performance of AIM over the last year was disappointing, with the appetite for small growth companies impacted more by macro-headwinds compared to its larger peers. In the 12 months to November 2023 the AIM Index fell by 14.2% compared with an increase of 2.7% for the FTSE SmallCap index (excluding investment companies) and a rise of 1.8% for the FTSE All-Share Index, all on a total return basis.

The graph below shows total fundraising by AIM companies each month throughout the year to 30 November 2023.

Funds raised on AIM (£m): December 2022-November 2023



Source: London Stock Exchange.

AIM has a high exposure to growth stocks in the software, technology and healthcare sectors, which counted against it as sentiment moved against highly rated growth stocks as inflationary and recessionary pressures intensified. Although VCTs have additional constraints on what they can invest in, the AIM Index is considered to be the most appropriate broad equity market index for comparative purposes, given the nature of the underlying investments. The FTSE SmallCap and All-Share indices provide wider market context. The continued movement away from growth and momentum-driven shares and subsequent weak performance of AIM versus its market peers, highlighted that investors sought value in more traditional sectors which has been the case for the last two years.

The rate of IPOs on AIM remained slow, while the number of companies leaving the market throughout 2023 picked up pace. There was a total of 14 IPOs on AIM over the year, compared to 31 the previous financial year. AIM ended the year with 760 companies, which was down 7% on the previous year. We still believe in the importance of functioning equity markets as a driver of growth in the UK, particularly at the smaller, growth company end, where the Company invests. Although the pipeline for new issues remains active in the new financial year, the significance of VCTs as a critical funding platform for smaller companies remains which is evident by the flow of further fundraisings on AIM over the year and since the year end albeit at a slower speed than previous years. In the year to 30 November 2023 AIM raised £1.5 billion of new capital for existing companies, which compares to a figure of £2.7 billion the previous year. Furthermore, we were encouraged by the government's decision to address pension policy reform, in the Mansion House Reforms in the Treasury's Autumn Budget statement.

Performance

Adding back the 4.1p of dividends paid in the year, the NAV total return was a loss of 15.6%. This compares with a fall in the FTSE AIM All-Share Index of 14.2%, a rise in the FTSE SmallCap (excluding investment companies) of 2.7% and a small rise in the FTSE All-Share Index of 1.8% all on a total return basis. The last year was again characterised by months of significant market volatility in response to both global and local economic uncertainty. Rising inflationary and interest rate expectations were the dominant theme and seeped their way into weaker consumer confidence and the reality of a credit crunch affected many in the UK. This was not helped as the impact of variable rates extended to those ending fixed rate arrangements. As a result, the soft landing of lower energy and food prices in the latter part of the year was barely felt. Despite the squeeze on consumer spending, interest rate expectations continued to rise more steeply than had previously been anticipated. Between December 2021 and August 2023, the Bank of England raised interest rates a total of 14 times from a low of 0.1% to the current level of 5.25%. Against this background, performance in the FTSE AIM All-Share Index was affected by the momentum away from smaller, growth companies and the move towards lower risk appetite drove the investment in traditional sectors and larger well-established companies. This largely explains the fall in the NAV in the year under review. The portfolio's relatively high exposure to higher rated growth companies (particularly healthcare and technology sectors) was detrimental to performance in a market environment where risk averse investors have little appetite for earlier stage growth stocks. Predictably, volatile market dynamics led to greater investor focus not just on product/service offering, but on healthy balance sheets and the ability to access financing. The VCT rules require investment to be made at this early stage and the benefits of doing so have been clear in many past periods.

Some of the larger, profitable holdings in the portfolio were affected by the poor market sentiment towards AIM growth stocks, which included GB Group, IDOX plc and Craneware. Learning Technologies was the biggest detractor to the performance of the portfolio over the year. The company's trading performance was affected by the challenging macro environment which impacted both transaction and project-based work. However, this has prompted a much needed refocus on profitability and technology redevelopment. Furthermore, the company recently embarked on a plan to accelerate its support of higher growth areas of the business that are more aligned with its core proposition of digital learning and talent management, through the sale of non-core assets which will enable it to fund future value-enhancing acquisitions. Libertine Holdings had a very challenging year. Despite this the company continuing to support the integration of its HEXAGEN™ technology platform with Hyliion Holdings Corp. and develop its intelliGEN™ technology platform through grant funded operations with the Department for Business, Energy and Industrial Strategy, alongside a number of other commercial projects. Furthermore, the company has completed work on performance validation prototypes for both the intelliGEN™ and HEXAGEN™ platforms and is currently working on performance and durability enhancements, which it is confident will meet the requirements of Original Equipment Manufacturer product development programmes expected to commence in 2024. However, the need for further raising to enable the development of its technology weighs down on the share price performance. SDI Group disappointed a couple of times over the year due to the end of a contract with Atik cameras, which had been lucrative over the Covid period. However, we are encouraged by the recent change in the management team and the new CEO comes with a wealth of operational experience in the sector. Later in the year, Sosandar announced its decision to open own-branded retail outlets in the UK and the move away from being a pure play retail online business came as a surprise to the market, affecting its rating. Though the decision will likely increase the costs of the business in the short term, the instore retail offering allows the company to capitalise on the growth of its brand visibility and popularity in existing major UK retail stores (both instore and online) which include Sainsbury's Tu, NEXT and Marks & Spencer. Encouragingly, and despite slowing down its

Investment Manager's review continued

discount strategy, the company had a strong calendar year end trading period and has returned to quarterly profitability. ENGAGE XR, the spatial computing and metaverse technology company, had a mixed trading year. Although the company continues to expand its reach globally, including securing contracts with global banks, the slippage of a few sizeable contracts over the year has led to a recent downgrade. However, we are encouraged by the progress the company is achieving across the US.

On the positive side, we have seen many companies in the portfolio report solid trading performances over the period which was reflected in their share prices and contributed positively to the portfolio performance. This included Breedon, who continued to benefit from its dynamic pricing strategy and focus on operational excellence throughout the year, putting them in a strong position despite macro-economic and industry headwinds. As a result, the company had a series of revenue and profit upgrades during the year. Equipmake, the provider of electric drivetrain solutions for heavy vehicles and aerospace, made progress over the year and now has working buses in York and secured contracts within the global aerospace industry. Although a positive contributor to the portfolio over the year, Vertu Motor's trading performance has been affected by tough conditions in the used car market. Wholesale values in the used market reduced significantly at the latter end of the year as a result of the higher supply of new cars. This coupled with weak consumer demand impacted sales volumes. Having had a fairly volatile share price performance the previous year, Ergomed had a solid trading performance throughout the year, recording strong revenue and profit growth. However, the company was approached by Premia, a private equity firm and the bid was duly accepted. Other exits in the portfolio over the year and since the period end include Adept Telecom, TP Group, Glantus and Falanx.

In our private company holdings, Hasgrove had its valuation increased over the year due to a growing recurring revenue base and a strong balance sheet. General market weakness that impacted quoted company share price performance resulted in the proportion of the portfolio represented by unquoted investments increasing. The bases of valuation of unquoted holdings is set out in note 10 to the financial statements.

Portfolio activity

Having made two qualifying investments at a total cost of £1.2 million in the first half of the year, we added two new qualifying investments totalling £1.4 million as well as two follow-on investments totalling £1.3 million in the second half of the year. This made a total investment of £3.9 million in qualifying investments for the year, a decrease on last year's £6.3 million, reflecting a slower AIM market for both fundraisings and new issues. Post the year end, we have invested a further £2.1 million in 5 qualifying investments.

Of the two first half investments, one was a follow-on investment in Equipmake Holdings plc and one was a new entrant to AIM, Itaconix plc.

We invested in two new issues in the second half of the year, Tan Delta Systems plc and Eden Research plc, and made follow on investments into Haydale Graphene Industries plc and Rosslyn Data Technologies plc. In August, we made a £0.3 million investment in Tan Delta Systems plc, a global manufacturer of real-time oil quality monitoring sensors and systems and a new entrant to AIM. In September, we invested approximately £0.5 million in Rosslyn Data Technologies plc, a United Kingdom-based provider of a cloud-based enterprise data analytics platform and an existing AIM-listed company. In November, we made two investments, a follow-on investment in Haydale Graphene Industries plc (£0.8 million), a supplier of production quantities of functionalized graphene nanomaterials for innovative materials development and a new investment in Eden Research plc (£1.1 million), a company that develops and supplies biopesticide products and natural microencapsulation technologies.

During the year we sold partial holdings in eight companies, six of these where we took profits into rising share prices, Judges Scientific, Cirata, EKF Diagnostics, Equipmake, Nexteq and Intelligent Ultrasound. We also had full disposals of six holdings being Adept Telecom plc, Ergomed, Osirium Technologies, TP Group, Itsarm and Glantus Holdings. Total disposals made a £3.8 million gain over original cost and generated £9.2 million of cash proceeds.

Non-qualifying investments are used to manage liquidity while awaiting new qualifying investment opportunities. Although we still hold some existing non-qualifying AIM holdings where we see the opportunity for further share price progress, we continued to reduce some of these holdings in the year under review. During the year we increased our holdings in the FP Octopus Micro Cap Fund, FP Octopus Multi Cap Income Fund and the FP Octopus Future Generation Fund, investing a total of £2.0 million over the period and disposed of part of our holding in FP Octopus UK Multi Cap Income Fund for £1.5 million.

VCT regulations

There have been no further changes to the VCT regulations since publication of the previous set of audited accounts, however the sunset clause was extended to 2035 in the recent Autumn statement. As a reminder, the current requirements are that 30% of any funds raised should be invested in qualifying holdings within 12 months of the end of the accounting period in which the shares were issued, and the Company has to maintain a minimum of 80% of the portfolio (at HMRC value) invested in qualifying holdings. We are determined to maintain a threshold of quality and to invest where we see the potential for returns from growth. At present there has been only gradual change to the profile of the portfolio, as we continue to hold the larger market capitalisation companies, in which we invested several years ago as qualifying companies, or which we bought in the market prior to the rule changes where we see the potential for them to continue to grow.

In order to qualify, companies must:

- have fewer than 250 full time equivalent employees; and
- have less than £15 million of gross assets at the time of investment and no more than £16 million immediately post investment; and
- be less than seven years old from the date of its first commercial sale (or ten years if a knowledge intensive company) if raising state aided (i.e. VCT) funds for the first time; and
- have raised no more than £5 million of state aided funds in the previous 12 months and less than the lifetime limit of £12 million (or since 6 April 2018 £10 million in 12 months, £20 million lifetime limit if a knowledge intensive company); and
- produce a business plan to show that the funds are being raised for growth and development.

Outlook and future prospects

Against a backdrop of economic, geopolitical and market uncertainty, risk appetite, particularly for smaller companies, remains low leaving UK equities materially undervalued relative to other developed markets. The macro dynamics continue to be a key area of focus with a particular attention on the direction of inflation and timing of interest rate cuts which appear to be the main lever driving market sentiment. Consensus among economists still indicates that interest rates have peaked, with cuts on the way this year expected by the end of the third quarter. The news that the UK is in a recession following the economy's contraction for two consecutive quarters in 2023 has dampened some of the market momentum seen at the end of 2023. However, we have been encouraged by the number of positive trading statements and general news flow from many holdings in the portfolio since the period end. We believe that smaller, growth companies, in particular, offer exceptional value, reflected by many holdings within the portfolio trading at historically low valuation multiples not seen since the Financial Crisis. Reassuringly, the VCT qualifying pipeline remains active and the current market conditions provide opportunities to invest at attractive valuations.

The Octopus Quoted Companies team
Octopus Investments Limited
7 March 2024

Investment Manager's review continued

Investment portfolio

Portfolio company	Sector	Book cost as at 30 November 2023 £'000	Cumulative change in fair value £'000	Fair value as at 30 November 2023 £'000	Movement in year £'000	% equity held by Octopus AIM VCT 2	% equity held by all funds managed by Octopus	Fair value as a % of Octopus AIM VCT 2 NAV
Quoted investments								
Breedon Group plc	Construction & Materials	573	2,731	3,304	415	0.28%	0.70%	3.90%
Judges Scientific plc	Electronic & Electrical Equipment	188	2,535	2,723	363	0.46%	1.14%	3.22%
Equipmake Holdings plc	Software & Computer Services	1,285	1,405	2,690	777	3.14%	7.93%	3.18%
Craneware plc	Health Care Providers	479	2,054	2,533	(750)	0.44%	3.63%	2.99%
IDOX plc	Software & Computer Services	356	2,013	2,369	(82)	0.82%	7.00%	2.80%
Learning Technologies Group plc	Software & Computer Services	701	1,537	2,238	(1,786)	0.39%	7.83%	2.64%
Vertu Motors plc	Retailers	777	816	1,593	710	0.55%	1.79%	1.88%
Netcall plc	Software & Computer Services	356	1,222	1,578	(216)	1.34%	3.39%	1.86%
SDI Group plc	Electronic & Electrical Equipment	119	1,429	1,548	(967)	1.43%	3.57%	1.83%
Animalcare Group plc	Pharmaceuticals & Biotechnology	824	682	1,506	(376)	1.46%	2.37%	1.78%
Brooks Macdonald Group plc	Investment Banking & Brokerage Services	610	801	1,411	(110)	0.45%	15.57%	1.67%
GB Group plc	Software & Computer Services	337	934	1,271	(510)	0.22%	6.46%	1.50%
Maxcyte Inc	Pharmaceuticals & Biotechnology	689	529	1,218	(329)	0.32%	1.32%	1.44%
Intelligent Ultrasound Group plc	Medical Equipment & Services	1,437	(254)	1,183	(54)	4.39%	10.97%	1.40%
Sosandar plc	Retailers	1,235	(108)	1,127	(523)	3.24%	11.37%	1.33%
Next 15 Group plc	Media	302	777	1,079	(438)	0.15%	11.92%	1.27%
EKF Diagnostics Holdings plc	Medical Equipment & Services	737	257	994	(533)	0.80%	2.31%	1.17%
PCI-Pal plc	Software & Computer Services	732	139	871	(162)	3.09%	7.74%	1.03%
Diaceutics plc	Health Care Providers	620	122	742	130	0.97%	2.67%	0.88%
Nexteq plc	Technology Hardware	339	395	734	(492)	1.10%	2.76%	0.87%
Eden Research plc	Chemicals	1,080	(349)	731	(349)	3.12%	7.79%	0.86%
Haydale Graphene Industries plc	Industrial Materials	1,238	(515)	723	(121)	9.35%	23.37%	0.85%
Access Intelligence plc	Software & Computer Services	501	133	634	(351)	0.89%	2.13%	0.75%
LungLife AI Inc	Pharmaceuticals & Biotechnology	1,386	(756)	630	(197)	3.09%	7.72%	0.74%
Ilika plc	Electronic & Electrical Equipment	706	(87)	619	197	0.88%	2.21%	0.73%
Beeks Financial Cloud Group plc	Software & Computer Services	302	301	603	(241)	0.92%	3.01%	0.71%
Itaconix plc	Industrial	1,059	(499)	560	(498)	3.08%	10.73%	0.66%
Spectral AI Inc	Health Care Providers	1,410	(898)	512	(205)	1.43%	5.91%	0.60%
Gamma Communications plc	Telecommunications Service Providers	183	320	503	(19)	0.05%	6.95%	0.59%
Feedback plc	Medical Equipment & Services	1,000	(530)	470	(81)	5.04%	12.75%	0.55%
RWS Holdings plc	Industrial Support Services	99	310	409	(149)	0.05%	5.14%	0.48%

Investment portfolio continued

Portfolio company	Sector	Book cost as at 30 November 2023 £'000	Cumulative change in fair value £'000	Fair value as at 30 November 2023 £'000	Movement in year £'000	% equity held by Octopus AIM VCT 2	% equity held by all funds managed by Octopus	Fair value as a % of Octopus AIM VCT 2 NAV
Oberon Investments Group plc	Investment Banking & Brokerage Services	576	(208)	368	(74)	2.02%	8.48%	0.43%
Gear4music Holdings plc	Leisure Goods	352	11	363	114	1.21%	3.02%	0.43%
Ixico plc	Pharmaceuticals & Biotechnology	697	(336)	361	(336)	5.15%	12.87%	0.43%
Gooch & Housego plc	Technology Hardware & Equipment	281	67	348	34	0.27%	11.82%	0.41%
TPXimpact Holdings plc	Software & Computer Services	653	(318)	335	(44)	0.96%	2.39%	0.40%
DP Poland plc	Travel & Leisure	677	(346)	331	69	0.44%	1.11%	0.39%
Clean Power Hydrogen plc	Alternative Energy	1,137	(821)	316	(493)	0.94%	2.36%	0.37%
Cambridge Cognition Holdings plc	Health Care Providers	400	(97)	303	(366)	1.64%	4.09%	0.36%
Mattioli Woods plc	Investment Banking & Brokerage Services	101	187	288	(5)	0.09%	13.71%	0.34%
Restore plc	Industrial Support Services	171	113	284	(143)	0.09%	12.70%	0.34%
MyCelx Technologies Corporation	Oil, Gas & Coal	980	(698)	282	142	2.36%	24.07%	0.33%
Tan Delta Systems plc	Oil Services	302	(35)	267	(35)	1.59%	3.97%	0.32%
Creo Medical Group plc	Medical Equipment & Services	981	(730)	251	(47)	0.22%	1.57%	0.30%
Libertine Holdings plc	Industrial Engineering	2,000	(1,750)	250	(1,250)	7.18%	18.14%	0.30%
Advanced Medical Solutions Group plc	Medical Equipment & Services	190	46	236	(82)	0.05%	12.65%	0.28%
Velocity Composites plc	Aerospace & Defense	533	(301)	232	75	1.17%	2.93%	0.27%
ENGAGE XR Holdings	Software & Computer Services	1,253	(1,027)	226	(1,059)	1.96%	10.61%	0.27%
Rosslyn Data Technologies plc	Software & Computer Services	646	(444)	202	(209)	8.80%	22.01%	0.24%
Crimson Tide plc	Software & Computer Services	378	(195)	183	(81)	1.92%	4.79%	0.22%
Verici Dx plc	Pharmaceuticals & Biotechnology	444	(295)	149	(75)	1.10%	2.78%	0.18%
KRM22 plc	Closed End Investments	453	(312)	141	(68)	1.27%	3.18%	0.17%
Evgen Pharma plc	Pharmaceuticals & Biotechnology	700	(560)	140	(446)	3.18%	7.96%	0.17%
Gelion plc	Electronic & Electrical Equipment	760	(632)	128	(139)	0.39%	0.96%	0.15%
GENinCode plc	Medical Equipment & Services	800	(691)	109	(91)	1.90%	4.74%	0.13%
Northcoders Group plc	Software & Computer Services	253	(152)	101	(152)	1.05%	2.63%	0.12%
Cordel Group plc	Software & Computer Services	296	(201)	95	(43)	0.99%	2.47%	0.11%
Strip Tinning Holdings plc	Electronic & Electrical Equipment	337	(264)	73	(46)	1.18%	2.95%	0.09%
Enteq Upstream plc	Oil, Gas and Coal	687	(615)	72	3	0.97%	2.43%	0.09%
XP Factory PLC	Travel & Leisure	659	(593)	66	(17)	0.28%	0.70%	0.08%
DXS International plc	Software & Computer Services	200	(137)	63	(50)	3.90%	9.76%	0.07%
Mears Group plc	Industrial Support Services	51	–	51	16	0.02%	0.44%	0.06%
ReNeuron Group plc	Pharmaceuticals & Biotechnology	990	(944)	46	(220)	2.02%	5.06%	0.05%

Investment Manager's review continued

Investment portfolio continued

Portfolio company	Sector	Book cost as at 30 November 2023 £'000	Cumulative change in fair value £'000	Fair value as at 30 November 2023 £'000	Movement in year £'000	% equity held by Octopus AIM VCT 2	% equity held by all funds managed by Octopus	Fair value as a % of Octopus AIM VCT 2 NAV
Polarean Imaging plc	Medical Equipment & Services	458	(418)	40	(380)	0.35%	0.88%	0.05%
Fusion Antibodies plc	Health Care Providers	497	(458)	39	(217)	1.00%	2.50%	0.05%
Renalytix plc	Health Care Providers	228	(194)	34	(101)	0.19%	0.54%	0.04%
Abingdon Health plc	Medical Equipment & Services	347	(313)	34	19	0.30%	0.74%	0.04%
1Spatial plc	Software & Computer Services	200	(170)	30	1	0.06%	3.71%	0.03%
Velocys plc	Alternative Energy	664	(645)	19	(346)	0.50%	1.26%	0.02%
Cirata plc	Software & Computer Services	52	(35)	17	(175)	0.03%	0.07%	0.02%
Cloudified Holdings Ltd	Industrial Support Services	600	(587)	13	(107)	3.80%	9.50%	0.01%
Genedrive Plc	Pharmaceuticals & Biotechnology	145	(134)	11	(5)	0.15%	0.38%	0.01%
Tasty plc	Travel & Leisure	336	(325)	11	(22)	0.76%	1.61%	0.01%
LoopUp Group plc	Software & Computer Services	197	(193)	4	(6)	0.10%	0.24%	0.00%
Microsaic Systems plc	Electronic & Electrical Equipment	922	(921)	1	(6)	0.27%	0.68%	0.00%
Trackwise Designs plc	Technology Hardware & Equipment	1,289	(1,289)	–	(217)	0.28%	0.70%	0.00%
Location Sciences Group plc	Software & Computer Services	509	(509)	–	(1)	0.01%	0.02%	0.00%
The British Honey Company plc	General Retailers	880	(880)	–	(277)	4.74%	11.86%	0.00%
Total quoted investments		**47,922**	**(1,903)**	**46,019**	**(13,905)**			**54.34%**
Unquoted equity investments								
Hasgrove Limited		153	4,948	5,101	1,465	2.54%	12.81%	6.02%
Popsa Holdings Limited		1,060	921	1,981	(1,604)	4.30%	10.74%	2.34%
The Food Marketplace Ltd		200	(145)	55	(105)	4.40%	10.99%	0.06%
Eluceda Limited		200	(189)	11	(162)	1.60%	4.01%	0.01%
Rated People Limited		236	(235)	1	(22)	0.07%	0.32%	0.00%
Airnow Limited		838	(838)	–	–	0.28%	0.73%	0.00%
Total unquoted equity investments		**2,687**	**4,462**	**7,149**	**(428)**			**8.43%**
Loan notes								
Rosslyn Data Technologies plc (Loan)	Software & Computer Services	120	–	120	–	n/a	n/a	0.14%
Total loan notes		**120**	**–**	**120**	**–**	n/a	n/a	**0.14%**

Investment portfolio continued

Portfolio company	Sector	Book cost as at 30 November 2023 £'000	Cumulative change in fair value £'000	Fair value as at 30 November 2023 £'000	Movement in year £'000	% equity held by Octopus AIM VCT 2	% equity held by all funds managed by Octopus	Fair value as a % of Octopus AIM VCT 2 NAV
Current asset investments								
FP Octopus UK Micro Cap Growth Fund		5,012	138	5,150	(878)	n/a	n/a	6.08%
FP Octopus UK Multi Cap Income Fund		2,888	37	2,925	(124)	n/a	n/a	3.45%
FP Octopus UK Future Generations Fund		860	(139)	721	(45)	n/a	n/a	0.85%
Total current asset investments		**8,760**	**36**	**8,796**	**(1,047)**			**10.38%**

Total fixed and current asset investments	**62,084**
Money market funds	21,893
Cash at bank	1,045
Debtors less creditors	(332)
Total net assets	**84,690**

Investment Manager's review continued

Top ten holdings

Listed below are the ten largest investments by value, comprised of eight quoted level 1 investments which are valued at bid price and two level 3 investments which are valued in accordance with International Private Equity and Venture Capital Valuation (IPEV) guidelines and approach set out in note 10 on pages 60 to 62, as at 30 November 2023:

Hasgrove Limited (unquoted)

Hasgrove is the holding company for Interact, a SaaS business which provides an intranet product which focuses on the communication and collaboration requirements of large organisations.

Initial investment date:	November 2008
Cost:	£153,000
Valuation – see note 10 to the financial statements:	£5,101,000
Equity held by Octopus AIM VCT 2 plc:	2.54%
Fair value as a % of NAV:	6.02%
Last audited accounts:	31 December 2022
Revenue:	£29.4 million
Profit before tax:	£8.1 million
Net assets:	£13.1 million
Dividends received in year:	£nil

Breedon Group plc

Breedon Group is a leading construction materials group operating in Great Britain and Ireland.

Initial investment date:	August 2010
Cost:	£573,000
Valuation at bid price:	£3,304,000
Equity held by Octopus AIM VCT 2 plc:	0.28%
Fair value as a % of NAV:	3.90%
Last audited accounts:	31 December 2022
Revenue:	£1,396.3 million
Profit before tax:	£132.3 million
Net assets:	£1,043.5 million
Dividends received in year:	£0.11 million

Judges Scientific plc

Judges Scientific is a UK-based company focused on acquiring and developing companies within the scientific instrument sector. Its companies are primarily United Kingdom-based with products sold worldwide to a diverse range of markets, including higher education institutions, the scientific communities, manufacturers and regulatory authorities.

Initial investment date:	May 2012
Cost:	£188,000
Valuation at bid price:	£2,723,000
Equity held by Octopus AIM VCT 2 plc:	0.46%
Fair value as a % of NAV:	3.22%
Last audited accounts:	31 December 2022
Revenue:	£113.2 million
Profit before tax:	£16.0 million
Net assets:	£54.5 million
Dividends received in year:	£0.03 million

Top ten holdings continued

Equipmake Holdings plc

Equipmake Holdings operates as a UK based provider of electric powertrain solutions, focussing on automotive, aerospace, and marine markets. Specialising in the design, engineering, and manufacturing of turnkey electrification systems

Initial investment date:	July 2022
Cost:	£1,285,000
Valuation at bid price:	£2,690,000
Equity held by Octopus AIM VCT 2 plc:	3.14%
Fair value as a % of NAV:	3.18%
Last audited accounts:	31 May 2023
Revenue:	£5.1 million
Loss before tax:	£5.0 million
Net assets:	£13.8 million
Dividends received in year:	£nil

Craneware plc

Craneware is the leading provider of software and support services for the US healthcare industry. Its services and solutions include patient engagement, charge capture and pricing, claims analysis, revenue recovery and retention, and cost analytics.

Initial investment date:	September 2007
Cost:	£479,000
Valuation at bid price:	£2,533,000
Equity held by Octopus AIM VCT 2 plc:	0.44%
Fair value as a % of NAV:	2.99%
Last audited accounts:	30 June 2023
Revenue:	$174.0 million
Profit before tax:	$13.1 million
Net assets:	$327.8 million
Dividends received in year:	£0.04 million

IDOX plc

IDOX specialises in the development and supply of information and knowledge management products and services. It operates through Public Sector Software and Engineering Information products.

Initial investment date:	May 2008
Cost:	£356,000
Valuation at bid price:	£2,369,000
Equity held by Octopus AIM VCT 2 plc:	0.82%
Fair value as a % of NAV:	2.80%
Last published accounts:	31 October 2023
Revenue:	£73.3 million
Profit before tax:	£7.8 million
Net assets:	£73.3 million
Dividends received in year:	£0.02 million

Investment Manager's review continued

Top ten holdings continued

Learning Technologies Group plc

Learning Technologies provide a comprehensive and integrated range of e-learning services and technologies to corporate and government clients.

Initial investment date:	June 2011
Cost:	£701,000
Valuation at bid price:	£2,238,000
Equity held by Octopus AIM VCT 2 plc:	0.39%
Fair value as a % of NAV:	2.64%
Last audited accounts:	31 December 2022
Revenue:	£596.9 million
Profit before tax:	£40.5 million
Net assets:	£426.3 million
Dividends received in year:	£0.05 million

Popsa Holdings Ltd (unquoted)

Popsa is a software technology company enabling consumers to create photo books on mobile devices from various sources.

Initial investment date:	February 2018
Cost:	£1,060,000
Valuation – see note 10 to the financial statements:	£1,981,000
Equity held by Octopus AIM VCT 2 plc:	4.30%
Fair value as a % of NAV:	2.34%
Last audited accounts:	31 December 2022
Revenue:	£26.7 million
Loss before tax:	£2.1 million
Net assets:	£11.3 million
Dividends received in year:	£nil

Vertu Motors plc

Vertu Motors engages in the distribution and retail trade of automobiles. Its automotive dealership operates under a number of brands.

Initial investment date:	December 2006
Cost:	£777,000
Valuation at bid price:	£1,593,000
Equity held by Octopus AIM VCT 2 plc:	0.55%
Fair value as a % of NAV:	1.88%
Last audited accounts:	28 February 2023
Revenue:	£4,015 million
Profit before tax:	£32.5 million
Net assets:	£341.4 million
Dividends received in year:	£0.04 million

Top ten holdings continued

Netcall plc

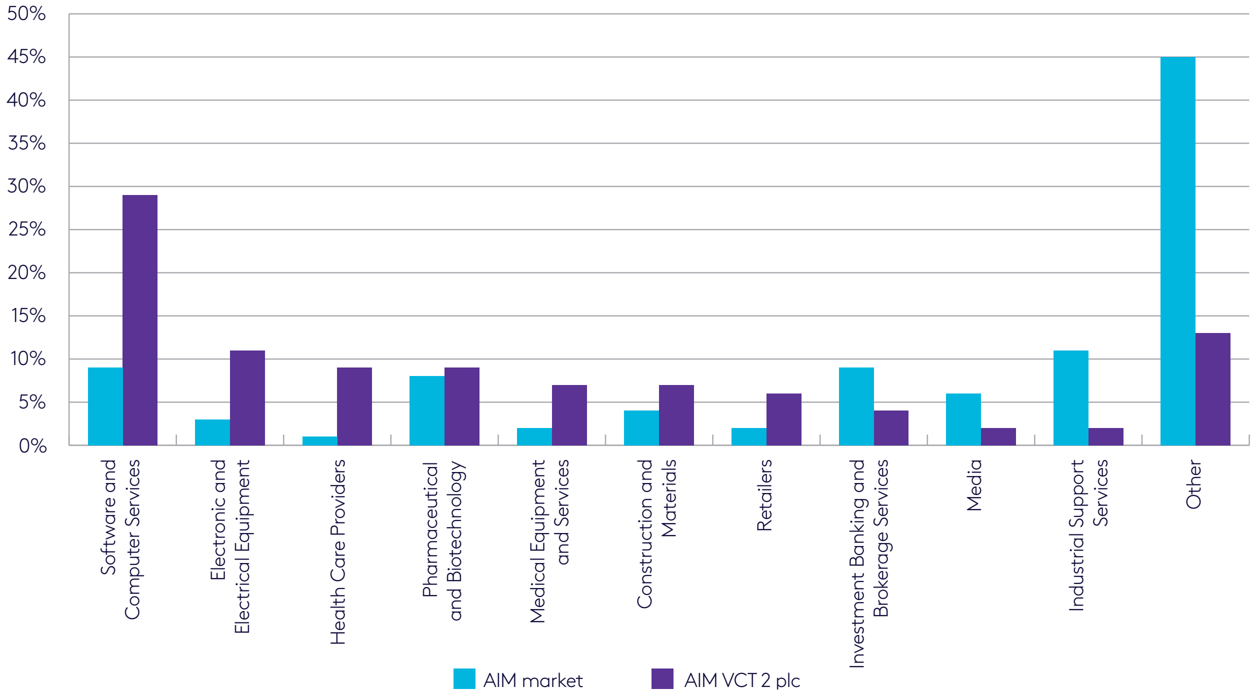
Netcall designs, develops and markets communications, workforce management and business process management software and services to the healthcare, public and private sectors in the United Kingdom and internationally.

Initial investment date:	July 2010
Cost:	£356,000
Valuation at bid price:	£1,578,000
Equity held by Octopus AIM VCT 2 plc:	1.34%
Fair value as a % of NAV:	1.86%
Last audited accounts:	30 June 2023
Revenue:	£36.0 million
Profit before tax:	£4.0 million
Net assets:	£35.4 million
Dividends received in year:	£0.01 million

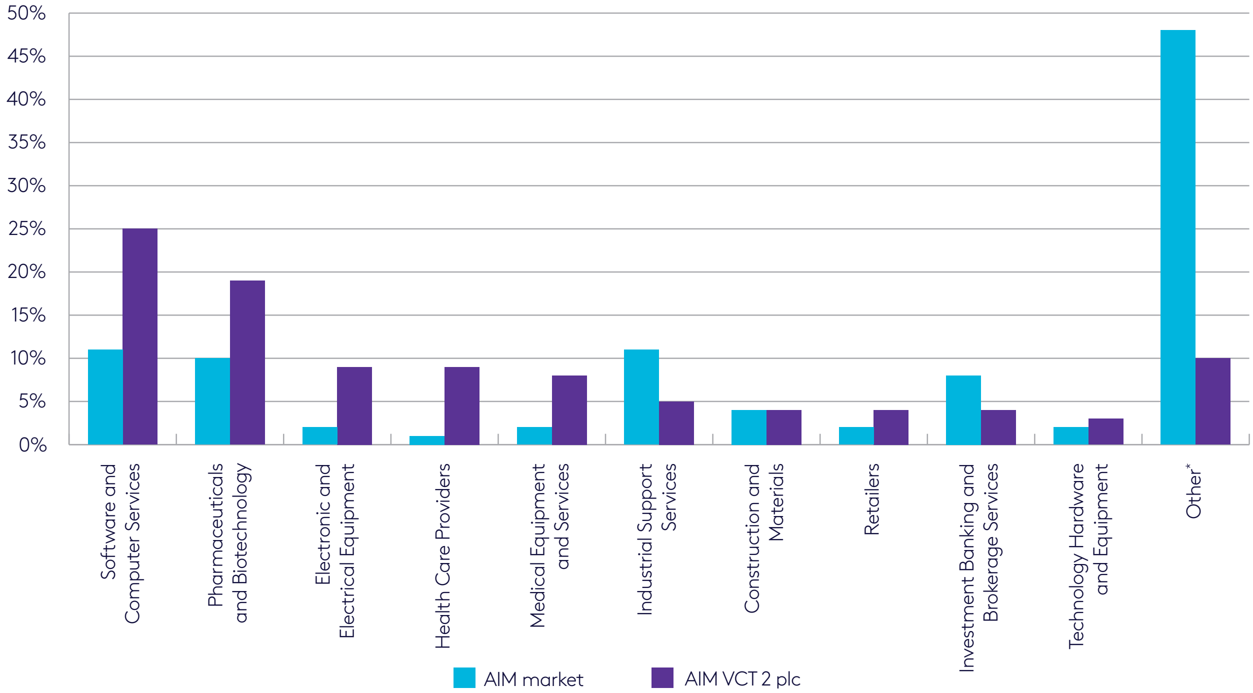
Investment Manager's review continued

Sector analysis

The graph below shows the top ten sectors the equity portfolio was invested in by value as at 30 November 2023. It also shows the sectors of the AIM market as a whole as at 30 November 2023:



The graph below shows the top ten sectors the equity portfolio was invested in by value as at 30 November 2022. It also shows the sectors of the AIM market as a whole as at 30 November 2022:



[1]Other sectors include Industrial Engineering, Media, Alternative Energy, Telecommunications Service Providers, Travel & Leisure, General Retailers, Leisure Goods, Aerospace & Defence, Oil, Gas & Coal, Closed End Investments, and Industrial Materials.

The Investment Manager

Personal service

Octopus was established in 2000 and has a strong commitment to both smaller companies and to VCTs. Octopus also acts as Investment Manager to four other listed investment companies and has a total of over £12.4 billion of funds under management across all products. If you have any questions about this report, or if it would help to speak to one of the fund managers, please do not hesitate to contact us on **0800 316 2295**.

The Quoted Companies team of Octopus comprises:

Kate Tidbury
Kate is the lead manager of the Octopus AIM VCTs and has over 35 years' experience within the UK quoted smaller companies' market. Kate started her City career in 1986 as a research analyst with Sheppards and Chase followed by Panmure Gordon. From 1993 she was an Investment Manager responsible for managing ethical and smaller companies' funds with the Co-operative Bank and Colonial First State Investments. In 2000 she joined Close Brothers Group and was involved in the management of multiple AIM portfolios including the AIM VCTs. In 2008 she joined Octopus Investments and is focused primarily on the management of the AIM VCT portfolios. Kate provides investment management support across all the Quoted Companies team products.

Mark Symington
Mark is a Fund Manager on the Octopus Quoted Companies team, focusing predominantly on the Octopus AIM VCTs. Mark joined Octopus Investments in 2012 having worked previously at asset manager Warwick Wealth in South Africa. He graduated from the University of Cape Town in 2010 with a Bcom in Economics and Finance. In addition, Mark provides analytical and investment management support across all the Quoted Companies team products.

Dominic Weller
Dominic is a Fund Manager on the Octopus Quoted Companies team. Dominic joined Octopus in 2015. Providing analytical and investment support across all the Quoted Companies team portfolios. He is lead manager on the FP Octopus UK Future Generations Fund, and co-manager on the FP Octopus UK Micro Cap Growth Fund, FP Octopus UK Multi Cap Income Fund and the Octopus AIM VCTs. He is a member of the Octopus Investments Responsible Investment Committee and leads the team's stewardship efforts. He is a CFA charter holder.

Freda Isingoma
Freda is a Fund Manager on the Octopus Quoted Companies team, focussing predominately on the AIM VCTs. Freda started her career as an investment analyst at Charterhouse CCF before joining Close Brothers in 2001 focused on managing the AIM VCT, inheritance tax and smaller companies portfolios. In 2008 she moved to South Africa to join Investec Asset Management, where she co-managed the Africa Fund (a listed equity portfolio investing across Africa). In 2010 she ventured into entrepreneurship launching a beauty service brand in South Africa, and more recently a UK based art investment business specialising in providing ecosystem impact solutions for the African art market. She joined Octopus in January 2022 and is focused primarily on the AIM VCT portfolios and provides investment management support across all the Quoted Companies team products.

Richard Power
With overall responsibility for the Quoted Companies team at Octopus, Richard has over 25 years' experience of smaller company investing. He is lead manager of the FP Octopus UK Micro Cap Growth Fund, also oversees the investment process of the team which include the AIM IHT portfolios, and AIM VCTs. Richard is also a co-manager on the FP Octopus UK Multi Cap Income and FP Octopus UK Future Generation Funds. Richard started his career in 1995 at Duncan Lawrie, where he managed a small companies fund. He subsequently joined Close Brothers to manage a smaller companies investment trust before moving to Octopus Investments Limited to head up the Quoted Companies team in 2004. Richard was awarded Trustnet FE fundinfo Alpha Manager status in 2022 acknowledging his proven track record.

Chris McVey
Chris is a Senior Fund Manager within the Octopus Quoted Companies team. He works across all desk portfolios and is lead manager on the FP Octopus UK Multi Cap Income Fund, and a co-manager on the FP Octopus UK Micro Cap Growth and FP Octopus UK Future Generation Funds. He has been a specialist within the quoted UK Smaller Company market for over 20 years. In 2016 he joined Octopus from Citigroup where he led the UK Small and Mid-Cap Equity research team focusing across a variety of sectors. Prior to this he spent almost seven years on the Smaller Companies team at Gartmore Investment Management as an analyst and investment manager. Chris was awarded Trustnet FE fundinfo Alpha Manager status in 2023.

Edward Griffiths
Edward is an experienced portfolio manager, with a City career spanning over 21 years. Having previously worked at Schroders Investment Management Pension Funds and State Street, he joined Octopus investments in 2004 to launch the company's AIM Inheritance Tax Service. Edward is involved primarily in the management of the AIM Inheritance Tax Service portfolios for private individuals and provides investment management and trading support across all the Quoted Companies team products.

Charles Lucas
Charles joined Octopus in 2011 from LV= Asset Management, having previously worked in the Personal Pensions and SIPP space for GE Life and LV=. Charles initially joined Octopus as a member of the operations team, later working as a Project Manager for MiFID II. He joined the Quoted Companies team in 2018 as a Product Development Analyst and is focused on strengthening the team's trading capabilities and performance analytics.

Jessica Sweeney
Jessica joined Octopus in 2014 having graduated from the University of Liverpool the same year, where she studied International Business. She worked in multiple operations functions across Octopus Investments, before moving to the Quoted Companies team in 2018 to co-manage the AIM Inheritance Tax portfolios. Jessica also provides investment and trading support across all the Quoted Companies team mandates.

The Investment Manager continued

Ross MacSween
Ross is a Junior Investment Analyst on the Octopus Quoted Companies team, primarily providing analytical and investment management support across the OEIC offerings as well as assisting on all wider team mandates. He is an Accounting and Finance graduate from Edinburgh University and initially joined Octopus in 2022 on a sales and operations rotation programme.

Ben Tyson
Ben is a Product Analyst on the Octopus Quoted Companies team and is focused on strengthening the team's trading capabilities, performance analytics and operational efficiencies. Ben joined Octopus Investments in 2017, as a member of the operations team. He joined from PwC's Investment Management Tax team and previously worked within the Share Dealing and Share Plans businesses at Capita. He joined the Quoted Companies team in December 2023 having moved from the Investment Operations team where he was a Settlements Subject Matter Expert ('SME').

Martin Jager
Martin is an Investment Analyst on the Octopus Quoted Companies team, primarily providing analytical and investment management support across the AIM VCTs as well as assisting on all wider team mandates. He initially joined Octopus in 2021 as a member of the Finance team and is a Chartered Accountant and graduate from The University of Manchester with a degree in International Management with American Business Studies.

The Investment Manager and Responsible Investment

Octopus is an accredited B Corp and signatory to the internationally recognised Principles for Responsible Investment, demonstrating Octopus' commitment to responsible investment and to creating a more sustainable financial system. The Investment Manager believes that in the future, some of the most successful companies will be a force for good, and that in today's hyperconnected transparent world, how a company behaves is just as important as what it does.

Mission
While the Company doesn't target specific sustainability goals or objectives, the Investment Manager looks for companies which will play an integral role in our future. The purpose of a VCT is to provide capital for small growth companies. Companies exposed to the new economy and technologies make up a significant proportion of the portfolio, which includes those focused on building a sustainable planet, revitalising healthcare, and empowering people. Examples of this include:

- Gelion – global energy storage innovator specialising in the next generation of safe stationary storage technology to maximise reliable energy storage solutions to stand alone power systems.
- Mycelx – provider of clean water technology equipment and related services to the oil and gas, power, marine, and heavy manufacturing sectors.
- Learning Technologies – a market leader in the fast-growing workplace digital learning and talent management market.
- Diaceutics – provider of end-to-end solutions for the launch of precision medicine diagnostics.

Materiality of risks to investments
As part of the investment process, the Investment Manager incorporates a material risk review of sustainability issues. These risks include:

- Environmental: emissions, energy management, waste, ecological impact;
- Social: privacy, security, product quality, selling practices;
- Human: labour, health and safety, diversity;
- Business model: product design, supply chain, material sourcing;
- Leadership: ethics, competitive behaviour, regulatory, critical incidents, and risk management.

The Investment Manager considers the exposure to these risks and how well portfolio companies are managing them. Disclosures relating to climate risks are set out in 'climate-related matters' on page 28.

Responsibility
As part of the investment management approach, the Investment Manager's team discuss the portfolio companies' strategy, financial performance, data disclosures, capital structure and corporate governance with their management teams. Existing governance structures may not be mature (given the small size of portfolio companies), so the team assess whether weaknesses exist and if the company management can address these weaknesses. The team take part in consultations on remuneration and challenge non-executive directors to align with company objectives, aiming to influence by giving feedback to corporate advisers and meeting with non-executive directors and voting on resolutions at general meetings.

When it comes to voting, all holdings are covered by Institutional Shareholder Services (ISS), a leading global advisory firm. The team consider the independent research ISS provides and discuss votes as a team to create long-term shareholder value.

Section 172(1) statement

Introduction

The purpose of the report is to provide shareholders with sufficient information to enable them to assess the extent to which the Directors have performed their legal duty to act in good faith and to promote the success of the Company in accordance with Section 172 of the Companies Act 2006 for the benefit of shareholders as a whole, as set out in the strategic report. KPIs on performance are on pages 23 and 24.

The Directors of a company are required to act in the way they consider will most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172(1) requires a director to have regard, amongst other matters, to the:

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

In discharging the Board's Section 172 duties regard has been given to the above factors. The Board also has regard to other factors where relevant. By considering the Company's purpose and objectives together with its strategic priorities and having a process in place for decision-making, the Board aims to ensure that decision making is consistent and predictable.

As a Venture Capital Trust, Octopus AIM VCT 2 plc has no employees. However, the Directors also assessed the impact of the Company's activities on other stakeholders. The Company considers its shareholders, the Investment Manager, portfolio companies and other service providers to be its key stakeholders.

Shareholder engagement

Shareholder engagement is given high priority by the Board. The Company engages with its shareholders via various media including, but not limited to, the AGM, the Investment Manager shareholder presentation provided at the AGM, the annual report and accounts and market announcements.

The AGM gives shareholders the opportunity to exercise their right to vote on resolutions and engage with the Board and the Investment Manager. Last year, an 19 April 2023 the Company held an online shareholder event that was well attended by over 25 shareholders. The event gave shareholders the opportunity to hear directly from the Investment Manager and the Board, prior to the AGM which was held on 26 April 2023 at the Company's registered office. The voting results from all General Meetings are published on the Company's website.

The Board regularly disseminates information to shareholders, including a weekly NAV and through RNS releases on the London Stock Exchange. Shareholders receive the annual report and accounts which aims to provide a full understanding of the Company's activities and results. This information, together with the half yearly reports, prospectus and other shareholder information, is published via the London Stock Exchange and on the Octopus website at **www.octopusinvestments.com**.

The Board always welcome questions from our shareholders at the AGM. To ensure we are able to respond to any questions you may have, for either the Investment Manager or the Board, we would request that you please send these via email to **AIMVCT2AGM@octopusinvestments.com** by 5.00pm on 13 May 2024.

Provision 4 of the 2018 UK Corporate Governance Code requires a company which has received 20% or more of votes cast against a resolution to explain, when announcing the voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. The Company continues to monitor the 20% threshold for votes cast against Board recommendations for a resolution, but has not yet been required to take any actions in this regard.

Engagement with the Investment Manager

It is normal practice for Venture Capital Trusts to delegate authority for day-to-day management of the Company to an Investment Manager and then to engage with the Investment Manager in setting, approving and overseeing the execution of the business strategy and related policies and all administration and control functions. The Investment Manager attends the scheduled quarterly Board meetings, and other ad-hoc meetings as appropriate, of the Company, ensuring an open dialogue. At every Board meeting a review of financial and operational performance, as well as legal and regulatory compliance, is undertaken. The Board also reviews other areas over the course of the financial year, including: the Company's business strategy; key risks; stakeholder-related matters; diversity and inclusivity; environmental matters; corporate responsibility and governance. The Board formally reviews the performance of the Investment Manager on an annual basis. All Board members complete a questionnaire and discuss the findings before concluding on an outcome.

Engagement with portfolio companies

The Company's performance is directly linked to the performance of its underlying portfolio companies. The Board has delegated the monitoring of its portfolio companies to the Investment Manager which engages with portfolio companies through a programme of regular company meetings as part of its investment process. The Board has also given the Investment Manager discretionary authority to vote on portfolio company resolutions on its behalf as part of its approach to corporate governance.

Section 172(1) statement continued

Engagement with other key stakeholders and environment

The Investment Manager is a key business partner with responsibility for the provision of investment management, administration, custody and company secretarial services.

During the period the Board received sufficient information to assist in understanding the interests and views of the Company's key stakeholders, investors, portfolio companies and service providers to the Company, including the auditor, lawyers and registrar.

The Board recognises the importance of ESG (environmental, social and governance matters) and the Octopus Group, of which the Investment Manager forms a part, was certified as a B Corp in February 2021. B Corp certification is a designation that a business is meeting high standards of verified performance, accountability and transparency on factors from employee benefits and charitable giving to supply chain practices and input materials. Certified B Corps are recognised as leaders in the global movement for an inclusive, equitable and regenerative economy.

The Investment Manager is continuing to develop processes and practices that deliver on ESG principles. This includes the development and implementation of internal processes and checks in line with the UN Principles of Responsible Investing and working towards meeting the requirements of the UK Stewardship Code managed by the Financial Reporting Council. The Investment Manager will continue to monitor the ESG practices of existing portfolio companies and over the coming year we will review our portfolio to confirm our compliance with these expectations. An example of this is the ongoing assessment of the carbon emission levels of companies within the portfolio, and their progression towards furthering sustainability and environmental goals regarding net zero ambition and decarbonisation.

Key decisions made during the year

Some of the key decisions made by the Company during the year that required the Board to take into consideration Section 172(1) factors include:

- In line with the Company's objectives, on 14 September 2023, the Board issued an offer for subscription of shares. This was discussed with the Investment Manager, and allowed new and existing shareholders to invest in the Company.
- The Company continued to buy back shares, providing liquidity to shareholders who wished to sell their shares. The Board maintained a discount of approximately 4.5% to NAV, therefore balancing the interests of both remaining and selling shareholders.
- The Board looks to create shareholder value. During the year, following targets agreed with the Investment Manager, dividends totalling 4.1p were paid to shareholders (comprising a final dividend of 2.3p, in respect of the previous financial year, and an interim dividend of 1.8p).

Business review

The Company's objective

The objective of the Company is to invest in a broad range of Alternative Investment Market (AIM) or Aquis Stock Exchange (AQSE) traded companies in order to provide shareholders with attractive tax-free dividends and long-term capital growth. Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

The Company has been approved as a Venture Capital Trust by HMRC under Section 259 of the Income Taxes Act 2007. The shares of the Company were first admitted to the Official List of the UK Listing Authority and trading on the London Stock Exchange on 25 January 2006 and can be found under the TIDM code 'OSEC'. The Company is main market premium listed.

Investment policy

The Company's investment policy has been designed to enable it to comply with the VCT qualifying conditions. The Board intends that the long-term disposition of the Company's assets will be not less than 85% in a portfolio of qualifying AIM, AQSE exchange traded investments or unquoted companies where in the short to medium term, the management is planning an initial public offering (IPO) on AIM or AQSE. Investments in unquoted companies are not expected to exceed 10% of the Company's invested portfolio.

The non-qualifying balance will be invested in permitted investments held for short-term liquidity, generally comprising short-term cash or money market deposits with a minimum Moody's long-term debt rating of 'A', authorised funds, including those managed by Octopus, or directly in equity investments and bonds. This provides a reserve of liquidity which should maximise the Company's flexibility as to the timing of investments, disposals, dividend payments and share buybacks.

Risk is spread by investing in a number of different businesses across a range of industry sectors. The maximum amount invested in any one company is limited to the amount permitted pursuant to VCT legislation in a fiscal year and no more than 15% of the value of its investment at the time of investment. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale. However, shareholders should be aware that the Company's qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result 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.

The Company's Articles permit borrowings of amounts up to 10% of the adjusted share capital and reserves (as defined in the Company's Articles). However, investments will normally be made using the Company's equity shareholders' funds and it is not intended that the Company will take on any borrowings.

No material changes may be made to the Company's investment policy described above without the prior approval of shareholders by the passing of an Ordinary Resolution. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

Future prospects

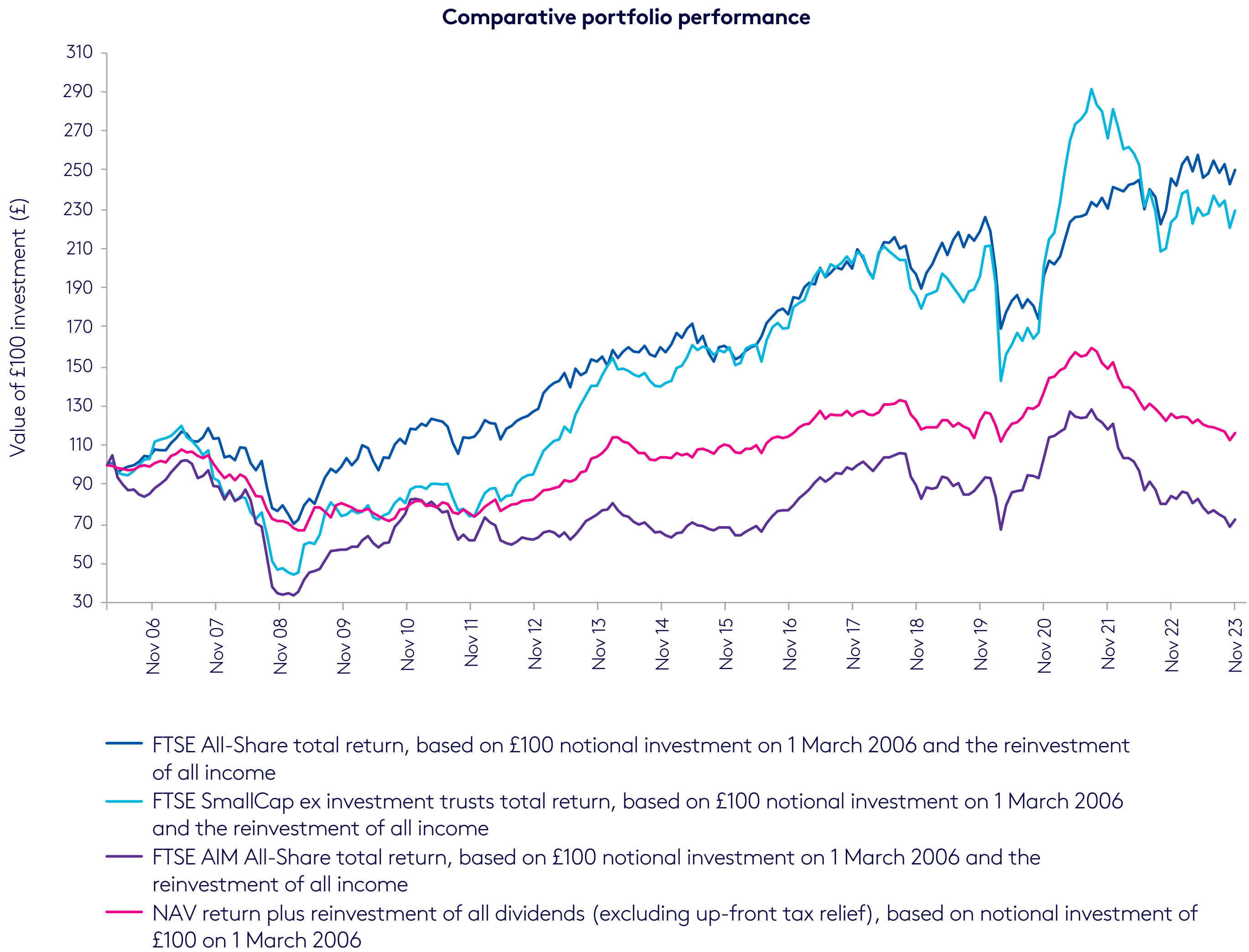
The Company's longer-term stewardship of assets has allowed the Company to maintain the dividend payments to shareholders in line with the dividend policy set out on page 2. The Board believes the Company's business model will enable it to continue to deliver the targeted regular tax-free annual dividends referred to in the Chair's Statement. The Company has a strong cash position which enables investment in new companies and support for existing companies. The outlook statements in both the Chair's Statement and the Investment Manager's Review, on pages 3 and 7 respectively, provide further details on the more immediate prospects of the Company.

Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Octopus through the investment management agreement, as referred to in the Directors' Report.

The graph on page 22 compares the total return of the Company over the period from 1 March 2006 to 30 November 2023 with the total return from notional investments in the FTSE AIM All-Share Index, FTSE All-Share index, and the FTSE SmallCap (ex-investment companies) Index over the same period. The FTSE AIM All-Share Index is a stock market index consisting of all companies quoted on the Alternative Investment Market and the FTSE SmallCap Index is an index of small market capitalisation companies. The Directors consider these to be the most appropriate in helping shareholders benchmark returns from the Company but would remind investors that approximately 16.6% of the FTSE AIM All-Share Index is attributable to resources, mining, investment companies and property stocks which VCTs cannot invest in. VCTs are also limited to investing into companies with certain size and age restrictions. The inclusion of the FTSE All-Share Index is to provide a wider stock market context. Investors should be reminded that shares in VCTs generally continue to trade at a discount to the NAV of the company.

Business review continued



Results and dividends

	Year ended 30 November 2023 £'000	Year ended 30 November 2022 £'000
Loss attributable to shareholders	**(15,709)**	(36,695)
Distributions:		
Interim dividend paid 1.8p (2022 – 2.1p)	**2,927**	3,075
Special dividend proposed 3.6p (2022 – nil)	**6,639**	–
Final dividend proposed 1.8p (2022 – 2.3p)	**3,328**	3,773

The proposed final dividend of 1.8p for the year ended 30 November 2023 and the proposed special dividend of 3.6p will be paid on 27 June 2024 to shareholders on the register on 31 May 2024 subject to approval at the AGM being held on 16 May 2024.

Key performance indicators (KPIs)

As a VCT, the Company's objective is to provide shareholders with attractive dividends and capital return by investing its funds in a broad spread of predominantly quoted UK companies which meet the relevant criteria for VCTs.

The Board has identified five key performance measures to assess the Company's success in meeting these objectives. Some of these are classified as alternative performance measures (APMs[1]) in line with Financial Reporting Council (FRC) guidance. The Glossary of terms on page 74 has further details:

1. NAV per share[1];
2. Total return per share[1];
3. Dividends per share paid in the year;
4. Total ongoing charges[1]; and
5. Qualifying % under VCT rules.

1. NAV per share

The NAV per share of the Company is the sum of the underlying assets less the liabilities of the Company divided by the total number of shares in issue.

Current year (pence per share)	Prior year (pence per share)	Reason for movement
47.9	61.6	The NAV per share has decreased from last year's value of 61.6p to 47.9p. This decrease of 22.2% is largely the result of a market-driven fall in valuations.

2. Total return per share[1]

Total return is calculated as movement in NAV per share in the period plus dividends paid in the period, divided by the NAV per share at the beginning of the period. Total return on the NAV per share enables shareholders to evaluate more clearly the performance of the Company, as it reflects the underlying value of the portfolio at the reporting date. This is the most widely used measure of performance in the VCT sector.

Current year %	Prior year %	Reason for movement
(15.6)	(27.5)	As previously considered, the NAV per share has decreased from last year's value of 61.6p to 47.9p. This gave a total return of -15.6% or a loss of 9.6p per share, after adding back dividends of 4.1p paid in the year.

The Board notes that for the year under review this was in line with the FTSE AIM All-Share Index total return figure of -14.2%. The Board remains confident about achieving the long-term objective of the Company. Performance is also measured against the FTSE SmallCap Index and the FTSE All-Share Index, with the latter being provided for wider stock market context. This is also shown on the graph on the previous page. In the year under review the FTSE SmallCap Index increased by 2.7% and the FTSE All-Share Index rose by 1.8%, all on a total return basis. These indices have been adopted as comparative indices. Further details on performance can be found within the Investment Manager's Review on pages 4 to 7.

3. Dividends per share paid in the year

The Company has a target of paying an annual dividend of 3.6p per share or a 5% yield based on the prior year-end share price, whichever is greater at the time.

Current year (pence per share)	Prior year (pence per share)	Reason for movement
4.1	4.2	The slight reduction in dividend this year is due to the fall in NAV, whilst still maintaining at least a 5% dividend yield.

[1]These KPIs are defined as alternative performance measures (APMs) and are defined in more detail on the Glossary of terms on page 74.

Business review continued

The 4.1p of dividends paid in the year maintains the minimum of 5% dividend yield target. The proposed final dividend of 1.8p and gives a total dividend in respect of the year of 3.6p, which is a yield of 6.2% based on the share price of 58.0p at the prior year end, in line with the Board's policy of paying the higher of a 5% yield or 3.6p of dividends in the year. Including the proposed special dividend of 3.6p gives a total dividend of 7.2p in respect of the year, which is a yield of 12.4%. Dividends are paid semi-annually. It remains the intention of the Board to continue this policy, subject to available cash and distributable reserves. However, this is not a guarantee, and no projection or forecast is expressed or implied. A full list of dividends paid can be found in the table on page 71.

4. Ongoing charges[1]

The ongoing charges ratio has been calculated using the AIC recommended methodology and excludes exceptional costs and trail commission.

Current year %	Prior year %	Reason for movement
2.2	2.2	The ongoing charges ratio has remained the same year on year.

There are a number of costs involved in operating a VCT, these expenses are outlined in note 4 on page 57. The Company has an expense cap of 3.5%. The ongoing charges have been lower than the expense cap for the current and prior year, which is in line with the Board's expectations.

5. Qualifying % under VCT rules

The Company must comply with VCT legislation laid down by HMRC. A key requirement is to maintain at least an 80% qualifying investment level. This percentage is calculated using a formula based on HMRC rules.

Current year %	Prior year %	Reason for movement
85.4	87.3	85.4% (as measured by HMRC rules) by value of the Company's investments has been represented throughout the period by shares or securities comprised in qualifying holdings of the Company. The qualification level has decreased by 1.9% due to lower deployment and disposals made in the current year, so fewer investments are contributing to the 80% qualifying investment level. Further details on VCT regulations can be found within the Investment Manager's Review on page 7.

The Company has continued to meet the 80% qualification investment level. There continues to be sufficient investment opportunities to enable the Investment Manager to comply with these ratios.

The Chair's Statement, on pages 2 and 3, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 4 to 16.

Viability statement

As part of their continuing programme of monitoring risk the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'going concern' provision. The Board conducted this review for a period of five years, which was considered to be a reasonable time horizon given that the Company has raised funds under an offer for subscription which closed to new applications on 21 December 2023 and, under VCT rules, subscribing investors are required to hold their investment for a five year period in order to benefit from the associated tax reliefs. The Board regularly considers the Company's strategy, including investor demand for the Company's shares, and a five-year period is considered to be a reasonable time horizon for this.

The Board carried out a robust assessment of the emerging and principal risks facing the Company and its current position. This includes the impact of the cost of living crisis, the unstable economic environment and any other risks which may adversely impact its business model such as future performance, solvency or liquidity. Particular consideration was given to the Company's reliance on, and close working relationship with, the Investment Manager. The principal risks faced by the Company and the procedures in place to monitor and mitigate them are set out on the following pages.

The Board has also considered the liquidity of the underlying investments and the Company's cash flow projections and found these to be realistic and reasonable. The Company's cash flow includes cash equivalents which are short-term, highly liquid investments.

Based on the above assessment the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 30 November 2028.

[1]These KPIs are defined as alternative performance measures (APMs) and are defined in more detail on the Glossary of terms on page 74.

Risk and risk management

Principal risks, risk management and regulatory environment

The Board carries out a regular review of the risk environment in which the Company operates. The Board seeks to mitigate risks by setting policy, reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies the principles detailed in the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business reporting. Detailed below are what the Board deems to be the principal risks of the Company and the mitigating actions in relation to those risks.

Risk	Mitigation
Investment risk: The focus of the Company's investments is into VCT qualifying companies quoted on AIM and the AQSE exchange, which by their nature entail a higher level of risk and lower liquidity than investments in larger quoted companies.	The Investment Manager has significant experience and a strong track record of investing in AIM and AQSE companies, and appropriate due diligence is undertaken on every new investment. The overall risk in the portfolio is mitigated by maintaining a wide spread of holdings in terms of financing stage, age, industry sector and business models. The Board reviews the investment portfolio with the Investment Manager on a regular basis.
VCT qualifying status risk: The Company is required at all times to observe the conditions for the maintenance of HMRC approved VCT status. The loss of such approval could lead to the Company and its investors losing access to the tax benefits associated with VCT status and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment.	Prior to investment, the Investment Manager seeks assurance that the investment will meet the legislative requirements for VCT investments. On an ongoing basis, the Investment Manager monitors the Company's compliance with VCT regulations on a current and forecast basis to ensure ongoing compliance with VCT legislation. Regular updates are provided to the Board throughout the year. The VCT status adviser formally reviews the Company's compliance with VCT regulations on a bi-annual basis and reports its results to the Board.
Operational risk: The Board is reliant on the Investment Manager to manage investments effectively, and manage the services of a number of third parties, in particular the registrar and tax advisors. A failure of the systems or controls at the Investment Manager or third-party providers could lead to an inability to provide accurate reporting and to ensure adherence to VCT and other regulatory rules.	The Board reviews the system of internal control, both financial and non-financial, operated by the Investment Manager (to the extent the latter are relevant to the Company's internal controls). These include controls that are designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained, as well as any regulatory reporting. Feedback on other third parties is reported to the Board on at least an annual basis, including adherence to service level agreements where relevant.
Information security: A loss of key data could result in a data breach and fines. The Board is reliant on the Investment Manager and third parties to take appropriate measures to prevent a loss of confidential customer information.	Annual due diligence is conducted on third parties which includes a review of their controls for information security. The Investment Manager has a dedicated information security team and a third party is engaged to provide continual protection in this area. A security framework is in place to help prevent malicious events. The Investment Manager reports to the Board on an annual basis to update them on relevant information security arrangements. Significant and relevant information security breaches are escalated to the Board when they occur.
Economic: Events such as an economic recession, movement in interest rates, inflation, political instability and rising living costs could cause volatility in the market, adversely impacting the valuation of investments. This could result in a reduction in the value of the Company's assets.	The Company invests in a diverse portfolio of companies across a range of sectors, which helps to mitigate against the impact of poor performance in any one sector. The Company also maintains adequate liquidity to ensure that it can continue to provide follow-on investment to those portfolio companies which require it and which is supported by the individual investment case. The Investment Manager monitors the impact of macroeconomic conditions on an ongoing basis and provides updates to the Board at least quarterly.

Risk and risk management continued

Legislative: A change to the VCT regulations could adversely impact the Company by restricting the companies the Company can invest in under its current strategy. Similarly, changes to VCT tax reliefs for investors could make VCTs less attractive and impact the Company's ability to raise further funds. Failure to adhere with other relevant legislation and regulation could result in reputational damage and/or fines.	The Investment Manager engages with HM Treasury and industry bodies to demonstrate the positive benefits of VCTs in terms of growing UK companies, creating jobs and increasing tax revenue, and to help shape any change to VCT legislation. The Investment Manager employs individuals with expertise across the legislation and regulation relevant to the Company. Individuals receive ongoing training and external experts are engaged where required.
Liquidity: The risk that the Company's available cash will not be sufficient to meet its financial obligations. The Company invests into smaller companies, which are inherently less liquid than stocks on the main market. Therefore, these may be difficult to realise for their fair market value at short notice.	The Investment Manager prepares cash flow forecasts to ensure cash levels are maintained in accordance with policies agreed with the Board. The Company's overall liquidity levels are monitored on a quarterly basis by the Board, with close monitoring of available cash resources. The Company maintains sufficient cash and readily realisable securities, including money market funds and OEICs, which can be accessed at short notice. At 30 November 2023, 27.1% of net assets was held in cash and cash equivalents, realisable within one business day, and 10.4% in OEICs, realisable in seven business days.
Valuation: For smaller companies or illiquid shares, establishing a fair value can be difficult due to the lack of readily available market data for similar shares, resulting in a limited number of external reference points.	Investments in companies traded on AIM and AQSE exchange are valued by the Investment Manager using closing bid prices as reported on Bloomberg. Where investments are in unquoted companies or where there are indicators the bid price is not appropriate, alternative valuation techniques are used in accordance with the IPEV guidelines. Valuations of unquoted portfolio companies are performed by appropriately experienced staff, with detailed knowledge of both the portfolio company and the market in which it operates. These valuations are then subject to review and approval by the Octopus Valuations Committee, comprised of staff who are independent of the Investment team and with relevant knowledge of unquoted company valuations. The Board reviews valuations after they have been agreed by the Octopus Valuations Committee.

Emerging risks

The Board has considered emerging risks. The Board seeks to mitigate emerging risks and those noted below by setting policy, regular review of performance and monitoring progress and compliance.

The following are some of the potential emerging risks management and the Board are currently monitoring:

- Adverse changes in global macroeconomic environment
- Geo-political tensions
- Climate change

Gender and diversity

The Board of Directors currently comprises two female and three male Non-Executive Directors with considerable experience of the VCT industry and a broad range of skills and backgrounds. All appointments to the Board are made on the basis of ability and knowledge. The composition of the Board, including gender and diversity, is reviewed on an annual basis. As per Listing Rule 9.8.6R (9)(a) 25% of individuals on the Company's Board were women as at 30 November 2023. As the Company is externally managed the roles of CEO or CFO do not exist. No senior Board positions are held by a woman in the Company. Furthermore, no individual on the Board is from a minority ethnic background. Following the period end the Company has met the criteria of Listing Rule 9.8.6R (9)(a) as 40% of individuals on the Board are women.

Please see the tables below which report on gender identity/sex and ethnic background for completeness as at 30 November 2023.

Gender identity or sex

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)
Men	3	75%	Not applicable[1]
Women	1	25%	
Not specified/prefer not to say	–	–	

[1]This column is not applicable as the Company is externally managed and does not have executive management functions, specifically it does not have a CEO or CFO. The Company considers that the role of Chair and Chair of the Audit Committee are senior positions. Of these two senior positions, both are performed by men.

Ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)
White British or other White (including minority white groups)	4	100%	Not applicable[2]
Mixed/Multiple Ethnic Groups	–	–	
Asian/Asian British	–	–	
Black/African/Caribbean/Black British	–	–	
Other ethnic group, including Arab	–	–	
Not specified/prefer not to say	–	–	

[2]This column is not applicable as the Company is externally managed and does not have executive management functions, specifically it does not have a CEO or CFO. The Company considers that the role of Chair and Chair of the Audit Committee are senior positions. Of these two senior positions, both are performed by those from a White British background.

Employee, human rights, social and community issues, environment policy and greenhouse gas emissions

The Board's policy on employee, human rights, social and community issues, environment policy and greenhouse gas emissions is discussed in the Directors' Report on page 31.

Climate-related matters

Whilst not a requirement, the Board has chosen to continue evolving its disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') and has given some initial disclosure under the main headings below, which will continue to evolve over future periods.

- **Governance:** Day-to-day management of the portfolio, and oversight of investment decisions, sits within the Investment Manager's governance structures.
- **Strategy:** The Company makes investments into a range of sectors but the companies receiving funding are small companies primarily listed on AIM. Exposure to climate-related risks is assessed on a deal-by-deal basis by the Investment Manager. The analysis considers transition risks and the physical risks and impacts of climate change for industries and sectors where this has been identified as a material issue. The Investment Manager is also focused on identifying investment opportunities in companies that are well positioned to benefit from the transition to a lower carbon economy.
- **Risk management:** The investment team use guidance from the Sustainability Accounting Standards Board ('SASB') to identify climate-related risks. Where potential material climate-related risks have been identified, the Investment Manager assesses how well the risk is managed by the company through further due diligence. This is raised at the Investment Manager's committee meeting, where appropriate, as part of the investment process and is continually monitored.
- **Metrics:** Where relevant for the industry and sector, the team review metrics reported by the company to understand material exposures, how they are being managed and company performance. This includes areas such as energy management, energy use, carbon footprint disclosures and commitments to appropriate carbon reduction pathways for the sector and industry.

On an aggregated level, the Company's most material climate risk relates to carbon emission; this is due to the underlying portfolio companies having to adapt their business models to successfully transition to a lower/zero carbon footprint. As such, the Investment Manager has taken steps to measure Scope 1 and 2 greenhouse gas emissions. Scope 1 emissions are those directly from company-owned and controlled resources. Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider. Scope 3 emissions are all indirect emissions, not included in Scope 2.

While the ultimate goal is to reduce portfolio emissions to minimise these risks, the immediate goal is to increase data coverage to 100% within the next year. The data coverage is currently 74% (2022: 44%). Given the intricate modelling, lack of data and calculations involved, we regard the analysis as indicative. Current greenhouse gas (GHG) emissions:

Metrics for equity holdings

	Octopus AIM VCT 2 plc 30/11/2023	AIM All Share 30/11/2023	Variance to index 30/11/2023
Scope 1 & 2 emissions (tCO2e)	6,128	6,455	(5%)
Scope 3 emissions (tCO2e)	34,723	68,103	(49%)
Scope 1 & 2 footprint (tCO2e/mGBP invested)	72	76	(5%)
Scope 1 & 2 weighted average carbon intensity (tCO2e/mGBP revenue)	7,437	24,776	(70%)
Percentage of issuer emission data coverage (including estimates)	74%	45%	65%

Consumer Duty

The Directors are aware of the Investment Manager's obligations to comply with the FCA's Consumer Duty rules and principles which came into force in 2023. Firms subject to Consumer Duty must ensure they are acting to deliver good outcomes for consumers and that this is reflected in their strategies, governance, leadership, and policies. The Investment Manager undertook a review of its practices to identify and uplift areas of its operations in order to comply with the Consumer Duty principles which concluded ahead of the Consumer Duty principles coming into force. The Company is not directly captured by Consumer Duty, however the Directors will receive updates from the Investment Manager in order to monitor how the Investment Manager is meeting its obligations.

The Strategic Report was approved on behalf of the Board by:

Keith Mullins
Chair
7 March 2024

Details of Directors

The Board comprises five Directors, all of whom are independent of the Investment Manager. The Directors operate in a non-executive capacity and are responsible for overseeing the investment strategy of the Company. The Board has wide experience of investment in both smaller growing companies and larger quoted companies. All Directors are members of the Audit Committee.

Keith Mullins (Chair)

Keith Mullins joined SG Warburg's investment management division in 1978. The division later developed into Mercury Asset Management and subsequently became Merrill Lynch Investment Managers upon its acquisition by Merrill Lynch in 1998. He therefore has many years' experience as a specialist UK equity fund manager. During this time he was responsible for establishing and managing the team specialising in small and medium-sized pension fund portfolios, and from 2000 he was head of pension fund asset allocation. He left as a managing director of Merrill Lynch Investment Managers in 2001. Keith became a Director of the Company on 14 September 2005.

Andy Raynor FCA

Andy is the non-executive Chair of Potter Clarkson LLP, a leading full-service intellectual property law firm based in the UK and Europe. Andy retired from the position of Chief Executive of Shakespeare Martineau LLP in January 2019, an expanding Midlands and London law firm that he led from 2015 through a period of significant growth in turnover and profits. In addition to Potter Clarkson he also has a portfolio of senior advisory roles in the professional and financial services sector and has held other corporate non-executive roles over many years. Andy joined RSM Tenon Group PLC ('RSM Tenon') in 2001 after its acquisition of the independent partnership formerly known as BDO Stoy Hayward – East Midlands. Andy led the company to win National Firm of the Year 2011 in the British Accountancy Awards. Prior to joining RSM Tenon, he spent almost 20 years with BDO Stoy Hayward – East Midlands, where he was managing partner. Andy became a Director of the Company on 14 September 2005.

Elizabeth Kennedy LLB (Hons)

Elizabeth Kennedy worked for 30 years in corporate finance, principally with Brewin Dolphin Limited, specialising in IPO, secondary issue, takeover code, FCA sponsor and AIM nominated adviser work. She has been a member of the London Stock Exchange's AIM Advisory Group since 1995. She is currently a non-executive Director of a number of companies and a charity including CT Private Equity Trust plc and is a consultant with Davidson Chalmers Stewart LLP. Elizabeth became a Director of the Company on 12 August 2010 when Octopus AIM 2 merged with Octopus Second AIM VCT plc.

Elizabeth will be retiring from the Board from the conclusion of the AGM on 16 May 2024.

Brad Ormsby CA

Brad Ormsby has been Group Finance Director at Judges Scientific plc, the AIM-listed buy and build scientific instruments group, since 2015. He is a Chartered Accountant with significant senior financial and operational experience acquired during his time at PwC and Eurovestech plc, a technology venture capital fund. Prior to joining Judges he was CFO at Kalibrate Technologies plc where he led the company's IPO onto AIM. Brad became a Director of the Company on 1 January 2022.

Virginia (Connelly) Bull

Virginia has almost 20 years of PLC Advisory and Corporate Broking experience working with AIM and Main Market companies. Virginia is a nominated adviser to AIM companies. Currently, Virginia is a Director in the Investec Bank plc Corporate Broking team, focused on partnering with Tech and Media companies along their growth journey. Virginia became a Director of the Company on 1 January 2024.

Directors' report

The Directors present their report and the audited financial statements for the year ended 30 November 2023. The Corporate Governance Report on pages 34 to 37 and the Audit Committee Report on pages 38 and 39 form part of this Directors' Report.

The Directors consider that 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, performance, business model and strategy.

Directors

Brief biographical notes on the Directors are given on page 29.

In accordance with the Articles of Association of the Company, Andy Raynor will retire as Director at the AGM and, being eligible, offer himself for re-election. Virginia (Connelly) Bull, who was appointed on 1 January 2024, offers herself for election and, as announced previously, Elizabeth Kennedy will be retiring from the Board on the conclusion of the business of the 2024 AGM. Following a formal performance evaluation as part of the Board evaluation, the Board believes that all the Directors continue to be effective non-executive Directors, providing considerable experience and continuity to the Company and demonstrating commitment to their roles. In addition the Board has discussed succession planning, and further details of both of these matters can be found on page 35.

Directors' and officers' liability insurance

The Company has, as permitted by s236 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the Company.

VCT regulations

Compliance with required rules and regulations is considered when all investment decisions are made. The Company is further monitored on a continual basis to ensure compliance. The main criteria which the Company must adhere to are outlined below:

The Company is required at all times to hold at least 80% of its investments (as defined in the legislation) in VCT qualifying holdings, of which at least 70% must comprise eligible Ordinary shares.

For this purpose, a 'VCT qualifying holding' consists of up to £5 million invested in any one year in new shares or securities of a UK AIM traded company or an unquoted company which 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, some financial services and asset leasing.

The Finance Act 2014 amended the VCT rules in respect of VCT shares issued on or after 6 April 2014, such that VCT status will be withdrawn if a dividend is paid (or other forms of distribution or payments are made to investors) from the capital received by the VCT from that issue within three years of the end of the accounting period in which shares were issued to investors. This may reduce the amount of distributable reserves available to the Company to fund dividends and share buybacks. However, with share premium cancellations when necessary, the Company currently has sufficient distributable reserves to allow dividends to continue to be paid at a level in line with the Company's current dividend policy.

The Finance Act 2016 introduced a number of changes to VCT rules to bring the legislation into line with EU State Aid Risk Finance Guidelines. The legislation introduced new criteria which stipulate a lifetime cap on the total amount of State Aid investment a company can receive, the age of companies which are eligible for investment and specific requirements relating to the use of the funds raised. See page 7 of the Investment Managers Review for a summary of the requirements.

The Finance Act 2018 made further changes to VCT rules. As referred to earlier on page 7, the Company is required to hold at least 80% of its investments in VCT qualifying holdings as of the last accounting period. The legislation also introduced a new deadline by which the Company must invest at least 30% of the money raised from the issue of shares in qualifying holdings within 12 months of the accounting period in which the shares were issued.

The Company has maintained compliance with VCT legislation for the year under review and intends to continue to do so for future periods

Going concern

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Chair's Statement and Investment Manager's Review on pages 2 and 3 and pages 4 to 16. Further details on the management of financial risk may be found in the Business Review on page 21 and in note 17 to the financial statements.

The Board receives regular reports from the Investment Manager and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period at least 12 months from the date of approval of the financial statements. As discussed in the Viability Statement on page 24, the Directors have considered the Company's cash flow projections in a range of scenarios, including both continuation of normal levels of fundraising as well as potential 'no fundraise' scenarios. In all scenarios the Board is confident in the ability of the Company to maintain its VCT status and meet its liabilities as they fall due. Some of the ways in which the Board could manage the operations of the Company include adjusting investment strategy and careful consideration of non-committed cash outflows, including dividends and buybacks. They are satisfied that no material uncertainties leading to significant doubt about going concern have been identified. It is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The assets of the Company include securities, a large proportion of which are readily realisable and, accordingly, the Company has adequate financial resources to continue to satisfy the expenses of commitments under share buybacks and to remain in operational existence for a period of at least 12 months.

A resolution will be put to the Company's AGM, details on page 76, to approve the Company continuing as a Venture Capital Trust. A continuation vote has been approved by shareholders annually since 2009.

Dividend

The proposed final dividend of 1.8p for the year ended 30 November 2023 and special dividend of 3.6p will be paid on 27 June 2024 to shareholders on the register on 31 May 2024 subject to approval at the AGM being held on 16 May 2024, as set out in the Strategic Report.

Management

The Company has in place an agreement with Octopus to act as Investment Manager which is central to the ability of the Company to continue in business. The principal terms of the Company's management agreement with Octopus are set out in note 3 to the financial statements. The Investment Manager also provides secretarial, administrative and custodian services to the Company.

There are no other contracts which are deemed to be essential to the business of the Company.

As required by the Listing Rules, the Directors confirm that, in their opinion, the continuing appointment of Octopus as Investment Manager is in the best interest of the shareholders as a whole. In reaching this conclusion the Directors have taken into account the performance of the investment portfolio and the ability of the Investment Manager to produce satisfactory investment performance in the future. No Director has an interest in any contract to which the Company is a party.

The Board has delegated the routine management decisions such as the payment of standard running costs to Octopus. Investment decisions are discussed with the Board.

Whistleblowing

The Board has considered the arrangements implemented by the Investment Manager to encourage staff of the Investment Manager or Company Secretary of the Company to raise concerns, in confidence, within their organisation about possible improprieties in matters of financial reporting or other matters. It is satisfied that adequate arrangements are in place to allow an independent investigation, and follow-on action where necessary, to take place within the organisation.

Employee, human rights, social and community issues

The Board seeks to conduct the Company's affairs responsibly. The Company is required by company law to provide details of employee, human rights, social and community issues, including information about any policies it has in relation to these matters and the effectiveness of such policies. As an externally managed investment company with no employees the Company does not maintain specific policies in relation to these matters.

Environment policy and greenhouse gas emissions

The Board has no specific environmental policy; however, the Company recognises the need to conduct its business, including investment decisions, in a manner that is environmentally responsible wherever possible. The Company does not produce any reportable emissions as the fund management is outsourced to the Investment Manager with no physical assets or property held by the Company. As the Company has no employees or operations, it is not responsible for any direct emissions, and as it uses less than 40,000 kWh of energy during the reporting year it is exempt from Streamlined Energy and Carbon Reporting ('SECR') requirements.

Financial risk management

The most significant financial risks arising from the Company's financial instruments are market risk, interest rate risk, credit risk and liquidity risk. The policies for managing these risks are regularly reviewed by the Board and full details can be found in note 17 to the financial statements.

Bribery Act

Octopus have an Anti-Bribery Policy which includes robust procedures to ensure full compliance with the Bribery Act 2010 and to ensure that the highest standards of professional ethical conduct are maintained. All Octopus employees and those working for, or on behalf of, the Investment Manager are aware of their legal obligations when conducting Company business.

Share capital

The Company's Ordinary share capital as at 30 November 2023 comprised 176,875,405 Ordinary shares of 0.01p each.

The voting rights of the Ordinary shares on a show of hands are one vote for each member present or represented, the voting rights on a poll are one vote for each share held. There are no restrictions on the transfer of the Ordinary shares and there are no shares that carry special rights with regard to the control of the Company.

Directors' report continued

Share issues

On 14 September 2023, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over-allotment facility. This prospectus closed to further applications on 21 December 2023 being fully subscribed.

In the year, 17,713,658 shares were issued, raising £8.4 million after costs. This was allocated as follows:

During the year 15,118,182 shares were issued under the fundraise that launched on 14 September 2023, raising £7.0 million after costs.

During the year 2,557,239 shares were issued to those shareholders who elected to receive shares under the Dividend Reinvestment Scheme as an alternative to dividends. This raised £1.3 million.

An additional 38,237 shares were issued to shareholders as a result of reduced adviser charges, and to Octopus employee shareholders as a result of a rebate of part of the annual management fee. These shares were issued to those investors who, in accordance with the adviser charging terms contained in each fundraising document offered to the public and published since 31 December 2012 following the introduction of the retail distribution, had chosen to pay their adviser less than the 0.5% ongoing adviser charge; and to employees, who have been rebated the annual management charge.

Share buybacks and redemptions

During the year, the Company purchased 6,011,097 Ordinary shares with a nominal value of 0.01p for cancellation at a weighted average price of 51.2p per share (2022: 4,494,597 shares at a weighted average price of 69.4p per share) for a total consideration of £3.1 million (2022: £3.1 million). This represents 3.4% of the closing share capital. These were repurchased in accordance with the Company's share buyback facility in an attempt to assist the marketability of the shares and prevent the shares trading at a wide discount to the NAV.

Post balance sheet events

A full list of post balance sheet events since 30 November 2023 can be found in note 18 to the financial statements on page 68.

Rights attaching to the shares and restrictions on voting and transfer

Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's Articles of Association, the Ordinary shares confer on their holders (other than the Company in respect of any Treasury shares) the following principal rights:

(a) the right to receive 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 a 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 s793 of the Companies Act 2006 (notice by the 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. 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 company law (principally the Companies Act 2006).

A member may choose whether their 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 their 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 an Ordinary 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 s974 to s991 of the Companies Act 2006.

Independent auditor and disclosure of information to auditor

BDO LLP is the appointed auditor of the Company and offer themselves for re-appointment. A resolution to re-appoint BDO LLP as auditor and authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

As far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and the Directors have taken all the steps they ought to have taken as Directors in order to make them aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Resolutions being put to shareholders in 2024

Directors' authority to allot shares, to disapply pre-emption rights

The authority proposed under Resolution 8 is required so that the Directors may issue shares in connection with offers, if the Directors believe this to be in the best interests of the Company and the shareholders as a whole. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in whole or part, to purchase Ordinary shares in the market. Resolution 8 renews the Directors' authority to allot Ordinary shares (representing approximately 20% of the Company's issued share capital at the date of the Notice of AGM). The authority conferred by this Resolution will expire on the date falling 15 months after the date of the passing of the Resolution or, if earlier, at the conclusion of the next AGM of the Company. Any shares allotted under this authority would be issued at prices at or above NAV.

Resolution 9 authorises the Directors to allot Ordinary shares in connection with the Dividend Re-investment Scheme ('DRIS'), up to 3% of the Company's issued share capital at the date of the Notice of AGM. Such authority will expire 15 months after the passing of the Resolution or, if earlier, the conclusion of the next AGM of the Company.

Resolutions 10 and 11 renew and extend the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. The Resolutions will authorise the Directors, until the date falling 15 months after the date of the passing of the Resolutions or, if earlier, the conclusion of the next AGM of the Company, to issue Ordinary shares for cash without pre-emption rights applying by way of an offer to existing shareholders. These powers will be exercised only if, in the opinion of the Directors, it would be in the interests of shareholders as a whole. Any shares allotted under this authority would be issued at prices at or above NAV.

Directors' authority to make market purchases of its own shares

The authority proposed under Resolution 12 is required so that the Directors may make purchases of up to 27,644,406 Ordinary shares (representing approximately 14.99% of the Company's issued share capital at the date of the Notice of AGM) and the Resolution seeks renewal of such authority until the next AGM (or the expiry of 15 months, if earlier). Any shares bought back under this authority will be at a price determined by the Board, (subject to a minimum of 0.01p (being the nominal value of such shares) and a maximum of 5% above the average mid-market quotation for such shares on the London Stock Exchange and the applicable regulations thereunder). This power will be exercised only if, in the opinion of the Directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in Treasury for future re-sale in appropriate market conditions.

Cancellation of share premium account

The Board considers it appropriate to obtain shareholders' approval for the cancellation of the remaining amount standing to the share premium account of the Company to create (subject to Court approval) a pool of distributable reserves. A Special Resolution to this effect is being proposed at Resolution 13.

Substantial shareholdings

As at the date of this report, no disclosures of major shareholdings had been made to the Company under Disclosure Guidance and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

On behalf of the Board

Keith Mullins

Keith Mullins
Chair
7 March 2024

Corporate governance report

The Board of the Company 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 ('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.

Corporate governance within the closed-ended investment company industry differs from that of other companies. In addition, VCTs differ from most other investment companies in that they have, developed over many years, a complex range of additional legal, tax and regulatory requirements.

Octopus AIM VCT 2 plc, as a VCT and closed-ended investment company, has particular factors which have an impact on its governance arrangements. The Company:

- outsources all day-to-day activities (such as portfolio management, administration, accounting, custody and company secretarial). This means that it is governed entirely by a Board of non-executive Directors. In these circumstances, the proper oversight of these relationships is the key aspect of achieving good corporate governance;
- does not have executive directors or employees. As a consequence, the only 'corporate memory' is that of the non-executive Directors; and
- does not have customers, only shareholders.

The AIC Code deals with matters such as the relationship with the Investment Manager and other service providers. In practice, most of the time spent by the Board of a well-functioning investment company should be spent on matters of general corporate governance (e.g. the investment strategy, policy and performance) which is what we do.[1]

The Company is committed to maintaining high standards in corporate governance. The Directors consider that the Company has, throughout the year under review, complied with the provisions set out in the AIC Code with the exceptions set out in the Compliance Statement on page 37.

Board of Directors

The Company has a Board of five non-executive Directors, all of whom are considered by the Board to be independent. The Board meets at least four times a year, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board.

Virginia (Connelly) Bull joined the Board on 1 January 2024. Trust Associates Limited, who are independent of the Company, were engaged for the recruitment.

Elizabeth Kennedy will be retiring from the Board following the conclusion of the business of the 2024 AGM.

The Board has a formal schedule of matters specifically reserved for its decision which include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- approval of the appropriate dividend to be paid to the shareholders;
- the appointment, evaluation, removal and remuneration of the Investment Manager;
- the performance of the Company, including monitoring of the discount of the NAV to the share price; and
- monitoring shareholder profiles and considering shareholder communications.

The Chair 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 make sure that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretarial function is discharged by Octopus Company Secretarial Services Limited which 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, which 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.

As all of the Directors are non-executive, it is not considered necessary to identify a member of the Board as the senior independent director of the Company.

The Company's Articles of Association and the schedule of matters reserved for the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

[1]Please see the AIC Code at **www.theaic.co.uk**.

During the year the following meetings were held as part of the regular programme of meetings:

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
Keith Mullins	6	6	3	3
Elizabeth Kennedy	6	6	3	3
Andy Raynor	6	5	3	2
Brad Ormsby	6	6	3	3

Virginia (Connelly) Bull was appointed as a non-executive Director on 1 January 2024 and as such is not included in the meeting attendance table above.

Additional meetings were held as required to address specific issues, including approval of the Company's annual report and accounts and half yearly results.

Performance evaluation and independence of Directors

Each year a formal performance evaluation is undertaken of the Board, its Committees and the Directors in the form of a questionnaire completed by each Director. The Chair provides a summary of the findings to the Board, which is discussed and an action plan agreed. During the year no issues were identified requiring an action plan. The performance of the Chair is evaluated by the other Directors.

Brad Ormsby is the Group Finance Director and a shareholder of Judges Scientific plc, in which the Company has an investment, and so absents himself from any Board decisions relating to that investment. Judges Scientific plc are a client of Investec Bank plc and consequently Virginia (Connelly) Bull as a Director of the Investec Bank plc Corporate Broking team was known to Brad Ormsby before her appointment to the Board. As part of the recruitment process the Board were satisfied this does not present a conflict. We believe that, in line with the AIC Code, all members of the Board are independent in character and judgement with respect to their duties to the shareholders. Keith Mullins, Chair of the Company, has served on the Board for 18 years since his initial appointment. He is still considered to be independent in the absence of a connection with the Investment Manager or any of the Company's advisers. Andy Raynor, who was appointed in 2005, is also considered independent.

Length of service

	Date of original appointment	Date of last election/re-election
Keith Mullins	14 September 2005	AGM 2022
Elizabeth Kennedy	12 August 2010	AGM 2023
Andy Raynor	14 September 2005	AGM 2021
Brad Ormsby	1 January 2022	AGM 2022
Virginia (Connelly) Bull	1 January 2024	n/a

Length of service of the Chair and other Directors is one of a number of factors taken into account when considering the contribution and ongoing independence of the Board, both individually and in terms of overall composition, and when considering succession planning. The Board considers the experience, range of skills, knowledge of the Company and its operating environment and diversity of the Directors. Accordingly, the Board's policy on tenure is that the term the Chair and other Directors serve on the Board should not be restricted to a fixed time limit in order to ensure sufficient corporate memory and consistent adherence to strategy.

Powers of the Directors

Subject to the provisions of the Companies Act 2006, the Memorandum and Articles of Association of the Company and any directions given by shareholders by Special Resolution, the Articles of Association specify that 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. 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 2023 AGM to make market purchases of up to 14.99% of the issued Ordinary share capital at any time up to the 2024 AGM and otherwise on the terms set out in the relevant resolution and renewed authority is being sought at the 2024 AGM as set out in the notice of meeting.

Corporate governance report continued

Board committees
It should be noted that there is no formal Management Engagement Committee as matters of this nature are dealt with by the independent non-executive Directors. 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 40 to 42. The Board does not have a separate Nomination Committee as there has not been a requirement for a Committee. Whilst diversity considerations would normally be a function of a Nomination Committee, these are dealt with by the Board as a whole on an annual basis. The Board considers its composition to be appropriate with due regard for the benefits of diversity and gender.

Audit committee
Andy Raynor is Chair of the Audit Committee and all Directors are members of this Committee. The Board confirms that, in accordance with the recommendation of the AIC Code, at least one member of the Audit Committee has recent and relevant financial experience. Both Andy Raynor, as Chair, and Brad Ormsby are Chartered Accountants and have recent and relevant financial experience. The Board is confident that the Committee as a whole has competence relevant to the sector in which the Company operates.

The Audit Committee Report is given on pages 38 and 39.

Internal controls
The purpose of these 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 only provide reasonable and not absolute assurance against material misstatement or loss. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve the business objectives. The Board regularly reviews financial results and investment performance with its Investment Manager.

The Board delegates the identification of appropriate opportunities and the investment of funds to the Investment Manager. The Board regularly review reports upon the investments made and on the status of existing investments. The Investment Manager is also engaged to carry out the accounting and custodian functions of the Company. All quoted investments are held in CREST. Unquoted investments are held in certificated form.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant potential risks faced by the Company and have reviewed and were satisfied with the effectiveness of the internal control systems. As part of this process, an annual review of the internal control systems is carried out, by Octopus, in accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

As explained in the Audit Committee Report, the Board does not consider it necessary to maintain an internal audit function.

Internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Octopus. The Investment Manager is subject to ongoing review by the Octopus Compliance Department.

Financial risk management objectives and policies
The Company is exposed to the risks arising from its operational and investment activities. Further details can be found in note 17 to the financial statements.

Statement of voting at the Annual General Meeting
The most significant portion of the votes cast against a resolution at the 2023 AGM were for the resolutions relating to the approval of the Directors' Remuneration Report (7.2% of votes cast) and the approval of the Directors' Remuneration Policy (6.98% of votes cast). No communication was received from shareholders giving reasons for the votes against the resolutions.

Shareholders' views are always welcomed and considered by the Board. The methods of contacting the Board are set out below.

Relations with shareholders
The Investment Manager will provide an update on the Company's activities and future plans at the AGM to be held on 16 May 2024. This will also provide an opportunity for shareholders to ask questions of the Board relating to the AGM resolutions and annual report and accounts.

We always welcome questions from our shareholders at the AGM, which will take place on 16 May 2024 at 12.00pm. To ensure we are able to respond to any questions you may have for either the Investment Manager or AIM VCT 2 Board, please send these via email to **AIMVCT2AGM@octopusinvestments.com** by 5.00pm on 13 May 2024. Alternatively, please contact the team at Octopus to answer any queries. They can be contacted on **0800 316 2295**.

Corporate Governance Code
The Board are aware of the revised UK Corporate Governance Code as published by the FRC on 22 January 2024, which will apply to accounting periods beginning on or after 1 January 2025, with the exception of a new provision (29) relating to risk management and internal controls, which will be applicable for accounting periods beginning on or after 1 January 2026. It is expected that the Association of Investment Companies will publish an update to the 2019 AIC Code of Corporate Governance which the Company reports against. The Board will ensure that all measures within the updated UK Code and AIC Code, once revised, are acted upon.

Compliance statement

The Board recognises the importance of good governance. With the exception of the limited items outlined below, the Board believes, for the year ended 30 November 2023, the Company has complied with the principles and provisions of the AIC Code:

1. The Company does not have a senior independent director. The Board does not consider this necessary for the size of the Company.
2. The Company does not have a separate Nomination Committee due to the relatively small size and structure of the Company. Appointments are dealt with by the full Board as and when appropriate.
3. The Company does not have a Remuneration Committee given the size of the Company and as it does not have any executive directors. The whole Board deals with any matters pertaining to remuneration.
4. The Company has no major shareholders therefore shareholders are not given the opportunity to meet any non-executive Directors at a specific meeting other than the AGM, but are welcome to contact the Board or Octopus at any time.
5. The Directors are not subject to annual re-election. This is to ensure experience is retained on the Board. As highlighted earlier, the Board considers all the Directors to be independent.

By Order of the Board

Keith Mullins
Chair
7 March 2024

Audit Committee report

This report is submitted in accordance with The AIC Code in respect of the year ended 30 November 2023 and describes the work of the Audit Committee in discharging its responsibilities.

The Committee's key objective is the provision of effective governance of the appropriateness of the Company's financial reporting, the performance of the auditor and the management of the internal control and business risks systems. The Directors forming the Audit Committee can be found on page 29.

Matters considered by the Audit Committee in the year

The Audit Committee's terms of reference include the following responsibilities:

- reviewing 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;
- reviewing and making recommendations to the Board in relation to the Octopus internal controls (including internal financial control) and risk management systems to the extent they are relevant to the Company's internal controls;
- 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 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 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.

The Committee meets at least twice per year and has direct access to BDO LLP, the Company's external auditor.

Auditor appointment

The Audit Committee undertook a competitive audit tender process in 2018 as required for all Public Interest Entities who have had the same auditor for ten years, following which BDO LLP were re-appointed. When considering whether to recommend the re-appointment of the external auditor, the Committee take into account the tenure of the current auditor in addition to comparing the fees charged to similar sized VCTs. The current auditor was appointed in 2008 under the name of PKF (UK) LLP, which subsequently merged with BDO LLP, and has held the position for sixteen years. In addition, during the year the previous audit partner Peter Smith rotated off the audit with Elizabeth Hooper joining.

Independence and objectivity of the auditor

Non-audit services were not provided by the external auditor during the period and therefore the Audit Committee does not believe there are any influences on their independence or objectivity.

When considering the effectiveness of the external audit, the Board considered the quality and content of the Audit Plan and Report provided to the Committee by the auditor and the resultant reporting and discussions on topics raised. Further consideration is also given as part of the annual Board evaluation.

Auditor evaluation

The effectiveness of the external audit is assessed as part of the Board evaluation conducted annually and by the quality and content of the Audit Plan and Report provided to the Committee by the auditor and the resultant discussions on topics raised. The Committee also engages with the auditor when present at a Committee meeting, if appropriate. The Audit Committee is satisfied that BDO LLP provided effective challenge in carrying out its responsibilities.

Once the Committee has made a recommendation to the Board, in relation to the appointment of the external auditor, this is then ratified at the AGM through an Ordinary Resolution.

Internal audit

The Company does not have an independent internal audit function as it is not deemed appropriate 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. Octopus has an internal audit team, which is supported as required by external consultants. The Octopus Compliance Department reports to the Board on the outcome of the internal audits that have taken place insofar as these relate to the Company and confirms the absence of any issues relating to internal audit of which the Board should be aware. Octopus undertakes to immediately raise to the Committee any significant issues arising from the Octopus internal audit that affect the Company.

The Committee will monitor the significant risks at each meeting and Octopus will work closely with the internal auditor to mitigate the risks and the resultant impact.

Significant risks

The Audit Committee is responsible for considering significant issues in relation to the financial statements. The Committee has identified the most significant risks for the Company as:

- **Valuation and ownership of investments:** The Committee gives special audit consideration to the valuation of investments and supporting data provided by Octopus. The impact of this risk would be a large gain or loss in the Company's results. The valuations are supported variously by stock market quotations, portfolio company audited accounts and third party evidence (where relevant). These, together with reconciliations and independent confirmations performed by the auditor give comfort to the Audit Committee.
- **Management override of financial controls:** The Committee specifically review all significant accounting estimates that form part of the financial statements and consider any material judgements applied by management during the completion of the financial statements.
- **Recognition and categorisation of revenue from investments:** Investment income is the Company's main source of revenue. The revenue return is recognised when the Company's right to the return is established in accordance with the Statement of Recommended Practice, as either revenue or capital income. Octopus confirms to the Audit Committee that the revenues are recognised appropriately.

In addition to the above, the Committee has also considered the implications of inflation and higher interest rates. As at the date of issuing this Report, whilst the Committee anticipates further market volatility affecting the underlying investments, it does not consider that this will have an impact upon the long-term viability of the Company. This is discussed further in the Viability Statement on page 24.

These issues were discussed with Octopus and the auditor at the conclusion of the audit of the financial statements.

The Committee has considered the annual report and accounts for the year ended 30 November 2023 and has reported to the Board that it considers them to be fair, balanced and understandable, providing the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The Audit Committee is also responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to the shareholders in respect of the audit of the financial statements to 30 November 2023.

Andy Raynor
Audit Committee Chair

7 March 2024

Directors' remuneration report

Introduction
This report is submitted in accordance with Regulation 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('Regulations') in respect of the year ended 30 November 2023.

The Company's auditor, BDO LLP, is required to give their opinion on certain information included in this report; comprising the Directors' emoluments section and the Directors' interest in shares below as set out on pages 41 and 42.

Consideration by the Directors of matters relating to Directors' remuneration
The Board as a whole considers Directors' remuneration and has not appointed a separate committee in this respect.

The Board has not sought advice or services from any external person in respect of its consideration of Directors' remuneration during the year although the Directors expect from time to time to review the fees against those paid to the boards of directors of other VCTs. The Company does not have a chief executive officer, senior management or any employees.

Directors' remuneration policy report
The Board consists entirely of non-executive Directors, who meet at least quarterly and on other occasions as necessary, to deal with the important aspects of the Company's affairs. Directors are appointed with the expectation that they will serve for a period of at least three years. All Directors are subject to election at the first AGM after their appointment and one third of all Directors are subject to retirement by rotation at the AGMs. Re-election will be recommended by the Board but is dependent upon shareholder votes.

Each Director receives a letter of appointment. A Director may resign by notice in writing to the Board at any time giving three months' notice. None of the Directors are entitled to compensation payable upon early termination of their contract other than in respect of any unexpired notice period.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company's affairs and the responsibilities borne by the Directors. They should be sufficient to attract candidates of high calibre to be recruited. The policy is for the Chair of the Board and the Chair of the Audit Committee to be paid higher fees than the other Directors in recognition of their more onerous roles. The Remuneration policy is to review the Directors' fees from time to time, benchmarking the fees against other VCT boards, although such review will not necessarily result in any changes. Due to the nature of the Company, there are no employees other than the Directors and therefore no such issues to consider when determining the Directors' remuneration.

The Company's policy is for the Directors to be remunerated in the form of fees, payable monthly in arrears. The fees are not specifically related to the Directors' performance, either individually or collectively. There are no long-term incentive schemes, share option schemes or pension schemes in place. The Board is also entitled to be repaid all reasonable travelling, subsistence and other expenses incurred by them respectively whilst conducting their duties as Directors. No other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors. There will be no payment for loss of office unless approved by a separate shareholder resolution.

An Ordinary Resolution to approve the remuneration policy of the Company was put to, and approved by, shareholders at the 2023 AGM and will remain in force for a three year period. The Board will review the remuneration of the Directors if thought appropriate and monitors competitors in the VCT industry on an annual basis.

Annual remuneration report
This section of the report is subject to approval by a simple majority of shareholders at the AGM on 16 May 2024, as in previous years.

Statement of voting at the Annual General Meeting
The 2022 Remuneration Report was presented to the AGM in April 2023 and received shareholder approval following voting by way of a poll. 92.8% of the votes cast were in favour of the Remuneration Report or at the Chair's discretion, 7.2% were against the resolution and 83,206 votes were withheld. The proxy forms returned to the Registrars contained no explanation for the votes against the resolution.

Shareholders' views are always considered by the Board, and the methods of contacting the Board are set out on page 36.

Company performance
The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to Octopus through the investment management agreement, as referred to in the Directors' Report. The performance graph on page 22 also shows the performance of the Company on a total return basis, compared to the performance of the FTSE AIM All Share Index, the FTSE SmallCap (excluding investment companies) Index and the FTSE All Share Index.

Directors' emoluments (audited)

The amount of each Director's fees for the year were:

	Year ended 30 November 2023 £'000	Year ended 30 November 2022 £'000	2023 % Increase/ (Decrease)	2022 % Increase/ (Decrease)	2021 % Increase/ (Decrease)
Keith Mullins	**29**	28	3.6	7.7	4.0
Andy Raynor	**26**	25	4.0	4.2	4.3
Elizabeth Kennedy	**24**	22	9.1	4.8	5.0
Alastair Ritchie[1]	**n/a**	10	n/a	(52.4)	5.0
Brad Ormsby[2]	**24**	21	14.3	n/a	n/a
Total	**103**	106	(2.8)	15.2	4.5

[1]Retired from the Board on 28 April 2022.
[2]Appointed to the Board on 1 January 2022 and received fees for 11 months of the year ended 30 November 2022.

Virginia (Connelly) Bull was appointed as a non-executive Director on 1 January 2024 and as such is not included in the Directors' emoluments table above.

The Chair of the Company and Audit Committee Chair receive additional remuneration over the basic Directors' fee in recognition of the additional responsibilities and time commitment, and additionally, to be fair and comparable to similar VCTs.

Following a review, the Board agreed the following fee rates with effect from 1 May 2023 (previous fees shown in brackets): Chair of the Board £30,250 (£27,500); Chair of the Audit Committee £27,250 (£24,750) and all other Directors £24,750 (£22,500).

The Directors do not receive any other form of emoluments in addition to the Directors' fees, their total remuneration is not linked to the performance of the Company and no bonuses were or will be paid to the Directors.

Relative importance of spend on pay

The actual expenditure in the current year is as follows:

	Year ended 30 November 2023 £'000	Year ended 30 November 2022 £'000
Total dividends paid	**6,673**	6,155
Total buybacks	**3,076**	3,117
Total directors' fees	**103**	106

The Directors do not consider there to be any other significant distributions during the year relevant to understanding the relative importance of spend on pay.

Directors' remuneration report continued

Directors' interest in shares (audited)

There are no guidelines or requirements for Directors to own shares in the Company. The interests of the Directors, and their connected persons, in shares of the Company during the year (in respect of which transactions are notifiable under Disclosure Guidance and Transparency Rule 3.1.2) in the issued Ordinary shares of 0.01p are shown in the table below:

	Ordinary shares of 0.01p each 30 November 2023	Ordinary shares of 0.01p each 30 November 2022
Keith Mullins	**416,929**	308,563
Andy Raynor	**21,080**	21,080
Elizabeth Kennedy	**37,380**	37,380
Brad Ormsby	–	–

Virginia (Connelly) Bull was appointed as a non-executive Director on 1 January 2024 and as such is not included in the Directors' interests in shares table above.

All of the shares held by the Directors, or their connected persons, were held beneficially, either in their own name or through a nominee company. There have been no changes in the Directors' share interests between 30 November 2023 and the date of this report.

Shareholders' proxy voting information

As required by Schedule 8:23 of the Regulations, the votes received for the AGM in 2023 were as follows:

	For (including discretionary)		**Against**	
	No. of Shares	**%**	**No. of Shares**	**%**
Approval of Directors' Remuneration Report	2,620,408	92.8	203,279	7.2

By Order of the Board

Keith Mullins
Chair
7 March 2024

Directors' responsibility statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable laws and regulations. They are also responsible for ensuring that the annual report and accounts include information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (GAAP), including Financial Reporting Standard 102 – 'The Financial Reporting Standard Applicable in the United Kingdom and Republic of Ireland' (FRS 102), (United Kingdom accounting standards and applicable law). 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 and profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Strategic Report, a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

In so far as each of the Directors is aware:

- there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors are responsible for preparing the annual report and accounts in accordance with applicable laws and regulations. Having taken advice from the Audit Committee, the Directors are of the opinion that this report as a whole provides the necessary information to assess the Company's performance, business model and strategy and is fair, balanced and understandable.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of their knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the annual report and accounts (including the Strategic Report), give a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Keith Mullins
Chair
7 March 2024

Independent auditor's report to the members of Octopus AIM VCT 2 plc

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 November 2023 and of its loss 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.

We have audited the financial statements of Octopus AIM VCT 2 plc (the 'Company') for the year ended 30 November 2023 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cashflow Statement 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors to audit the financial statements for the year ended 30 November 2008 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 16 years, covering the years ended 30 November 2008 to 30 November 2023. We remain 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 FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

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 evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the VCT compliance reports during the year and as at year end and reviewing their calculations to check that the Company was meeting its requirements to retain VCT status;
- Reviewing the forecasted cash flows that support the Directors' assessment of going concern, challenging assumptions and judgements made in the forecasts, and assessing them for reasonableness. In particular, we considered the available cash resources relative to the forecast expenditure which was assessed against the prior year for reasonableness;
- Evaluating the Director's method of assessing going concern in light of market volatility having regard to the liquidity of the investment portfolio.

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.

In relation to the Company's reporting on how it has applied the UK Corporate Governance 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.

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

Overview

		2023	2022
Key audit matters	Valuation and existence of investments	✓	✓
Materiality	£846,000 (2022: £1,017,000) based on 1% (2022: 1%) of Net assets.		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

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) that 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.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation and ownership of investments (Notes 1 and 10 to the financial statements) The investment portfolio comprises of quoted and unquoted investments. The Investment Manager's fee is based on the value of the net assets of the fund, as shown in note 3. As the Investment Manager is also responsible for preparing the valuation of investments for the financial statements, there is a potential risk of misstatement in the investment valuations. There is a risk that the investment balance includes investments which are no longer owned by the Company or the holding % may have changed or that the bid price used to value the investment is incorrect. There is a high level of estimation uncertainty involved in determining the unquoted investment valuations. There is an inherent risk of management override arising from the unquoted investment valuations being prepared by the Investment Manager, who is remunerated based on a percentage of the value of the net assets of the fund, as shown in note 3.	In respect of 100% of quoted equity, we responded to this matter by testing the valuation and ownership of the whole portfolio of quoted investments. We performed the following procedures: • Confirmed the year-end bid price was used by agreeing to externally quoted prices; • Assessing if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value; • Recalculating the valuation by multiplying the number of shares held per the statement obtained from the custodian by the valuation per share; • Obtained direct confirmation from the custodian and agreed all investments held at the balance sheet date to CREST records. In respect of 99% of unquoted investments we have: • Challenged and corroborated the inputs to the valuation with reference to management information of investee companies, market data and our own understanding and assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements; • Obtained share capital tables directly from the investee company to confirm ownership at year end and recalculated the value attributable to the Company; • Reviewed the historical financial statements and any recent management information available to support assumptions about maintainable revenues, earnings or cash flows used in the valuations; • Considered the revenue or earnings multiples applied and the discounts applied by reference to observable listed company market data; and

Independent auditor's report to the members of Octopus AIM VCT 2 plc continued

Quoted Investments: £46 million (86%) of the Company's investments held at fair value through profit and loss are quoted investments. Unquoted investments: £7 million (14%) of the Company's investments held at fair value through profit and loss are unquoted and are valued using more subjective techniques (level 3). For these reasons we considered the valuation and existence of unquoted and quoted investments to be a key audit matter.	• Challenged the consistency and appropriateness of adjustments made to such market data in establishing the revenue, cash flow or earnings multiple applied in arriving at the valuations adopted by considering the individual performance of investee companies against plan and relative to the peer group, the market and sector in which the investee company operates and other factors as appropriate. Where appropriate, we performed a sensitivity analysis by developing our own point estimate where we considered that alternative input assumptions could reasonably have been applied and we considered the overall impact of such sensitivities on the portfolio of investments in determining whether the valuations as a whole are reasonable and free from bias. **Key observations:** Based on our procedures performed we did not identify any matters to suggest the valuation or existence of investments was not appropriate and we are satisfied that the estimates and judgements made in the unquoted investment valuations are appropriate considering the level of estimation uncertainty. .

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company Financial statements	
	2023	**2022**
Materiality	£846,000	£1,017,000
Basis for determining materiality	1% of net assets.	
Rationale for the benchmark applied	Net asset value is the primary measure used by the users in assessing the performance of the Company as an investment entity. In setting materiality, we have had regard to the nature and disposition of the investment portfolio. Given that the VCT's portfolio is comprised primarily of quoted investments, we have applied a percentage of 1% of adjusted net assets value.	
Performance materiality	£634,000	£762,000
Basis for determining performance materiality	75% of materiality The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	

Lower Testing Threshold
Whilst the majority of long-term returns are expected to arise from capital, we note that on-going costs and revenue returns are still important to users of the financial statements, despite being considerably smaller in magnitude. Thus, we have set a lower testing threshold for those items impacting revenue return of £209,000 which is based on 10% of gross expenditure. (2022: £284,000).

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £42,000 (2022: £50,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. 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 the 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.

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 Code 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.

Going concern and longer-term viability	• The Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties; and • The Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate.
Other Code provisions	• Directors' statement on fair, balanced and understandable; • Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; • The section of the annual report that describes the review of effectiveness of risk management and internal control systems ; and • The section describing the work of the audit committee.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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 • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the 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.

Independent auditor's report to the members of Octopus AIM VCT 2 plc continued

Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Corporate governance statement	In our opinion, based on the work undertaken in the course of the audit 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. In the 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 this information. In our opinion, based on the work undertaken in the course of the audit 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. We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company.
Matters on which we are required to report by exception	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, or returns adequate for our audit have not been received from branches not visited by us; or • the 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibility statement, 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 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

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

Non-compliance with laws and regulations

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with the Manager and those charged with governance; and

- Obtaining an understanding of the Company's policies and procedures regarding compliance with laws and regulations.

We considered the significant laws and regulations to be the Companies Act 2006, the FCA listing and DTR rules, the principles of the UK Corporate Governance Code, industry practice represented by the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (2022) ("the SORP") and the applicable financial reporting framework. We also considered the Company's qualification as a VCT under UK tax legislation.

Our procedures in respect of the above included:

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- Review of financial statement disclosures and agreeing to supporting documentation;
- Enquiries of the Manager and those charged with governance relating to the existence of any non-compliance with laws and regulations;
- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Obtaining and reviewing independent reports prepared for the Company on compliance with the relevant tests in order to maintain its qualifying status as a VCT.

Fraud
We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the areas most susceptible to fraud to be the valuation and existence of unquoted investments and management override of controls.

Our procedures in respect of the above included, but were not limited to:

- The procedures set out in the Key Audit Matters section above;
- Obtaining evidence to support the existence of investments;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias
- Review and consideration of the appropriateness of adjustments made in the preparation of the financial statements; and
- Review of unadjusted audit differences, if any, for indication of bias or deliberate misstatement.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities

This description forms part of our auditor's report.

Use of our 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.

Elizabeth Hooper (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
7 March 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income statement

		Year to 30 November 2023			Year to 30 November 2022		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gain/(loss) on disposal of fixed asset investments	10	–	668	668	–	(32)	(32)
Loss on disposal of current asset investments		–	(91)	(91)	–	–	–
Loss on valuation of fixed asset investments	10	–	(14,333)	(14,333)	–	(31,821)	(31,821)
Loss on valuation of current asset investments		–	(1,047)	(1,047)	–	(2,946)	(2,946)
Investment income	2	1,194	–	1,194	589	19	608
Investment management fees	3	(393)	(1,179)	(1,572)	(481)	(1,443)	(1,924)
Other expenses	4	(528)	–	(528)	(580)	–	(580)
Profit/(loss) before tax		273	(15,982)	(15,709)	(472)	(36,223)	(36,695)
Tax	6	–	–	–	–	–	–
Total comprehensive Income/(loss) after tax		273	(15,982)	(15,709)	(472)	(36,223)	(36,695)
Earnings per share – basic and diluted	8	0.2p	(9.8p)	(9.6p)	(0.3p)	(24.5p)	(24.8p)

- The 'Total' column of this statement represents the statutory income statement of the Company prepared in accordance with the accounting policies detailed in the Notes to the financial statements; the supplementary revenue return and capital return columns have been prepared in accordance with the AIC Statement of Recommended Practice.
- All revenue and capital items in the above statement derive from continuing operations.
- The Company has only one class of business and derives its income from investments made in shares and securities and from bank and money market funds, as well as OEIC funds.

The Company has no recognised gains or losses other than the results for the period as set out above. Accordingly, a statement of comprehensive income is not required.

The accompanying notes on pages 54 to 69 form an integral part of the financial statements.

Balance sheet

	Notes	As at 30 November 2023 £'000	As at 30 November 2023 £'000	As at 30 November 2022 £'000	As at 30 November 2022 £'000
Fixed asset investments	10		**53,288**		72,249
Current assets:					
Investments	11	**8,796**		9,399	
Money market funds	11	**21,893**		3,515	
Debtors	12	**152**		205	
Cash at bank	11	**1,045**		17,217	
		31,886		30,336	
Creditors: amounts falling due within one year	13	**(484)**		(791)	
Net current assets			**31,402**		29,545
Total assets less current liabilities			**84,690**		101,794
Called up equity share capital	14		**18**		17
Share premium			**7,619**		12,904
Capital redemption reserve			**3**		3
Special distributable reserve			**80,043**		76,154
Capital reserve realised			**(5,400)**		(5,843)
Capital reserve unrealised			**4,765**		21,190
Revenue reserve			**(2,358)**		(2,631)
Total equity shareholders' funds			**84,690**		101,794
NAV per share – basic and diluted	9		**47.9p**		61.6p

The statements were approved by the Directors and authorised for issue on 7 March 2024 and are signed on their behalf by:

Keith Mullins
Chair
Company No: 05528235

The accompanying notes on pages 54 to 69 form an integral part of the financial statements.

Statement of changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special distributable reserves[1] £'000	Capital reserve realised[1] £'000	Capital reserve unrealised £'000	Revenue reserve[1] £'000	Total £'000
As at 1 December 2022	**17**	**12,904**	**3**	**76,154**	**(5,843)**	**21,190**	**(2,631)**	**101,794**
Comprehensive income/(loss) for the year:								
Management fee allocated as capital expenditure	–	–	–	–	(1,179)	–	–	(1,179)
Current year net gain on disposal	–	–	–	–	577	–	–	577
Current year loss on fair value of investments	–	–	–	–	–	(15,380)	–	(15,380)
Profit after tax	–	–	–	–	–	–	273	273
Total comprehensive loss for the year	–	–	–	–	(602)	(15,380)	273	(15,709)
Contributions by and distributions to owners:								
Repurchase and cancellation of own shares	–	–	–	(3,076)	–	–	–	(3,076)
Issue of shares	1	8,821	–	–	–	–	–	8,822
Share issue costs	–	(468)	–	–	–	–	–	(468)
Dividends paid	–	–	–	(6,673)	–	–	–	(6,673)
Total contributions by and distributions to owners	1	8,353	–	(9,749)	–	–	–	(1,395)
Other movements:								
Cancellation of share premium	–	(13,638)	–	13,638	–	–	–	–
Prior years' holding gains now realised	–	–	–	–	3,215	(3,215)	–	–
Transfer between reserves	–	–	–	–	(2,170)	2,170	–	–
Total other movements	–	(13,638)	–	13,638	1,045	(1,045)	–	–
Balance as at 30 November 2023	**18**	**7,619**	**3**	**80,043**	**(5,400)**	**4,765**	**(2,358)**	**84,690**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Special distributable reserves[1] £'000	Capital reserve realised[1] £'000	Capital reserve unrealised £'000	Revenue reserve[1] £'000	Total £'000
As at 1 December 2021	**15**	**54,600**	**2**	**30,826**	**(4,533)**	**56,103**	**(2,159)**	**134,854**
Comprehensive income/(loss) for the year:								
Management fee allocated as capital expenditure	–	–	–	–	(1,443)	–	–	(1,443)
Current year loss on disposal	–	–	–	–	(32)	–	–	(32)
Current year loss on fair value of investments	–	–	–	–	–	(34,767)	–	(34,767)
Capital investment income	–	–	–	–	19	–	–	19
Loss after tax	–	–	–	–	–	–	(472)	(472)
Total comprehensive loss for the year	–	–	–	–	(1,456)	(34,767)	(472)	(36,695)
Contributions by and distributions to owners:								
Repurchase and cancellation of own shares	(1)	–	1	(3,117)	–	–	–	(3,117)
Issue of shares	3	13,698	–	–	–	–	–	13,701
Share issue costs	–	(794)	–	–	–	–	–	(794)
Dividends paid	–	–	–	(6,155)	–	–	–	(6,155)
Total contributions by and distributions to owners	2	12,904	1	(9,272)	–	–	–	3,635
Other movements:								
Cancellation of share premium	–	(54,600)	–	54,600	–	–	–	–
Prior years' holding gains now realised	–	–	–	–	146	(146)	–	–
Total other movements	–	(54,600)	–	54,600	146	(146)	–	–
Balance as at 30 November 2022	**17**	**12,904**	**3**	**76,154**	**(5,843)**	**21,190**	**(2,631)**	**101,794**

[1]Included within these reserves is an amount of £72,285,000 (2022: £67,680,000) which is considered distributable to shareholders under Companies Act rules.

The accompanying notes on pages 54 to 69 form an integral part of the financial statements.

Cash flow statement

	Notes	Year to 30 November 2023 £'000	Year to 30 November 2022 £'000
Cash flows from operating activities			
Loss on ordinary activities before tax		**(15,709)**	(36,695)
Adjustments for:			
Decrease/(increase) in debtors	12	**53**	(20)
Decrease in creditors	13	**(82)**	(196)
(Gain)/loss on disposal of fixed assets	10	**(668)**	32
Loss on disposal of current asset investments		**91**	–
Loss on valuation of fixed asset investments	10	**14,333**	31,821
Loss on valuation of current asset investments		**1,047**	2,946
Non-cash distributions	2	**–**	(19)
Net cash utilised in operating activities		**(935)**	(2,131)
Cash flows from investing activities			
Purchase of fixed asset investments	10	**(4,086)**	(6,071)
Proceeds from sale of fixed asset investments	10	**9,157**	2,249
Purchase of current asset investments		**(2,040)**	(352)
Proceeds from sale of current asset investments		**1,505**	–
Total cash flows generated from/(utilised in) investing activities		**4,536**	(4,174)
Cash flows from financing activities			
Purchase of own shares	14	**(3,076)**	(3,117)
Share issues net of DRIS	14	**7,519**	12,502
Share issue costs net of DRIS	14	**(468)**	(794)
Dividends paid net of DRIS		**(5,370)**	(4,956)
Total cash flows (utilised in)/generated from financing activities		**(1,395)**	3,635
Increase/(decrease) in cash and cash equivalents		**2,206**	(2,670)
Opening cash and cash equivalents		**20,732**	23,402
Closing cash and cash equivalents		**22,938**	20,732
Closing cash and cash equivalents is represented by:			
Cash at bank	11	**1,045**	17,217
Money market funds	11	**21,893**	3,515
Total cash and cash equivalents		**22,938**	20,732

The accompanying notes on pages 54 to 69 form an integral part of the financial statements.

Notes to the financial statements

1. Principal accounting policies

The Company is a Public Limited Company ("plc") incorporated in England and Wales and its registered office is 6th Floor, 33 Holborn, London, EC1N 2HT.

The Company's principal activity is to invest in a diverse portfolio of predominantly AIM-traded companies with the objective of providing shareholders with attractive tax-free dividends and long-term capital growth.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (GAAP), including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102), and with the Companies Act 2006 and the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts (issued 2014 and updated in July 2022 with consequential amendments).'

The principal accounting policies have remained unchanged since those set out in the Company's 2022 annual report and accounts. A summary of the principal accounting policies is set out below.

FRS 102 sections 11 and 12 have been adopted with regard to the Company's financial instruments. The Company held all fixed asset investments at fair value through profit or loss ('FVTPL'); therefore all gains and losses arising from such investments held are attributable to financial assets held at FVTPL. Accordingly, all interest income, fee income, expenses and gains and losses on investments are attributable to assets held at FVTPL.

Going concern

After reviewing the Company's forecasts and expectations, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The annual expenses of the Company are around £2.1 million and the Company had £22.9 million in cash at bank and Money Market Funds at the year end. The annual expenses do not include outflows related to share buybacks or dividends but the ability to retain cash is largely in the Company's control as it can shift investment strategy to ensure it has a sufficient cash buffer. The Company therefore continues to adopt the going concern basis in preparing its financial statements. In reaching this conclusion the Directors have had regard to the potential impact of economic instability on the Company. See the Directors' Report on pages 30 to 33 for further details.

Revenue and capital

The Company presents its income statement in a three column format to give shareholders additional detail of the performance of the Company, split between items of a revenue or capital nature as required by the SORP.

The revenue column of the income statement includes all income and revenue expenses of the Company. The capital column includes gains and losses on disposal of investments, and gains and losses on the revaluation of investments.

Upon disposal of investments, gains or losses relating to the assets are transferred from the unrealised capital reserve to the realised capital reserve.

Key judgements and estimates

The preparation of the financial statements requires the Board to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities. Estimates and assumptions mainly relate to the fair valuation of the fixed asset investments, particularly unquoted investments. Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances. The estimates and the assumptions are under continuous review with particular attention paid to the carrying value of the investments.

Investment valuation policies are important to the depiction of the Company's financial position and require the application of subjective and complex judgements, notably with regard to unquoted holdings, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. The main accounting and valuation policies used by the Company are disclosed below.

Investments are regularly reviewed to ensure that the fair values are appropriately stated. Unquoted investments are valued in accordance with current IPEV guidelines, although this does rely on subjective estimates such as appropriate sector earnings multiples, forecast results of portfolio companies, asset values of the subsidiary companies of portfolio companies and liquidity or marketability of the investments held.

Although the Company believes that the assumptions concerning the business environment and estimate of future cash flows are appropriate, changes in estimates and assumptions could require changes in the stated values. This could lead to additional changes in fair value in the future (see note 10).

1. Principal accounting policies continued

Financial instruments

The Company's principal financial assets are its investments and the policies in relation to those assets are set out above and in note 10. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

The Company's trade receivables are initially recognised at fair value which is normally transaction cost and subsequently measured at amortised cost.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash at bank and cash equivalents. Cash equivalents are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. This comprises investments in money market funds subject to insignificant changes in fair value.

Financing Strategy and Capital Structure

We define capital as shareholder's funds and our financial strategy in the medium term is to manage a level of cash that balances the risks of the business with optimising the return on equity. The Company currently has no borrowings nor does it anticipate that it will have any borrowing facilities in the future to fund the acquisition of investments.

The Company does not have any externally imposed capital requirements.

The Board considers the distributable reserves and the total return for the year when recommending a dividend. In addition, the Board is authorised to make market purchases up to a maximum of 14.99% of the issues Ordinary share capital in accordance with Special Resolution 11 in order to maintain sufficient liquidity in the Company's shares.

Reserves

Called up equity share capital – represents the nominal value of shares that have been issued.

Share premium account – includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Special distributable reserve – includes cancelled share premium available for distribution.

Capital reserve realised – when an investment is sold, any balance held in capital reserve unrealised is transferred to capital reserve realised on disposal, as a movement in reserves. The portion of the management fee allocated to capital expenditure is also included in this reserve.

Capital reserve unrealised – when the Company revalues the investments still held during the period, any gains or losses arising are credited/charged to capital reserve unrealised.

Capital redemption reserve – includes nominal share capital which has been bought back by the Company for cancellation and cannot be distributed to shareholders.

Revenue reserve – includes all net revenue profits and losses of the Company.

Functional and presentational currency

The financial statements are presented in sterling (£). The functional currency is also sterling (£).

2. Income

Accounting policy

Investment income includes interest earned on money market securities and shown net of income tax withheld at source. Dividend income is shown net of any related tax credit. Dividends are allocated to revenue or capital depending on whether the dividend is of a revenue or capital nature.

Dividends receivable are recognised when the Company's right to receive payment is established and it is probable that payment will be received. Fixed returns on debt and money market securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course.

Notes to the financial statements continued

2. Income continued
Disclosure

	30 November 2023 £'000	30 November 2022 £'000
Dividends receivable from fixed asset investments	563	522
In-specie dividend[1]	–	19
Loan note interest receivable	20	30
Income receivable on money market securities and bank balances	611	37
	1,194	608

[1]There was no in-specie dividend for the year ended 30 November 2023. In the prior period, the Company received shares in Verici Dx plc as a result of an in-specie dividend from EKF Diagnostics Holdings plc. These have been treated as capital income.

3. Investment management fees

	30 November 2023			30 November 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fees	393	1,179	1,572	481	1,443	1,924

Octopus provide investment management and accounting and administration services to the Company under a management agreement which initially ran for a period of five years with effect from 6 October 2005 and may be terminated at any time thereafter by not less than 12 months' notice given by either party. No compensation is payable in the event of terminating the agreement by either party, if the required notice period is given. The fee payable, should insufficient notice be given, will be equal to the fee that would have been paid should continuous service be provided, or the required notice period was given. The management fee is an annual charge and is set at 2% of the Company's net assets. The Investment Manager is not entitled to any annual performance incentive scheme.

During the year Octopus charged gross management fees of £1,860,000 (2022: £2,266,000). When the various allowances detailed below are included, the net management fee for the year is £1,572,000 (2022: £1,924,000). At the year end £356,000 was payable to Octopus (2022: £395,000). Octopus received £154,000 as a result of upfront fees charged on allotments of Ordinary shares (2022: £186,000). The decrease in upfront fees this year has proportionately decreased in line with the value of allotments in the year.

The Company pays ongoing adviser charges to independent financial advisers (IFAs). Ongoing adviser charges are an ongoing fee of up to 0.5% per annum of the amount invested for a maximum of nine years paid to Advisers who are on an advised and ongoing fee structure. The Company is rebated for this cost by way of a reduction in the annual management fee. For the year to 30 November 2023 the rebate received was £105,000 (2022: £133,000).

The Company also facilitates upfront fees to IFAs where an investor has invested through a financial adviser and has received upfront advice. Where an investor agrees to an upfront fee only, the Company can facilitate a payment of an initial adviser charge of up to 4.5% of the investment amount. If the investor chooses to pay their intermediary/adviser less than the maximum initial adviser charge, the remaining amount will be used for the issue and allotment of additional new shares for the investor. In these circumstances the Company does not facilitate ongoing annual payments. To ensure that the Company is not financially disadvantaged by such payment, a notional ongoing adviser charge equivalent to 0.5% per annum of the amount invested will be deemed to have been paid by the Company for a period of nine years. The Company is rebated for this cost, also by way of a reduction in the annual management fee. For the year to 30 November 2023 the rebate received was £127,000 (2022: £152,000).

The Company also receives a reduction in the management fee for the investments in other Octopus managed funds, being the Multi Cap, Micro Cap Growth and Future Generations products, to ensure the Company is not double charged on these products. This amounted to £56,000 for the year to 30 November 2023 (2022: £57,000).

The management fee has been allocated 25% to revenue and 75% to capital, in line with the Board's expected long-term return in the form of income and capital gains respectively from the Company's investment portfolio.

4. Other expenses

Accounting policy

All expenses are accounted for on an accruals basis and are charged wholly to revenue, apart from management fees which are charged 25% to revenue and 75% to capital.

The transaction costs incurred when purchasing or selling assets are written off to the income statement in the period that they occur.

Disclosure

	30 November 2023 £'000	30 November 2022 £'000
Other administration expenses	**145**	204
IFA charges	**105**	133
Directors' remuneration	**103**	106
Audit fees	**51**	42
Registrar fees	**49**	47
Printing and postage	**22**	10
VCT monitoring fees	**20**	3
Legal and professional fees	**14**	16
Directors' and officers' liability insurance	**13**	12
Brokers' fees	**6**	7
	528	580

The fees payable to the Company's auditor above are stated net of VAT and the VAT is included within other administration expenses. No non-audit services were provided by the Company's auditor.

The ongoing charges of the Company were 2.2% of average net assets during the year to 30 November 2023 (2022: 2.2%).

5. Directors' remuneration

Total Directors' fees during the year were £103,000 (2022: £106,000). This excludes Employer's National Insurance contributions of £9,500 (2022: £9,000) which have been included within other administration expenses. The highest paid Director received £29,000 (2022: £27,500). None of the Directors received any other remuneration or benefit from the Company during the year. The Company has no employees other than non-executive Directors. The average number of non-executive Directors in the year was four (2022: four).

6. Tax

Accounting policy

Current tax is recognised for the amount of income tax payable in respect of the taxable profit/(loss) for the current or past reporting periods using the current UK corporation tax rate. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue return on the 'marginal' basis as recommended in the SORP.

Deferred tax is recognised on an undiscounted basis in respect of all timing differences that have originated but not reversed at the balance sheet date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the financial statements continued

6. Tax continued

Disclosure

The corporation tax charge for the year was £nil (2022: £nil).

	30 November 2023 £'000	30 November 2022 £'000
Loss before tax	**(15,709)**	(36,695)
Current tax at 23.01% (2022: 19.00%)	**(3,615)**	(6,972)
Effects of		
Non-taxable income	**(270)**	(110)
Non-taxable capital gains	**3,406**	6,608
Non-deductible expenses	**3**	6
Excess management expenses on which deferred tax not recognised	**476**	468
Total tax charge	–	–

Approved VCTs are exempt from tax on capital gains within the Company. Since the Board intends that the Company will continue to conduct its affairs so as to maintain its approval as a VCT, no deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

In March 2021, the UK Government announced that from 1 April 2023, the main rate of corporation tax will be increased to 25%. Consequently, deferred tax has been calculated at the year end using a tax rate of 25%. As at 30 November 2023, there is an unrecognised deferred tax asset of £5,118,000 (2022: £4,616,000) in respect of surplus management expenses, based on a prospective tax rate of 25% (2022: 25%). This deferred tax asset could in future be used against taxable profits.

Provided the Company continues to maintain its current investment profile, it is unlikely that the expenses will be utilised and that the Company will obtain any benefit from this asset. Additionally, the tax rate used of 23% was calculated as an average of the tax rate during the year, being 19% from 1 December 2022 to 31 March 2023, and 25% from 1 April 2023 to 30 November 2023.

7. Dividends

Accounting policy

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make a payment has been established. This liability is established on the record date, the date on which those shareholders on the share register are entitled to the dividend.

Disclosure

	30 November 2023 £'000	30 November 2022 £'000
Dividends paid on Ordinary shares during the year		
2022 Final dividend – 2.3p per share paid 25 May 2023 (2022: 2.1p per share)	**3,746**	3,080
2023 Interim dividend – 1.8p per share paid 3 November 2023 (2022: 2.1p per share)	**2,927**	3,075
Total	**6,673**	6,155

During the year £1,303,000 (2022: £1,199,000) of dividends were reinvested under the DRIS, see note 14.

7. Dividends continued

Under Section 32 of FRS 102 'Events After the end of the Reporting Period', dividends payable at year end are not recognised as a liability. Details of these dividends and all other dividends declared in the year are set out below.

	30 November 2023 £'000	30 November 2022 £'000
Dividends paid and proposed		
2023 Interim dividend – 1.8p per share paid 3 November 2023 (2022: 2.1p per share)	**2,927**	3,075
2023 Special dividend – 3.6p per share payable 27 June 2024 (2022: Nil)	**6,639**	–
Final proposed dividend – 1.8p per share payable 27 June 2024 (2022: 2.3p share)	**3,328**	3,773
	12,894	6,848

The above proposed final dividend is based on the number of shares in issue at the date of this report. The actual dividend paid may differ from this number as the dividend payable will be based on the number of shares in issue on the record date and will reflect any changes in the share capital between the year end and the record date.

8. Earnings per share

	30 November 2023			30 November 2022		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) attributable to Ordinary shareholders	**273**	**(15,982)**	**(15,709)**	(472)	(36,223)	(36,695)
Earnings per Ordinary share	**0.2p**	**(9.8p)**	**(9.6p)**	(0.3p)	(24.5p)	(24.8p)

The profit/(loss) per share is based on 164,257,336 (2022: 147,948,350) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year, and the loss on ordinary activities after tax for the year of £15,709,000 (2022: loss of £36,695,000).

There are no potentially dilutive capital instruments in issue and, as such, the basic and diluted earnings per share are identical.

9. Net asset value per share

	30 November 2023	30 November 2022
Net assets (£'000)	**84,690**	101,794
Shares in issue	**176,875,405**	165,172,844
NAV per share (p)	**47.9**	61.6

There are no potentially dilutive capital instruments in issue and, as such, the basic and diluted NAV per share are identical.

Notes to the financial statements continued

10. Fixed asset investments

Accounting policy

The Company's principal financial assets are its investments and the policies in relation to those assets are set out below.

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

These investments will be managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy and information about them has to be provided internally on that basis to the Board. Accordingly, as permitted by FRS 102, the investments are measured as being FVTPL on the basis that they qualify as a group of assets managed, and whose performance is evaluated, on a fair value basis in accordance with a documented investment strategy. The Company's investments are measured at subsequent reporting dates at fair value.

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 upon convention of the exchange on which the investment is quoted. In the case of unquoted investments and loan notes, fair value is established by assessing different methods of valuation, such as price of recent transaction, earnings or revenue-based multiples, discounted cash flows and net assets. Where price of recent investment is used as a starting point for estimating fair value at subsequent measurement dates, this has been benchmarked using an appropriate valuation technique. These methodologies are consistent with IPEV guidelines.

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 capital reserve unrealised. The Investment Manager reviews changes in fair value of investments for any permanent reductions in value and will give consideration to whether these losses should be transferred to the capital reserve realised.

In the preparation of the valuations of assets the Directors are required to make judgements and estimates that are reasonable and incorporate their knowledge of the performance of the portfolio companies.

Fair value hierarchy

Paragraph 34.22 of FRS 102 recommends following a hierarchy of fair value measurements, for financial instruments measured at fair value in the balance sheet, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). This methodology is adopted by the Company and requires disclosure of financial instruments to be dependent on the lowest significant applicable input, as laid out below:

Level 1: The unadjusted, fully accessible and current quoted price in an active market for identical assets or liabilities that an entity can access at the measurement date.

Level 2: Inputs for similar assets or liabilities other than the quoted prices included in Level 1 that are directly or indirectly observable, which exist for the duration of the period of investment.

Level 3: This is where inputs are unobservable, where no active market is available and recent transactions for identical instruments do not provide a good estimate of fair value for the asset or liability.

10. Fixed asset investments continued

	Level 1: Quoted equity investments £'000	Level 2: Quoted equity investments £'000	Level 3: Unquoted investments £'000	Total £'000
Opening cost at 1 December 2022	49,113	–	3,087	52,200
Opening unrealised gain as at 1 December 2022	15,159	–	4,890	20,049
Valuation as at 1 December 2022	**64,272**	**–**	**7,977**	**72,249**
Purchases at cost*	3,741	–	120	3,861
Disposal proceeds	(8,757)	–	(400)	(9,157)
Gain on realisation of investments	668	–	–	668
Change in fair value in year	(13,905)	–	(428)	(14,333)
Closing valuation as at 30 November 2023	**46,019**	**–**	**7,269**	**53,288**
Closing cost as at 30 November 2023	47,922	–	2,807	50,729
Closing unrealised (loss)/gain as at 30 November 2023	(1,903)	–	4,462	2,559
Valuation as at 30 November 2023	**46,019**	**–**	**7,269**	**53,288**

*The difference to the cash flow statement is a timing difference in respect of an investment in Intelligent Ultrasound Group plc which had a trade in November 2022 whilst the settlement of cash was in December 2022.

The Company received £9,157,000 (2022: £2,249,000) from investments sold in the year. The book cost of these investments when they were purchased was £5,332,000 (2022: £2,135,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

Level 1 valuations are valued in accordance with the bid price on the relevant date. Further details of the fixed asset investments held by the Company are shown within the Investment Manager's Review.

Level 2 investments are valued using other observable inputs not included in Level 1.

Level 3 investments are reported at Fair Value in accordance with FRS 102 sections 11 and 12, which is determined in accordance with the latest IPEV guidelines. In estimating Fair Value, there is an element of judgement, notably in deriving reasonable assumptions, and it is possible that, if different assumptions were to be used, different valuations could have been attributed to some of the Company's investments.

The Company holds six unquoted investments, and one loan note stock, which are classified as level 3 in terms of fair value hierarchy. These are valued based on a range of valuation methodologies, determined on an investment specific basis. The price of recent investment is used where a transaction has occurred sufficiently close to the reporting date to make this the most reliable indicator of fair value. Where recent investment is not deemed to indicate the most reliable indicator of fair value i.e. the most recent investment is too distant from the reporting date for this to be deemed a reasonable indicator, other market based approaches including earnings multiples, annualised recurring revenues, discounted cashflows or net assets are used to determine a fair value for the investments.

FRS 102 requires the Directors to consider the impact of changing one or more of the inputs used as part of the valuation process to reasonable possible alternative assumptions. The Company's holdings in Hasgrove Limited and Popsa Holdings Ltd make up 99% of the market value of the level 3 investments on the balance sheet and therefore we have taken into account these valuations when considering possible alternative assumptions. See below for the results of our analysis:

Notes to the financial statements continued

Valuation technique	Portfolio company	Input	Base case	Change in input	Change in fair value of investments (£m)	Change in NAV (pence per share)
Revenue multiple	Hasgrove Ltd	Revenue multiple	6.0	+0.5x	+0.4	+0.23
				-0.5x	-0.4	-0.23
EV/Sales multiple	Popsa Holdings Ltd	EV/Sales multiple	1.8	+0.2x	+0.2	+0.11
				-0.2x	-0.2	-0.11

The Board and the Investment Manager believe that the valuations as at 30 November 2023 reflect the most reasonable assumptions at that date, giving due regard to all information available from each portfolio company.

All capital gains or losses on investments are classified at FVTPL. Given the nature of the Company's venture capital investments, the changes in fair value of such investments recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and accordingly these gains are treated as holding gains or losses.

At 30 November 2023 there were no commitments in respect of investments approved by the Investment Manager but not yet completed. The transaction costs incurred when purchasing or selling assets are written off to the income statement in the period that they occur.

There have been no transfers between these classifications in the year (2022: none).

11. Current asset investments, cash and cash equivalents

Accounting policy

For the purposes of the cash flow statement, cash at bank comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. This comprises government securities, investment grade bonds and investments in money market funds. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Current asset investments on the balance sheet comprise of investments in Open Ended Investment Companies (OEICs), money market funds and deposits and are designated as FVTPL. Gains and losses arising from changes in fair value of current investments are recognised as part of the capital return within the income statement and allocated to the capital reserve unrealised.

The current asset investments are convertible into cash at the choice of the Company, within seven business days. The current asset investments are held for trading, are actively managed and the performance is evaluated on a fair value basis in accordance with a documented investment strategy. Information about them has to be provided internally on that basis to the Board.

11. Current asset investments, cash and cash equivalents continued

Disclosure

Current asset investments at 30 November 2023 and at 30 November 2022 comprised of money market funds, deposits and OEICs. These fall into Level 1 of the fair value hierarchy as defined in the fixed asset investment accounting policy in note 10 above.

	30 November 2023 £'000	30 November 2022 £'000
OEICs:		
FP Octopus UK Micro Cap Growth Fund	**5,150**	4,768
FP Octopus UK Multi Cap Income Fund	**2,925**	4,146
FP Octopus UK Future Generations Fund	**721**	485
Total current asset investments	**8,796**	9,399
Money market funds	**21,893**	3,515
Total current asset investments and money market funds	**30,689**	12,914
Cash at bank	**1,045**	17,217
Total current asset investments and cash and cash equivalents	**31,734**	30,131

12. Debtors

	30 November 2023 £'000	30 November 2022 £'000
Prepayments	**21**	4
Accrued income	**131**	200
Other debtors	**–**	1
	152	205

13. Creditors: Amounts falling due within one year

	30 November 2023 £'000	30 November 2022 £'000
Trade creditors*	**4**	229
Accruals	**479**	562
Other	**1**	–
	484	791

*The difference to the cash flow statement is a timing difference in respect of an investment in Intelligent Ultrasound Group plc which had a trade in November 2022 whilst the settlement of cash was in December 2022

Notes to the financial statements continued

14. Share capital

	30 November 2023 £'000	30 November 2022 £'000
Allotted and fully paid up:		
176,875,405 Ordinary shares of 0.01p (2022: 165,172,844)	**18**	17

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 on page 21. As the Company is registered as an Alternative Investment Fund Manager ('AIFM'), it is subject to externally imposed capital requirements, namely if the value of assets under management (AUM) exceeds €250 million then an additional amount of Company funds equal to 0.02% of the excess over €250 million (subject to a cap of €10 million capital requirement) will be required.

During the year the Company repurchased the following shares to be cancelled:

Date	Number of shares	Price per share (p)	Total cost of shares repurchased (£)
15 December 2022	274,131	57.9	159,000
19 January 2023	436,267	57.7	252,000
16 February 2023	432,226	58.5	253,000
16 March 2023	731,856	55.6	407,000
20 April 2023	442,177	55.6	246,000
18 May 2023	359,232	53.1	191,000
15 June 2023	219,586	52.0	114,000
13 July 2023	320,586	50.3	161,000
17 August 2023	422,806	50.5	214,000
21 September 2023	314,101	49.5	155,000
19 October 2023	976,986	44.7	437,000
16 November 2023	1,081,143	45.2	487,000
Totals	**6,011,097**		**3,076,000**

The total nominal value of the shares repurchased for cancellation was £601 representing 3.4% of the issued share capital (2022: 4,494,597 shares with a nominal value of £449 representing 2.7% of the issued share capital).

The Company issued the following shares during the year:

Date	Number of shares	Price per share (p)	Net proceeds of shares issued (£)
25 May 2023[1]	1,340,242	54.7	733,000
10 August 2023[2]	38,237	52.4	20,000
9 November 2023[1]	1,216,997	46.8	570,000
10 November 2023	15,118,182	49.6	7,031,000
Totals	**17,713,658**		**8,354,000**

[1]Shares issued under the Dividend Reinvestment Scheme (DRIS).

[2]Shares issued as a result of reduced adviser charges, and reduced annual management fee for Octopus employees.

Excluding the value of shares issued under the DRIS, the total value of shares issued net of share issue costs was £7,051,000 (2022: £11,708,000). This is shown in the cash flow statement.

15. Reconciliation of movements in equity

	Notes	30 November 2023 £'000	30 November 2022 £'000
Shareholders' funds at start of year		**101,794**	134,854
Total comprehensive loss		**(15,709)**	(36,695)
Share capital bought back	14	**(3,076)**	(3,117)
Issue of shares (net of issue costs)	14	**8,354**	12,907
Dividends paid	7	**(6,673)**	(6,155)
Shareholders' funds at end of year		**84,690**	101,794

Included within these reserves is an amount of £72,285,000 (2022: £67,680,000) which is considered distributable to shareholders under Companies Act rules.

During the year there was a share premium cancellation amounting to £13,638,000 (2022: £54,601,000). This was carried out with the approval of shareholders for the purpose of creating additional distributable reserves.

16. Financial instruments

The Company's financial instruments comprise equity investments, loan notes, OEICs, cash balances, investments in money market funds and debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT qualifying AIM-traded securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

	30 November 2023 £'000	30 November 2022 £'000
Financial assets at fair value through profit or loss		
Fixed asset investments	**53,288**	72,249
Money market securities	**21,893**	3,515
OEICs	**8,796**	9,399
Total financial assets at fair value through profit or loss	**83,977**	85,163
Financial assets measured at amortised cost		
Cash at bank	**1,045**	17,217
Debtors	**131**	200
Total financial assets measured at amortised cost	**1,176**	17,417
Financial liabilities measured at amortised cost		
Creditors	**484**	(791)
Total financial liabilities measured at amortised cost	**484**	(791)

The Company holds six qualifying, unquoted investments; Rated People Limited, Popsa Holdings Limited, Airnow Group plc, Hasgrove Limited (which delisted from AIM in 2013), The Food Marketplace Ltd and Eluceda Ltd. The Company also holds one unquoted loan note investment in Rosslyn Data Technologies plc valued at £120,000, held at price of recent investment. Unquoted investments and loan notes are included in fixed asset investments in the table above.

Notes to the financial statements continued

16. Financial instruments continued

Fixed and current asset investments (see notes 10 and 11) are initially recognised at FVTPL. For quoted investments this is the bid price. The Directors believe that the fair value of the assets held at the year end is equal to their book value. Unquoted investments are valued in accordance with IPEV guidelines.

The Company's creditors and debtors are initially recognised at fair value which is usually the transaction cost and subsequently measured at amortised cost using the effective interest method.

The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet. The Directors believe that the fair value of the assets held at the year end is equal to their book value.

17. Financial risk management

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, interest rate 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 on page 21. 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 Report on pages 34 to 37, having regard to the possible effects of adverse price movements, and other macroeconomic effects on the market such as economic recession, movement in interest rates, inflation, political instability and rising living costs with the objective of maximising overall returns to shareholders. Investments in smaller companies, by their nature, usually involve a higher degree of risk than investments in larger 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 regularly monitored by the Board.

Details of the Company's investment portfolio at the balance sheet date are set out on pages 8 to 11.

By value, 54.3% (2022: 63%) of the Company's net assets comprised equity securities listed on the London Stock Exchange, Aquis, NASDAQ or quoted on AIM. In the context of the continued short-term market volatility caused by the cost of living crisis and the unstable economic environment, we have maintained the sensitivity analysis at 20%, consistent with 2022. Therefore, a decrease in the bid price of these securities as at 30 November 2023 would have decreased net assets and the total return for the year by £9,204,000 (2022: £12,854,000 decrease); and an equivalent change in the opposite direction would have increased net assets for the year by the same amount.

OEIC investments comprised 10.4% of the Company's net assets by value (2022: 9.0%). A 20% decrease (2022: 20%) in the price of these securities at 30 November 2023 would have decreased net assets by £1,759,000 (30 November 2022: £1,880,000 decrease); and an equivalent change in the opposite direction would have increased net assets for the year by the same amount.

Unquoted investments comprised 8.6% of the Company's net assets by value (2022: 8.0%). A 20% decrease (2022: 20%) in the multiple or price of recent investment used in the valuation of these securities as at 30 November 2023 would have decreased net assets by £1,454,000 (2022: £1,595,000 decrease); and an equivalent change in the opposite direction would have increased net assets for the year by the same amount.

Interest rate risk

Some of the Company's financial assets are interest bearing. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

17. Financial risk management continued

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts and, where appropriate, within interest bearing money market securities. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 5.25% at 30 November 2023 (2022: 3.0%). The amounts held in floating rate investments at the balance sheet date were as follows:

	30 November 2023 £'000	30 November 2022 £'000
Money market funds	**21,893**	3,515
Cash at bank[1]	**1,045**	17,217
	22,938	20,732

[1]As part of our Cash Management policy we elect not to receive interest on cash at bank. VCTs must adhere to a nature of income condition whereby income must derive wholly or mainly from shares or securities. It is therefore deemed reasonable and prudent not to earn income on bank deposits.

A 1% increase in the base rate would increase income receivable from these investments and the total return for the year by £219,000 (2022: £35,000).

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. Where financial assets expose the Company to credit risk, the maximum exposure is represented by their carrying value.

	30 November 2023 £'000	30 November 2022 £'000
Investments in interest bearing instruments	**120**	400
Cash on deposit	**1,045**	17,217
Accrued dividends and interest receivable	**151**	230
	1,316	17,847

Other than cash, loan notes or liquid money market funds, there were no significant concentrations of credit risk to counterparties at 30 November 2023 or 30 November 2022. By value, no individual bank holding or fixed rate note investment exceeded 9% of the Company's net assets at 30 November 2023 (2022: 15%).

The Company's interest-bearing deposit and current accounts are maintained with HSBC and Money Market Funds held with BlackRock, HSBC and JP Morgan. The risk of loss to this balance is deemed to be low due to the historical credit ratings and a current Moody's rating of Aaa (2022: Aaa) for HSBC, JP Morgan and BlackRock Money Market Funds. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. Should the credit quality or the financial position of these counterparties deteriorate significantly, the Investment Manager will move the cash holdings to another bank.

Credit risk relating to listed money market securities is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government and major UK companies and institutions. Credit risk relating to loans to and shares in unquoted companies is considered to be part of market risk.

Those assets of the Company which are traded on recognised stock exchanges are held on the Company's behalf by third party sub-custodians (for example, BlackRock in the case of listed money market securities and Octopus Investments Limited in the case of quoted equity securities). 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 by bankruptcy proceedings.

Credit risk arising on the sale of investments, accrued dividends and interest receivable is considered to be small due to the short settlement and the contracted agreements in place with the settlement lawyers.

Notes to the financial statements continued

17. Financial risk management continued

Liquidity risk

The Company's financial assets include investments in AIM-traded companies, which by their nature involve a higher degree of risk than investments on the main market, as well as unquoted 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 deterioration in the creditworthiness of any particular issuer.

The Company's listed money market securities are considered to be readily realisable as they are of high credit quality as outlined above.

The Company's OEIC investments are considered to be readily realisable as under the terms of the product funds can be withdrawn at any point and received within seven working days. There is a risk that the value of the investment will fall, but this is monitored continually by the Investment Manager.

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 30 November 2023 these investments were valued at £31,734,000 (2022: £30,131,000). The Company has no debt, therefore no maturity analysis is required.

18. Events after the end of the reporting period

The following events occurred between the balance sheet date and the signing of these financial statements:

- an investment of £600,000 into Verici Dx plc
- an investment of £534,204 into GENinCode plc
- an investment of £129,600 into Equipmake Holdings plc
- an investment of £199,998 into Alusid Limited
- a loan note of £600,000 into Strip Tinnings Holdings plc
- an investment of £120,000 into FP Octopus UK Future Generations Fund
- a partial disposal of 141,437 shares in FP Octopus UK Multi Cap Income Fund for total consideration of £200,000
- a partial disposal of 762,912 shares in Polarean Imaging plc for total consideration of £45,682
- a partial disposal of 2,800 shares in Judges Scientific plc for total consideration of £293,411
- a full disposal of 8,298,059 shares in Velocys plc for total consideration of £20,745
- a full disposal of 2,526,666 shares in Clean Power Hydrogen plc for total consideration of £213,038
- a full disposal of 108,404 shares in Renalytix plc for total consideration of £98,254

The following shares have been allotted since the year end:

- 14 December 2023: 5,635,893 Ordinary shares at a price of 50.5p per share
- 11 January 2024: 3,555,668 Ordinary shares at a price of 51.4p per share

The following shares have been bought back since the year end:

- 14 December 2023: 791,619 shares at a price of 45.9p per share
- 18 January 2024: 408,110 shares at a price of 46.6p per share
- 22 February 2024: 448,271 shares at a price of 46.8p per share

19. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments as at 30 November 2023 (2022: nil).

20. Transactions with the Investment Manager

The Company has employed Octopus Investments Limited ('Octopus' or 'the Investment Manager') throughout the period as Investment Manager. Octopus have also been appointed as Custodian of the Company's investments under a Custodian Agreement. The Company has been charged £1,572,000 by Octopus as a management fee in the year to 30 November 2023 (2022: £1,924,000). The management fee is payable quarterly and is based on 2% of net assets at quarterly intervals.

The Company receives a reduction in the management fee for the investments in other Octopus managed funds, being the Multi Cap Income Fund, Micro Cap Growth Fund and Future Generations Fund, to ensure the Company is not double charged on these products. This amounted to £56,000 in the year to 30 November 2023 (2022: £57,000). For further details please refer to note 3. Details of amounts invested in Octopus managed funds can be found on page 11.

21. Related party transactions

As at 30 November 2023, Octopus Investments Nominees Limited (OINL) held nil shares (2022: 4,284) in the Company as beneficial owner, having purchased these at a cost of £nil (2022: £3,000) from shareholders to protect their interests after delays or errors with shareholder instructions and other similar administrative tasks. Throughout the period to 30 November 2023 OINL purchased nil shares (2022: 7,916) at a cost of £nil (2022: £6,000) and sold 4,284 shares (2022: 3,632) for proceeds of £2,000 (2022: £3,000). In accordance with the listing rules, this is classed as a related party transaction as Octopus, the Investment Manager, and OINL are part of the same group of companies. Any such future transactions, where OINL takes over the legal and beneficial ownership of Company shares will be announced to the market and disclosed in annual and half yearly reports.

Details of the Directors and their remuneration can be found in the Directors' Remuneration Report on pages 40 to 42.

Information and contact details

Octopus AIM VCT 2 plc was launched as Close IHT AIM VCT plc in March 2006 and raised £25 million through an offer for subscription. On 12 August 2010 the Company acquired the assets and liabilities of Octopus Third AIM VCT plc (formerly Octopus Second AIM VCT plc) ('the merger') and changed its name from Octopus IHT AIM VCT plc to Octopus Second AIM VCT plc. Shareholders of Octopus Third AIM VCT plc received 0.48356191 Ordinary shares in the Company for each Ordinary share they had prior to the merger. On 30 January 2015, the Company name changed to Octopus AIM VCT 2 plc.

An offer, launched on 6 February 2012 and which closed on 5 April 2012, raised £1.3 million for the Company. An offer launched on 25 April 2012, closed on 31 July 2012 and raised a further £0.5 million for the Company. An Enhanced Buyback Facility opened on 23 October 2012 and closed on 28 December 2012. 10,470,985 existing shares were tendered and 9,974,094 new shares were issued.

An offer for subscription of up to £10 million, which opened on 1 February 2013 and closed on 17 January 2014, raised £5.9 million. A further offer for subscription to raise £4.1 million was opened on 3 February 2014 and closed, fully subscribed, on 28 March 2014. A combined fundraise with Octopus AIM VCT plc by way of an issue of new shares was launched on 29 August 2014 to raise up to £8 million with an over-allotment facility of £4 million was closed, fully subscribed on 11 August 2015. A combined fundraise with Octopus AIM VCT plc by way of an issue of new shares was launched on 21 December 2015 to raise up to £8 million with an over-allotment facility of £4 million. This offer closed, fully subscribed, on 21 October 2016. On 6 February 2017 the Board announced a further offer for subscription to raise up to £4.3 million.

A further combined offer for subscription with Octopus AIM VCT plc was launched on 16 June 2017 to raise up to £12 million with an over-allotment facility of £4 million which closed to new applications on 14 November 2017. A combined fundraise with Octopus AIM VCT plc by way of an issue of new shares was launched on 3 August 2018 to raise up to £20 million with an over-allotment facility of £10 million. This offer closed, fully subscribed, on 28 September 2018. A further combined fundraise with Octopus AIM VCT plc by way of an issue of new shares was launched on 29 November 2019 to raise a combined total of up to £20 million with a £10 million over-allotment facility. This offer closed, fully subscribed, on 27 February 2020.

On 20 August 2020, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over-allotment facility. This prospectus closed to further applications on 30 November 2020.

On 19 August 2021, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £30 million with a £10 million over-allotment facility. This prospectus closed to further applications on 13 September 2021.

On 22 September 2022, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over-allotment facility. This prospectus closed to further applications on 13 October 2022.

On 14 September 2023, a prospectus offer was launched alongside Octopus AIM VCT plc to raise a combined total of up to £20 million with a £10 million over-allotment facility. The Offer closed on 21 December 2023.

About VCTs

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unlisted companies in the UK. Subsequent Finance Acts have introduced changes to VCT legislation. The tax benefits currently available to eligible new investors in VCTs include:

- up to 30% up-front income tax relief;
- exemption from income tax on dividends paid; and
- exemption from capital gains tax on disposals of shares in VCTs.

The Company has been approved as a VCT by HMRC. In order to maintain its approval, the Company must comply with certain requirements on a continuing basis including the provisions of chapter 3 of the Income Tax Act 2007, in particular s280A:

- at least 80% of the Company's investments must comprise 'qualifying holdings'[1] (as defined in the legislation);
- at least 70% of the qualifying holdings must be invested into Ordinary shares with no preferential rights (30% for funds invested before 6 April 2011);
- no single investment made can exceed 15% of the total Company value at the time of investment; and
- a minimum of 10% of each qualifying investment must be in Ordinary shares with no preferential rights.

[1]A 'qualifying holding' consists of up to £5 million invested in any one year in new shares or securities in a company admitted to trading on AIM (or an unquoted UK company) which is carrying on a qualifying trade and whose gross assets do not exceed a prescribed limit at the time of investment. The definition of a 'qualifying trade' excludes certain activities such as property investment and development, financial services and asset leasing.

VCT legislation changes

The Finance Act 2018 contained some further adjustments to the VCT regulations. The new requirements are that any funds raised in accounting periods beginning on or after 6 April 2018 should be 30% invested in qualifying holdings within 12 months of the end of the accounting period in which the shares were issued, and for financial years ending after 6 April 2019 the portfolio also has to maintain a minimum qualifying investment of 80%.

Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account rather than by cheque to their registered address can complete a mandate form for this purpose or complete an instruction electronically by visiting the Computershare Investor Centre at: **www-uk.computershare.com/investor/**.

Queries relating to dividends, shareholdings or requests for mandate forms should be directed to Computershare by calling **0370 703 6326** (calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate. Lines are open Monday-Friday 9.00am-5.30pm), or by writing to them at:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

The table below shows the NAV per share and lists the dividends that have been paid since the launch of the Company. Following the merger of Octopus IHT AIM VCT and Octopus Third AIM VCT and various share re-organisations, there is now only one share class, Ordinary shares. For Octopus IHT AIM VCT Ordinary shares, together with Octopus Third AIM VCT Ordinary shares and 'C' and 'D' shares, the figures below represent the NAV, rebased to assume investment at 100p, and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year, hence the dividends shown below may not necessarily equate to the dividends actually received by shareholders.

Dividends paid during the period ending	Octopus AIM VCT 2 Ordinary shares 2023/24	Octopus AIM VCT 2 Ordinary shares 2022/23	Octopus AIM VCT 2 Ordinary shares 2021/22	Octopus AIM VCT 2 Ordinary shares 2020/21	Octopus AIM VCT 2 Ordinary shares 2019/20	Octopus AIM VCT 2 Ordinary shares 2018/19	Octopus AIM VCT 2 Ordinary shares 2017/18	Octopus AIM VCT 2 Ordinary shares 2016/17	Octopus AIM VCT 2 Ordinary shares 2015/16	Octopus AIM VCT 2 Ordinary shares 2014/15	Octopus AIM VCT 2 Ordinary shares 2013/14	Octopus AIM VCT 2 Ordinary shares 2012/13	Octopus AIM VCT 2 Ordinary shares 2011/12	Octopus AIM VCT 2 Ordinary shares 2010/11	Octopus Second AIM VCT (formerly Octopus IHT AIM VCT A&B shares) 2005/06	Octopus Third AIM VCT C&D shares 2005/06 (formerly Octopus Second AIM VCT)	Octopus Third AIM Ordinary shares 2000/01 (formerly Octopus Second AIM VCT plc)
30 November 2003	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1.6
30 November 2004	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
30 November 2005	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
30 November 2006	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1.4	–	1
30 November 2007	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2.0	0.8	7
30 November 2008	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2.0	2.2	11
30 November 2009	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2.0	2.0	2
30 November 2010	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2.5	5.4	2.2
30 November 2011	–	–	–	–	–	–	–	–	–	–	–	–	–	4.7[1]	3.3	3.9[1]	1.6[1]
30 November 2012	–	–	–	–	–	–	–	–	–	–	–	2.3[1]	4.4[1]	4.6[1]	3.2	3.8[1]	1.6[1]
30 November 2013	–	–	–	–	–	–	–	–	–	–	4.5[1]	5.1[1]	4.7[1]	5.0[1]	3.5	4.1[1]	1.7[1]
30 November 2014	–	–	–	–	–	–	–	–	–	4.3[1]	5.2[1]	5.8[1]	5.4[1]	5.8[1]	4.0	4.7[1]	1.9[1]
30 November 2015	–	–	–	–	–	–	–	–	7.0[1]	6.4[1]	7.8[1]	8.7[1]	8.1[1]	8.6[1]	6.0	7.1[1]	2.9[1]
30 November 2016	–	–	–	–	–	–	–	4.8[1]	4.6[1]	4.3[1]	5.2[1]	5.8[1]	5.4[1]	5.8[1]	4.0	4.7[1]	1.9[1]
30 November 2017	–	–	–	–	–		4.5[1]	4.9[1]	4.8[1]	4.4[1]	5.3[1]	5.9[1]	5.5[1]	5.9[1]	4.1	4.8[1]	2.0[1]
30 November 2018	–	–	–	–	–	4.5[1]	4.6[1]	5.0[1]	4.9[1]	4.5[1]	5.5[1]	6.1[1]	5.6[1]	6.0[1]	4.2	4.9[1]	2.0[1]
30 November 2019	–	–	–	–	9.8[1]	8.7[1]	8.9[1]	9.7[1]	9.4[1]	8.6[1]	10.5[1]	11.7[1]	10.9[1]	11.6[1]	8.1	9.5[1]	3.9[1]
30 November 2020	–	–	–	6.0[1]	5.1[1]	4.5[1]	4.6[1]	5.0[1]	4.9[1]	4.5[1]	5.5[1]	6.1[1]	5.6[1]	6.0[1]	4.2	4.9[1]	2.0[1]
30 November 2021	–	–	6.2[1]	8.4[1]	7.2[1]	6.3[1]	6.5[1]	7.0[1]	6.8[1]	6.3[1]	7.7[1]	8.6[1]	7.9[1]	8.5[1]	5.9	6.9[1]	2.9[1]
30 November 2022	–	5.0[1]	4.4[1]	6.0[1]	5.1[1]	4.5[1]	4.6[1]	5.0[1]	4.9[1]	4.5[1]	5.5[1]	6.1[1]	5.6[1]	6.0[1]	4.2	4.9[1]	2.0[1]
30 November 2023	7.5	4.9[1]	4.3[1]	5.8[1]	5.0[1]	4.4[1]	4.5[1]	4.9[1]	4.8[1]	4.4[1]	5.3[1]	5.9[1]	5.5[1]	5.9[1]	4.1	4.8[1]	2.0[1]
Total dividends paid (assumed investment at 100p)	**7.5**	**9.9**	**14.9**	**26.2**	**32.1**	**33.0**	**38.1**	**46.2**	**52.0**	**52.0**	**67.9**	**78.1**	**74.7**	**84.5**	**68.7**	**79.5**	**53.3**
Adjusted NAV (assumed investment at 100p)	**87.6p**	**56.9p**	**50.3p**	**68.2p[2]**	**58.1[2]**	**51.5[2]**	**52.4[2]**	**57.1[2]**	**55.6[2]**	**51.0[2]**	**62.2[2]**	**69.4[2]**	**64.4[2]**	**68.9[2]**	**47.9**	**56.3[2]**	**23.2[2]**
NAV plus total dividends (assumes investment at 100p)	**95.1**	**66.7**	**65.2**	**94.4[3]**	**90.2[3]**	**84.5[3]**	**90.5[3]**	**103.3[3]**	**107.5[3]**	**103.0[3]**	**130.1[3]**	**147.5[3]**	**139.0[3]**	**153.4[3]**	**116.6**	**135.8[3]**	**76.4[3]**

[1]Notional dividends assuming investment at 100p and adjusting for conversion of various share classes into Octopus AIM 2 VCT plc Ordinary shares.

[2]NAV assuming investment at 100p and adjusting for conversion of various share classes into Octopus AIM 2 VCT plc Ordinary shares.

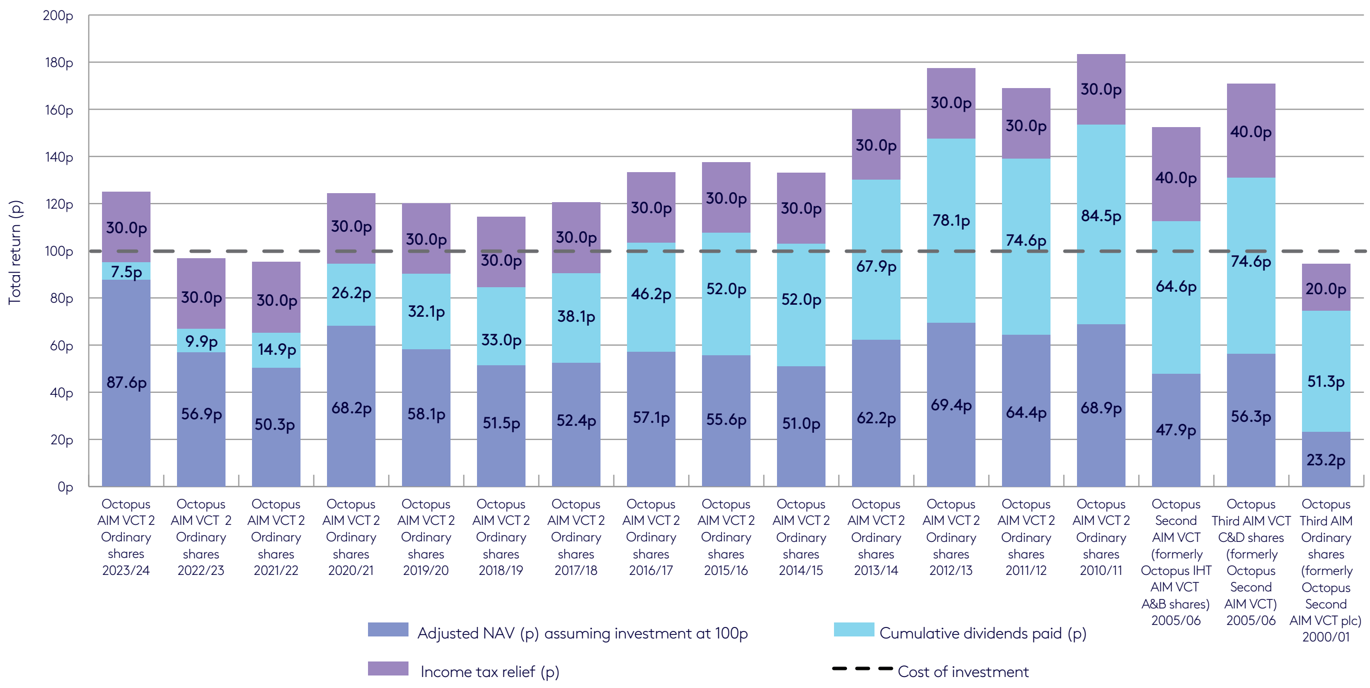
[3]NAV plus cumulative dividends adjusting for conversion, assuming investment at 100p showing the notional return to shareholders based on their original investment share class.

Information and contact details continued

Notes

- Octopus Third AIM VCT 'D' shares converted into 'C' shares in May 2009, in accordance with a conversion factor of 1 'C' share for each 'D' share.
- Octopus Third AIM VCT 'C' shares converted into Octopus Third AIM VCT Ordinary shares in May 2009, in accordance with a conversion factor of 2.4313 Ordinary shares for each 'C' share.
- Octopus AIM VCT 2 plc (previously Octopus IHT AIM VCT) 'B' shares converted into 'A' shares in May 2009, in accordance with a conversion factor of 1 'A' share for each 'B' share.
- Octopus Third AIM Ordinary shares converted into Octopus Second AIM (post August 2010) Ordinary shares in August 2010, in accordance with a conversion factor of 0.48356191 Octopus Second AIM Ordinary shares (post August 2010), for each Octopus Third AIM Ordinary share.
- In August 2010, Octopus IHT AIM VCT was renamed Octopus Second AIM VCT, and subsequently changed its name to Octopus AIM VCT 2 plc.

The graph below depicts the NAV per share and the dividends that have been paid since the launch of Octopus AIM VCT 2 plc for each class of share issued since the start, assuming an investment at 100p including the up-front tax relief and adjusted in accordance with the relevant conversion factors. Investment has been assumed at the first allotment of each tax year:



The proposed final dividend of 1.8p and proposed special dividend of 3.6p will, if approved by shareholders, be paid on 27 June 2024 to shareholders on the register on 31 May 2024.

Dividend Reinvestment Scheme (DRIS)

The Company established a DRIS in 2014, under which shareholders are given the opportunity to automatically reinvest future dividend payments by subscribing for new Ordinary shares. This allows participating shareholders to reinvest the growth in their shareholdings and, subject to personal circumstances, benefit from additional income tax reliefs.

Any shareholder wishing to reinvest their dividends can request a DRIS instruction form by calling Computershare on **0370 703 6326** or complete an instruction electronically by visiting the Computershare Investor Centre at: **www-uk.computershare.com/investor/**. The application form and rules can also be found in the Document Library on the Octopus website: **www.octopusinvestments.com/investor/our-products/venture-capital-trusts/octopus-aim-vcts/**.

Share price
The Company's share price can be found on various financial websites including **www.londonstockexchange.com**, with the following TIDM/EPIC code:

	Ordinary shares
TIDM/EPIC code	OSEC
Latest share price 6 March 2024	45.8 pence per share

Buying and selling shares
The Company's Ordinary shares can be bought and sold in the same way as any other company quoted on the London Stock Exchange via a stockbroker. There may be tax implications in respect of selling all or part of your holdings, so shareholders should contact their independent financial adviser if they have any queries.

Buyback of shares
The Company operates a policy of buying its own shares for cancellation as they become available, and envisages that purchases will be made at up to a 5% discount to the prevailing NAV. The Company is, however, unable to buy back shares directly from shareholders. If you are considering selling your shares or trading in the secondary market, please contact Panmure Gordon (UK) Limited, the Company's broker.

Panmure Gordon (UK) Limited is able to provide details of close periods (when the Company is prohibited from buying in shares) and details of the price at which the Company has bought its shares. Panmure Gordon (UK) Limited can be contacted as follows:

Chris Lloyd	020 7886 2716	chris.lloyd@panmure.com
Paul Nolan	020 7886 2717	paul.nolan@panmure.com

Secondary market
UK income tax payers, aged 18 or over, can purchase shares in the secondary market and benefit from:

- Tax-free dividends
- Realised gains not being subject to capital gains tax (although any realised losses are not allowable)
- No minimum holding period
- No need to include VCT dividends in annual tax returns

The UK tax treatment of VCTs is on a first in and first out basis and therefore tax advice should be obtained before shareholders dispose of their shares.

Notification of change of address
Communications with shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment, this should be notified to the Company's registrar, Computershare, under the signature of the registered holder or via the Computershare Investor Centre at: **www-uk.computershare.com/investor/**. Computershare's contact details are provided on page 75.

Other information for shareholders
Previously published Annual Reports and Half-yearly Reports are available for viewing on the Investment Manager's website at **www.octopusinvestments.com** by navigating to Products, Venture Capital Trusts, Octopus AIM VCTs, Shareholder Information. If your shares are held via a nominee company, you won't receive communications regarding Annual Reports and Half-yearly Reports directly from us or the Registrars. You'll need to speak to your nominee company about this or you can find latest published reports on the Investment Manager's website. Other statutory information about the Company can also be found on this page.

Electronic communications
We also publish reports and accounts and all other correspondence electronically. This cuts the cost of print and reduces the impact on the environment. If, in future, you would prefer to receive an email telling you a report is available to view or to receive documents by email, please contact Octopus on **0800 316 2295** or Computershare on **0370 703 6326**. Alternatively you can sign up to receive e-communications via the Computershare Investor Centre at: **www-uk.computershare.com/investor/**.

Warning to shareholders
Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be wary of any unsolicited advice, offer to buy shares at a discount or offer for free Company reports.

Please note that it is very unlikely that either the Company, Octopus or the Registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and would never be in respect of investment advice.

If you are in any doubt about the authenticity of an unsolicited phone call, please call Octopus on **0800 316 2295**.

The Financial Conduct Authority have also issued guidelines on how to avoid share fraud and further information can be found on their website: **www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams**. You can report any share fraud to them by calling **0800 111 6768**.

Glossary of terms

Alternative performance measure (APM)
A financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. These APMs will help shareholders to understand and assess the Company's progress. A number of terms within this glossary have been identified as APMs.

Net asset value or NAV
The value of the VCT's total assets less liabilities. It is equal to the total shareholders' funds.

Net asset value per share or NAV per share
The NAV per share of the Company is the sum of the underlying assets less the liabilities of the Company divided by the total number of shares in issue.

Ongoing Charges Ratio
The Ongoing Charges ratio has been calculated using the AIC recommended methodology and excludes exceptional costs and trail commission. The figure shows the annual percentage reduction in shareholder returns as a result of recurring operational expenses. It informs shareholders of the likely costs that will be incurred in managing the Company in the future.

This is calculated by dividing the expenses of £1,970,000 which includes the management fee in note 3 on page 56 and the expenses listed out in note 4 on page 57 excluding irrecoverable VAT, exceptional costs and trail commission, by average net assets of £89,047,000.

Total return
Total return is calculated as movement in NAV per share in the period plus dividends paid in the period. Total return per share enables shareholders to evaluate more clearly the performance of the Company, as it reflects the underlying value of the portfolio at the reporting date.

Total return %
Total return % is calculated as movement in NAV per share in the period plus dividends paid in the period, divided by the NAV per share at the beginning of the period. Total return % on the NAV per share enables shareholders to evaluate more clearly the performance of the Company, as it reflects the underlying value of the portfolio at the reporting date.

Money Market Fund (MMF)
A mutual fund that invests in highly liquid, short term instruments. These instruments include cash, cash equivalent securities, and high credit rating debt based securities with a short term maturity. They are intended to offer investors high liquidity with a low level of risk.

Open Ended Investment Company (OEIC)
A type of investment fund that invests in equities, bonds and other securities. The price of the shares is based on the underlying assets of the fund. These are highly liquid as new shares can be created to meet investor demand and the fund will cancel shares of investors who exit the fund.

Directors and advisers

The Board of Directors
Keith Mullins (Chair)
Andrew Raynor FCA
Elizabeth Kennedy LLB (Hons)
Brad Ormsby CA
Virginia (Connelly) Bull

Company Number
Registered in England No: 05528235

Legal Entity Identifier (LEI)
213800BW27BKJCI35L17

Secretary and Registered office
Octopus Company Secretarial Services Limited
33 Holborn
London
EC1N 2HT

Investment and Administration Manager
Octopus Investments Limited
33 Holborn
London
EC1N 2HT
Tel: 0800 316 2295
www.octopusinvestments.com

Custodians
Octopus Investments Limited
33 Holborn
London
EC1N 2HT

Bankers
HSBC Bank plc
31 Holborn
London
EC1N 2HR

Independent Auditor
BDO LLP
55 Baker Street
London
W1U 7EU

Tax Adviser
James Cowper Kreston
The White Building
1-4 Cumberland Place
Southampton
SO15 2NP

VCT Status Adviser
Shoosmiths LLP
Apex Plaza
Forbury Road
Reading
RG1 1AX

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: 0370 703 6326
(Calls are charged at the standard geographic rate and will vary by provider. Calls from outside the United Kingdom will be charged at the applicable international rate.)
www.computershare.com/uk
www-uk.computershare.com/investor/

Corporate Broker
Panmure Gordon (UK) Limited
40 Gracechurch Street
London
EC3V 0BT
Tel: 020 7886 2500

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Octopus AIM VCT 2 plc will be held at 33 Holborn, London, EC1N 2HT on 16 May 2024 at 12 noon for the purposes of considering, and if thought fit, passing the following resolutions of which Resolutions 1 to 9 and 14 will be proposed as Ordinary Resolutions and Resolutions 10 to 13 will be proposed as Special Resolutions:

Ordinary Business

1. To receive and adopt the annual report and audited financial statements for the year to 30 November 2023.

2. To approve a final dividend of 1.8p per Ordinary share.

3. To approve a special dividend of 3.6p per Ordinary share.

4. To approve the Directors' Remuneration Report.

5. To re-elect Andrew Raynor as a Director.

6. To elect Virginia (Connelly) Bull as a Director.

7. To re-appoint BDO LLP as auditor of the Company in accordance with section 489 of the Companies Act 2006 (the 'Act'), until the conclusion of the next general meeting of the Company at which audited accounts are laid before members, and to authorise the Directors to determine their remuneration.

Special Business

To consider and if thought fit, pass Resolutions 7 to 8 and 13 as Ordinary Resolutions and Resolutions 9 to 12, as Special Resolutions:

8. Authority to allot relevant securities
THAT, in addition to existing authorities, the Directors be and are generally and unconditionally authorised in accordance with s551 of the Act to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £3,688 (representing approximately 20% of the Ordinary share capital in issue at the date of this Notice) such authority to expire at the earlier of the conclusion of the Company's AGM next following the passing of this Resolution and the expiry of 15 months from the passing of the relevant Resolution (unless previously renewed, varied or revoked by the Company in a general meeting) but so that such authority allows the Company to make offers or agreements before the expiry thereof, which would or might require relevant securities to be allotted after the expiry of such authority.

9. Authority to allot relevant securities under the DRIS
THAT, in addition to existing authorities, the directors of the Company be and hereby are generally and unconditionally authorised in accordance with Section 551 of the Act to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £553 in connection with the Company's dividend reinvestment scheme (representing approximately 3% of the Ordinary share capital in issue as at the date of this Notice) provided that the authority conferred by this Resolution shall expire on the date falling 15 months from the date of the passing of this Resolution (unless previously renewed, varied or revoked by the Company in general meeting) save that this authority shall allow the Company to make, before the expiry of this authority, any offers or agreements which would or might require Shares to be allotted or rights to be granted after such expiry and the directors may allot Shares in pursuance of any such offer or agreement notwithstanding the expiry of such authority.

10. Empowerment to make allotments of equity securities
THAT, conditional upon the passing of Resolution 7 above, and in addition to existing authorities, the Directors of the Company be and are hereby empowered pursuant to s571 of the Act to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the Act) for cash pursuant to the authority granted by Resolution 7 as if s561 of the Act did not apply to any such allotment and so that:

(a) reference to allotment of equity securities in this Resolution shall be construed in accordance with s560(2) of the Act; and

(b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of such offer or agreement notwithstanding the expiry of such power.

The power provided by this Resolution shall expire on the earlier of the conclusion of the Company's AGM next following the passing of this Resolution and the date falling 15 months from the date of the passing of this Resolution (unless previously renewed, varied or revoked by the Company in a general meeting).

11. Empowerment to make allotments of equity securities under the DRIS

THAT, conditional upon the passing of Resolution 8 above and in addition to existing authorities, the directors of the Company be and hereby are empowered pursuant to Section 571 of the Act to allot or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 560(1) of the Act) for cash pursuant to the authority granted by Resolution 9 above, as if Section 561 of the Act did not apply to any such allotment and so that:

(a) reference to allotment of equity securities in this Resolution shall be construed in accordance with Section 560(2) of the Act; and

(b) the power conferred by this Resolution shall enable the Company to make any offer or agreement before the expiry of the said power which would or might require equity securities to be allotted after the expiry of the said power and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding the expiry of such power.

The power provided by this Resolution shall expire on the date falling 15 months from the date of the passing of this Resolution (unless previously renewed, varied or revoked by the Company in general meeting).

12. Authority to make market purchases

THAT, in addition to existing authorities, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of s693(4) of the Act) of Ordinary shares of 0.01p each in the Company ('Ordinary shares') provided that:

(a) the maximum number of Ordinary shares so authorised to be purchased shall not exceed 27,644,406 Ordinary shares, representing approximately 14.99% of the Company's issued share capital at the date of this Notice;

(b) the minimum price which may be paid for an Ordinary share shall be its nominal value;

(c) the maximum price, exclusive of expenses, which may be paid for an Ordinary share is an amount equal to (i) 105% of the average of the middle market quotation for an Ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased; and (ii) the amount stipulated by Article 5(6) of the Market Abuse Regulation;

(d) the authority conferred comes to an end at the conclusion of the next AGM of the Company or upon the expiry of 15 months from the passing of this Resolution, whichever is the earlier; and

(e) that the Company may enter into a contract to purchase its Ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.

13. Cancellation of Share Premium Account

THAT, subject to the sanction of the High Court, the amount standing to the credit of the share premium account of the Company, at the date an order is made confirming such cancellation by the Court, be and hereby is cancelled, and the amount by which the share capital is so reduced be credited to a reserve of the Company.

14. Continuation of the Company as a VCT

THAT the Company continue in being as a Venture Capital Trust.

By Order of the Board

Keith Mullins
Chair
7 March 2024

Notice of Annual General Meeting continued

Notes:

(a) A member entitled to attend and vote at the AGM may appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a member.

(b) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at close of business on the day which is two days before the day of the meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

(c) A form of proxy is enclosed which, to be effective, must be completed and delivered to the Company's registrars, **Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY** or alternatively, you may register your proxy electronically at **www.investorcentre.co.uk/eproxy**, in each case, so as to be received by no later than 48 hours before the time the AGM is scheduled to begin. To vote electronically, you will be asked to provide your Control Number, Shareholder Reference Number and PIN which are detailed on your proxy form.

Appointment of a proxy, or any CREST proxy instruction (as described in paragraph (d) below) will not preclude a member from subsequently attending and voting at the meeting should he or she choose to do so. This is the only acceptable means by which proxy instructions may be submitted electronically.

(d) To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number 3RA50) not later than 48 hours (excluding non-working days) before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(e) Any person receiving a copy of the Notice as a person nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a 'Nominated Person') should note that the provisions in Notes (a) and (b) above concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting.

(f) Section 319A of the Companies Act 2006 requires the Directors to answer any question raised at the AGM which relates to the business of the meeting although no answer need be given (a) if to do so would interfere unduly with the preparation of the meeting or involve disclosure of confidential information; (b) if the answer has already been given on the Company's website; or (c) if it is undesirable in the best interests of the Company or the good order of the meeting.

Questions from our shareholders in relation to the AGM can be sent via email to **AIMVCT2AGM@octopusinvestments.com.** The Company may, however, elect to provide answers to questions raised within a reasonable period of days after the conclusion of the AGM.

(g) Members satisfying the thresholds in section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last AGM, that the members propose to raise at the meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement required to be placed on the website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required to publish on its website.

(h) Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

(i) To give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or

(ii) To include the business to be dealt with at the meeting any matters (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

(i) (In the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);

(ii) It is defamatory of any person; or

(iii) It is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

(i) A copy of the Notice of AGM and the information required by Section 311A Companies Act 2006 is included on the Company's website, **www.octopusinvestments.com** under VCTs. Copies of the Directors' Letters of Appointment, the Register of Directors' Interests in the Ordinary shares of the Company kept in accordance with the Listing Rules and a copy of the Memorandum and Articles of Association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday from the date of this notice until the AGM, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion.

(j) As at 6 March 2024 (being the last practicable date prior to the publication of this Notice) the Company's issued share capital consists of 184,418,986 Ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 6 March 2024 are 184,418,986.

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