BRITISH SMALLER COMPANIES VCT2 PLC Annual Financial Report Announcement for the Year to 31 December 2012

British Smaller Companies VCT2 plc (“the Company”) today announces its audited results for the year to 31 December 2012.

Whilst the general economic backdrop has remained challenging the total return to Shareholders has increased by 1.5% in the year. The financial highlights are:

- An increase in the proposed final dividend to 2.5 pence per ordinary share
- An increase in Net Asset Value of 2.2 per cent prior to the payment of dividends
- The investment portfolio has increased in value by 10.3 per cent over the year
- Dividends for the year total 4.5 pence per ordinary share. This brings cumulative dividends paid to Shareholders at 31 December 2012 to 34.5 pence per ordinary share.
- Average annual dividend of 4.8 pence per ordinary share over 5 years, representing a yield of 8.2% on the share price at 31 December 2012.
- An increase in Total Return of 1.5 per cent to 100.0 pence per ordinary share

Chairman’s Statement

I am pleased to report an increase in Net Asset Value per ordinary share of 1.5 pence in the year to December 2012 prior to the payment of dividends totalling 4.5 pence per ordinary share which includes a special dividend of 0.5 pence per ordinary share. This is another solid performance against the backdrop of ongoing economic challenges and represents a 2.2 per cent increase on the opening Net Asset Value for the year. The Total Return as at 31 December 2012 increased by 1.5 per cent to 100.0 pence per ordinary share. During the year the Company made new investments of £4.44 million.

In April 2012 the Company completed a successful offer for subscription, raising gross proceeds of over £10 million and on 16 November 2012 announced a further fundraising by way of joint offers for subscription with British Smaller Companies VCT plc. I am pleased to report that the Company has made a first allotment of 3,136,695 shares raising total gross proceeds of £2.18 million under the offers. The offer in relation to the 2012/2013 tax year remains open until 11:00 am on Friday 5 April 2013, and the offer in relation to the 2013/2014 tax year closes on 30 April 2013, but may close early in the event of full subscription.

The special dividend of 0.5 pence per ordinary share paid in October 2012 followed two profitable disposals of the investments in Primal Pictures Limited and Sirigen Group Limited, from the unquoted portfolio. The total dividends paid in the year of 4.5 pence per ordinary share brings the cumulative dividends paid since the Company’s inception to 34.5 pence per ordinary share.

Financial Results

The movement in Net Asset Value per ordinary share and the dividends paid in the year can be summarised as follows:

	Pence/ordinary share
31 December 2011	68.5
Net increase in value	2.1
Buy-back of shares	0.1
Issue of new shares	(0.7)
Ordinary dividends paid	(4.0)
Special dividend paid	(0.5)
31 December 2012	**65.5**

During the 12 months to 31 December 2012 the Company realised a gain on investments of £2.252 million compared to original cost and an uplift of £1.662 million on the opening value. This comprises:

	Net proceeds from sales of investments £000	Cost of investment £000	Opening value 1 January 2012 £000	Gain on opening value £000	Profit on cost £000
Sale of Quoted and Unquoted investments	4,111	2,214	2,675	1,436	1,897
Deferred Proceeds received	99			99	99
Total Cash Proceeds	**4,210**	**2,214**	**2,675**	**1,535**	**1,996**
Deferred Proceeds accrued	197		65	132	197
Total Proceeds	**4,407**	**2,214**	**2,740**	**1,667**	**2,193**
Fixed Income Securities	1,127	1,068	1,132	(5)	59
Total	**5,534**	**3,282**	**3,872**	**1,662**	**2,252**

The proceeds from these disposals have allowed for the payment of a capital dividend of 3.7 pence per ordinary share (£1.428 million) with the remaining dividend of 0.8 pence per ordinary share (£0.294 million) being paid from revenue.

In the 12 months since 31 December 2011 the Total Return, calculated by reference to Net Asset Value plus cumulative dividends, has increased by 1.5 per cent, and over the last 2 years it has increased by 5.9 per cent. Over the same two year period this compares to a 5.8 per cent increase in the FTSE™ Small Cap Share index and a fall of 24.3 per cent in the FTSE All Share™ index.

Cumulative dividends at 31 December 2012 amounted to 34.5 pence per ordinary share. The Net Asset Value per ordinary share as at 31 December 2012 was 65.5 pence per ordinary share.

Investment Portfolio

Including the deferred proceeds received during the year the effective net gain on the investment portfolio was £1.05 million equivalent to 2.1 pence per ordinary share, an increase of 10.3 per cent on the opening 31 December 2011 portfolio value, which comprises profits on disposals during the year of £1.44 million, deferred consideration gains of £0.23 million and a reduction in residual portfolio value of £0.62 million.

There are currently thirty active companies in the portfolio of which nineteen are unquoted and the remaining eleven are quoted and traded on AIM on the London Stock Exchange. This compares to twenty nine companies at the end of 2011. The current value of the unquoted portfolio is £9.357 million, whilst the AIM quoted portfolio is valued at £2.006 million - these represent 82.3 per cent and 17.7 per cent of the total portfolio respectively.

During the year strong profits were generated from a number of disposals, although despite progress in many of the underlying businesses, the current carrying value of the residual portfolio has reduced by £0.62 million after allowing for the impact of investment disposals and deferred consideration payments. This figure comprises an increase of £0.17 million in the value of AIM investments, a fall in value of £0.79 million in respect of unquoted investments. The gilt portfolio has remained stable with a marginal decrease in the value of £0.01 million.

Good progress has however been made by a number of our portfolio businesses which have seen profits grow despite the challenging economic environment.

- Since the initial investment in DisplayPlan Holdings Limited in January 2012 the business has had a very strong first year of trading and the value of the Company’s investment has increased by £0.80 million to £1.50 million.
- Humber-based stevedoring and logistics operator, RMS Group Holdings Limited, has delivered another year of good profits, enabling the Company’s remaining debt to be repaid in full and increasing the value of the remaining investment by £0.12 million.
- Several of the Company’s quoted investments also reported good results with value increases seen by Iomart Group plc (up £0.13 million), Tikit Group plc (up £0.08 million) and Brady plc (£0.65 million). Subsequent to the year end the Company realised its investment in Tikit Group plc crystallising a further gain of £0.08 million.
- The largest negative changes in valuation were seen at Immunobiology Limited (£0.51 million) due to the pricing of a new £3.0 million investment round which was led by the Company, and Digital Healthcare Limited (£0.48 million) which is now profitable and consequently valued on an earnings basis although this has resulted in a lower valuation compared to the previous valuation method which was linked to the prior investment round price.

New Investments

2012 has been an active year for investments with the Company completing nine investments totalling £4.44 million compared to £2.78 million in 2011. This comprised four new investments in unquoted companies, one new investment into an AIM quoted company and four follow-on investments into existing portfolio companies.

The five new investments were:

- £1.26 million was invested to support the expansion plans of Seven Technologies Holdings Limited, a Northern Irish engineering business which specialises in developing bespoke electronics and communications applications for operation in inhospitable environments.
- £0.70 million was invested into DisplayPlan Holdings Limited as part of the buyout of this UK-based retail display group from its US parent company.
- £0.78 million was invested to fund the buyout of Insider Technologies (Holdings) Limited, an established provider of monitoring and scheduling software to the financial services and national security sectors.
- £0.30 million was invested into the buyout of Selima Limited, an established payroll & HR software services provider.
- £0.13 million was invested into AIM-quoted Hargreaves Services plc, the UK's largest solid fuel production and bulk haulage company.

The largest further investment into the portfolio was £0.90 million as part of a £3.0 million investment round into vaccine platform technology development business Immunobiology Limited. The Company led this round which included £1.0 million from a new external investor and this funding provides a clear path to achieve human trial results for its leading meningitis product to validate this innovative technology.

Disposal of Investments

During the year the Company received proceeds from disposals and deferred consideration of £4.21 million with a further £0.2 million deferred consideration included in accrued income, representing a profit on cost of £2.19 million and an uplift on the opening value of £1.66 million, including a small £0.01 million loss on sales from the gilt portfolio. The two most significant disposals from the unquoted portfolio were:

- Primal Pictures Limited was sold to a UK-listed media group in August 2012, delivering total cash proceeds for the year of £2.01 million and a profit on disposal of £0.93 million. The profit on cost during the life of the investment was £1.11 million and represents a multiple on cost of 2.24x. A further £0.01 million has been included in accrued income in respect of expected deferred consideration.

- Sirigen Group Limited was sold to a US-based international healthcare group in August 2012, generating cash proceeds of £1.45 million and a profit on disposal of £0.53 million. This represents a profit on initial investment cost of £0.93 million and a multiple of 2.80x. The Company is also entitled to significant further deferred consideration payments of up to

£0.6 million but only £0.11 million has been taken as profit as at December 2012.

In the 12 months to December 2012 the Company has received £0.05 million of deferred proceeds in respect of the trade sale of DxS Limited in 2009, bringing the total amount received from this investment to £2.64 million, representing a multiple of 16.17x on capital invested.

Shareholder Relations

Dividends

Your Board remains committed to achieving the objective of a consistent and increasing dividend stream over time. The Company paid dividends of 4.5 pence per ordinary share in the year and your Board is pleased to propose a final dividend of 2.5 pence per ordinary share. If approved at the Annual General Meeting, the dividend will be paid on 5 June 2013 to shareholders on the register as at 3 May 2013.

Fundraising

Following an offer for subscription published on 26 October 2011 your Board is pleased to report the offer was fully subscribed and raised a total of £10 million net of costs.

The recent changes to UK legislation implemented with effect from 6 April 2012 have increased the ability of Venture Capital Trusts to invest in growing British businesses. This together with the restricted supply of other forms of finance has combined to make this an attractive investment environment for those such as VCTs that are able to take a medium term view. In particular businesses now have the ability to receive investment of up to £5 million in any one year from Venture Capital Trusts, which is an increase of £3 million over the previous limit. The Company is therefore seeking to increase further its investment capacity by £5 million through joint offers with British Smaller Companies VCT plc. The offer in relation to the 2012/2013 tax year remains open until 11:00am on Friday 5 April 2013 and the offer in relation to the 2013/2014 tax year remains open until 11:00am on Tuesday 30 April 2013 but may close earlier in the event of full subscription.

Following an excellent response to the offers, an initial allotment of 3,136,695 new ordinary shares was made on 31 December 2012. As at the date of this report the Company has received applications of £5.96 million under the joint offers.

Share Buy-Back Policy

Following a review of the Share buy-back policy, the Board is please to advise that, as of 2 April 2013, the rate of discount to Net Asset Value at which ordinary shares are bought by the Company will be reduced to no more than 10 per cent from the previously stated 15 per cent.

Shareholder Relations

Your Board remains committed to enhancing Shareholder communications and continues to hold Shareholder workshops where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited, the Company's Fund Manager, and the CEOs of one or more of our investee companies. Our 18th Shareholder workshop was held at Lord's Cricket Ground in London on 6 February 2013 and achieved the highest ever attendance with approaching 200 Shareholders attending. Presentations at the workshop were made by David Hall on behalf of the

Company's Fund Manager, as well as the CEOs of investee companies Selima Limited and DisplayPlan Holdings Limited and independent analyst and commentator Martin Churchill. Ten separate afternoon "Meet the Manager" sessions were attended by over 50 Shareholders.

The Annual General Meeting of the Company will be held at 12.00 noon on 20 May 2013 at 33 St James Square, London, SW1Y 4JS.

Subsequent Events

Since the year end the Company has disposed of its holding in AIM quoted Tikit Group plc, supplier of enterprise software to UK legal practices, on its trade sale to British Telecommunications plc which completed in January 2013. The Company received £0.27 million of cash proceeds for the sale of its shares, representing a profit on original cost of £0.08 million.

In March 2013 a further investment of £0.07 million was made into existing portfolio company PowerOasis Limited, provider of energy management solutions to telecoms infrastructure operators. This investment was part of a significant $5 million investment round led by a strategic trade investor.

On 16 March 2013, the amount standing to the credit of the share premium account as at 5 April 2012 was cancelled pursuant to an order of court following the passing of a special resolution. The credit arising of £12,905,041 has been transferred to a Special Reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied. Following the cancellation, the total distributable reserves of the Company will increase to £20,284,000.

Following the acquisition of May Gurney Integrated Services plc by Costain Group plc on 26 March 2013 the Company disposed of its full shareholding of 39,000 shares for 2.42 per share raising total proceeds of £0.09 million.

Outlook

The uncertain economic conditions have continued throughout the year and it is clear that the UK economy is likely to continue to experience flat or very low growth for some time to come. However the portfolio companies on the whole remain well funded and have clear strategies to maximise the new market opportunities they now see. This Company remains well placed to continue to support our portfolio companies and take advantage of investment opportunities that may arise in the short term.

The Company's new investment activity is focussed on small UK businesses with clearly differentiated business models, whether through an established brand or a niche position in a growing market, or innovative application of services and products. The investments made during 2012 clearly demonstrate this approach and have further increased the diversification of the portfolio, the largest investment representing less than 6 per cent of Net Asset Value.

The Board remains of the opinion that the ongoing economic challenges will provide many good investment opportunities and that this investment strategy can provide good returns throughout the economic cycles. It was with this in mind that we have sought to further increase the investment capacity of the Company this year.

Richard Last
Chairman
28 March 2013

Fund Manager’s Review

Introduction

The Company is increasing its investment capacity to take advantage of the further investment opportunities over the coming months. The increase to £5 million in the amount of investment that companies can now receive from Venture Capital Trusts may well lead to an increase in investment demand over and above that seen in 2012. As a result the Board announced in November 2012 joint offers for subscription with British Smaller Companies VCT plc to be able to take advantage of opportunities as and when they arise.

In spite of a continuation of the challenging economic environment, there has been considerable further progress made by many of the businesses in the Company’s portfolio during the year. The overall value gain from the portfolio was £1.05 million, an increase of 10.3 per cent on the opening 31 December 2011 portfolio value, which comprises profits on disposals during the year of £1.44 million, deferred consideration gains of £0.23 million and a reduction in the residual portfolio value of £0.62 million.

Significant Investment Movements

- Following the investment in sales resource in 2011 Primal Pictures Limited was able to further meet the commercial market demand for its new educational product which was instrumental in closing the trade sale during the year.
- Sirigen Group Limited made further progress in integrating its innovative fluorescent marking technology into a number of commercial products leading to the sale during the year to one of its key customers.
- Following the buyout in January 2012 of retail display group, DisplayPlan Holdings Limited, the management team were able to deliver some significant customer gains in their first year of independence.
- After a protracted period Immunobiology Limited closed a £3.0 million investment round in August 2012 to fund clinical trials for its leading meningitis vaccine.
- Bagel Nash Group Limited has begun the retail rollout of its bagel and coffee bars based in the north of England increasing the number of outlets from 11 to 15, and is now seeking to expand its baking capacity.
- Following the acquisition of its competitor in the UK retinal screening market, Digital Healthcare Limited delivered a profitable year in spite of significant pricing pressures from the NHS body governing the national diabetic screening programme.

- TeraView Limited, a developer of innovative commercial applications utilising its leading terahertz technology, fell short of its revenue projections leading to a re-evaluation of the commercial strategy led by the company's non-executive director.

- Quoted business Iomart Group plc continued to report strong progress of its strategy to consolidate the fragmented outsourced IT hosting market.

Summary

Investment activity levels have increased with nine investments during the year totalling £4.44 million (plus capitalised interest of £0.1 million).

The Company has made four full disposals during the year from the un-quoted portfolio and four part disposals from the quoted portfolio generating £4.11 million of cash proceeds, with a further £0.3 million of deferred consideration recognised.

Cash and gilt investments at 31 December 2012 were £15.44 million representing 56.88 per cent of net assets, which compares to £5.69 million (35.63 per cent of net assets) at 31 December 2011.

Portfolio Overview

Overall, the quoted and unquoted portfolio increased by £1.15 million to a total of £11.36 million from £10.21 million. Netting off the additions of £4.45 million and carrying value of disposals of £2.68 million from the opening December 2011 value, the net portfolio value movement of the residual portfolio over the year was a decrease of £0.62 million.

Overall the portfolio remains well funded and positioned for value growth as economic conditions improve and current strategies are implemented to capitalise on the changing market conditions.

	Quoted and unquoted portfolio £000	Deferred proceeds £000	Total £000
1 January 2011	10,209	65	10,274
Additions	4,445	-	4,445
Valuation changes			
Unquoted	(788)	-	(788)
Quoted	173	-	173
Proceeds	(4,112)	(99)	(4,211)
Profit on disposal	1,436	231	1,667
31 December 2012	11,363	197	11,560

The £99,000 of deferred proceeds relates to further cash payments from the sale of DxS Limited to Qiagen in 2009 and from the sale of Primal Pictures Limited in August 2012. There are expected future payments which have been included in the net assets at a total of £198,000 which comprise of £70,000 in relation to DxS Limited, £18,000 relating to Primal Pictures Limited and £110,000 relating to Sirigen Group Limited. This value compares to a maximum entitlement to deferred proceeds of £741,000.

Including the deferred proceeds the effective net movement in the opening December 2011 value of the Company's portfolio was an increase of £1.05 million. This can be analysed as:

	2012 £000	%
Quoted	173	1.52
Unquoted	(788)	(6.93)
Profit on disposal	1,436	12.64
Deferred proceeds	231	2.03
Total Value Movement	1,052	9.26

The £788,000 reduction in value of the unquoted portfolio principally relates to three investments, Immunobiology Limited, Digital Healthcare Limited and TeraView Limited. The portfolio is now well diversified with the biggest single investment representing less than 6 per cent of the Net Asset Value and mainly consisting of investments in profitable businesses (70 per cent by number and 83 per cent by value).

The quoted portfolio increase was in line with the overall movements in the quoted markets over the same period.

The investment portfolio held at the year end can be analysed into the following categories:

NON LISTED INVESTMENTS	**£000**
Non Qualifying	831
Qualifying	8,526
	9,357
AIM LISTED INVESTMENTS	
Non Qualifying	1,362
Qualifying	644
	2,006
TOTAL INVESTMENTS	**11,363**

Investment Activity

During the year the Company made a total of nine investments (£4.44 million), comprising five new investments and four follow-on investments into existing companies:

	£million
New Investments	
Seven Technologies Holdings Limited	1.26
Insider Technologies (Holdings) Limited	0.78
DisplayPlan Holdings Limited	0.70
Selima Limited	0.30
Hargreaves Services plc	0.13
Follow-on Investments	
Immunobiology Limited	0.90
Vianet Group Plc	0.16
EKF Diagnostics Holdings plc	0.15
Sirigen Group Limited	0.06
Total Investments	**4.44**
Capitalised Interest	
Bagel Nash Group Limited (Capitalised Interest)	0.01
TOTAL	**4.45**

- Seven Technologies Holdings Limited is a Northern Ireland based engineering business specialising in developing bespoke electronics and communications applications for use in inhospitable environments.
- Insider Technologies (Holdings) Limited is an established provider of monitoring and scheduling software to the financial services and national security sectors.
- DisplayPlan Holdings Limited is a designer and importer of permanent retail point of purchase display equipment.
- Selima Limited is an established payroll & HR software services provider with clients in both the public and private sectors.
- Hargreaves Services plc is quoted on the AIM market and is the UK's largest solid fuel producer and bulk haulage company.

In addition to the above investments the Company made four additional investments into existing portfolio companies totalling £1.27 million. The most significant of these was a £0.9 million investment into Immunobiology Limited as part of the recent £3.0 million funding round. Although the valuation of this round was heavily discounted to previous investment rounds and impacted the historic value of the Company's investment, as a significant investor in the round the Company was a beneficiary of this pricing and now holds a 23 per cent shareholding in a business which could have significant value if it can demonstrate the efficacy of its new platform vaccine technology.

Disposals

In the last 12 months the Company has made a number of significant full and partial disposals from both the quoted AIM and unquoted investment portfolio. In total the Company has received over £4.11 million in cash proceeds this year. This has resulted in £1.44 million of realised gains over opening value in the year and profit on cost of £1.90 million resulting in an average return multiple on cost of 1.86x.

The two most significant disposals were Primal Pictures Limited and Sirigen Group Limited which achieved sale returns of 2.24 and 2.80 on cost.

Primal Pictures Limited: An award-winning digital e-learning company providing the world's most complete and medically accurate 3D human anatomy medical software used by educators, professionals, practitioners, and students around the world. Their 3D anatomical images of the human body are used by over 500,000 students in 77 per cent of the top 200 medical universities and educational centres of excellence world-wide.

This has been a long term investment for the Company, investing in 1999 and 2001 in a loss-making technology business seeking to achieve a stock market flotation. After the initial strategy failed, YFM worked closely with the company through a series of management changes and successfully repositioned the business as a provider of online educational products. We appointed corporate finance advisors in 2011 who helped deliver the successful sale in August 2012 to Informa plc who recognised the potential to leverage Primal's technology within their existing products and distribution channels. On completion of the sale David Carmen, Chairman of Primal Pictures, stated "YFM has been a strong partner through a period of significant change and was ultimately instrumental in enabling us all to achieve this successful result."

Sirigen Group Limited: Founded in 2004, Sirigen uses Nobel-prize winning science to produce light harvesting polymers which have a wide range of applications in research, medical diagnostics and life sciences. Since its initial investment in October 2010 YFM has worked hard to strengthen the company's management team, introducing new chairman David Evans, former Chairman of DxS Limited.

Following a clear strategy of proving commercial applications for the technology, the business was ultimately acquired by one of its customers, a US based company Becton, Dickinson & Company, a leading global medical technology company. Sirigen's patented technology will enable them to develop unique dyes and antibody specificity releases over the next two years to significantly expand its life science research reagent portfolio. David commented "I have worked with YFM now on several occasions and see them as a strong partner, always taking a practical and pragmatic approach."

The holding in AIM-quoted Patsystems plc was realised via a trade sale in January 2012 to ION Group plc which realised £0.16 million of cash proceeds. Partial disposals were also achieved from four other quoted holdings; Brady plc (£0.16 million), Iomart Group plc (£0.11 million), May Gurney Integrated Services plc (£0.05 million) and Tikit Group plc (£0.02 million). A small legacy holding in Oxis Energy Limited was also disposed of for a nominal sum during a further funding round. In total these other disposals represented a value gain on disposal of £0.04 million.

Conclusion and Outlook

The year under review has seen a continuation of some of the previous challenging market conditions. In spite of this, further value growth has been achieved in the year and the portfolio is increasingly diverse and well-funded to deliver further value gains over the coming years.

Cash reserves remain strong and will be boosted with the funds raised from the new share issue, so the Company is well placed to take advantage of the gradually increasing investment rates, to continue to support the portfolio and maintain historic dividend levels.

David Hall
YFM Private Equity Limited
28 March 2013

Principal Risks, Risk Management and Regulatory Environment.

The Board believes that the principal risks faced by the Company are:

Economic – events such as recession and interest rate fluctuations could affect smaller investee companies' performance and valuations.

Mitigation - the Company has a clear investment policy and a diversified portfolio operating in a range of sectors. The Fund Manager actively monitors investee performance which provides quality information for the monthly review of the portfolio.

Investment and Strategic – Inappropriate strategy, poor asset allocation or consistently weak stock allocation may lead to under performance and poor returns to Shareholders. The quality of enquiries, investments, investee company management teams and monitoring and the risk of not identifying investee under performance might also lead to under performance and poor returns to Shareholders.

Mitigation - The Board reviews strategy annually. At each of the (at least) quarterly Board meetings the directors review the appropriateness of the Company's objectives and stated strategy in response to changes in the operating environment and peer group activity. The Fund Manager carries out due diligence on potential investee companies and their management teams and utilises external reports where appropriate to assess the viability of investee businesses before investing. Wherever possible a non-executive director will be appointed to the board of the investee.

Loss of Approval as a VCT - the Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

Mitigation - one of the Key Performance Indicators monitored by the Company is the compliance with legislative tests.

Regulatory – the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and International Financial Reporting Standards as adopted by the European Union. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Mitigation - The Fund Manager has procedures in place to ensure recurring Listing Rules requirements are met and actively consults with brokers, solicitors and external compliance advisors as appropriate.

Reputational – inadequate or failed controls might result in breaches of regulations or loss of Shareholder trust.

Mitigation - The Board is comprised of directors with suitable experience and qualifications who report annually to the Shareholders on their independence. The Fund Manager is well-respected with a proven track record and has a formal recruitment process to employ experienced investment staff. Allocation rules, relating to co-investments with other funds managed by the Fund Manager, have been agreed between the Fund Manager and the Company. Advice is sought from external advisors where required. Both the Company and the Fund Manager maintain appropriate insurances.

Operational – failure of the Fund Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Mitigation - The Fund Manager has a documented disaster recovery plan.

Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

Market/Liquidity – lack of liquidity in both the venture capital and public markets. Investment in AIM quoted and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Mitigation - overall liquidity risks are monitored on an ongoing basis by the Fund Manager and on a quarterly basis by the Board. Sufficient investments in cash and fixed income securities are maintained to pay expenses as they fall due.

The Board seeks to mitigate its principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in section C.2:"Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010.

Responsibility statements of the directors in respect of the annual financial report

The Annual Report and Accounts contains the following statements regarding responsibility for the Directors' Report and financial statements included in the Annual Report and Accounts from which the information in this Announcement has been extracted (references in the following statements are to sections of the Annual Report and Accounts).

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

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

- the business review included within the Chairman's Statement, Fund Manager's Review and Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with the principal risks and uncertainties that it faces.

Statement of Comprehensive Income

For the year to 31 December 2012

		2012			2011		
	Notes	**Revenue £000**	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Gain on disposal of investments		**-**	**1,662**	**1,662**	-	225	225
(Losses) profits on investments held at fair value		**-**	**(622)**	**(622)**	-	1,112	1,112
Income	2	**594**	**-**	**594**	349	-	349
Administrative expenses:							
Fund Management fee		**(116)**	**(346)**	**(462)**	(86)	(259)	(345)
Other expenses		**(320)**	**-**	**(320)**	(301)	-	(301)
		(436)	**(346)**	**(782)**	(387)	(259)	(646)
Profit (loss) before taxation		**158**	**694**	**852**	(38)	1,078	1,040
Taxation	3	**(4)**	**4**	**-**	-	-	-
Profit (loss) for the year		**154**	**698**	**852**	(38)	1,078	1,040
Total comprehensive income (loss) for the year		**154**	**698**	**852**	(38)	1,078	1,040
Basic and diluted earnings (loss) per Ordinary share	5	**0.43p**	**1.96p**	**2.39p**	(0.17)p	4.92p	4.75p

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The supplementary revenue and capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

Balance Sheet

At 31 December 2012

	Notes	2012	2011
		£000	£000
Assets			
Non-current assets			
Investments		**11,363**	10,209
Fixed income government securities		**912**	1,618
Financial assets at fair value through profit or loss		**12,275**	11,827
Trade and other receivables		**198**	65
		12,473	11,892
Current assets			
Trade and other receivables		**423**	242
Cash on fixed term deposit		**7,048**	-
Cash and cash equivalents		**7,484**	4,076
		14,955	4,318
Liabilities			
Current liabilities			
Trade and other payables		**(276)**	(228)
Net current assets		**14,679**	4,090
Net assets		**27,152**	15,982
Shareholders' equity			
Share capital		**4,271**	2,426
Share premium account		**14,806**	4,427
Capital redemption reserve		**88**	88
Other reserve		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**3,154**	2,630
Investment holding losses		**(4,919)**	(3,665)
Special reserve		**4,071**	4,255
Revenue reserve		**154**	294
Total Shareholders' equity		**27,152**	15,982
Net asset value per ordinary share	6	**65.5p**	68.5p

Statement of Changes In Equity

For the year to 31 December 2012

	Share capital	Share premium account	*Other reserves	Merger reserve	Capital reserve	Investment holding (losses) gains	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2010	**1,785**	**810**	**90**	**5,525**	**3,587**	**(4,763)**	**4,463**	**332**	**11,829**
Revenue return for the year	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*(38)*	*(38)*
Capital expenses	*-*	*-*	*-*	*-*	*(259)*	*-*	*-*	*-*	*(259)*
Investment holding gain on investments held at fair value	*-*	*-*	*-*	*-*	*-*	*1,112*	*-*	*-*	*1,112*
Realisation of investments in the year	*-*	*-*	*-*	*-*	*225*	*-*	*-*	*-*	*225*
Total comprehensive income for the year	-	-	-	-	(34)	1,112	-	(38)	1,040
Issue of share capital	*640*	*3,862*	*-*	*-*	*-*	*-*	*-*	*-*	*4,502*
Issue costs	*-*	*(250)*	*-*	*-*	*-*	*-*	*-*	*-*	*(250)*
Purchase of own shares	*-*	*-*	*-*	*-*	*-*	*-*	*(208)*	*-*	*(208)*
Issue of shares - DRIS	*1*	*5*	*-*	*-*	*-*	*-*	*-*	*-*	*6*
Dividends	*-*	*-*	*-*	*-*	*(937)*	*-*	*-*	*-*	*(937)*
Total transactions with owners	*641*	*3,617*	-	-	*(937)*	-	*(208)*	-	*3,113*
Realisation of prior year investment holding gains	-	-	-	-	*14*	*(14)*	-	-	-
Balance at 31 December 2011	**2,426**	**4,427**	**90**	**5,525**	**2,630**	**(3,665)**	**4,255**	**294**	**15,982**
Revenue return for the year	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*154*	*154*
Capital expenses	*-*	*-*	*-*	*-*	*(342)*	*-*	*-*	*-*	*(342)*
Investment holding loss on investments held at fair value	*-*	*-*	*-*	*-*	*-*	*(622)*	*-*	*-*	*(622)*
Realisation of investments in the year	*-*	*-*	*-*	*-*	*1,662*	*-*	*-*	*-*	*1,662*
Total comprehensive income for the year	-	-	-	-	1,320	(622)	-	154	852
Issue of share capital	*1,828*	*11,015*	*-*	*-*	*-*	*-*	*-*	*-*	*12,843*
*Issue costs***	*-*	*(726)*	*-*	*-*	*-*	*-*	*-*	*-*	*(726)*
Purchase of own shares	*-*	*-*	*-*	*-*	*-*	*-*	*(184)*	*-*	*(184)*
Issue of shares - DRIS	*17*	*90*	*-*	*-*	*-*	*-*	*-*	*-*	*107*
Dividends	*-*	*-*	*-*	*-*	*(1,428)*	*-*	*-*	*(294)*	*(1,722)*
Total transactions with owners	*1,845*	*10,379*	-	-	*(1,428)*	-	(184)	(294)	10,318
Realisation of Negative Goodwill	-	-	-	-	106	(106)	-	-	-
Realisation of prior year investment holding gains	-	-	-	-	526	(526)	-	-	-
Balance at 31 December 2012	**4,271**	**14,806**	**90**	**5,525**	**3,154**	**(4,919)**	**4,071**	**154**	**27,152**

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable. The other reserve was created upon the exercise of warrants and the capital redemption reserve was created for the purchase and cancellation of own shares.

** Issue costs include both fundraising costs and costs incurred from the Company's dividend re-investment scheme.

The merger reserve was created to account for the difference between the nominal and fair value of shares issued as consideration for the acquisition of the assets and liabilities of British Smaller Technology Companies VCT plc. The reserve was created after meeting the criteria under section

131 of the Companies Act 1985 and provisions of the Companies Act 2006 for merger relief. The merger reserve is a non-distributable reserve.

The special reserve was created following the approval of the Court and a resolution of the Shareholders to cancel the Company's share premium account and is available for other corporate purposes of the Company. The capital reserve includes gains and losses compared to cost on the realisation of investments, capital expenses, together with the related taxation effect and capital dividends paid to Shareholders. This is a distributable reserve. The investment holding (losses) gains reserve includes increases and decreases in the valuation of investment held at fair value. This is a non-distributable reserve.

The special reserve, capital reserve and revenue reserve are all distributable reserves. These reserves total £7,379,000 (2011: £7,179,000) representing an increase of £200,000 (2011: £1,203,000 decrease) during the year. This change arises from the revenue profit in the year of £154,000 (2011: £38,000 loss), movements in the capital reserve relating to the realisation of investments and capital expenses of £1,846,000 profit (2011: £20,000 loss), dividends of £1,722,000 (2011: £937,000), purchase of shares of £184,000 (2011: £208,000) and the realisation of negative goodwill of £106,000 (2011:nil). The directors also take into account the level of the investment holding (losses) gains reserve when determining the level of dividend payments.

Statement of Cash Flows
For the year ended 31 December 2012

	2012 £000	2011 £000
Net cash outflow from operating activities	**(354)**	(174)
Cash flows from investing activities		
Purchase of financial assets at fair value through profit or loss	**(4,867)**	(3,970)
Proceeds from sale of financial assets at fair value through profit or loss	**5,239**	4,276
Cash placed on fixed term deposit	**(7,048)**	-
Deferred consideration	**99**	322
Net cash (outflow) inflow from investing activities	**(6,577)**	628
Cash flows from financing activities		
Issue of share capital	**12,743**	4,502
Issue costs	**(605)**	(250)
Purchase of own shares	**(184)**	(208)
Dividends paid	**(1,615)**	(931)
Net cash inflow from financing activities	**10,339**	3,113
Net increase in cash and cash equivalents	**3,408**	3,567
Cash and cash equivalents at beginning of the year	**4,076**	509
Cash and cash equivalents at the end of the year	**7,484**	4,076

Reconciliation of Profit before Taxation to Net Cash Outflow from Operating Activities

	2012 £000	2011 £000
Profit before taxation	**852**	1,040
Increase in trade and other payables	**26**	177
Increase in trade and other receivables	**(181)**	(49)
Gains on disposal of investments in the year	**(1,662)**	(225)
Losses (profits) on investments held at fair value	**622**	(1,112)
Capitalised interest	**(11)**	(5)
Net cash outflow from operating activities	**(354)**	(174)

Notes

1. Basis of Accounting

This announcement of the annual results of the Company for the year ended 31 December 2012 has been prepared using accounting policies consistent with those adopted in the full audited financial statements which have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the measurement of investments at fair value through profit or loss.

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (SORP) to the extent that they do not conflict with IFRSs as adopted by the European Union.

Segmental reporting has been determined by the directors based upon the reports reviewed by the Board. The directors are of the opinion that the Company has engaged in a single operating segment - investing in equity and debt securities within the United Kingdom - and therefore no reportable segmental analysis is provided.

2. Income

	2012	2011
	£000	£000
Dividends from unquoted companies	**8**	11
Dividends from AIM quoted companies	**44**	37
Interest on loans to unquoted companies	**339**	146
Fixed interest Government securities	**20**	88
Income from investments held at fair value through profit or loss	**411**	282
Interest on bank deposits	**183**	67
	594	349

3. Taxation

	2012			2011		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Corporation tax at 20 per cent (2011: 21 per cent)	**-**	**-**	**-**	-	-	-
Profit (loss) before taxation	**158**	**694**	**852**	(38)	1,078	1,040
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 20 per cent (2011: 21 per cent)	**32**	**139**	**171**	(8)	216	208
Effect of:						
UK dividends received	**(10)**	**-**	**(10)**	(10)	-	(10)
Non taxable profits on investments	**-**	**(208)**	**(208)**	-	(267)	(267)
Excess management expenses	**(18)**	**65**	**47**	18	51	69
Tax charge (credit)	**4**	**(4)**	**-**	-	-	-

The Company has no provided or unprovided deferred tax liability in either year.

Deferred tax assets of £500,000 calculated at 20 per cent (2011: £452,000 calculated at 20 per cent) in respect of unrelieved management expenses (£2.502 million as at 31 December 2012 and £2.226 million as at 31 December 2011) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

Due to the Company's status as a venture capital trust and the continued intention to meet with the conditions required to comply with Section 274 of the Income Tax Act 2007, the Company has not provided for deferred tax on any capital gains or losses arising on the realisation or disposal of investments.

4. Dividends

Amounts recognised as distributions to equity holders in the period:

	2012			2011		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2011 of 2.0p (2010 year end: 2.0p) per ordinary share	**294**	**472**	**766**	-	467	467
Interim dividend for the year ended 31 December 2012 of 2.0p (2011: 2.0p) per ordinary share	**-**	**765**	**765**	-	470	470
Special dividend of 0.5 pence per ordinary share	**-**	**191**	**191**	-	-	-
	294	**1,428**	**1,722**	-	937	937
Shares issued under DRIS			**(107)**			(6)
Dividends paid in Statement of Cash Flows			**1,615**			931

The final year-end dividend of 2.0 pence per ordinary share in respect of the year to 31 December 2011 was paid on 22 May 2012 to Shareholders on the register at 20 April 2012.

The interim dividend of 2.0 pence per ordinary share and special dividend of 0.5 pence per ordinary share were paid on 26 October 2012 to Shareholders on the register as at 28 September 2012.

A final dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2012 is proposed. This dividend has not been recognised in the year ended 31 December 2012 as the obligation did not exist at the balance sheet date.

5. Basic and Diluted Earnings (Loss) per Ordinary Share

The basic and diluted earnings (loss) per ordinary share is based on the profit after tax attributable to Shareholders of £852,000 (2011: £1,040,000 profit) and 35,591,107 (2011: 21,906,793) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings (loss) per ordinary share is based on the profit for the year attributable to Shareholders of £154,000 (2011: £38,000 loss) and 35,591,107 (2011: 21,906,793) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted capital earnings per ordinary share is based on the capital profit for the year attributable to Shareholders of £698,000 (2011: £1,078,000 profit) and 35,591,107 (2011: 21,906,793) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company issued 18,450,681 ordinary shares. The Company has also repurchased 323,639 of its own shares which are held in treasury. The treasury shares have been excluded in calculating the weighted average number of ordinary shares for the period that they were treasury shares.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2012 or 31 December 2011. Consequently, basic and diluted earnings per ordinary share, basic and diluted revenue return per ordinary share and basic and diluted capital return per ordinary share are the same for the years ended 31 December 2012 and 31 December 2011.

6. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per ordinary share is calculated on attributable assets of £27,152,000 (2011: £15,982,000) and 41,457,844 (2011: 23,330,802) ordinary shares in issue at the year end.

The treasury shares have been excluded in calculating the number of ordinary shares in issue at 31 December 2012.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2012 or 31 December 2011. Consequently, basic and diluted Net Asset Value per ordinary share is the same for the year ended 31 December 2012 and 31 December 2011.

7. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 34.5 pence per ordinary share (2011: 30.0 pence per ordinary share) plus the Net Asset Value as calculated per note 6.

8. Related Party Transactions

The Company has not entered into any related party transactions that have had a material impact on its financial position or performance in the year to 31 December 2012. Full details of related party transactions are shown in note 17 to the Annual Report and Accounts which can be obtained as described in note 11.

9. Events after the Balance Sheet Date

Since the year end the Company has disposed of its holding in AIM quoted Tikit Group plc, supplier of enterprise software to UK legal practices, on its trade sale to British Telecommunications plc which completed in January 2013. The Company received £0.27 million of cash proceeds for the sale of its shares, representing a profit on original cost of £0.08 million.

In March 2013 a further investment of £0.07 million was made into existing portfolio company PowerOasis Limited, provider of energy management solutions to telecoms infrastructure operators. This investment was part of a significant $5 million investment round led by a strategic trade investor.

On 16 March 2013, the amount standing to the credit of the share premium account as at 5 April 2012 was cancelled pursuant to an order of court following the passing of a special resolution. The credit arising of £12,905,041 has been transferred to a Special Reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied. Following the cancellation, the total distributable reserves of the Company will increase to £20,284,000.

10. Financial Information

The financial information set out here for the year ended 31 December 2012 does not constitute full statutory financial statements as defined in section 435 of the Companies Act 2006 but has been extracted from the Company's financial statements for that period. Statutory accounts for the year ended 31 December 2012 will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 20 May 2013. Those accounts were reported upon without qualification by the independent auditor and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

11. Annual Report and Accounts

Copies of the Annual Report and Accounts for the year ended 31 December 2012 have been submitted to the National Storage Mechanism and will shortly be available to the public for viewing online at www.hemscott.com/msn/do. They can also shortly be viewed on the Fund Manager's website at www.yfmep.com. Hard copies of the Annual Report and Accounts for the Year ended 31 December 2012 will be distributed by post to Shareholders and will be available thereafter to members of the public from the Company's registered office.

12. Directors

The directors of the Company are: Mr R Last, Mr RM Pettigrew and Mr PC Waller.

13. Annual General Meeting

The Annual General Meeting of the Company will be held at 33 St James Square, London, SW1Y 4JS, on 20 May 2013 at 12.00 noon.

14. Final Dividend for year ended 31 December 2012

Further to the announcement of its final results for the year ended 31 December 2012, British Smaller Companies VCT2 plc ("the Company") confirms that, subject to its approval by shareholders at the forthcoming Annual General Meeting to be held on 20 May 2013, the final dividend of 2.5 pence per ordinary share will be paid on 5 June 2013 to those shareholders on the Company's register at the close of business on 3 May 2013 ("Final Dividend"). The ex-dividend date will be 1 May 2013.

15. Dividend re-investment scheme ('DRIS')

The Company operates a dividend reinvestment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Final Dividend is the close of business on 21 May 2013.

For further information, please contact:

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