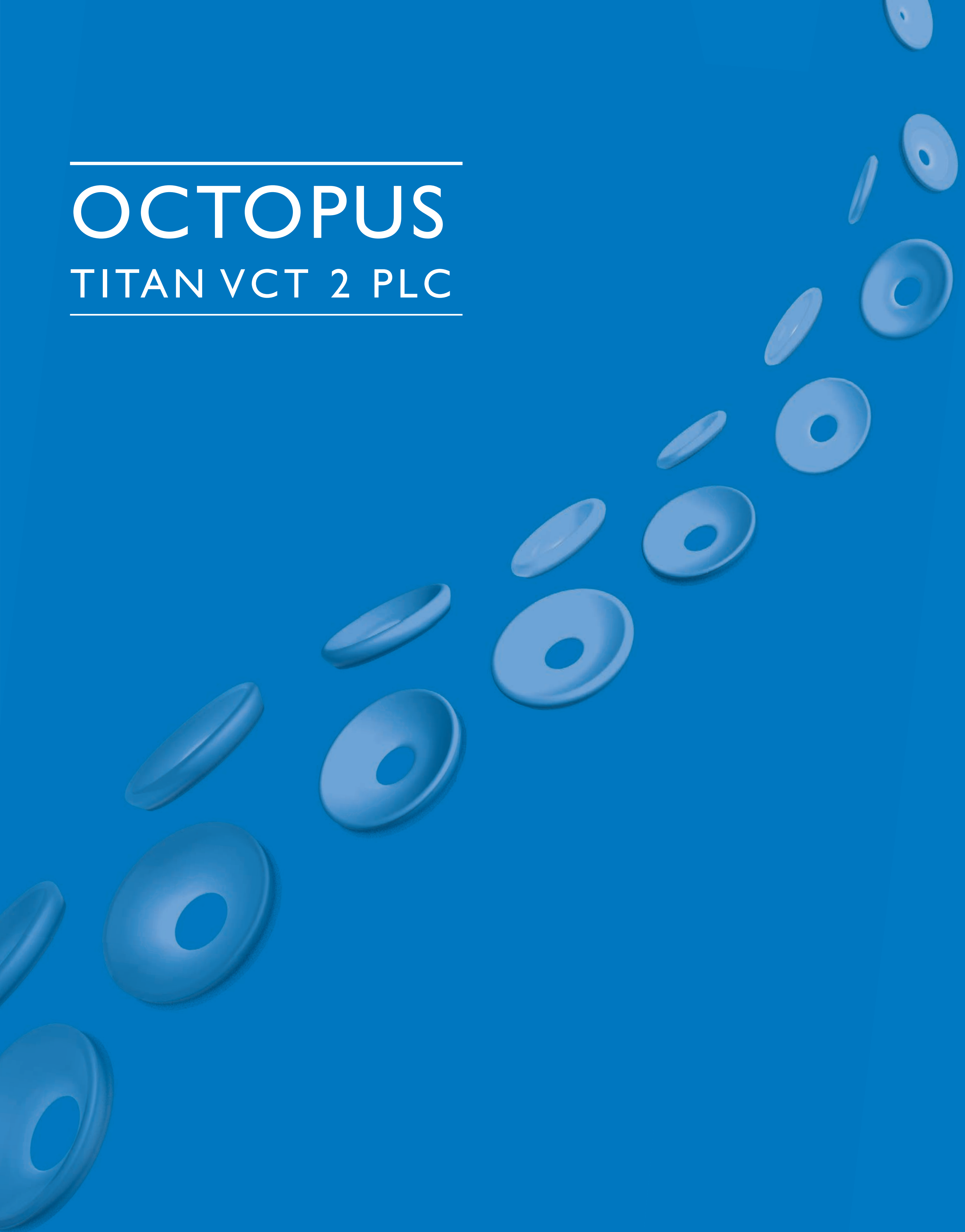
OCTOPUS
TITAN VCT 2 PLC



OCTOPUS
INVESTMENTS

ANNUAL REPORT & ACCOUNTS
FOR THE YEAR ENDED 31 OCTOBER 2012

Octopus Titan VCT 2 plc 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 and is managed by Octopus Investments Limited.

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FINANCIAL SUMMARY

	As at 31 October 2012	As at 31 October 2011
Net assets (£'000s)	**21,361**	14,833
Return on ordinary activities after tax (£'000s)	**5,737**	(327)
Net asset value (NAV) per share	**121.9p**	91.5p
Cumulative dividends paid since launch	**6.0p**	3.5p
NAV plus cumulative dividends paid to 31 October 2012	**127.9p**	95.0p
Special dividend proposed	**34.0p**	–
Final dividend proposed	**–**	1.0p

KEY DATES

Annual General Meeting	14 March 2013 (2.30 p.m. at 20 Old Bailey, London EC4M 7AN)
2012 special dividend paid	28 March 2013
Half Yearly Results to 30 April 2013 Announced	June 2013

CHAIRMAN'S STATEMENT

I am pleased to present the annual results for Octopus Titan VCT 2 plc (the "Company") for the year ended 31 October 2012. I believe that the Titan family of VCTs are the embodiment of what successive Governments were seeking to achieve when they created and enhanced the concept of Venture Capital Trusts through the encouragement of early stage, often technology, businesses. It gives me great pleasure to see that our aims have been achieved within five years.

Performance

During the year the Total Return of the Company, being the Net Asset Value (NAV) plus cumulative dividends paid, has increased by 34.6% from 95.0 pence per share to 127.9 pence per share. This large appreciation reflects the excellent performance of the investment portfolio which has given rise to an increase in NAV of 30.4 pence per share in the year. In view of the transaction announced in December, we are delighted to have realised sufficient cash to pay the significant dividend referred to below.

I am very pleased that the business model of this Titan fund, as described in previous reports, is now being realised with the substantial uplift in NAV as stated above. The Fund, in common with most funds investing in early stage businesses, was expected to fall in NAV over the initial years of its life as it built and developed its portfolio, and I am delighted we have reached and exceeded our initial investment value within the first five years of the Fund's life. We remain quietly confident that our portfolio will continue to realise above average returns through the continuing hard work of our Investment Manager.

Dividend and Dividend Policy

It remains your Board's policy to strive to maintain a regular dividend, whilst maintaining the appropriate level of liquidity in the VCT. As a result of the successful realisations and performance of the investment portfolio during the year, the Board declared a special dividend of 34.0 pence per share (2011 final dividend: 1.00 pence per share). This takes the total dividends declared in the year to 35.5 pence per share (2011: 1.75 pence per share).

The special dividend is to be paid on 28 March 2013 to those shareholders who were on the register on 11 January 2013. The payment date has been amended from the original date of payment in order to give shareholders more time to apply to reinvest their special dividend. In view of the size of this special dividend, we are not proposing to declare a final dividend in respect of 2012.

Due to the quantum of the special dividend, the Board is anticipating to offer shareholders the ability to re-invest the cash amounts into new shares in the forthcoming linked offer for all Titan Funds. Further details of this shall be sent shortly.

The Board's strategy is to maintain an appropriate level of liquidity in the balance sheet to continue to achieve four aims:

- to support a consistent dividend flow;
- to support further investment in existing portfolio companies if required;
- to take advantage of new investment opportunities as they arise; and
- to assist liquidity in the shares through the buy back facility.

Liquidity in the VCT is primarily driven by capital realisations.

Investment Portfolio

The value of the portfolio has seen an overall increase of £7,120,000 during the year. This is largely attributable to considerable increases in fair value in Nature Delivered, Zoopla, Calastone and TouchType totalling £7,518,000.

During the year the Fund focused on supporting the existing portfolio companies by making ten follow-on investments amounting to £1,061,000.

Post year end, on 30 November 2012, I am delighted to report that the Fund's holding in Nature Delivered was realised. This yielded £5,884,000 for the Fund of which £3,764,000 was paid in cash and £2,120,000 was reinvested. This represents a significant multiple on the cost of the Fund's investment in Nature Delivered.

Furthermore, I am pleased to report that, during the year, the Company part disposed of Zoopla, realising a gain and proving the success of this investment. The Company also disposed of its total holding in Evi Technologies. Elsewhere, AQS Group and Michelson Diagnostics suffered the largest decreases in fair value within the portfolio. For a more in depth discussion of the portfolio companies please refer to pages 5 to 17 in the Investment Manager's Review.

Top-up and Buybacks

As mentioned in the interim report, the Company successfully raised £1,323,000 net of costs during the year which saw the Top-up offer fully subscribed. The majority of these funds raised are being used to support existing portfolio companies where the Investment Manager sees the opportunity for business growth.

Due to the success of the 2012 Top-up, the Board have announced a further offer for new shares alongside the other four Octopus Titan VCTs. We will write to you with further details soon.

During the period, the Company repurchased 131,009 shares. Further details can be found in Note 14 of the accounts. In common with many other VCTs, and as recently announced, the Board has decided to reduce the discount to NAV at which it will repurchase shares from 10% to 5%. The Board will continue to monitor the volume of shares bought back and at present intends to maintain the existing limit of the share capital that it buys-back and cancels each year at 5%. The Board believes that in the longer term it is in the best interests of all VCTs that an active secondary market operates. Given the attractive tax free yield of many VCTs including ours, we believe that the market will eventually realise the benefits especially as the opportunity to invest in pension plans continues to be restricted. We will therefore seek to promote these advantages but in the meantime it is the Board's intention that shareholders should be able to sell their shares back to the VCT.

Your Board believes that this makes the VCT a more attractive investment for both existing and new shareholders.

Open Ended Investment Companies (OEICs) managed by Octopus Investments

Both the Microcap growth fund and Cautious fund have given rise to overall uplifts in fair value during the year of £69,000 and £9,000 respectively.

The Board continues to monitor these funds and believes it remains a sensible strategy to maintain part of our non-qualifying portfolio in OEICs which are liquid and should achieve superior returns to cash deposits. Further details of these OEICs may be found at www.octopusinvestments.com where monthly factsheets are available.

Investment Strategy

As we increase the Fund's liquidity through realisations and new share issues, we will be able to participate pro rata with the other Titan funds in new investment opportunities whilst continuing to support our existing portfolio where we believe the companies offer good opportunities for capital growth. As I have previously reported, we may also make investments in some new or existing unquoted companies which are or have become non-qualifying for VCT purposes but where your Board believes that it will be in shareholders' interests to invest, not least to avoid dilution and to protect value in existing portfolio companies.

VCT Qualifying Status

PricewaterhouseCoopers LLP provides both the Board and the Investment Manager with advice concerning ongoing compliance with HMRC rules and regulations concerning 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 for 70% of the portfolio to remain continually invested in qualifying investments. As at 31 October 2012, over 89.7% of the portfolio (as

CHAIRMAN'S STATEMENT (continued)

measured by HMRC rules) was invested in VCT qualifying investments.

Annual General Meeting

The Company's Annual General Meeting will take place on 14 March 2013. I look forward to welcoming you to the meeting which will be held at the offices of Octopus Investments Limited, at 20 Old Bailey, London EC4M 7AN.

Outlook

Although the current economic climate remains uncertain with continued challenges for small businesses, it is clear that there are opportunities for well funded small companies. The timing of an economic recovery remains uncertain but we will continue to work hard alongside the Investment Manager to develop the current portfolio.

I referred earlier to our achievement of the original objectives for which VCTs were created. I am however surprised that the FSA is now seeking to curtail our ability to raise funds by limiting their availability to all but those the FSA define as "sophisticated investors", according to their current consultation paper on Unregulated Collective Investment Schemes (UCIS) and "close substitutes", CP12/19, which seeks to treat all VCTs as UCIS. This is a strange circumstance for two reasons: first, because we are required to suffer the significant costs of a Listing on the London Stock Exchange, which is regulated by the United Kingdom Listing Authority; and second, because all investors are able to purchase shares in the market. Additionally, the CP12/19 is at odds with the Government's strong encouragement of small company growth: VCTs have played and continue to play an important part of this policy, particularly in the absence of other forms of finance, especially from the banks.

Our interests remain focused on boosting growth and profitability in the underlying portfolio and striving to make further realisations. It is encouraging that despite the difficult trading conditions mentioned above; the Fund has established a strong portfolio and made a successful exit during the year. We believe that we can build on the strong foundations the Fund has made and deliver more realisations in the near future.

John Hustler
Chairman
22 January 2013

INVESTMENT MANAGER'S REVIEW

Personal Service

At Octopus Investments Limited ("Octopus"), we focus on both managing your investments and keeping you informed throughout the investment process. We are committed to providing our investors with regular and open communication. Our updates are designed to keep you informed about the progress of your investment. During this time of economic uncertainty, we consider it particularly important to be in regular contact with our investors and are working hard to manage your money in the current climate.

Octopus was established in 2000 and has a strong commitment to both smaller companies and to VCTs. We currently manage 13 VCTs, including this VCT, and manage over £340 million in the VCT sector. Octopus has over 200 employees and was voted 'Best VCT Provider of the Year' by the financial adviser community in 2006 to 2010.

Investment Policy Summary

The investment approach of the Company is not designed to deliver a return that is measured against a stock market index. Instead, the focus of the Company is on generating absolute returns over the medium-term. In order to achieve this, the Company focuses on providing early stage, development and expansion funding to unquoted companies with a typical initial deal size of £0.5 million to £1 million and will continue to comprise 20-25 unquoted companies, predominantly focussed within the following sectors:

- Environment
- Technology
- Media
- Telecoms
- Consumer lifestyle and well-being sectors.

Investment Strategy

The investee companies are those that we believe have great potential but need some financial support to realise it. Each company that we target has the potential to create a large business by taking a relatively modest market share. We are particularly interested in businesses that address current market trends and are able to be innovative in mature markets. We have created a balanced investment portfolio spanning multiple industries and business sectors.

Having reached the level of invested funds required by HMRC, our focus has now shifted to managing the portfolio and developing growth in the investee companies. The current portfolio of holdings built by the Company now encompass investments in twenty unquoted companies and one AIM-quoted company.

As Investment Manager, we have typically purchased a significant minority equity stake in these qualifying companies, providing financial capital to the business to build and grow its operations and then to sell to an acquirer at some point in the future. These entrepreneurial early stage businesses, which we invest in, frequently face challenges as they seek to establish themselves in their market, often developing new products and services. The amount of capital we initially deploy is intended to be only the first investment that we will make into a business, prior to seeing if the company meets or exceeds its initial objectives.

If the business is unsuccessful in meeting these first objectives, we strive to minimise the financial exposure the Company faces without committing further money to the investment, as is commonly referred to as "good money after bad". Other businesses which meet some of their objectives, but not necessarily all, will require more time to prove their concept and these businesses will typically be reduced in value prior to our making a further investment. This is in order for us to see them progress forward and prove their business model and opportunity. Finally, there are those that meet and exceed the expectations originally set. It is these businesses in which we wish to increase our investment exposure as they remain on course to create a large business.

We maintain liquidity in the Company to ensure adequate resources are available to support further portfolio funding needs as they arise. This situation should be further aided following the linked

INVESTMENT MANAGER'S REVIEW (continued)

prospectus offer for new shares as described in the Chairman's Statement, and it is an important feature of our model in delivering returns to shareholders.

Portfolio Review

As at 31 October 2012 the Total Return (being the NAV plus cumulative dividends) was 127.9p per share, compared to 95.0p per share at 31 October 2011. This represents a considerable increase of 34.6%. The performance of the portfolio was excellent during the year with a number of notable uplifts in fair value contributing to this large appreciation in the value of the fund.

The Company now holds over 89.6% of its assets in qualifying holdings from an HMRC perspective and we continue to work with each portfolio business as they develop capital growth in their respective markets.

As Investment Manager, it is our continued intention to take those businesses in which we have invested a small amount of money as a first investment, and invest further as they meet or exceed the initial milestone objectives we agreed with them. This approach can be demonstrated through ten follow-on investments being made totalling £1,061,000. There were no new investments during the year as the focus has been to develop the established diverse portfolio.

Investment highlights

As mentioned above, the portfolio has excelled during the year with significant uplifts in fair value in a number of companies. The top performing portfolio businesses are from a range of sectors and experienced notable growth as shown in the below table.

Company	Sector	Cost of investment, £'000	Current year uplift in fair value, £'000	Effect of uplift on NAV, p
Nature Delivered Limited	Consumer lifestyle & wellbeing	798	4,180	23.8
Zoopla Limited	Media	742	2,392	13.6
Calastone Limited	Technology	1,135	567	3.2
TouchType Limited	Telecommunications	385	379	2.2
		3,060	**7,518**	**42.8**

We continue to have one quoted investment, e-therapeutics, which has performed well in the year with an increase in fair value of £180,000 giving rise to an increase in NAV of 1.0p per share.

Realisations in the year

The fund successfully disposed of 30.8% of its holding in Zoopla during the year, realising a gain of £317,000 on an investment cost of £329,000, rendering the investment a success. The Company also fully disposed of Evi Technologies recognising a small loss of £19,000.

Post year end

Since the balance sheet date, although no new investments have been made, the Company has continued to support investee companies by investing a further £244,000 into Calastone and £109,000 into Bowman Power. In addition, the Company disposed of its holding in Nature Delivered Limited, realising £5,884,000 of which £3,764,000 was paid in cash and £2,120,000 was reinvested.

Outlook

The continued uncertainty in the current economy remains a concern for small companies. There are still fierce challenges for these companies, with many being subjected to the pressure of tough trading conditions. It remains unclear when the economic downturn will revert, and until it does cash requirements will remain a concern for small companies.

Despite this, there remain opportunities for entrepreneurs and small companies as shown in this portfolio. They can execute business plans quickly to meet and enhance customer experiences in comparison to slower moving large corporate businesses. A number of businesses in this portfolio have already shown these characteristics and continue to grow aggressively, despite the volatile economic environment.

If you have any questions on any aspect of your investment, please call one of the team on 0800 316 2349.

Alex Macpherson
Octopus Investments Limited
22 January 2013

Investment Portfolio:

Qualifying investments	Sector	Investment cost as at 31 October 2012 (£'000)	Movement in fair value to 31 October 2012 (£'000)	Fair value as at 31 October 2012 (£'000)	Movement in fair value in year to 31 October 2012 (£'000)	% voting rights held by Titan 2	% equity held by all funds managed by Octopus
Nature Delivered Limited	Consumer lifestyle & wellbeing	798	5,086	5,884	4,180	7.53	32.02
Zoopla Limited	Media	742	3,744	4,486	2,392	1.53	5.15
Calastone Limited	Technology	1,135	1,134	2,269	567	10.81	34.10
TouchType Limited	Telecommunications	385	543	928	379	4.20	20.07
e-Therapeutics plc	Consumer lifestyle & wellbeing	632	194	826	180	1.73	8.23
Mi-Pay Limited	Telecommunications	849	(100)	749	160	8.49	28.3
Executive Channel Europe Limited	Media	529	76	605	-	6.29	36.12
GetOptics Limited	Consumer lifestyle & wellbeing	508	72	580	163	5.75	21.88
Semafone Limited	Telecommunications	496	72	568	72	7.34	46.64
Surrey NanoSystems Limited	Technology	485	43	528	43	4.91	24.55
Ultrasoc Technologies Limited	Technology	492	-	492	-	10.69	65.21
Metrasens Limited	Consumer lifestyle & wellbeing	338	138	476	95	5.00	28.01
Bowman Power Limited	Environmental	311	(41)	270	(70)	2.69	15.55
Michelson Diagnostics Limited	Consumer lifestyle & wellbeing	441	(220)	221	(221)	5.62	42.87
Phase Vision Limited	Technology	474	(329)	145	(164)	10.09	42.96
PrismaStar Inc.	Media	424	(300)	124	(150)	4.95	33.02
Phasor Solutions Limited	Technology	100	(75)	25	(25)	1.23	23.50
Diverse Energy Limited	Environmental	413	(413)	-	(46)	5.47	29.76
Elonics Limited	Technology	305	(305)	-	(76)	3.11	19.54
AQS Holdings Limited	Environmental	654	(654)	-	(359)	14.2	50.7
The Key Revolution Limited	Technology	641	(641)	-	-	12.36	35.88
Total fixed asset investments		**11,152**	**8,024**	**19,176**	**7,120**		
Money market funds		743	-	743	-		
Open ended investment companies		806	163	969	78		
Cash at bank		176	-	176	-		
Total investments		**12,877**	**8,187**	**21,064**	**7,198**		
Debtors less creditors				297			
Total net assets				**21,361**			

INVESTMENT MANAGER'S REVIEW (continued)

Valuation Methodology

Initial measurement

Financial assets are measured at fair value. The initial best estimate of fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

Subsequent measurement

Further funding rounds are a good indicator of fair value and this measure is used where appropriate. Subsequent adjustment to the fair value of unquoted investments can be made using sector multiples based on information as at 31 October 2012, where applicable. In some cases the multiples can be compared to equivalent companies, especially where a particular sector multiple does not appear appropriate. It is currently industry norm to discount the quoted earnings multiple to reflect the lack of liquidity in the investment, there being no ready market for our holding. Typically the discount is between 20-30% but this can be increased where the relevant multiple appears too high. A lower discount would also be possible if an investment was close to an exit event.

In accordance with the International Private Equity and Venture Capital (IPEVC) valuation guidelines, investments made within 12 months are usually kept at cost unless performance indicates that fair value has changed.

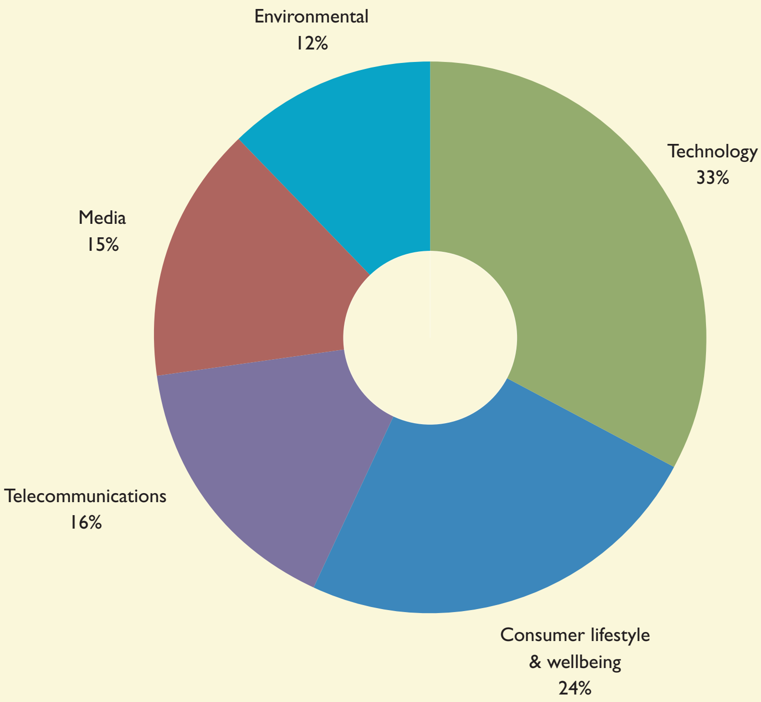
Quoted investments are valued at market bid price. No discounts are applied.

If you would like to find out more regarding the IPEVC valuation guidelines, please visit their website at: www.privateequityvaluation.com.

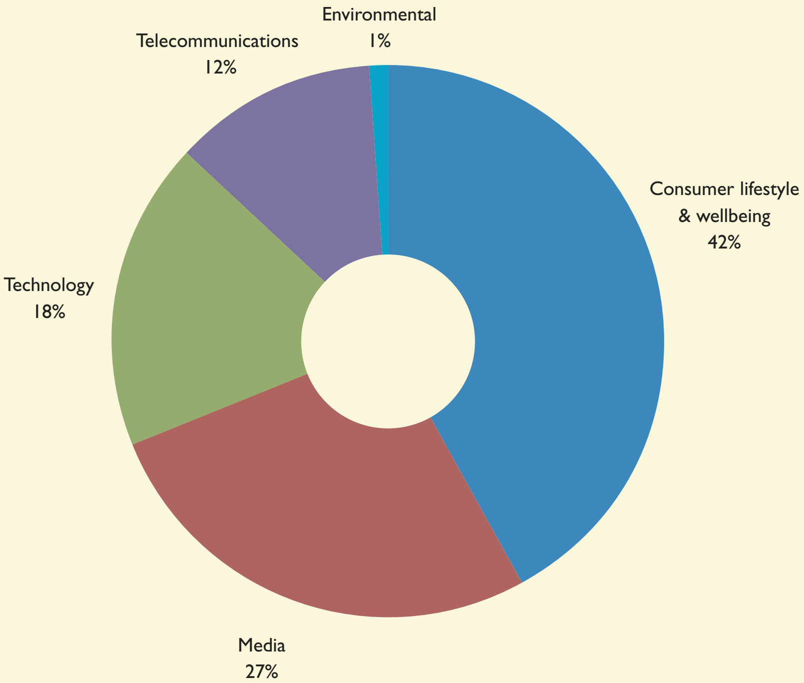
INVESTMENT MANAGER'S REVIEW (continued)

Sector Analysis

Total Investments by Book Cost



Total Investments by Value



INVESTMENT MANAGER'S REVIEW (continued)

Review of Investments

During the year ten follow-on investments were made, amounting to £1,061,000.

Quoted and unquoted investments are valued in accordance with the accounting policy set out in accounting note 1 which takes account of current industry guidelines for the valuation of venture capital portfolios and is compliant with IPEVC Valuation guidelines and current financial reporting standards.

Listed below are details of the Company's ten largest investments by value.

Nature Delivered Limited

Graze.com delivers tasty nutritious snacks to grazers up and down the country. All boxes are hand picked from over 100 delicious snacks and delivered in the post. Founded in 2007 and launched in 2009, graze.com was created to solve office snacking for the better. Delivered directly to customers' desks or home anywhere in the UK through Royal Mail, each graze box is packed with four snacks, from flavoured nuts, traditional rice crackers and exotic dried fruits to freshly baked bread, marinated olives and dips. Grazers choose the foods they like then graze.com hand picks the perfect box and sends it to them for just £3.49, including delivery using Royal Mail. The boxes fit perfectly through the letter box and arrive with the rest of your post, they are being delivered everywhere in the UK, from the Channel Islands to the Shetland Islands.

Initial investment date:	June 2009
Cost:	£798,000
Valuation:	£5,884,000
Voting rights held by Fund:	7.53%
Equity held by all funds managed by Octopus:	32.02%
Last submitted audited accounts:	28 February 2012
Turnover:	£20,929,775
Profit before tax:	£3,335,215
Net assets:	£5,758,161

graze nature delivered

Further information can be found at the company's website www.graze.com

INVESTMENT MANAGER'S REVIEW (continued)

Zoopla Property Group Limited

Zoopla Property Group Limited owns and operates some of the UK's leading online property brands including Zoopla.co.uk and Primelocation.com. Over 16,000 estate agent and lettings agent branches across the UK advertise on the company's websites each month, in addition to all the leading new homes developers, attracting over 28 million visitors a month and generating over 2 million enquiries per month for the member estate/letting agents and property developers. In addition to operating its own websites, Zoopla Property Group Ltd exclusively powers the property search facility on a number of the UK's biggest websites including The Times, The Telegraph, Independent, Evening Standard, The Daily Mail, Homes & Property, AOL, MSN, Globrix, Homes24 and many more. Zoopla Property Group Ltd launched in 2008 and has since acquired and integrated a number of brands. Zoopla Property Group Ltd is a privately held company whose shareholders include A&N Media (a division of the Daily Mail and General Trust) as well as the Octopus Investments managed funds, and has a highly-experienced management team, led by Founder & CEO, Alex Chesterman.

Initial investment date:	January 2009
Cost:	£742,000
Valuation:	£4,486,000
Voting rights held by Fund:	1.53%
Equity held by all funds managed by Octopus:	5.15%
Last submitted audited accounts:	31 December 2011
Turnover:	£13,816,236
Loss before tax:	(£890,030)
Net assets:	£2,811,549

Further information can be found at the company's website www.zoopla.co.uk

Calastone Limited

Calastone is the UK's only independent transaction service for the mutual fund industry. It enables buyers and sellers of mutual funds on different platforms to communicate orders electronically, by providing a universal message communication and 'translation' service – the "Calastone Transaction Network" (CTN). This is being welcomed in an industry which has not previously been able to invest in the real-time exchange of information between participants. Orders are commonly communicated by fax or telephone with a high level of manual re-keying and manual error correction. Calastone's 'translation' service means that neither the transmitter nor receiver need to purchase additional technology or change their existing systems.

Initial investment date:	October 2008
Cost:	£1,135,000
Valuation:	£2,269,000
Voting rights held by Fund:	10.81%
Equity held by all funds managed by Octopus:	34.10%
Last submitted accounts:	30 September 2011
Turnover:	£3,324,658
Loss before tax:	(£435,182)
Net assets:	£1,051,426

Further information can be found at the company's website www.calastone.com

INVESTMENT MANAGER'S REVIEW (continued)

TouchType Limited

TouchType is a leader in the development of artificial intelligence and machine learning technologies, encapsulated in its Fluency prediction engine, a patent pending set of software algorithms. Its first product, SwiftKey™, a text prediction technology designed to significantly boost the accuracy, fluency and speed of text entry on mobile and computing devices, resulting in users having to make less than half the number of keystrokes compared to a standard QWERTY keyboard. SwiftKey™ has enjoyed tremendous success as both an Android App, with over 10 million downloads to date, and as the installed text prediction technology on a increasing range of smartphones and tablets. It has won several high profile industry awards, including a prestigious Global Mobile Award for the "Most Innovative App" and the Guardian Digital Innovation Award for the "Best Startup Business".

Initial investment date:	August 2010
Cost:	£385,000
Valuation:	£928,000
Voting rights held by Fund:	4.20%
Equity held by all funds managed by Octopus:	20.07%
Last submitted group accounts:	31 December 2011
Turnover:	£654,623
Loss before tax:	(£1,285,798)
Net assets:	£1,005,210

Further information can be found at the company's website www.touchtype-online.com

e-Therapeutics plc

e-Therapeutics is an AIM-quoted drug discovery and development company. It pioneered and exploits 'network pharmacology' to evaluate swiftly and accurately how medicines interact with cells in the body. This approach optimises the probability of identifying drug candidates with desirable efficacy and minimal side effects. Network pharmacology has many applications, and is particularly suited to addressing complex diseases in which current treatment options are few and ineffective. e-Therapeutics' current drug discovery programmes are focused mainly on areas of high unmet medical need, such as neurodegeneration and oncology. Four drugs resulting from e-Therapeutics' earlier discovery projects are now in clinical development.

Initial investment date:	March 2009
Cost:	£632,000
Valuation:	£826,000 (bid price)
Voting rights held by Fund:	1.73%
Equity held by all funds managed by Octopus:	8.23%
Last submitted audited group accounts:	31 January 2012
Turnover	£nil
Loss before tax:	(£3,863,000)
Net assets:	£14,724,000

Further information can be found at the company's website www.etherapeutics.com

INVESTMENT MANAGER'S REVIEW (continued)

Mi-Pay Limited

Mi-Pay was founded in 2004 with its objective to establish itself as a leading processor of payments for the fast-emerging mobile money sector. The service enables customers to 'top-up' their pre-paid mobile phone directly online, or via their mobile phone, rather than using indirect brand channels such as PayPoint or bank ATMs. Benefits of the direct service include cost reductions for mobile network operators and a more personal engagement with customers, removing the anonymity of customer relationships and allowing for substantial improvements in customer retention.

Mi-Pay continues to make progress in a very dynamic and fast moving market, most recently agreeing terms with several tier one European, Middle Eastern and African mobile operators to provide its direct top up service.

Initial investment date:	February 2010
Cost:	£849,000
Valuation:	£749,000
Voting rights held by Fund:	8.49%
Equity held by all funds managed by Octopus:	28.3%
Last submitted group accounts:	31 December 2011
Turnover:	£2,401,949
Loss before tax:	(£2,781,342)
Net assets:	£1,069,602

Further information can be found at www.mi-pay.com

Executive Channel Europe Limited

Executive Channel installs digital display screens in office buildings which it uses to display advertising, up-to-date news and information, via the internet. These screens are usually located in the elevator lobby to engage an exclusive audience with high spending power in an uncluttered environment. Executive Channel is leveraging the industry move in the media market from static billboards, to interactive digital formats.

Initial investment date:	September 2010
Cost:	£529,000
Valuation:	£605,000
Voting rights held by Fund:	6.29%
Equity held by all funds managed by Octopus:	36.12%
Last submitted group accounts:	30 June 2011
Turnover:	£293,292
Loss before tax:	(£900,612)
Net assets:	£1,746,998

Further information can be found at the company's website www.executive-channel.com

INVESTMENT MANAGER'S REVIEW (continued)

GetOptics

GetOptics Ltd is an online retailer of contact lenses and related products with sales in seven European countries through GetLenses branded websites. It was formed through the acquisition of Getlenses and Postoptics and is the largest online retailer of contact lenses in the UK with run rate turnover of circa £9.5 million and 25-30% market share of the online market. The company uses its scale to generate cost savings and operating efficiencies, including securing best prices and terms with contact lens manufacturers. It is looking to grow the online market in the UK, building on its market leading position, as well as developing its local language sites in Europe.

Initial investment date:	September 2009
Cost:	£508,000
Valuation:	£580,000
Voting rights held by Fund:	5.75%
Equity held by all funds managed by Octopus:	21.88%
Last submitted group accounts:	31 August 2011
Turnover:	£6,079,586
Loss before tax:	(£780,274)
Net assets:	£3,576,696

Further information can be found at the company's website www.getlenses.co.uk

Semafone

Based in London, Semafone was founded in 2009 by a consortium of call centre professionals, who were instrumental in the development of its fraud prevention software for use in call centres. It aims to secure sensitive data passed over the phone, including bank details, personal identification data and credit/debit card transactions. Without interrupting caller and agent dialogue, customers input their card details via the telephone keypad, eliminating the need to read out the card number and three digit security number to the phone operator therefore removing the risk of operator fraud. Semafone has secured valued customers such as BSkyB, the John Lewis Partnership, Argos, Specsavers and the Manchester Airports Group.

Initial investment date:	June 2010
Cost:	£496,000
Valuation:	£568,000
Voting rights held by Fund:	7.34%
Equity held by all funds managed by Octopus:	46.64%
Last submitted group accounts:	31 December 2011
Turnover:	£2,025,528
Loss before tax:	(£1,114,892)
Net liabilities:	(£312,180)

Further information can be found at the company's website www.semafone.com

INVESTMENT MANAGER'S REVIEW (continued)

Surrey NanoSystems Limited

Surrey NanoSystems has developed a leading technology portfolio addressing the needs of the global nanoelectronics sector. Its proven technologies deliver precise, ordered nanomaterial structures for advanced manufacturing processes, meeting the scaling challenges of the semiconductor industry.

Surrey NanoSystems works with its partners to deliver practical nano-materials and technologies to the semiconductor, renewable-energy and clean technology industries. This partnering approach facilitates the migration of materials and processes developed on Surrey NanoSystems bespoke research platforms to production-ready tooling.

Initial investment date:	July 2009
Cost:	£485,000
Valuation:	£528,000
Voting rights held by Fund:	4.91%
Equity held by all funds managed by Octopus:	24.55%
Last submitted group accounts:	30 June 2011
Turnover:	not disclosed
Loss before tax:	not disclosed
Net assets:	£941,229

Further information can be found at the company's website www.surreynanosystems.com

INVESTMENT MANAGER'S REVIEW (continued)

How Octopus creates and delivers value for the shareholders of the Company

The Company focuses on providing early stage, development and expansion funding to predominantly unquoted companies. The focus has been to establish a portfolio of qualifying investments in companies that have the potential to achieve a high level of profitability through the combination of:

- **Scalability:** The potential to deliver services to significant numbers of new customers at very low incremental cost and to generate repeat sales from customers.
- **Scope:** The ability to expand into complimentary areas by leveraging customer and/or distributor relationships, new product development or brand positioning.
- **Pricing power:** An ability to charge high and defensible prices for its products or services as a result of having intellectual property rights, a strong brand and/or a dominant position in a market niche.

The Investment Manager looks to identify opportunities where the people involved – the entrepreneur, management team, investors, advisers and any other significant stakeholders – have a record of success. Although the Company has the ability to invest across a wide range of industries, the focus will be on several principal sectors:

- environment
- technology
- media
- telecoms
- consumer lifestyle and wellbeing

Investment Process

The Investment Manager follows a multi-stage process prior to making qualifying investments in unquoted companies.

Initial Screening

If the initial review of the business plan is positive, a meeting is held with the management team of the business in order to assess the team in terms of its ability to achieve the objectives set out in the business plan. The proposition is then discussed and reviewed with the other members of the Octopus team and a decision is taken as to whether to continue discussions with the company with a view to making an investment.

INVESTMENT MANAGER'S REVIEW (continued)

Due Diligence

Prior to making an investment, due diligence is carried out on the potential investee company. The due diligence process includes a review of the investee company's technology, discussions with customers and suppliers, competitive analysis, assessment of the capabilities of the management team and financial analysis. In addition, the Octopus investment team is supported by the Octopus Venture Partners – a group of over 100 entrepreneurs and business experts including a number of ex-FTSE chairmen and chief executives. The Octopus Venture Partners may be involved at an early stage in the investment decision making process, involving members with relevant industry experience as part of the initial due diligence and they may go on to invest alongside Octopus in investee companies.

Additionally, Octopus also draws on professional input from lawyers, accountants and other specialists as required in order to conduct the due diligence and draw up the required legal documentation in order to complete an investment.

Post-Investment Monitoring

Octopus will usually appoint at least one representative to the board of each investee company. The majority of the investments are expected to be held for approximately five years. There may, however, be opportunities to exit profitably on shorter timescales. The Investment Manager will conduct a regular review of the portfolio, during which each investee company will be assessed in terms of its commercial and financial progress, its strategic positioning, requirement for further capital, progress towards an eventual exit and its current and prospective valuation. As each company matures, the exit considerations become more specific, with a view to establishing a definitive action plan in order to achieve a successful sale of the investment. Throughout the cycle of an investment the Investment Manager will remain proactive in determining the appropriate time and route to exit. It is expected that the majority of exits will be by means of a trade sale.

SHAREHOLDER INFORMATION AND CONTACT DETAILS

The Company was incorporated on 12 October 2007 and, in collaboration with Octopus Titan VCT 1 plc, over £30.8 million in aggregate (£29.5 million net of expenses) was raised through an Offer for Subscription. Further funds of £1.37 million in aggregate (£1.29 million net of expenses) and £1.40 million (£1.32 million net of expenses) have been raised by way of Top-ups during the years to 31 October 2010 and 31 October 2012 respectively. The Company invests primarily in unquoted UK smaller companies and aims to deliver absolute returns on its investments.

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.

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:

- at least 70% of the Company's investments must comprise 'qualifying holdings'* (as defined in the legislation);
- at least 70% of the 70% of qualifying holdings must be invested into Ordinary shares with no preferential rights;
- no single investment made can exceed 15% of the total company value; and
- a minimum of 10% of each Qualifying Investment must be in Ordinary shares with no preferential rights.

*A 'qualifying holding' consists of up to £5 million invested in any one year in new shares or securities in an unquoted UK 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.

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. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's Registrar, Capita Registrars, by calling 0871 664 0300 (calls cost 10p per minute plus network extras. Lines are open Monday–Friday 9.00am–5.30pm), or by writing to them at:

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

The table below shows the NAV per share and lists the dividends that have been paid since the launch of the Company:

Period Ended	NAV	Dividends paid in period	NAV + cumulative dividends (total return)
30 April 2008	95.00p	–	95.00p
31 October 2008	89.90p	–	89.90p
30 April 2009	91.50p	0.50p	92.00p
31 October 2009	96.10p	0.50p	97.10p
30 April 2010	92.00p	0.50p	93.50p
31 October 2010	94.90p	0.50p	96.90p
30 April 2011	92.10p	0.75p	94.85p
31 October 2011	91.50p	0.75p	95.00p
30 April 2012	92.80p	1.00p	97.30p
31 October 2012	121.90p	1.50p	127.90p

The special dividend of 34.0p will be paid on 28 March 2013 to shareholders on the register on 11 January 2013.

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	OTV2
Latest share price (22 January 2013)	83.50p 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.

The Company operates a policy of buying its own shares for cancellation as they become available, and envisages that purchases will be made at 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 the Company's Corporate Broker, Panmure Gordon (UK) Limited ('Panmure').

Panmure 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 in shares. Panmure can be contacted as follows:

Chris Lloyd
0207 886 2716 chris.lloyd@panmure.com

Paul Nolan
0207 886 2717 paul.nolan@panmure.com

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 Limited under the signature of the registered holder. Their contact details are provided on page 65.

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. All other statutory information can 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 authenticity of an unsolicited phone call, please call Octopus at the number provided on page 65 of this report.

DETAILS OF DIRECTORS

John Hustler (Non-Executive Chairman)

John joined Peat Marwick, now KPMG, in 1965 and became a Partner in 1983. Since leaving KPMG in 1993 to form Hustler Venture Partners Limited, he has advised and been a director of a number of growing companies. He is presently Chairman of Northern Venture Trust plc, a non-executive director of Hygea VCT plc and Chairman of RenaissanceRe Syndicate Management Limited. He was also a member of the Council of The Institute of Chartered Accountants in England and Wales and Chairman of its Corporate Finance Faculty from 1997-2000 and was a member of the Council of the British Venture Capital Association from 1989-1991.

Mark Faulkner (Non-Executive Director)

Mark has worked in finance for more than twenty years. In 1991, Mark founded a financial advisory firm providing investment advice to high net worth individuals. This firm merged with Roundhouse Financial Services LLP in 2000 and Mark is now a principal partner of the combined business. In 2003, he co-founded Hibridge Capital, a specialist investment firm that combines investment banking and private client financial advisory expertise in one entity.

Matt Cooper (Non-Executive Director)

Matt is the Chairman of Octopus. Prior to joining Octopus, Matt was the Principal Managing Director of Capital One Bank (Europe) plc where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to two million customers, generating revenues of over £275 million and employing over 2,000 people. Matt is also Chairman of Imaginatik plc and a non-executive director of 10Duke Software Limited, MyDish Limited and 3 other Octopus VCTs.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 October 2012.

Principal Activity and Status

The principal activity of the Company is to invest in a diversified portfolio of UK smaller companies in order to generate capital growth over the long-term as well as an attractive tax-free dividend stream. The Company has been granted full approval as a VCT by HMRC.

The Directors have managed the affairs of the Company with the intention of maintaining its status as a VCT.

In order to maintain approved status, the Company must comply on a continuing basis with chapter 3 of the Income Tax Act 2007; in particular s280A, the Company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT 'qualifying holdings', of which at least 70% must comprise eligible Ordinary shares.

Investment company status was revoked on 27 January 2010.

The Directors are required by the Articles of Association to propose an Ordinary Resolution at the Company's Annual General Meeting in 2018 that the Company should continue as a VCT for a further five year period, and at each fifth subsequent Annual General Meeting thereafter. If any such Resolution is not passed, the Directors shall within four months convene a general meeting to consider the proposals for the reorganisation or winding-up of the Company.

Review of Business Activities

The Directors are required by section 417 of the Companies Act 2006, to include a business review in their report to shareholders. The Business Review is set out in the Chairman's Statement on pages 2 to 4, and the Investment Manager's Review on pages 5 to 17 and is included in this Directors' Report by reference.

The purpose of the review is to provide shareholders with a snapshot summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators used to measure performance.

Post Balance Sheet Events

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

- On 12 November 2012 a further £244,000 was invested into Calastone Limited
- On 15 November 2012 a further £109,000 was invested into Bowman Power Limited
- On 30 November 2012 Octopus Titan VCT 2 plc disposed of its holding in Nature Delivered Limited for £5,884,000 of which £3,764,000 was paid in cash and £2,120,000 was reinvested

Performance and Key Performance Indicators

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

The Board expects the Investment Manager to deliver a performance which meets the twin objectives of providing investors with attractive returns from a portfolio of investments, and maximising tax-free income for shareholders. The KPIs in meeting these objectives are NAV and the performance of dividends paid, which when combined give NAV Total Return. Additional KPIs reviewed by the Board include the discount of the share price relative to the NAV and the total expense as a proportion of shareholders' funds. The total running costs in the period, as defined in the prospectus, were 2.9% of the Company's net assets, within the annual limit of 3.2%.

A record of some of the indicators is detailed on the first page entitled Financial Summary. Additional comments are provided in the Chairman's Statement regarding the performance of the Company over the current year.

The Board regularly assesses the performance of the Investment Manager in meeting the Company's objectives against the KPIs highlighted above.

DIRECTORS' REPORT (continued)

Clearly, when making investments in unquoted companies at an early stage of their development, some are likely to disappoint, but investing the funds raised in high growth companies with the potential to become market leaders creates an environment of improved return for shareholders. The growth of these companies is largely dependent on continuing the existing levels of corporate spending. The current volatile economic environment could adversely affect corporate spending patterns, which would in turn have a negative impact on the development of the investee companies.

Performance, measured by the change in NAV and total return per share, is also measured against the FTSE Small-Cap index. This is shown in the graph on page 36 in the Directors' Remuneration Report. This index has been adopted as an informal benchmark. Investment performance, cash returned to shareholders and share price are also measured against the Company's peer group of the other generalist VCTs.

The Chairman's Statement, on pages 2 to 4, includes a review of the Company's activities and future prospects; further details are also provided within the Investment Manager's Review on pages 5 to 17.

Results and dividend

	Year ended 31 October 2012 £'000	Year ended 31 October 2011 £'000
Net return attributable to shareholders	**5,737**	(327)
Appropriations:		
Special dividend proposed – 34.0p (2011 – nil) per share	**5,956**	–
Final dividend proposed – nil (2011 – 1.0p) per share	**–**	162

The special dividend of 34.0p will be paid on 28 March 2013 to shareholders on the register on 11 January 2013.

Objective and Investment Policy

The Objective and Investment Policy is defined on page 5 of the Investment Manager's Review.

The Directors control the overall risk of the portfolio by ensuring that the Company has exposure to a diversified range of companies from a number of different sectors. In order to limit the risk to the portfolio that is derived from any particular investment, no more than 10% of the amount invested by shareholders in the Company will be invested in any one unquoted company (including both Qualifying and Non-Qualifying Investments). Further details of the Company's risk management policies are provided in note 16 to the financial statements.

Non-Qualifying Investments

An active approach was taken to manage the cash prior to investing in qualifying companies. Now the Company has reached its investment target for HMRC, the majority of the remainder of funds will be invested in money market funds and other funds managed by Octopus. By investing a small proportion of its assets into these other funds, some exposure to a broad range of AIM quoted and main market listed smaller and medium-sized companies are gained, whilst maintaining liquidity within the company.

The Company may also make Non-Qualifying Investments where the Investment Manager believes that the risk/return profile is consistent with the overall objective of the Company, which may include, from time to time, making a small number of investments or further investments in companies which meet the profile of a Qualifying Investment but would otherwise not be a Qualifying Investment.

Qualifying Investments

At the end of the five year investment period, the Company has the following investment profile:

- 90% by cost in Qualifying Investments, primarily in unquoted companies.
- 10% by cost in cash, money market funds managed by Octopus and other Non-Qualifying Investments.

The Company will not borrow money for the purposes of making investments. The investment decisions made must adhere to the HMRC qualification rules as stated in the above section. The Directors will continually monitor the investment process and ensure compliance with the investment policy.

In considering a prospective investment in a company, particular regard is made to:

- evidence of high margin products capable of addressing fast-growing markets;
- the company's ability to sustain a competitive advantage;
- the strength of the management team;
- the existence of proprietary technology; and
- the company's prospects of being sold or floated, usually within three to five years.

A review of the investment portfolio and of market conditions during the period is included in the Chairman's Statement and Investment Manager's Review.

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.

VCT Regulation

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 to which the Company must adhere is detailed on page 18 (Shareholder Information and Contact Details).

The Company will continue to ensure its compliance with the qualification requirements.

Principal Risks, Risk Management and Regulatory Environment

The Board carries out a regular review of the risk environment in which the Company operates. The main areas of risk identified by the Board are as follows:

VCT qualifying status risk: the Company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status. The loss of such approval could lead to the Company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the Company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment.

The Investment Manager keeps the Company's VCT qualifying status under continual review and reports to the Board regularly throughout the year. The Board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

Investment risk: the majority of the Company's investments will be in small and medium-sized companies which are VCT qualifying holdings, which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies.

The Directors and the Investment Manager aim to limit the risk attached to the portfolio as a whole by careful selection and timely realisation of investments, by carrying out due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage, industry sector and geographical location. The Board reviews the investment portfolio with the Investment Manager on a regular basis.

Financial risk: as most of the Company's investments involve medium to long-term commitment and are relatively illiquid, the Directors consider that it is inappropriate to finance the Company's activities through borrowing. Accordingly, they seek to maintain a proportion of the Company's assets in cash or cash equivalents in order to be in a position to take advantage of new investment opportunities.

The Company has very little exposure to foreign currency risk and does not enter into derivative transactions. The Company has cash deposits which are held on the balance sheet of HSBC Bank plc and in cash funds managed by BlackRock. The risk of loss to this cash is deemed to be low due to the historical credit ratings and a current Standard & Poor's rating of

DIRECTORS' REPORT (continued)

AA for HSBC and AAA for BlackRock. Inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to mis-posting or breaches of regulations.

Regulatory: the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Reputational: inadequate or failed controls might result in breaches of regulation or loss of shareholder trust.

Internal control risk: the Board reviews annually the system of risk management and internal controls, financial and non-financial, operated by the Company and the Investment Manager. These include controls designed to ensure that the Company's assets are safeguarded and that proper accounting records are maintained.

Competitive Risk: retention of key personnel within Octopus is vital to the success of the Company. Incentives to the Investment Manager's key staff are continuously monitored.

Price risk: the risk that the value of a security or portfolio of securities will decline in the future is mitigated by holding a diversified portfolio, across a broad range of sectors.

Cash flow risk: the risk that the Company's available cash will not be sufficient to meet its financial obligations is managed by frequent budgeting and close monitoring of available cash resources.

Due to the nature of the Company, environmental, social and employee issues do not apply and therefore no disclosures in respect of these have been included in the Directors' Report.

The Board seeks to mitigate the internal risks by setting policy, regularly reviewing performance, enforcing contractual obligations and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in the 'Turnbull' guidance. Details of the Company's internal controls are contained in the Corporate Governance section on pages 28 to 34.

Further details of the Company's risk management policies are provided in note 16 to the financial statements.

Directors

The Directors of the Company during the period and their interests (in respect of which transactions are notifiable under Disclosure and Transparency Rule 3.1.2R) in the issued Ordinary shares of 10p are shown in the table below:

	31 October 2012 £'000	31 October 2011 £'000
John Hustler (Chairman)	**11,797**	7,482
Mark Faulkner	**15,000**	15,000
Matt Cooper	**35,825**	33,667

All of the Directors' shares were held beneficially. There have been no changes in the Directors' share interests between 31 October 2012 and the date of this report.

Brief biographical notes on the Directors are given on page 20.

Directors' and Officers' Liability Insurance

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

Whistleblowing

The Board has considered the arrangements implemented by the Investment Manager in accordance with The UK Corporate Governance Code's recommendations, 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.

Bribery Act

Octopus has an Anti Bribery Policy which introduced 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 employees and those working for, or on behalf of, the firm are aware of their legal obligations when conducting company business.

Management

Octopus acts as Investment Manager to the Company. The principal terms of the Company's management agreement with Octopus are set out in notes 3 and 19 to the financial statements. The Investment Manager also provides secretarial, administrative and custodian services to the Company.

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. 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 interests 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. It also considered the length of the notice period of the management agreement and fees payable to the Investment Manager together with the standard of other services provided which include secretarial and accounting services. Details of the fees paid to Octopus in respect of services provided are detailed in note 19 to the financial statements.

With the exception of Matt Cooper, no Director has an interest in any contract to which the Company is a party. Matt Cooper is Chairman of Octopus.

The Company has established a performance incentive scheme whereby the Investment Manager is entitled to an annual performance-related incentive fee in the event that certain performance criteria are met, commencing at the end of the 2012 financial year. The conditions have been met as at the year end resulting in a performance fee due to the Investment Manager. Further details of this scheme are disclosed within note 19 to the financial statements.

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 has delegated the routine management decisions such as the payment of standard running costs to the Investment Manager. However, investment decisions are discussed and agreed with the Board.

Share Capital

The Company's ordinary share capital as at 31 October 2012 comprised 17,518,045 (2011: 16,220,459) Ordinary shares of 10p each (as at that date none of the shares were held by the Company as Treasury shares).

Share Issues and Open Offers

On 3 January 2012 the Company launched a Top-up offer for subscription for Ordinary shares of 10p each to raise £1.32 million (net of expenses). Through this 1,428,595 shares were issued at a price of 97.8p (2011: No shares were issued during the year).

Share Buy Backs

During the year the Company purchased 131,009 shares, with a nominal value of £13,100.90 for cancellation at a weighted average price of 82.4 pence per share for a total consideration of £107,941.50 which represents 0.8% of the shares at the prior year end (2011: 134,043 shares, with a nominal value of £13,404.30 for cancellation at a weighted average price of 85.88 pence per share for a total consideration of £115,123.60). These were repurchased in accordance with the Company's share

DIRECTORS' REPORT (continued)

buy-back facility in an attempt to assist the marketability of the shares and prevent the shares trading at a wide discount to the NAV.

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 shares confer on their holders (other than the Company in respect of any Treasury shares) the following principal rights:

(a) the right to receive out of 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 his shares are evidenced by share certificates (certificated shares) or held in electronic (un-certificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his 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 un-certificated 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 a 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.

Directors' Authority to Allot Shares, to disapply Pre-emption Rights

The authority proposed under Resolution 6 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer potential shareholders an opportunity to invest in the Company in a tax-efficient manner without the Company having to incur substantial costs. Any consequent modest increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used, in part, to purchase Ordinary shares in the market.

Resolution 6 renews the Directors' authority to allot Ordinary shares. This would enable the Directors until April 2013, to allot up to 1,751,805 Ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 October 2012).

Resolution 7 renews and extends the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This Resolution would authorise the Directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue Ordinary shares for cash without pre-emption rights applying by way of an offer to existing shareholders, or re-issue shares out of Treasury up to a maximum of 1,751,805 Ordinary shares (representing approximately 10% of the Company's issued share capital as at 31 October 2012). This power will be exercised only if, in the opinion of the Directors, it would be in the best interests of shareholders, as a whole.

Directors' Authority to Make Market Purchase of its Own Shares

The authority proposed under Resolution 8 is required so that the Directors may make purchases of up to approximately 5% of the Company's issued share capital and seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The price paid for shares will not be less than the nominal value nor more than the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase. 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.

Substantial Shareholdings

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

International Financial Reporting Standards

As the Company is not part of a group it is not mandatory for it to comply with International Financial Reporting Standards. The Company does not anticipate that it will voluntarily adopt International Financial Reporting Standards, nor would it be required to by the current proposals issued by the FRC in November 2012.

DIRECTORS' REPORT (continued)

Creditor Payment Policy

The Company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. The Company does not follow any code or standard with regard to creditor payment practice. At 31 October 2012 there were £nil trade creditors (2011: £nil).

Environmental Policy

The Company always makes full effort to conduct its business in a manner that is responsible to the environment. This responsibility is maintained in investment decisions where possible.

Going Concern

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 2 to 17. Further details on the management of financial risk may be found in note 16 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 the foreseeable future. The assets of the Company consist of cash, Money Market Funds and OEIC Investments, which are readily realisable (8.8% of net assets) and accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. Thus, as 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.

Independent Auditor

Grant Thornton UK LLP offer themselves for reappointment as auditor. A Resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting.

Corporate Governance

The Board of the Company has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide).

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in The UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Board considers that reporting against principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates The UK Corporate Governance Code), will provide better information to shareholders.

The Company is committed to maintaining high standards in Corporate Governance. The Directors consider that the Company has, throughout the period under review, complied with the provisions set out in The UK Corporate Governance Code with the exceptions set out in the Compliance Statement on page 34

Performance Evaluation

In accordance with The UK Corporate Governance Code, the Board has undertaken a formal and rigorous annual performance evaluation of the directors and the Audit Committee in the form of a questionnaire. The Chairman provided a summary of the findings to the Board at the following meeting. The performance of the Chairman was evaluated by the other Directors. A performance review of the Investment Manager, Octopus Investments Limited, was also undertaken.

Appointment and Replacement of Directors

A person may be appointed as a Director of the Company by the shareholders in a general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the Directors. No person, other than a Director retiring by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless he is recommended by the Directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's Articles of Association. Each Director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since his appointment as a Director of the Company) is to be subject to election as a Director of the Company by the members at the first Annual General Meeting of the Company following his or her appointment. At each Annual General Meeting of the Company one third of the Directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election. The Companies Act allows shareholders in a general meeting by Ordinary Resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any Director before the expiration of his or her period of office, but without prejudice to any claim for damages which the Director may have for breach of any contract of service between him or her and the Company. A person also ceases to be a Director if he or she resigns in writing, ceases to be a Director by virtue of any provision of the Companies Act, becomes prohibited by law from being a Director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the Company's Articles of Association.

Powers of the Directors

Subject to the provisions of the Companies Act, 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 2012 Annual General Meeting to make market purchases of up to 5% of the issued Ordinary share capital at any time up to the 2013 Annual General Meeting and otherwise on the terms set out in the relevant resolution, and renewed authority is being sought at the 2013 Annual General Meeting as set out in the notice of meeting.

Board of Directors

The Company has a Board of three non-executive Directors, two of whom are considered to be independent. Matt Cooper is not considered to be independent due to his role as Chairman of the Company's Investment Manager. The Board meets regularly on a quarterly basis, and on other occasions as required, to review the investment performance and monitor compliance with the investment policy laid down by the Board.

Subject to the provisions of the Companies Act, 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.

DIRECTORS' REPORT (continued)

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 net asset value to the share price; and
- monitoring shareholder profiles and considering shareholder communications.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman 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 ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. All of the Directors have access to the advice and services of the Company Secretary, who 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. The Board does not consider it necessary for the size of the Board or the Company to identify a member of the Board as the senior non-executive director.

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

During the year the following were held:

	Full Board meetings held	No. of meetings attended	Audit Committee meetings held	Audit Committee meetings attended
John Hustler	4	4	2	2
Mark Faulkner	4	4	2	2
Matt Cooper	4	4	N/A	N/A

Additional meetings were held as required to address specific issues including considering recommendations from the Investment Manager.

The Company's Articles of Association require that one third of Directors should retire by rotation each year and seek re-election at the Annual General Meeting, and that Directors appointed by the Board should seek re-appointment at the next Annual General Meeting. All Directors are required to submit themselves for re-election at least every three years with the exception of Matt Cooper who is not considered to be independent as he is the Chairman of Octopus Investments Limited, the Investment Manager of Octopus Titan VCT 2 plc and therefore is required to stand for re-election each year.

This practice was followed during the year under review.

	Date of Original Appointment	Due date for Re-election
John Hustler	31/10/2008	AGM 2013
Mark Faulkner	31/10/2008	AGM 2014
Matt Cooper	31/10/2008	AGM 2013

John Hustler retires by rotation and, being eligible, offers himself for re-election. The Board has considered provision B.7.2 of The UK Corporate Governance Code and following a formal performance evaluation, believes that John continues to be effective and demonstrates commitment to his role, the Board and the Company. The Board therefore has no hesitation in recommending him for re-election at the forthcoming Annual General Meeting.

Matt Cooper is not considered to be independent as he is the Chairman of Octopus Investments Limited, the Investment Manager of Octopus Titan VCT 2 plc. As a non-independent Director, Matt Cooper will stand for re-election at the 2013 AGM of the Company as required by Listing Rule 15.2.13A. The Board has also considered provision B.7.2 of The UK Corporate Governance Code and believes that Matt continues to be effective and to demonstrate commitment to his role, the Board and the Company. The Board therefore has no hesitation in recommending him for re-election at the forthcoming Annual General Meeting.

Board Committees

The Board has appointed two committees to make recommendations to the Board in specific areas:

Audit Committee:

Mark Faulkner
John Hustler

The Audit Committee, chaired by Mark Faulkner, consists of two independent Directors. The Audit Committee believes Mark Faulkner possesses appropriate and relevant financial experience as per the requirements of The UK Corporate Governance Code. The Board considers that the members of the Committee are independent and have collectively the skills and experience required to discharge their duties effectively.

The Audit Committee's terms of reference include the following roles and 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 Company's internal control (including internal financial control) and risk management systems;
- 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 twice per year and has direct access to Grant Thornton UK LLP, the Company's external auditor. The Audit Committee

DIRECTORS' REPORT (continued)

has reviewed the non-audit services provided by the external auditor and does not believe they are sufficient to influence their independence or objectivity, due to the fee being an immaterial expense. 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 audit firms.

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.

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.

During the year ended 31 October 2012, the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement and remuneration;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing Octopus Investments Limited's statement of internal controls in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of Octopus Investments Limited's compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's annual and interim financial results statement prior to Board approval; and
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements.

Nomination Committee:

John Hustler
Mark Faulkner

The Nomination Committee considers the selection and appointment of Directors considering the composition and selection of the Board, appointing members on merit, measured against objective criteria with due regard for the benefits of diversity. It also makes recommendations to the Board as to the level of Directors' fees.

A person may be appointed as a Director of the Company by the shareholders in general meeting by Ordinary Resolution or by the Directors; no person, other than a Director retiring by rotation or otherwise, shall be appointed or reappointed a Director at any general meeting unless he is recommended by the Directors or notice is given to the Company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the Company's Articles of Association.

Each Director who is appointed by the Directors (and who has not been elected as a Director of the Company by the members at a general meeting held in the interval since his appointment as a Director of the Company) is to be subject to election as a Director of the Company by the members at the first Annual General Meeting of the Company following his appointment. At each Annual General Meeting of the Company one third of the Directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election.

The Companies Act allows shareholders in a general meeting by Ordinary Resolution to remove any Director before the expiration of his or her period of office, but without prejudice to any claim for damages which the Director may have for breach of any contract of service between him or her and the Company.

A person also ceases to be a Director if he or she resigns in writing, ceases to be a Director by virtue of any provision of the Companies Act, becomes prohibited by law from being a Director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the Board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the Company's Articles of Association.

It has not yet been necessary for the Committee to meet and so terms of reference will be agreed if and when appropriate. 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.

Internal Control

The Directors have overall responsibility for keeping under review the effectiveness of the Company's systems of risk management and internal control. 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 systems of risk management and internal control are 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.

Octopus identifies the investment opportunities for the consideration of the Board who ultimately makes the decision whether to proceed with that opportunity. Octopus monitors the portfolio of investments and makes recommendations to the Board in terms of suggested disposals and further acquisitions.

Octopus is engaged to carry out the accounting function and retains physical custody of the documents of title relating to unquoted investments. Octopus regularly reconciles the client asset register with the physical documents.

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 the effectiveness of the risk management and internal control systems. As part of this process an annual review of the risk management and internal control systems is carried out in accordance with the Financial Reporting Council guidelines for risk management and internal control.

Risk management and Internal control systems include the production and review of monthly bank reconciliations and management accounts. All outflows made from the Company's accounts require the authority of two signatories from Octopus. The Company is subject to a full annual audit whereby the auditor is the same auditor as other VCTs managed by the Investment Manager. Further to this, the Audit Partner has open access to the Directors of the Company and the Investment Manager is subject to regular 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 16 to the Financial Statements.

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the Annual General Meeting. In addition to the formal business of the Annual General Meeting, the Board is available to answer any questions a shareholder may have.

The Board is also happy to respond to any written queries made by shareholders during the course of the year and can be contacted at 20 Old Bailey, London EC4M 7AN. Alternatively, the team at Octopus is

DIRECTORS' REPORT (continued)

happy to answer any questions you may have and can be contacted on 0800 316 2396.

Compliance Statement

The Listing Rules require the Board to report on compliance throughout the accounting period with all relevant provisions set out in The UK Corporate Governance Code. The preamble to The UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies adding that the AIC Code and AIC Guide can assist in meeting the obligations under The UK Corporate Governance Code. With the exception of the limited items outlined below, the Company has complied throughout the accounting year to 31 October 2012 with the provisions set out in The UK Corporate Governance Code. The section references to The UK Corporate Governance Code are shown in brackets.

1. The Company does not have a Chief Executive Officer or a senior independent Director. The Board does not consider this necessary for the size of the Company. [A.2.1 and A.4.1]
2. New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. [B.4.1]
3. The Company had two independent Directors, John Hustler and Mark Faulkner, as defined by The UK Corporate Governance Code. Matt Cooper holds directorships of other companies with the same Investment Manager and with the Investment Manager itself. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of The UK Corporate Governance Code. [B.1.1]
4. The Company conducts a formal review as to whether there is a need for an internal audit function. However, the Directors do not consider that an internal audit would be an appropriate control for a VCT. [C.3.2]
5. The Company does not have a Remuneration Committee as it does not have any executive directors. [D.1.1 – 2.4]
6. 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 Annual General Meeting. [E.1.1 & E.1.2]

Annual General Meeting

The notice convening the 2013 Annual General Meeting of the Company and a form of proxy in relation to the meeting can each be found at the end of this document.

By order of the Board

P. Standaloft.

Patricia Standaloft (ACIS)
Company Secretary
22 January 2013

DIRECTORS' REMUNERATION REPORT

Introduction

This report is submitted in accordance with chapter 6 of Part 13 of the Companies Act 2006, in respect of the year ended 31 October 2012. An Ordinary Resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The Company's auditor, Grant Thornton UK LLP, is required to give its opinion on certain information included in this report; this comprises the Directors' emoluments section below only. Their report on these and other matters is set out on pages 39 and 40.

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 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).

Statement of the Company's policy on Directors' Remuneration

The Board consists entirely of non-executive Directors, who meet at least four times a year 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, at least, a period of three years. All Directors retire at the first general meeting after election and thereafter one third of all Directors are subject to retirement by rotation at subsequent Annual General Meetings. Re-election will be recommended by the Board but is dependent upon shareholder vote.

Each Director received a letter of appointment which is subject to termination by the Director or the Company on three months' notice in writing. 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 Chairman of the Board to be paid higher fees than the other Directors in recognition of his more onerous role. The policy is to review these rates from time to time, 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 quarterly 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; however no other remuneration or compensation was paid or payable by the Company during the year to any of the current Directors.

The Board has not sought advice or services from any person in respect of its consideration of Directors' remuneration during the year.

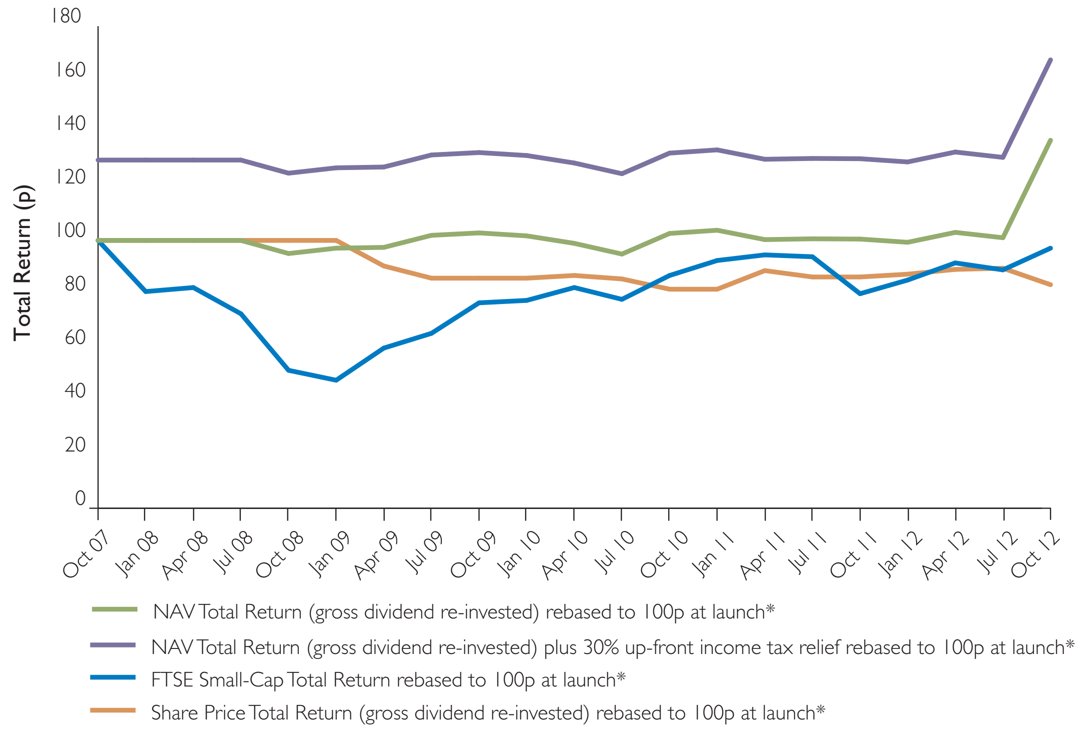
Company Performance

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

DIRECTORS' REMUNERATION REPORT (continued)

The graph below compares the NAV total return and Share Price total return (gross dividend re-invested) of the Company over the period from October 2007 to October 2012, with the total return from a notional investment in the FTSE Small-Cap index over the same period (all rebased to 100p). This index is considered to be the most appropriate broad equity market index for comparative purposes. The Directors wish to point out that VCTs are not able to make qualifying investments in companies quoted on the Main Market in their observance of the Company rules.

Net Asset Value and Share Price Total Return since launch against the FTSE Small-Cap Index Total Return



* based on notional investment on 31 October 2007

AIC methodology: The NAV total return to the investor, including the original amount invested (rebased to 100p) from launch, assuming that dividends paid were re-invested at the NAV of the Company at the time the shares were quoted ex-dividend. Transaction costs are not taken into account.

It is agreed amongst the Board that it would be unwise to present a comparison of the Company's NAV with that of other VCTs, for the reason that year ends are not in line and thus there would be timing differences in comparisons. The Board also believes that the IPEVC valuation guidelines require an element of judgement. Without a full analysis of the guidelines as applied by other fund managers there is a risk these valuations would not be directly comparable. The Board does review these statistics, where available, when considering the performance of the Investment Manager.

Directors' Emoluments

Amount of each Director's emoluments:

	Year ended 31 October 2012 £	Year ended 31 October 2011 £
John Hustler (Chairman)	**20**	18
Mark Faulkner	**15**	12
Matt Cooper	**8**	8
Total	**43**	38

The Directors do not receive any other form of emoluments in addition to the Directors' fees.

By Order of the Board

Patricia Standaloft (ACIS)
Company Secretary
22 January 2013

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Directors' Report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

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 (United Kingdom Accounting Standards and applicable laws). 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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.

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 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.

To the best of my knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standard and applicable laws), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Investment managers and Directors' reports include fair reviews 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

John Hustler
Chairman
22 January 2013

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF OCTOPUS TITAN VCT 2 PLC

We have audited the financial statements of Octopus Titan VCT 2 plc for the year ended 31 October 2012 which comprise the income statement, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2012 and of its return 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF OCTOPUS TITAN VCT 2 PLC (continued)

Under the Listing Rules, we are required to review:

- the Directors' Statement, set out on page 38, in relation to going concern;
- the part of the UK Corporate Governance Statement relating to the Company's compliance with the nine provisions of The UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on directors' remuneration.

Tracey James
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
22 January 2013

INCOME STATEMENT

		Year to 31 October 2012		
	Notes	Revenue £'000	Capital £'000	Total £'000
Gain on disposal of fixed asset investments	10	–	259	259
Loss on disposal of current asset investments		–	(15)	(15)
Fixed asset investment holding gains	10	–	7,120	7,120
Current asset investment holding gains		–	78	78
Other income	2	66	–	66
Investment management fees	3	(74)	(223)	(297)
Performance fee incentive	19	–	(1,222)	(1,222)
Other expenses	4	(252)	–	(252)
Return on ordinary activities before tax		(260)	5,997	5,737
Taxation on return on ordinary activities	6	–	–	–
Return on ordinary activities after tax		(260)	5,997	5,737
Earnings per share – basic and diluted	8	(1.5)p	35.3p	33.8p

- 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 form an integral part of the financial statements.

INCOME STATEMENT (continued)

	Notes	Year to 31 October 2011 Revenue £'000	Capital £'000	Total £'000
Realised gain on disposal of current asset investments		–	156	156
Fixed asset investment holding losses		–	(98)	(98)
Current asset investment holding gains		–	89	89
Other income	2	65	–	65
Investment management fees	3	(78)	(233)	(311)
Other expenses	4	(228)	–	(228)
Return on ordinary activities before tax		(241)	(86)	(327)
Taxation on return on ordinary activities	6	–	–	–
Return on ordinary activities after tax		(241)	(86)	(327)
Earnings per share – basic and diluted	8	(1.5)p	(0.5)p	(2.0)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 had no recognised gains or losses other than the results for the period as set out above.

The accompanying notes form an integral part of the financial statements.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year ended 31 October 2012 £'000	Year ended 31 October 2011 £'000
Shareholders' funds at start of year	**14,833**	15,518
Return on ordinary activities after tax	**5,737**	(327)
Issue of equity (net of expenses)	**1,323**	(115)
Purchase of own shares	**(107)**	–
Dividends paid	**(425)**	(243)
Shareholders' funds at end of year	**21,361**	14,833

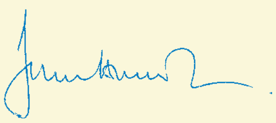
The accompanying notes are an integral part of the financial statements.

BALANCE SHEET

	Notes	As at 31 October 2012 £'000	As at 31 October 2012 £'000	As at 31 October 2011 £'000	As at 31 October 2011 £'000
Fixed asset investments*	10		**19,176**		12,803
Current assets:					
Debtors	11	**1,562**		16	
Money market funds and other deposits*	12	**1,712**		1,976	
Cash at bank		**176**		91	
		3,450		2,083	
Creditors: amounts falling due within one year	13	**(1,265)**		(53)	
Net current assets			**2,185**		2,030
Net assets			**21,361**		**14,833**
Called up equity share capital	14	**1,751**		1,622	
Share premium	15	**1,754**		574	
Special distributable reserve	15	**12,150**		12,682	
Capital redemption reserve	15	**27**		13	
Capital reserve – losses on disposals	15	**(1,998)**		(210)	
– holding gains	15	**8,186**		401	
Revenue reserve	15	**(509)**		(249)	
Total equity shareholders' funds			**21,361**		14,833
Net asset value per share	9		**121.9p**		91.5p

*Held at fair value through profit or loss

The statements were approved by the Directors and authorised for issue on 22 January 2013 and are signed on their behalf by:



John Hustler
Chairman

Company No: 06397765

The accompanying notes form an integral part of the financial statements.

CASH FLOW STATEMENT

	Notes	Year ended 31 October 2012 £'000	Year ended 31 October 2011 £'000
Net cash (outflow)/inflow from operating activities		**(2,039)**	98
Financial investment:			
Purchase of fixed asset investments	10	**(1,061)**	(2,818)
Sale of fixed asset investments	10	**2,067**	382
Management of liquid resources:			
Purchase of current asset investments		**(1,754)**	(2,192)
Sale of current asset investments		**2,081**	4,918
Taxation		**–**	–
Dividends paid	7	**(425)**	(243)
Financing:			
Issue of shares		**1,323**	–
Purchase of own shares	14	**(107)**	(115)
Increase in cash resources at bank		**85**	30

The accompanying notes form an integral part of the financial statements.

RECONCILIATION OF RETURN BEFORE TAXATION TO CASH FLOW FROM OPERATING ACTIVITIES

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Return on ordinary activities before tax	**5,737**	(327)
Gain on disposal of fixed asset investments	**(259)**	–
Loss/(gain) on disposal of current asset investments	**15**	(156)
(Gain)/loss on valuation of fixed asset investments	**(7,120)**	98
Gain on valuation of current asset investments	**(78)**	(89)
(Increase)/decrease in debtors	**(1,546)**	572
Increase in creditors	**1,212**	–
(Outflow)/inflow from operating activities	**(2,039)**	98

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Increase in cash at bank	**85**	30
Movement in cash equivalents	**(264)**	(2,481)
Opening net cash resources	**2,067**	4,518
Net funds at 31 October	**1,888**	2,067

Net funds at 31 October comprised:

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Cash at bank	**176**	91
Money market funds	**743**	370
OEICs	**969**	1,606
Net funds at 31 October	**1,888**	2,067

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. **Principal Accounting Policies**

Basis of accounting

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 (UK GAAP), and the Statement of Recommended Practice (SORP) 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (revised 2009).

The Company's business activities and the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Investment Manager's Review on pages 2 to 17. Further details on the management of financial risk may be found in note 16 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 the foreseeable future. The assets of the company consist of cash, Money Market Funds and OEIC Investments, which are readily realisable (8.8% of net assets) and accordingly, the company has adequate financial resources to continue in operational existence for the foreseeable future. Thus, as 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 principal accounting policies have remained unchanged from those set out in the Company's 2011 Annual Report and financial statements. A summary of the principal accounting policies is set out below.

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.

The preparation of the financial statements requires Management to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates and assumptions mainly relate to the fair valuation of the fixed asset investments, particularly those that are 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.

Capital valuation policies are those that are most important to the depiction of the Company's financial position and that require the application of subjective and complex judgements, 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 critical accounting policies that are declared will not necessarily result in material changes to the financial statements in any given period but rather contain a potential for material change. The main accounting and valuation policies used by the Company are disclosed below. Whilst not all of the significant accounting policies require subjective or complex judgements, the Company considers that the following accounting policies should be considered critical.

The Company has designated all fixed asset investments as being held at fair value through profit or loss; therefore all gains and losses arising from investments held are attributable to financial assets held at fair value through profit or loss. Accordingly, all interest income, fee income, expenses and investment gains and losses are attributable to assets designated as being at fair value through profit or loss.

Current asset investments comprising money market funds are held at fair value through the profit or loss. Cash and short term deposits are held at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. **Principal Accounting policies (continued)**

Basis of accounting (continued)

Investments are regularly reviewed to ensure that the fair values are appropriately stated. Quoted investments are valued in accordance with the bid-price on the relevant date, unquoted investments are valued in accordance with current IPEVC valuation guidelines, although this does rely on subjective estimates such as appropriate sector earnings multiples, forecast results of investee companies, asset values of subsidiary companies and liquidity or marketability of the investments held.

Although the Company believes that the assumptions concerning the business environment and estimates 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.

Fixed Asset Investments

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

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 is provided internally on that basis to the Board. Accordingly, as permitted by FRS 26, the investments are designated as fair value through profit or loss (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 with the holding gains and losses recorded in the income statement each year. In accordance with the investment strategy, the investments are held with a view to long-term capital growth and it is therefore possible that individual holdings may increase in value to a point where they represent a significantly higher proportion of total assets than the original cost.

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 the convention of the exchange on which the investment is quoted. This is consistent with the IPEVC valuation guidelines.

In the case of unquoted investments, fair value is established by using measures of value such as the price of recent transactions, earnings multiple and net assets. This is consistent with IPEVC valuation guidelines.

Gains or losses arising from the revaluation of investments at the year end are recognised as part of the capital return within the income statement and allocated to the capital reserve – investment holding gains/(losses).

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 investee companies.

Current asset investments

Current asset investments comprise money market funds and OEICs and are designated as classified as held for trading carried at FVTPL. 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 – investment gains/(losses) on disposal.

The current asset investments are all invested with the Company’s cash manager and are readily convertible into cash at the option of the Company. The current asset investments, are actively managed and the performance is evaluated in accordance with a documented investment strategy. Information about them has to be provided internally on that basis to the Board.

1. Principal Accounting policies (continued)

Other income

Investment income includes interest earned on bank balances and money market funds and includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on debt and money market funds are recognised so as to reflect the effective interest rate; provided there is no reasonable doubt that payment will be received in due course.

Expenses

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue with the exception of the investment management fee, which is charged 25% to the revenue account and 75% to the capital reserve to reflect, in the Directors' opinion, the expected long-term split of returns in the form of income and capital gains respectively from the investment portfolio, and the performance fee which has been charged 100% to capital, as the fees relate to the gains made on fixed asset investments.

The transaction costs incurred when purchasing or selling assets are written off to the Income Statement in the year that they occur. The performance, however, has been attributed fully to capital since it has arisen through capital growth of companies.

Revenue and capital

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 and gains and losses arising from the revaluation of investments at the period end. Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement.

Taxation

Corporation tax payable is applied to profits chargeable to corporation tax, if any, at the current 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 or where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax. This is with the exception that deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing can be deducted.

Cash and liquid resources

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources 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. Liquid resources comprise term deposits of less than one year (other than cash), government securities, investment grade bonds and investments in money market funds, as well as OEICs.

Loans and receivables

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Principal Accounting policies (continued)

Financing strategy and capital structure

FRS 29 'Financial Instruments: Disclosures' comprises disclosures relating to financial instruments.

We define capital as shareholders' 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 drawdown any borrowing facilities in the future to fund the acquisition of investments.

The Company does not have any externally imposed capital requirements.

The value of the managed capital is indicated in note 14. 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 5% of the issued Ordinary share capital of the Company in accordance with Special Resolution 8 in order to maintain sufficient liquidity in the Company.

Capital management is monitored and controlled using the internal control procedures set out on page 33 of this report. The capital being managed includes equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors.

Financial instruments

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

Dividends

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established. This liability is established for interim dividends when they are declared by the Board, and for final dividends when they are approved by the shareholders.

2. Other income

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Money market funds & OEICs	6	9
Loan note interest receivable	60	56
	66	65

3. Investment Management Fees

	Year ended 31 October 2012			Year ended 31 October 2011		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Investment management fee	**74**	**223**	**297**	78	233	311

For the purposes of the revenue and capital columns in the income statement, 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.

Octopus provides investment management and accounting and administration services to the Company under a management agreement. This agreement runs for a period of five years with effect from 2 November 2007 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 basis upon which the management fee is calculated is disclosed within note 19 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Other Expenses

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Directors' remuneration	**43**	38
Fees payable to the Company's auditor for the audit of the financial statements	**12**	9
Fees payable to the Company's auditor for other services – tax compliance	**2**	2
Legal and professional expenses	**1**	3
Accounting and administration services	**44**	47
Trail commission	**62**	53
Printing fees	**13**	24
Other expenses	**75**	52
	252	228

Total annual running costs are capped at 3.2% of net assets (excluding irrecoverable VAT). For the year to 31 October 2012 the running costs, as defined in the prospectus, were 2.9% of net assets (2011: 3.2%). This is calculated excluding VAT, trail commission and non-recurring expenses.

5. Directors' Remuneration

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Directors' emoluments		
John Hustler (Chairman)	**20**	18
Mark Faulker	**15**	12
Matt Cooper	**8**	8
	43	38

None of the Directors received any other remuneration 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 three (2011: three).

6. Tax on Ordinary Activities

The corporation tax charge for the period was £nil (2011: £nil)

Factors affecting the tax charge for the current year:

The current tax charge for the period differs from the standard rate of corporation tax in the UK of 24.83% (2011: 26.83%).

The differences are explained below.

Current tax reconciliation:

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Return on ordinary activities before tax	**5,737**	(327)
Capital gains not taxable	**(7,442)**	(147)
	(1,705)	(474)
Current tax at 24.83% (2011: 26.83%)	**(423)**	(127)
Income not taxable for tax purposes	**–**	(2)
Unrelieved tax losses	**423**	129
Total current tax charge	**–**	–

Excess management charges of £1,536,000 (2011: £1,045,000) have been carried forward at 31 October 2012 and are available for offset against future taxable income subject to agreement with HMRC. The Company has not recognised the deferred tax asset of £359,000 (2011: £292,000) in respect of these excess management charges.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Dividends

	Year to 31 October 2012 £'000	Year to 31 October 2011 £'000
Recognised as distributions in the financial statements for the period		
Previous year's final dividend	**162**	122
Current period's interim dividend	**263**	121
	425	243
Paid and proposed in respect of the period		
Interim dividend paid – 1.5p per share (2011: 0.75p per share)	**263**	122
Proposed Special dividend – 34.0p per share (2011: nil)	**5,956**	–
Proposed final dividend – nil (2011: 1.0p per share)	**–**	162
	6,219	284

The special dividend of 34.0p will be paid on 28 March 2013 to shareholders on the register on 11 January 2013.

8. Earnings per Share

The total earnings per share is based on the total gain of £5,737,000 (2011: loss of 327,000) and 16,972,597 (2011: 16,267,138) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

The revenue earnings per share is based on revenue loss of £260,000 (2011: 241,000) and 16,972,597 (2011: 16,267,138) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

The capital earnings per share is based on a capital gain of £5,997,000 (2011: loss of 86,000) and 16,972,597 (2011: 16,267,138) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

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

9. Net Asset Value per Share

The calculation of NAV per share as at 31 October 2012 is based on is based on net assets of £21,361,000 (2011: 14,833,000) and 17,518,045 (2011: 16,220,459) Ordinary shares in issue at that date.

10. Fixed Asset Investments

Where financial instruments are measured in the balance sheet at fair value; FRS 29 requires disclosure of the fair value measurements by level based on the following fair vale investment hierarchy:

Level 1: quoted prices in active markets for identical assets and liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held is the current bid price. These instruments are included in level 1 and comprise AIM-quoted investments classified as held at fair value through profit or loss.

Level 2: the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company held no such investments in the current or prior year.

Level 3: the fair value of financial instruments that are not traded in an active market (for example investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There have been no transfers between these classifications in the year (2011: nil). The change in fair value for the current and previous year is recognised through the income statement.

All items held at fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 October 2012 are summarised below.

	Level 1: AIM-quoted £'000	Level 3: Unquoted investments £'000	Total investments £'000
Valuation and net book amount:			
As at 1 November 2011	632	11,859	12,491
Cumulative revaluation as at 1 November 2011	15	297	312
Valuation at 1 November 2011	647	12,156	12,803
Movement in the year:			
Purchases at cost	–	1,061	1,061
Disposal proceeds	–	(2,067)	(2,067)
Profit/(loss) on realisation of investments			
– current year	–	259	259
Revaluation in year	179	6,941	7,120
Valuation at 31 October 2012	**826**	**18,350**	**19,176**
Book cost at 31 October 2012	632	10,520	11,152
Revaluation to 31 October 2012	194	7,830	8,024
Valuation at 31 October 2012	**826**	**18,350**	**19,176**

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. Fixed Asset Investments (continued)

The investment portfolio is managed with capital growth as the primary focus. The loan and equity investments are considered to be one instrument for valuation purposes due to the legal binding within the investment agreement and therefore they are combined in the table shown above. The costs incurred in the disposals amount to £18,000.

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect fair value of financial assets held at the price of recent investment, or, in the case of unquoted investments, to adjust earnings multiples. Further details in respect of the methods and assumptions applied in determining the fair value of the investments are disclosed in the Investment Manager's Review and within the principal accounting policies in note 1.

At 31 October 2012 and 31 October 2011, there were no commitments in respect of investments not yet completed.

11. Debtors

	31 October 2012 £'000	31 October 2011 £'000
Prepayments	**102**	12
Disposal proceeds	**1,460**	–
Other debtors	**–**	4
	1,562	16

Disposal proceeds of £221,000 are due in more than one year.

12. Current Asset Investments

Current asset investments at 31 October 2012 comprised money market funds and OEIC's.

	31 October 2012 £'000	31 October 2011 £'000
Money Market funds	**743**	370
OEIC's	**969**	1,606
	1,712	1,976

All current asset investments held at the year end sit within level 1 hierarchy for the purposes of FRS 29.

Level 1 money market funds and OEICs: Level 1 valuations are based on quoted prices (unadjusted) in active markets for identical assets or liabilities. The valuation of money market funds and OEIC's at 31 October 2012 was £1,712,000 (2011: £1,976,000).

13. Creditors: Amounts Falling Due Within One Year

	31 October 2012 £'000	31 October 2011 £'000
Accruals	**1,265**	53

Included within accruals is an amount of £1,222,000 relating to a performance fee payable to the investment manager on achieving a NAV of 130p and declaring dividends of 40p per share. For more details please refer to Note 19.

14. Share Capital

	31 October 2012 £'000	31 October 2011 £'000
Authorised		
50,000,000 Ordinary shares of 10p	**5,000**	5,000
Allotted and fully paid up:		
17,518,045 (2011: 16,220,459) Ordinary shares of 10p	**1,751**	1,622

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 5. The Company is not subject to any externally imposed capital requirements.

We define capital as shareholders' 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 drawdown any borrowing facilities in the future to fund the acquisition of investments.

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 5% of the issued Ordinary share capital of the Company in accordance with Special Resolution 8 in order to maintain sufficient liquidity in the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. Share Capital (continued)

Capital management is monitored and controlled using the internal control procedures set out on page 33 of this report. The capital being managed includes equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors.

During the year 1,428,595 shares were issued at a price of 97.8p (2011: No shares were issued during the year).

The Company repurchased the following Ordinary shares for cancellation (2011: 134,043 shares):

- 2 March 2012: 49,908 at a price of 82.2p per share
- 30 March 2012: 13,000 at a price of 82.2p per share
- 30 March 2012: 13,000 at a price of 82.2p per share
- 30 April 2012 25,175 at a price of 83.2p per share
- 6 July 2012 42,926 at a price of 82.2p per share

15. Reserves

	Share premium £'000	Special distributable reserve £'000	Capital reserve gains/(losses) on disposal £'000	Capital reserve holding gains/(losses) £'000	Capital redemption reserve £'000	Revenue reserve £'000
As at 1 November 2011	574	12,682*	(210)*	401	13	(249)*
Return on ordinary activities after tax	–	–	–	–	–	(260)
Management fees allocated as capital expenditure	–	–	(1,445)	–	–	–
Issue of shares	1,180	–	–	–	–	–
Purchase of own shares	–	(107)	–	–	14	–
Current year gain on disposal – Fixed asset investment	–	–	259	–	–	–
Current year loss on disposal – current asset investment	–	–	(15)	–	–	–
Prior period holding gain on disposal	–	–	3	(3)	–	–
Prior period holding loss on disposal	–	–	(590)	590	–	–
Current period gains/losses on revaluation	–	–	–	7,198	–	–
Dividends paid	–	(425)	–	–	–	–
Balance as at 31 October 2012	**1,754**	**12,150***	**(1,998)***	**8,186**	**27**	**(509)***

* Reserve considered when calculating potential distribution by way of a dividend.

When the Company revalues its investments during the year, any gains or losses arising are credited/charged to the income statement. Holding gains/losses are then transferred to the 'capital reserve – holding gains/(losses)'. When an investment is sold, any balance held on the 'capital reserve – holding gains/(losses)' is transferred to the 'capital reserve – gains/(losses) on disposal' as a movement in reserves.

15. Reserves (continued)

Reserves available for potential distribution by way of a dividend are:

	£'000
As at 1 November 2011	12,223
Movement in year	(2,580)
As at 31 October 2012	**9,643**

This is the minimum value of reserves available for potential distribution, which will be impacted by the future realisability, into cash, of gains and losses included in the Capital Holding reserve.

The purpose of the special distributable reserve was to create a reserve which will be capable of being used by the Company to pay dividends and for the purpose of making repurchases of its own shares in the market with a view to narrowing the discount to net asset value at which the Company's Ordinary shares trade. In the event that the revenue reserve and capital reserve gains/(losses) on disposals do not have sufficient funds to pay dividends, these will be paid from the special distributable reserve.

16. Financial Instruments and Risk Management

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT qualifying unquoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Classification of financial instruments

The Company held the following categories of financial instruments, all of which are included in the balance sheet at fair value, at 31 October 2012.

	31 October 2012 £'000	31 October 2011 £'000
Assets at fair value through profit or loss		
Fixed Asset Investments	**19,176**	12,803
Current asset investments	**1,712**	1,976
Total	**20,888**	14,779
Loans and receivables		
Cash at bank	**176**	91
Disposal proceeds	**1,460**	–
Total	**1,636**	**91**
Liabilities at amortised cost		
Accruals	**1,265**	49
Total	**1,265**	49

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial Instruments and Risk Management (continued)

Classification of financial instruments (continued)

Fixed asset investments (see note 10) are carried at fair value. Unquoted investments are carried at fair value as determined by the Directors in accordance with current venture capital industry guidelines. 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 period-end is equal to their book value.

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 price 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 5. 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 statement on pages 28 to 34, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in 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 page 7 to 15.

85.9% (2011: 82.2%) by value of the Company's net assets comprises investments in unquoted companies held at fair value. The valuation methods used by the Company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 5% overall increase in the valuation of the unquoted investments at 31 October 2012 would have increased net assets and the total return for the year by £918,000 (2011: £610,000) an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount.

8% (2011: 13.3%) by value of the Company's net assets comprises of OEICs and Money Market Funds held at fair value. A 5% overall increase in the valuation of the OEICs and Money Market Funds at 31 October 2012 would have increased net assets and the total return for the year by £86,000 (2011: £99,000) an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount.

The Investment Manager considers that the majority of the investment valuations are based on earnings multiples which are ascertained with reference to the individual sector multiple or similarly listed entities. It is considered that due to the diversity of the sectors, the 5% sensitivity discussed above provides the most meaningful potential impact of average multiple changes across the portfolio.

16. Financial Instruments and Risk Management (continued)

Interest rate risk

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

Fixed rate

The table below summarises weighted average effective interest rates for the fixed interest-bearing financial instruments:

	As at 31 October 2012			As at 31 October 2011		
	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years	Total fixed rate portfolio by value £'000	Weighted average interest rate %	Weighted average time for which rate is fixed in years
Fixed-rate investments in unquoted companies	560	10%	1.8	953	12%	2.5

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 1% in the base rate as at the reporting date would not have had a significant effect on the Company's net assets or total return for the year.

Floating rate

The Company's floating rate investments comprise cash held on interest-bearing deposit accounts, libor rate on one loan note and, where appropriate, within interest bearing money market funds. The benchmark rate which determines the rate of interest receivable on such investments is the bank base rate, which was 0.5% at 31 October 2012. The amounts held in floating rate investments at the balance sheet date were as follows:

	31 October 2012 £'000	31 October 2011 £'000
Floating-rate investments in unquoted companies	–	–
Cash on deposit & money market funds	919	461
	919	461

A 1% increase in the base rate would increase income receivable from these investments and the total return for the year by £9,000 (2011: £5,000).

Credit risk

There were no significant concentrations of credit risk to counterparties at 31 October 2012. By cost, no individual investment exceeded 6.0% (2011: 9.6%) of the Company's net assets at 31 October 2012.

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. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Financial Instruments and Risk Management (continued)

Credit risk (continued)

At 31 October 2012 the Company's financial assets exposed to credit risk comprised the following:

	31 October 2012	31 October 2011
	£'000	£'000
Cash on deposit & money market funds	**919**	461
Fixed rate investments in unquoted companies	**560**	953
	1,479	1,414

Credit risk relating to listed money market funds 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 preference shares in unquoted companies is considered to be part of market risk.

The investments in money market funds and OEICS are uncertified.

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

The Company's interest-bearing deposit and current accounts are maintained with HSBC Bank plc. 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 HSBC deteriorate significantly, the Investment Manager will move the cash holdings to another bank.

Liquidity risk

The Company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. They also include investments in AIM-quoted companies, which, by their nature, involve a higher degree of risk than investments on the main market. 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 funds are considered to be readily realisable as they are of high credit quality as outlined above.

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 31 October 2012 these investments were valued at £1,888,000 (2011: £4,500,000).

17. **Post Balance Sheet Events**

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

- On 12 November 2012 a further £244,000 was invested into Calastone Limited
- On 15 November 2012 a further £109,000 was invested into Bowman Power Limited
- On 30 November 2012 Titan disposed of its holding in Nature Delivered Limited for £5,884,000 of which £3,764,000 was paid in cash and £2,120,000 was reinvested

18. **Contingencies, Guarantees and Financial Commitments**

Provided that an intermediary continues to act for a shareholder and the shareholder continues to be the beneficial owner of the shares, intermediaries will be paid an annual trail commission of 0.5% of the initial net asset value. Trail commission of £62,000 was paid in cash during the year (2011: £53,000) and there was £15,000 (2011: £14,000) outstanding at the year end.

There were no other contingencies, guarantees or financial commitments as at 31 October 2012.

19. **Transactions with manager**

Octopus Titan VCT 2 plc has employed Octopus Investments Limited throughout the year as the Investment Manager.

Octopus Titan VCT 2 plc has paid Octopus £376,000 (2011: £311,000) in the year as a management fee and there is £79,000 (2011: £nil) is shown as a prepayment at the balance sheet date. The management fee is payable quarterly in advance and is based on 2.0% of the net asset value calculated at annual intervals as at 31 October.

Octopus Investments Limited also provides accounting, administrative and company secretarial services to the Company, payable quarterly in advance for a fee of 0.3% of the net asset value calculated at annual intervals as at 31 October. During the year £56,000 (2011: £47,000) was paid to Octopus Investments Limited and there is £12,000 (2011: £nil) shown as a prepayment at the balance sheet date, for the accounting and administrative services. In addition, Octopus also provides secretarial services for a fee of £7,500 per annum. At the year end there was £2,000 (2011: £nil) in prepayments at the balance sheet date.

In addition, Octopus is entitled to performance related incentive fees. The incentive fees are designed to ensure that there are significant tax-free dividend payments made to Shareholders as well as strong performance in terms of capital and income growth, before any performance related incentive fee payment is made. Included within accrued expenses is an amount of £1,222,000 relating to a performance fee payable to the investment manager on achieving a NAV of 130p and declaring dividends of 40p per share. At the period end dividends declared amounted to 6p per share with the remaining 34p being declared as an interim dividend by the Board on 10 December 2012. The Board has decided to recognise the accrual for the performance fee to reflect the cost of the fee in the period in which the fees were earned. The Board considers that whilst part of the dividend was declared after the period end that the fund was committed to paying the fee due to its results for the period, and accruing the fee provides the most accurate reflection of the assets and liabilities of the fund at the period end.

If, on a subsequent financial year end, the Performance Value of Octopus Titan VCT 2 plc falls short of the Performance Value on the previous financial year end, no incentive fee will arise. If, on a subsequent financial year end, the performance exceeds the previous best Performance Value of Octopus Titan VCT 2 plc, the Investment Manager will be entitled to 20% of such excess in aggregate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. Related Party Transactions

Matt Cooper, a non-executive Director of Octopus Titan VCT 2 plc, is also Chairman of Octopus Investments. The Directors received the following dividends from the Company:

	31 October 2012	31 October 2011
John Hustler (Chairman)	**£252**	£112
Mark Faulkner	**£375**	£225
Matt Cooper	**£874**	£505

DIRECTORS AND ADVISERS

Board of Directors
John Hustler (Chairman)
Mark Faulkner
Matt Cooper

Company Number
Registered in England & Wales
No. 06397765

Secretary and Registered office
Patricia Standaloft (ACIS)
20 Old Bailey
London
EC4M 7AN

Investment and Administration Manager
Octopus Investments Limited
20 Old Bailey
London
EC4M 7AN
Tel: 0800 316 2349
www.octopusinvestments.com

Corporate Broker
Panmure Gordon (UK) Limited
One New Change
London
EC4M 9AF
0207 886 2500

Independent Auditor and Taxation Adviser
Grant Thornton UK LLP
3140 Rowan Place
John Smith Drive
Oxford Business Park South
Oxford
OX4 2WB

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Octopus Titan VCT 2 plc will be held at 20 Old Bailey, London, EC4M 7AN on 14 March 2013 at 2.30 p.m. for the purposes of considering and if thought fit, passing the following resolutions of which Resolutions 1 to 6 will be proposed as Ordinary Resolutions and Resolutions 7 and 8 will be proposed as Special Resolutions:

ORDINARY BUSINESS

1. To receive and adopt the financial statements for the year to 31 October 2012 and the Directors' and Auditor's Reports thereon.
2. To approve the Directors' Remuneration Report.
3. To re-elect John Hustler as a Director.
4. To re-elect Matt Cooper as a Director.
5. To re-appoint Grant Thornton UK LLP as auditor of the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

To consider and if thought fit, pass Resolutions 6 as an Ordinary Resolution and Resolutions 7 and 8 as Special Resolutions:

6. AUTHORITY TO ALLOT RELEVANT SECURITIES

THAT the Directors be and are generally and unconditionally authorised in accordance with s551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company up to a maximum nominal amount of £175,180 (representing approximately 10% of the ordinary share capital in issue at today's date) such authority to expire at the later of the conclusion of the Company's next Annual General Meeting following the passing of this Resolution and the expiry of 15 months from the passing of the relevant Resolution (unless previously revoked, varied or extended 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).

7. EMPOWERMENT TO MAKE ALLOTMENTS OF EQUITY SECURITIES

TO empower the Directors pursuant to s571 of the Companies Act 2006 to allot or make offers or agreements to allot equity securities (as defined in s560(1) of the said Act) for cash pursuant to the authority referred to in Resolution 6 as if s561 (1) of the said Act did not apply to any such allotments and so that:

(a) reference to allotment in this Resolution shall be construed in accordance with s560(2) of the said 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.

And this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution or, if earlier, on the expiry of 15 months from the passing of this Resolution.

8. AUTHORITY TO MAKE MARKET PURCHASES

THAT 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 10p each in the Company ('Ordinary shares') provided that:

(a) the maximum number of Ordinary shares so authorised to be purchased shall not exceed 5% of the present issued ordinary share capital of the Company;

(b) the minimum price which may be paid for an ordinary share shall be 10p;

(c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations 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;

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

(e) 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.

By Order of the Board

20 Old Bailey
London
EC4M 7AN

P. Standaloft.

Patricia Standaloft (ACIS)
Company Secretary
22 January 2013

NOTICE OF ANNUAL GENERAL MEETING (continued)

NOTES

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

(b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the Company, **Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU** so as to be received by no later than 48 hours before the time the Annual General Meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the Annual General Meeting.

(c) As an alternative to returning a hard-copy proxy form by post, you can appoint a proxy by sending it by fax to Octopus Investments Limited on 020 7657 3338. For the proxy appointment to be valid, your appointment must be received by Octopus Investments Limited in such time as it can be transmitted to the registrars of the Company so as to be received no later than 48 hours before the time appointed for the meeting or any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll. Capita Registrars will not be liable for any proxy forms rendered illegible by means of fax transmission.

(d) 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.

(e) 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.

(f) 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 Annual General Meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting, 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.

(g) 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.

(h) A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.octopusinvestments.com under Products/Venture Capital Trusts.

(i) 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 Annual General Meeting, and at the place of that meeting for at least 15 minutes prior to the commencement of the meeting until its conclusion.

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PROXY FORM

OCTOPUS TITAN VCT 2 PLC

Annual General Meeting – 14 March 2013 at 2.30 p.m.

I/We...

(BLOCK CAPITALS PLEASE)

of ....

being a member of Octopus Titan VCT 2 plc, hereby appoint the Chairman of the meeting or,

Name of Proxy .... Number of Shares..

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 14 March 2012, notice of which was sent to shareholders with the Directors' Report and the accounts for the year to 31 October 2012, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting.

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made. ☐

For the appointment of more than one proxy, please refer to the explanatory note 4 below.

RESOLUTION NUMBER		FOR	AGAINST	WITHHELD
ORDINARY BUSINESS				
1.	To receive, consider and adopt the financial statements for the year ended 31 October 2012	☐	☐	☐
2.	To approve the Directors' Remuneration Report	☐	☐	☐
3.	To re-elect John Hustler as a Director	☐	☐	☐
4.	To re-elect Matt Cooper as a Director	☐	☐	☐
5.	To re-appoint Grant Thornton UK LLP as auditor and authorise the Directors to agree their remuneration	☐	☐	☐
SPECIAL BUSINESS				
6.	To authorise the Directors to allot shares under s551 of the Companies Act 2006 (Ordinary Resolution)	☐	☐	☐
7.	To disapply s561 of the Companies Act 2006 and allot shares on a non-rights issue basis (Special Resolution)	☐	☐	☐
8.	To authorise the Directors to make market purchases of its own shares (Special Resolution)	☐	☐	☐

Signed: .... Dated: 2013

If you are unable to attend the AGM and wish to pass on any comments to the Board, please use the box below (NB: Please provide a telephone contact number):

NOTES

1. To be valid, the proxy form must be received by the Registrars of the Company at, **Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU**, no later than 48 hours before the commencement of the meeting. If delivering by courier please use the full address of Capita set out in the Notice.
2. Where this form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
3. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement. (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account.)
4. To appoint more than one proxy, you may photocopy this form. Please indicate next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
6. If the proxy form is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes.
7. 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 6 p.m. on the day which is two days before the day of the meeting or adjourned 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.
8. The address on the envelope containing this notice is how your address appears on the Register of Members. If this information is incorrect please ring the Registrar's helpline on 0871 664 0300. (calls cost 10p per minute plus network extras, lines are open 8.30 a.m. – 5.30 p.m. Monday – Friday) to request a change of address form.
9. The completion and return of this form will not preclude a member from attending the meeting and voting in person.

PLEASE USE THE REPLY PAID ENVELOPE PROVIDED