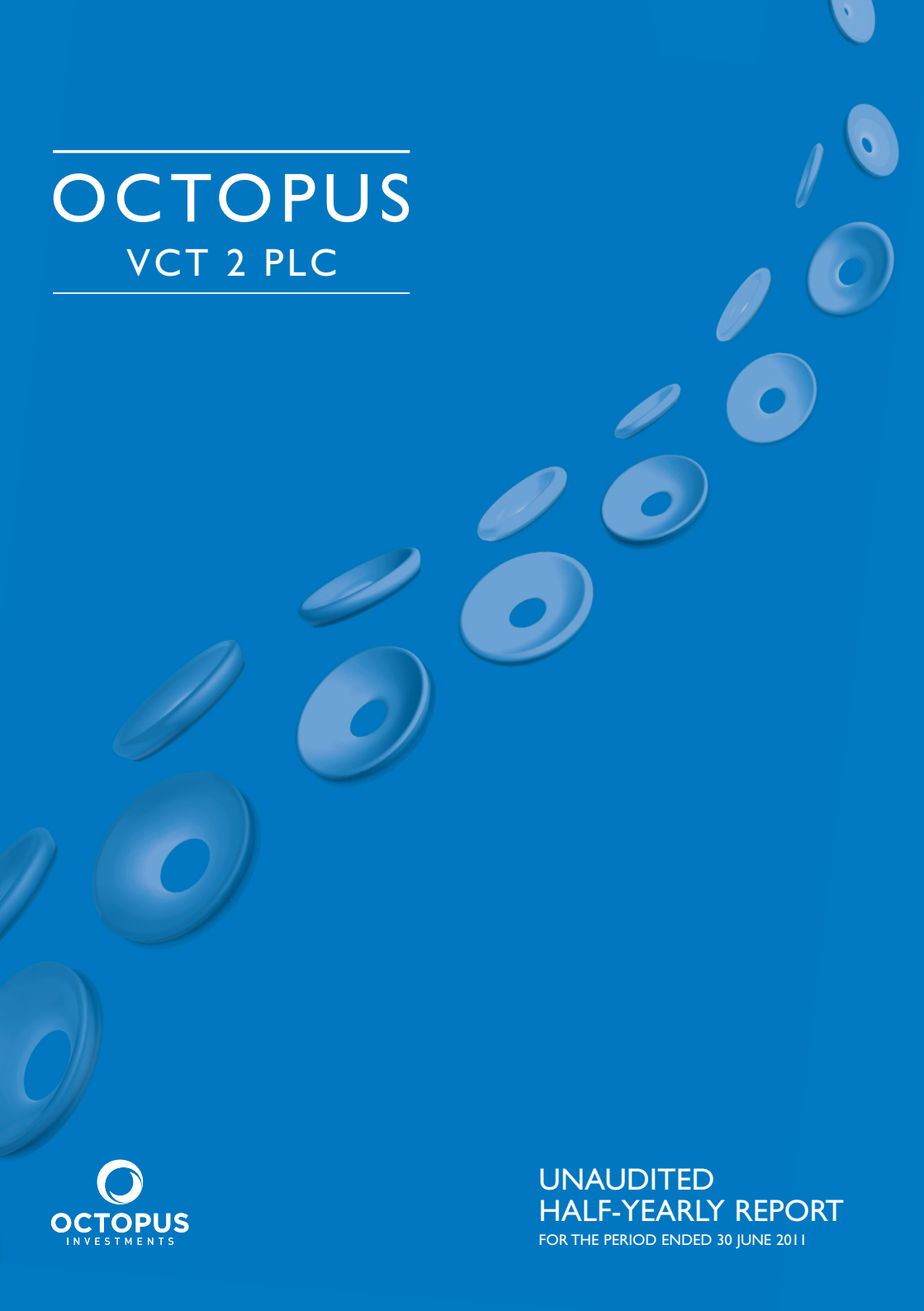


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# OCTOPUS

VCT 2 PLC

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# FINANCIAL HEADLINES

94.0p Net asset value (NAV) at 30 June 2011

£19.0 million Total funds raised since launch

## CONTENTS

2	Shareholder Information and Contact Details
3	About Octopus VCT 2 plc
4	Financial Summary
5	Chairman's Statement
7	Investment Portfolio
8	Responsibility Statement of the Directors
9	Income Statement
10	Reconciliation of Movements in Shareholders' Funds
11	Balance Sheet
12	Cash Flow Statement
13	Notes to the Half-Yearly Report
15	Directors and Advisers

# SHAREHOLDER INFORMATION AND CONTACT DETAILS

## Financial Calendar

The Company's financial calendar is as follows:

April 2012 – Annual results for the year to 31 December 2011 announced; Annual Report and financial statements published

## Share Price

The Company's share price can be found on various financial websites including [www.londonstockexchange.com](http://www.londonstockexchange.com), with the following TIDM/EPIC code:

	Ordinary shares
TIDM/EPIC code	OVC2
Latest share price (25 August 2011)	100p per share

## 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, Capita Registrars, as well as Octopus Investments under the signature of the registered holder. Their contact details are provided inside the back cover.

## Other Information for Shareholders

Annual Reports and Half-Yearly Reports are available for viewing on the Investment Manager's website at [www.octopusinvestments.com](http://www.octopusinvestments.com) by navigating to Services, Investor Services, Venture Capital Trusts, Octopus VCT 2. All other statutory information will also be found there.

## 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 very 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 or the Company's registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please call either Octopus Investments, or the Registrar, on the numbers provided at the back of this report.

# ABOUT OCTOPUS VCT 2 PLC

Octopus VCT 2 plc ('OVCT 2', 'Company' or 'VCT') 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 predominately unquoted companies. The Company is managed by Octopus Investments Limited ('Octopus' or 'Investment Manager').

OVCT 2 was incorporated on 6 January 2011 with the first allotment of equity being on 16 March 2011. The total amount raised by 30 June 2011 was £19.0 million. The Offer for new subscriptions of shares closed on that date. Whilst OVCT 2 will have the ability to invest in a variety of sectors and technologies, the focus will be in the renewable energy sector; and, in particular, on solar energy.

## Venture Capital Trusts (VCTs)

VCTs were introduced in the Finance Act 1995 to provide a means for private individuals to invest in unquoted 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.

OVCT 2 has been provisionally approved as a VCT by HM Revenue & Customs ('HMRC'). In order to maintain its approval the VCT must comply with certain requirements on a continuing basis. By the end of its third accounting period at least 70% of the VCT's investments must comprise 'qualifying holdings' of which at least 30% must be in eligible Ordinary shares. A 'qualifying holding' consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (or companies quoted on AIM) 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. OVCT 2 will continue to ensure its compliance with these qualification requirements.

# FINANCIAL SUMMARY

	Period to 30 June 2011*
Net assets (£'000s)	18,133
Loss on ordinary activities after tax (£'000s)	(107)
Net asset value per share (NAV)	94.0p

\* Period covered by this report is 6 January 2011 to 30 June 2011

# CHAIRMAN'S STATEMENT

I am delighted to be presenting to you in my capacity as Chairman the first half-yearly report for Octopus VCT 2 plc for the period to 30 June 2011.

In the period, OVCT 2 successfully raised gross proceeds of £19.0 million. The Offer for new subscriptions of shares closed on that date.

## Investment Policy and Portfolio

Whilst Octopus VCT 2 will have the ability to invest in a variety of sectors and technologies, the focus will be on building a portfolio of lower-risk investments in the renewable energy sector, with a particular focus on solar energy. Solar represents a significant investment opportunity as it is a well-established, reliable form of technology that offers consistent ongoing returns in exchange for minimal risk.

In the period to the 30 June 2011 we had invested into 18 companies that have either successfully constructed solar power units that have been connected to the National Grid, or are seeking to do so. We have since invested into one further company of the same nature. In total this has led to the deployment of £9.9 million, almost half of the funds raised, which is good progress at this early stage of the VCTs life.

The government recently reduced the feed-in-tariff for solar projects of over 50KW. This became effective from 1 August 2011 and is likely to mean future solar investments made by Octopus VCT 2 will be into projects of less than 50KW. That said we still expect a large proportion of the remaining cash to be invested in the solar arena, although there are other lower-risk opportunities away from renewable energy that the Investment Manager is considering.

## Net Asset Value

Upon investment, the Fund received 94.5 pence for every 100 pence invested after subtracting the initial fees paid to the Investment Manager and advisors. This created an opening Net Asset Value (NAV) of 94.5 pence per share. During the period the NAV has dropped slightly to 94.0 pence per share due to the standard running costs of the Fund currently outweighing income generated at this stage of the VCTs life.

## Cash and Liquid Resources

Cash not yet invested is deposited in banks and money market funds which are carefully chosen to be of a low risk nature, with capital preservation being the main priority.

## Principal Risks and Uncertainties

Risks faced by Octopus VCT 2 include economic, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the ways in which they are managed, will be described in more detail in the VCT's Annual Report and Accounts for the period ended 31 October 2011.

## VCT Legislation

The Chancellor announced in his Budget on 23 March 2011 that the Government intends to make several changes to VCTs. His proposals are good news for both entrepreneurs and private investors seeking to invest in small companies with high growth potential and should widen the scope for investment by VCTs. The key points are that it is intended that VCT qualifying company limits will increase from April 2012 as follows:

- maximum number of employees to increase from 50 to 250 employees;

# CHAIRMAN'S STATEMENT (continued)

- pre-investment gross assets limit to increase from £7 million to £15 million.

Although this is unlikely to affect the investments Octopus VCT 2 has made to date, we are encouraged by these reforms as it indicates that the government recognises VCTs play an important part in the UK economy and the changes should lead to a more flexible platform in which to invest the remaining funds in the VCT.

## VCT Qualifying Status

PricewaterhouseCoopers LLP provides the Board and Octopus with advice on the ongoing compliance with HMRC rules and regulations concerning VCTs. Octopus does not foresee any issues with reaching the required investment hurdle of 70% before the third anniversary of the end of the financial period in which investors subscribed to the VCT.

## Outlook

As the uncertainty over the current macro-economic environment from a domestic and international perspective continues, investors are increasingly concerned about the risk associated with investing in smaller unquoted companies. However the investments your VCT has made, and indeed, intends to make, are largely sheltered from this activity.

Solar energy is suitable for a lower risk VCT such as Octopus VCT 2 as there is a known cost base and a known revenue stream. As the returns from solar investments are largely fixed, this should provide a good background to which the NAV of the VCT can make progress.



**Ian Pearson**  
Chairman  
25 August 2011

# INVESTMENT PORTFOLIO

Investee company	Sector	Book cost as at 30 June 2011 (£'000)	Cumulative change in fair value (£'000)	Fair value as at 30 June 2011 (£'000)	% equity held by OCVT 2	% equity held by all funds managed by Octopus
Aashman Power Limited	Solar	500	–	500	17.0%	100%
Grian Power Limited	Solar	500	–	500	25.0%	100%
Helaku Power Limited	Solar	500	–	500	25.0%	100%
Intina Power Limited	Solar	500	–	500	25.0%	100%
Kala Power Limited	Solar	500	–	500	18.5%	100%
Nima Power Limited	Solar	500	–	500	25.0%	100%
Tonatiuh Trading 1 Limited	Solar	500	–	500	20.7%	100%
Tuwale Power Limited	Solar	500	–	500	25.0%	100%
Cyrah Power Limited	Solar	500	–	500	27.7%	100%
Donoma Power Limited	Solar	500	–	500	18.4%	100%
Evaki Power Limited	Solar	500	–	500	23.6%	100%
Gnowee Power Limited	Solar	500	–	500	25.0%	100%
Howbery Solar Limited	Solar	600	–	600	31.6%	100%
Sula Power Limited	Solar	500	–	500	25.0%	100%
Teruko Power Limited	Solar	500	–	500	49.0%	100%
Tonatiuh Trading 2 Limited	Solar	500	–	500	25.0%	100%
Yata Power Limited	Solar	500	–	500	49.0%	100%
Palk Power Limited	Solar	500	–	500	25.0%	100%
<b>Total fixed asset investments</b>		<b>9,100</b>	<b>–</b>	<b>9,100</b>		
<b>Cash at bank</b>				<b>9,157</b>		
<b>Debtors less creditors</b>				<b>(124)</b>		
<b>Total net assets</b>				<b>18,133</b>		

# RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY REPORT

We confirm that to the best of our knowledge:

- the half-yearly financial statements have been prepared in accordance with the statement 'Half-Yearly Financial Reports' issued by the UK Accounting Standards Board;
- the half-yearly report includes a fair review of the information required by the Financial Services Authority Disclosure and Transparency Rules, being:
  - an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
  - a description of the principal risks and uncertainties for the remaining six months of the year; and
  - a description of related party transactions that have taken place in the first six months of the current financial year, that may have materially affected the financial position or performance of the Company during that period and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board



**Ian Pearson**  
Chairman  
25 August 2011

# INCOME STATEMENT

	Period to 30 June 2011		
	Revenue £'000	Capital £'000	Total £'000
Income	11	–	11
Investment management fees	–	–	–
Other expenses	(118)	–	(118)
Loss on ordinary activities before tax	(107)	–	(107)
Taxation on loss on ordinary activities	–	–	–
Loss on ordinary activities after tax	(107)	–	(107)
Earnings per share – basic and diluted	(1.1)p	–	(1.1)p

- The 'Total' column of this statement is the profit and loss account of the Company; the supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- 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.
- The Company has no recognised gains or losses other than the results for the period as set out above.
- The accompanying notes are an integral part of the half-yearly report.

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Period to 30 June 2011 £'000
Shareholders' funds at start of period	–
Loss on ordinary activities after tax	(107)
Issue of equity (net of expenses)	18,240
Shareholders' funds at end of period	18,133

# BALANCE SHEET

	As at 30 June 2011	
	£'000	£'000
Fixed asset investments*		9,100
Current assets:		
Debtors	13	
Cash at bank	9,157	
	9,170	
Creditors: amounts falling due within one year	(137)	
Net current assets		9,033
Net assets		18,133
Called up equity share capital		193
Share premium		18,047
Capital reserve		–
Revenue reserve		(107)
Total equity shareholders' funds		18,133
Net asset value per share		94.0p

\*Held at fair value through profit and loss

The statements were approved by the Directors and authorised for issue on 25 August 2011 and are signed on their behalf by:



**Ian Pearson**

Chairman

Company Number: 07484406

# CASH FLOW STATEMENT

	Period to 30 June 2011 £'000
Net cash inflow from operating activities	17
Financial investment: Purchase of fixed asset investments	(9,100)
Financing: Issue of equity	19,047
Share issue expenses	(807)
Increase in cash resources at bank	9,157

## RECONCILIATION OF RETURN BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Period to 30 June 2011 £'000
Return on ordinary activities before tax	(107)
Increase in debtors	(13)
Increase in creditors	137
Inflow from operating activities	17

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Period to 30 June 2011 £'000
Increase in cash resources at bank	9,157
Movement in cash equivalents	–
Opening net cash resources	–
Net funds at period end	9,157

# NOTES TO THE HALF-YEARLY REPORT

## 1. Basis of preparation

The unaudited half-yearly results which cover the period to 30 June 2011 have been prepared in accordance with the Accounting Standards Board's (ASB) statement on half-yearly financial reports (July 2007).

## 2. Publication of non-statutory accounts

The unaudited half-yearly results for the six months ended 30 June 2011 do not constitute statutory accounts within the meaning of Section 415 of the Companies Act 2006.

## 3. Earnings per share

The earnings per share is based on 9,816,920 shares, being the weighted average number of Ordinary shares in issue during the period.

There are no potentially dilutive capital instruments in issue and therefore no diluted returns per share figures are relevant. The basic and diluted earnings per share are therefore identical.

## 4. Net asset value per share

The calculation of NAV per share as at 30 June 2011 is based on 19,300,111 Ordinary shares in issue at that date.

## 5. Share Issues

During the period, the Company issued 19,300,111 Ordinary shares at a price of 100.0p per share.

## 6. Related Party Transactions

Octopus provides investment management and administration & accounting services to the Company under a management agreement which runs for a period of six years with effect from 16 March 2011 and may be terminated at any time thereafter by not less than twelve months' notice given by either party.

Under the agreement, the Investment Manager will receive an annual management fee of an amount equivalent to 2.0% of the net assets of the VCT (plus VAT, if any, at the applicable rate). In order to ensure alignment of interests between Octopus and shareholders, the annual management fees will be rolled up (interest free) and will only be paid to Octopus once shareholders have received back a minimum of 105p per Ordinary share (in the form of dividends and other distributions), after taking account of, on a winding-up, the accrued management fees.

In addition, Octopus will only be entitled to receive an annual management fee for the period up to the date on which the Annual General Meeting in 2016 is held (expected to be in June 2016) if shareholders approve the winding-up of the VCT and return capital to shareholders.

# NOTES TO THE HALF-YEARLY REPORT (continued)

The administration and accounting fee is payable quarterly in arrears for a fee of 0.3% of the NAV calculated at annual intervals as at 31 December. During the period £13,500 was due to Octopus Investments and there was £13,500 outstanding at the balance sheet date.

In addition, Octopus also provides secretarial services for an additional fee of £15,000 per annum. During the period £4,000 was due to Octopus Investments Limited and there was £4,000 outstanding at the balance sheet date.

7. Copies of this report are available from the registered office of the Company at 20 Old Bailey, London EC4M 7AN.

# DIRECTORS AND ADVISERS

## Board of Directors

Ian Pearson (Chairman)  
Richard Hodgson  
Chris Hulatt

## Company Number

Registered in England & Wales  
No. 07484406

## Secretary and Registered Office

Celia L Whitten FCIS  
Octopus Investments Limited  
20 Old Bailey  
London EC4M 7AN

## Investment and Administration Manager

Octopus Investments Limited  
20 Old Bailey  
London EC4M 7AN  
Tel: 0800 316 2295  
[www.octopusinvestments.com](http://www.octopusinvestments.com)

## Independent Auditor and Taxation Adviser

James Cowper LLP  
Willow Court  
7 West Way  
Botley  
Oxford OX2 0JB

## VCT Status Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Bankers

HSBC Bank plc  
31 Holborn  
London EC1N 2HR

## Registrars

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel: 0871 664 0300  
(calls cost 10p per minute plus network extras)  
[www.capitaregistrars.com](http://www.capitaregistrars.com)



