BARONSMEAD

Baronsmead VCT 2 plc

2009

Annual report & accounts
for the year ended
30 September 2009

Investment Objective

Baronsmead VCT 2 is a tax efficient listed company which aims to achieve long-term investment returns for private investors, including tax-free dividends.

Investment policy

- To invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AIM.
- Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Further details on the investment policy and risk management are contained in the Directors' Report on pages 17 and 18.

Contents

Dividend policy

The Board of Baronsmead VCT 2 aims to sustain a minimum annual dividend level at an average of 5.5p per Ordinary Share, mindful of the need to maintain net asset value. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations and cannot be guaranteed. There will be variations in the amounts of dividends paid year on year.

Since launch, the average annual tax-free dividend paid to Shareholders has been 6.4p per share (equivalent to a pre-tax return of 9.5p per Ordinary Share for a higher rate tax payer). For Shareholders who claimed tax reliefs of 20 per cent., 30 per cent. or 40 per cent., their returns would have been higher.

Secondary market in the shares of Baronsmead VCT 2

Shares can be bought and sold using a stockbroker, just like shares in any other listed company albeit market liquidity is limited. Qualifying purchasers (individuals over the age of 18 and UK resident for tax purposes) can receive VCT dividends (including capital distributions of realised gains on investments) that are not subject to income tax, and capital gains tax is not payable on disposal of the VCT shares.

There is no minimum time for which VCT shares bought in the secondary market need to be held, and they can be sold in the normal way. The UK tax treatment of VCTs is on a first in first out basis and therefore tax advice should be obtained before shareholders dispose of their shares and also if they deferred Capital Gains Tax in respect of new shares acquired prior to 6 April 2004.

www.baronsmeadvct2.co.uk

If you have sold or otherwise transferred all of your ordinary shares in Baronsmead VCT 2 plc, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Financial Headlines

5.5p

Dividends for the year total 5.5p per share tax free, including the proposed final dividend of 3.0p per share payable on 30 December 2009.

–0.1%

NAV per share for the year to 30 September 2009 decreased by 0.1% before payment of dividends. This is a creditable performance in a turbulent year for the UK's economy and the financial markets.

73.40p

Cumulative tax free dividends total 73.40p per share for founder shareholders since 1998, equivalent to an annual average tax free dividend of 6.4p per share. For higher rate tax payers this equates to 9.5p.

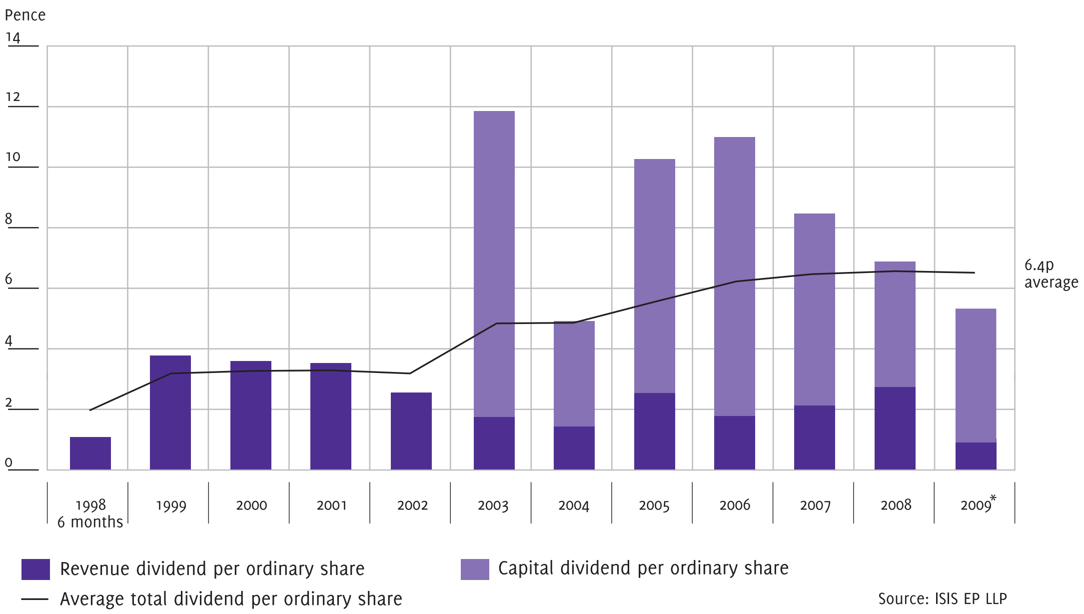
79%

Share Price total return since launch in 1998, compared to the increase in the FTSE All-Share return of 35% over the same period. When taking the VCT tax reliefs into account, the positive differential is higher still.

84%

NAV total return since launch in 1998, representing an annualised total return of 5.4% (on original subscription at launch) and 6.8% after allowing for initial income tax relief of 20%

Dividend history since launch



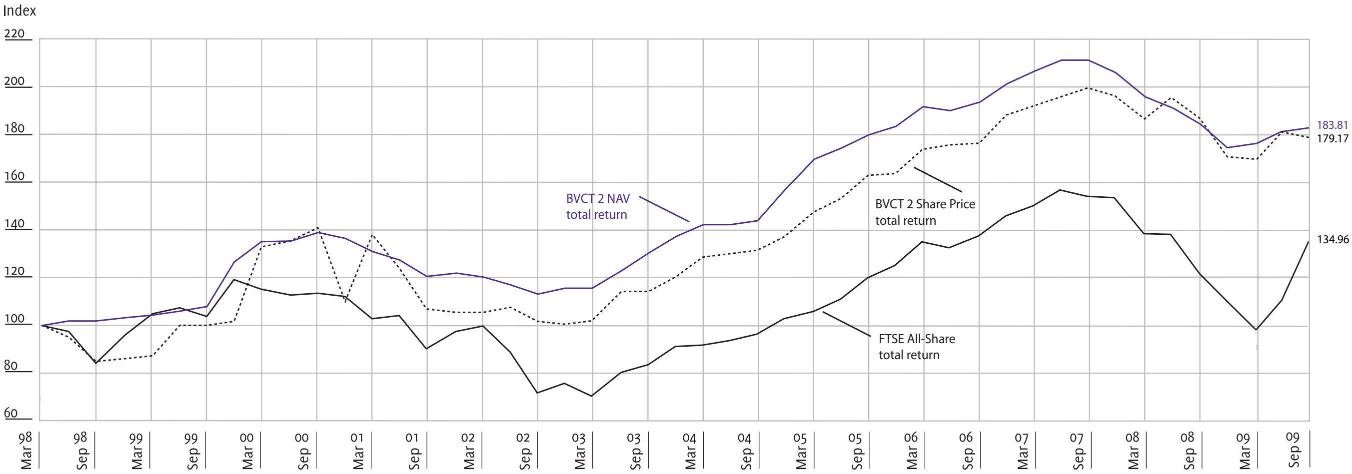
Source: ISIS EP LLP

*Includes proposed final dividend of 3.0p

Summary Since Launch

Baronsmead VCT 2 plc

Net asset value total return and share price total return since launch against the FTSE All-share Index total return



— NAV Total Return (gross dividends re-invested) rebased to 100p at launch – ordinary shares
----- Share Price Total Return rebased to 100p at launch – ordinary shares
— FTSE All-Share Index Total Return rebased to 100p at launch

Source: ISIS EP LLP and AIC

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

Performance Summary to 30 September 2009

Total return*	1 year %	5 year %	10 Year %	Since launch (2 April 1998) %
Net asset value†	(0.12)	28.12	70.49	83.81
Share price†	(3.53)	25.03	57.86	79.17
FTSE All-share	10.80	38.38	28.49	34.96

* Source: ISIS EP LLP and AIC.
† These returns for Baronsmead VCT2 ignore up front tax reliefs and the impact of receiving dividends tax free.

Performance Record

		Ordinary Share				
Year ended	Total net assets £m	Net asset value p	Share price (mid) p	Net asset value total return* %	FTSE All-Share total return %	Combined total expense ratio† %
31/03/1999	9.50	95.65	85.0	104.44	105.06	2.90
31/03/2000	31.00	119.59	125.0	134.62	115.45	3.40
31/03/2001	45.00	112.30	125.0	130.66	103.02	3.10
31/03/2002	41.20	100.54	92.5	120.15	99.76	2.70
31/03/2003	36.70	89.65	80.0	115.49	70.02	2.70
31/03/2004	41.10	100.63	90.0	141.80	91.72	2.70
31/03/2005	69.60	116.92	100.5	168.70	105.99	2.70
31/03/2006	69.60	114.62	100.5	190.51	135.69	2.90
30/09/2007	68.70	112.19	101.0	209.62	154.89	3.00
30/09/2008	54.80	91.68	84.5	184.02	121.80	2.85
30/09/2009	61.22	89.06	77.5	183.81	134.96	2.66

* Source: ISIS EP LLP.
† As a percentage of average total shareholders' funds (excluding performance fees).

Summary Since Launch

Dividends Paid Since Launch

Year ended	Revenue dividend p	Capital dividend p	**Total annual dividend p**	Cumulative dividends p	Average total annual dividend p
6 months to 30/09/1998	1.00	0.00	**1.00**	1.00	0.50
30/09/1999	3.80	0.00	**3.80**	4.80	3.20
30/09/2000	3.60	0.00	**3.60**	8.40	3.36
30/09/2001	3.50	0.00	**3.50**	11.90	3.40
30/09/2002	2.50	0.00	**2.50**	14.40	3.20
30/09/2003	1.70	10.20	**11.90**	26.30	4.78
30/09/2004	1.40	3.50	**4.90**	31.20	4.80
30/09/2005	2.50	7.70	**10.20**	41.40	5.52
30/09/2006	1.80	9.20	**11.00**	52.40	6.16
30/09/2007	2.10	6.40	**8.50**	60.90	6.41
30/09/2008	2.80	4.20	**7.00**	67.90	6.47
30/09/2009	0.70	4.80	**5.50***	73.40	6.38

*Includes proposed final dividend of 3.0p

Cash Returned to Shareholders

The table below shows the cash returned to shareholders dependent on their subscription cost, including their income tax reclaimed on subscription.

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid/proposed p	Net annual yield* %	Gross equivalent yield† %
1998 (April) – Ordinary	100	20.0	80.0	73.4	8.0	11.9
1999 (May) – Ordinary	102	20.4	81.6	68.9	8.2	12.1
2000 (February) – Ordinary	137	27.4	109.6	66.7	6.2	9.2
2000 (March) – Ordinary	130	26.0	104.0	66.7	6.7	9.9
2004 (October) – C	100	40.0	60.0	25.2	8.4	12.4

C share dividend calculated using conversion ratio of 0.9657.

*Net annual yield represents the cumulative dividends paid expressed as a percentage of the net cash invested.

†The gross equivalent yield had the dividends been subject to higher rate tax (currently 32.5 per cent on dividend income).

The table above excludes returns for shareholders who subscribed in the Joint Offer with Baronsmead VCT plc as these returns are not yet meaningful.

Chairman's Statement

Clive Parritt Chairman

The year to 30 September 2009 has been a year of two halves. The value of the unquoted portfolio has remained broadly steady. However, even without significant trading problems at investees, the market value of the AIM portfolio fell sharply in the first half of the year then the decline was almost exactly reversed in the second half. In a year of such extreme volatility in financial markets it is pleasing to report that the end result is of little change to NAV per share which does demonstrate the benefits of good diversity across the portfolio and the active management style of the Managers.

INVESTMENT PERFORMANCE

Results to 30 September 2009

In the twelve months to 30 September 2009, the Net Asset Value (NAV) per share decreased by 0.12p from 91.68p to 91.56p before the impact of dividends. The position can be summarised as follows:

NAV at 1 October 2008	91.68
Movement over the year	(0.12)
	91.56
Interim dividend paid on 26 June 2009	(2.50)
NAV at 30 September 2009	89.06
Final dividend payable on 30 December 2009	(3.00)
Pro-forma NAV retained after dividends	86.06
Dividend analysis	
From revenue	0.7
From realised profits retained	4.8
	5.5

The small change in NAV per share over the year includes a 1.5 per cent increase in the value of the unquoted portfolio and a fall in the value of the AIM portfolio of 1.3 per cent. The change in the value of our AIM portfolio masks a fall of 25 per cent to 31 March 2009, offset by a gain of 33 per cent in the second six months. The FTSE All-Share Index increased 6.1 per cent over the same 12 month period.

At the period end, over 70 per cent of the ordinary capital raised (net of launch costs) prior to 30 September 2007 was invested in VCT qualifying investments and the 5 other VCT qualifying tests had also been met throughout the year.

Longer term performance

The Company's Investment Objective emphasises the longer term performance of the Company. This is also consistent with shareholders actual and stated investment horizons. The Board reviews the long term performance of the Company using a number of different metrics, but takes particular account of total dividends paid to shareholders as well as Share Price and NAV total returns.

The proposed final dividend will take the cumulative dividends paid (tax free to qualifying shareholders) to founder shareholders to 73.40p per share. This is an average annual dividend throughout the life of the Company of 6.4p per year.

There have been six prospectus fund raisings by Baronsmead VCT 2. All shareholders from these prior offers have to date achieved positive absolute NAV total returns. The ten year performance up to 30 September 2009 shows Baronsmead VCT 2 to be one of the top performing generalist VCTs. Fuller comparisons have recently been facilitated by the Association of Investment Companies (AIC) who publish monthly data on their website, www.theaic.co.uk.

The returns to shareholders are significantly enhanced by the tax benefits available to VCT investors. At a time of lower and sometimes negative investment returns, it is noteworthy that the proportional benefit from these taxation reliefs is greater.

Portfolio valuation

The valuation guidelines for unquoted companies have been revised by the International Private Equity and Venture Capital Valuation Board to facilitate compliance with International, US and UK accounting standards. The Board has applied the new guidelines having been satisfied that these provide an improved framework for estimating market value. In valuing the unquoted investments the Board has available a significant amount of information for comparison purposes including earnings multiples of recent transactions, P/Es of comparable quoted companies and FTSE sectors, all suitably adjusted for size, liquidity, gearing, growth prospects and business mix. AIM investments continue to be valued at bid price.

Following the sale of four AIM investments, the transfer of two small AIM holdings and the write off of another nine

Chairman's Statement

investments the total portfolio comprises 74 companies. 44 per cent of the net asset value of £61.2m was invested in unquoted companies, 22 per cent in AIM investees and the balance of 34 per cent remained in cash or government securities. The largest two investments in Reed & Mackay and ScriptSwitch represented 4.9 per cent and 4.8 per cent of Net Asset Value respectively.

I am delighted to say ScriptSwitch, an investment made in May 2007, was subject to a bid by UnitedHealth UK that completed shortly after the year end resulting in a return, including expected future payments, approaching four times cost.

Unquoted portfolio

The performance of the unquoted portfolio has been robust and its collective valuation has been sustained. This validates the quality of the portfolio and the effectiveness of close cooperation and active Manager involvement with the investee companies.

On average, the current portfolio of unquoted investments is valued at some 32 per cent higher than original cost. 15 companies are valued at a level greater than cost and 6 are valued below cost, with four of these having a provision against cost of more than 25 per cent.

AIM-traded portfolio

The AIM portion of the portfolio has bounced back 33 per cent since 31 March 2009 almost recovering the loss in the first six months of the financial year. In the second half of the year two of the investee companies were sold outright confirming that acquirers could still appreciate the good value that resided in these relatively lowly rated situations. This also supports the longer term strategy of taking more influential stakes in a smaller number of AIM investments, where a likely exit strategy to a trade buyer can be envisaged.

Collective Investment Vehicle

During the year the Manager set up a collective investment vehicle to enable the Baronsmead funds to take advantage of opportunities expected to arise in UK non-qualifying AIM and SmallCap companies. As an open ended investment company (OEIC) it will provide a means of earning better returns than can be achieved on cash while offering liquidity. £525,000 of cash and small shareholdings in two AIM-traded companies were transferred into the Wood Street Microcap Investment fund in June 2009. The Board believes that the use of this fund will improve shareholder returns while ensuring that adequate liquid funds remain available to support the unquoted portfolio when necessary or opportune.

Prospects for new investment

The market for investing in new transactions has been somewhat depressed over the last 12 months with overall M&A volumes down significantly although ten follow on investments were completed during the year under review. The quality of new proposals is improving as confidence begins to return to the market and asset pricing is becoming more advantageous which is helping clearer decision-making. Additionally the Manager has an active programme of directly approaching prospective investee companies in selected sectors, and this is building a strong pipeline of entrepreneurs who would like to work with the Manager when timing is right. This continues to be a significant investment for the future.

The poor stock market conditions in 2008 and in early 2009 were particularly difficult for companies in our AIM portfolio and the flow of qualifying AIM opportunities was limited. These conditions have now improved substantially. Recent research recognises the importance of AIM as a funding stage for venture backed and entrepreneurial companies, particularly in an environment with lower debt availability. AIM companies typically have no or low levels of gearing and we expect improving prospects in this part of the portfolio.

BOARD CHANGES

Nick Timpson retires from the Board at this AGM after eleven years. He had originally founded Furniture Holdings, an earlier investee company of ISIS from 1985 to 1997 when it was successfully sold. As an industrialist, he has given the Board valuable insights about the working of our entrepreneurially run companies and provided wise counsel for the benefit of shareholders, in part due to his understanding as a shareholder in Baronsmead VCT 2. We thank him for his dedicated service.

I am delighted to welcome Howard Goldring to the Board, which he joined on the 11 November 2009. He has wide experience of Asset Management and is founder chairman of Delmore Asset Management. Previously he was a non-executive director of Liverpool Victoria Asset Management, undertaking the role of global strategist.

SHAREHOLDER ISSUES

Fund raising

The joint offer with Baronsmead VCT raised net proceeds of £8.4m for each VCT. After the proposed final dividend is paid the cash resources remain at a good level for investing into the anticipated upswing and yet retain sufficient flexibility to meet any requirements for the existing portfolio, buy backs

Chairman's Statement

and future dividends. To enhance the return on cash held, the Manager has formed the Wood Street Microcap Investment Fund and some of our liquid resources have been invested in this OEIC (see above).

Buy backs and market discounts

During the 12 months to 30 September 2009, 0.75 million shares were bought back.

The average market price discount to NAV was 10 per cent over the year which compares favourably to the rest of the VCT sector where discounts to NAV were generally much higher.

VAT reclaim on management fees

Following the successful reclaim of VAT as detailed in my statement last year total VAT recovered together with interest amounted to £1.2m of which £0.5m, including interest, is recognised in this period.

Company brokers

The Company's former broker, Teathers, ceased to operate as a market maker during March 2009. However, several other firms became market makers during that month thereby minimising the impact this could have had on the discount to NAV at which the Company's shares were traded. Currently the Company's shares have three market makers, namely Matrix Corporate Capital, Winterflood and Singer Capital Markets. Following a review of brokers the Board agreed to appoint Matrix Corporate Capital as the new broker to the Company from the beginning of August 2009.

Finance Act 2009

In the April 2009 Budget there were only minor changes to the VCT rules and regulations. However, the Finance Act 2009 set out the proposed 50 per cent income tax rate and restriction of tax relief on pension contributions. The proposed changes will make tax-free dividends more valuable in the hands of our shareholders and it is likely that VCTs will become increasingly attractive. It is important to stress the need to consult professional advisers regarding any taxation or pension planning and personal investment. Please email Michael.probin@isisep.com if you wish to contribute to these topics and state what is important from your perspective as an interested investor.

Your Board believes it will be important to demonstrate the positive benefit to the UK economy of VCT tax concessions which encourage investment in entrepreneurial growth businesses. To support the case for such reliefs we shall seek to measure the increased employment and consequent increase in tax revenue to the Treasury delivered by investee companies that have benefited from our investment. For example the ten largest investee companies have on average increased the number of employees by over 50 per cent during the first 3 years following our investment.

Dividend

A final dividend of 3.0p will be proposed at the forthcoming AGM and, if approved, will be paid on 30 December 2009 to shareholders recorded on the register on 27 November 2009. The ex-dividend date is 25 November 2009.

ANNUAL GENERAL MEETING

I look forward to meeting as many shareholders as possible at our twelfth Annual General Meeting on Monday 14 December 2009 to be held at the London Stock Exchange, 10 Paternoster Square near St Paul's Cathedral. The AGM will be followed by presentations from the Manager, an investee company and a light lunch. The AGM will start at 11 am and be preceded by a shareholders workshop.

OUTLOOK

Equity markets have rallied in recent months anticipating that the pace of decline in the UK economy over the past 12 months may have slowed and perhaps stabilised. While remaining cautious about the economy the Board and Manager share the belief that once greater stability has returned to UK financial and industrial markets your Company should be well placed to capitalise on a potentially more favourable investment environment.

We are concerned by the proposed European Union Alternative Investment Fund Managers Directive and its impact upon the Company and the Manager and the additional costs that may be incurred as a result of complying with it. It is too early to tell how significant the impact of these measures will be to the way your Company functions, but we are alert to the issues and will comment further on this Directive as its implications become more apparent.

Clive Parritt
Chairman

17 November 2009

Manager's Review

Left to right: Michael Probin, Andrew Garside, Paul Forster, David Thorp, Het Marsh, Prem Mohan Raj, Peter Clarke.

The priority during the year was working closely with portfolio companies to ensure their stability and to position them for improvement once we move out of the current downturn. This we have achieved but the extreme market volatility precluded much new investment. Selective further investment was made in existing portfolio companies. Our investees now have a firmer base from which to grow into the anticipated upswing.

PORTFOLIO REVIEW

The total portfolio comprised 74 investee companies at the year end after the write off of nine AIM-traded companies. One new investment was made in Clarity Commerce Solutions, an AIM-traded company. The AIM companies written off had largely been the subject of provisions taken in prior years and so the decrease in value this year amounted to £0.3m, approximately 0.5p NAV per share. Further investments were made in existing investees amounting to £1.7m across four unquoted and six AIM-traded investees. A shareholding in Inverness Medical, a NYSE listed company, was taken in exchange for selling our holding in Concateno. Cash proceeds from all realisations totalled £2.4m. All new investment and the exits are scheduled on page 9 of the annual report.

Portfolio companies are reviewed quarterly in terms of their financial health and in the last two quarters, those exhibiting steady or better trading progress have steadied to 72%. In part this has come from focusing on robust business models where growth strategies are less dependent on overall economic growth and more on the competitive advantage in delivering superior value to their end customers.

ScriptSwitch is a good example of the above, where the demand driver for its unique prescribing software is reducing cost within Primary Care Trusts' drug budgets. More than 115 NHS Primary Care Organisations have benefited from their prescribing decision support resulting in significant savings being made. The CEO, Mike Washburn, became the BVCA 'Venture Capital backed CEO of the year' in October 2009. As described in the Chairman's Statement ScriptSwitch was subject to a bid that completed shortly after the year end.

Unquoted portfolio management

ScriptSwitch and three other case studies of unquoted companies across a number of different market sectors within the portfolio are set out on pages 14 and 15. These are the same 4 companies that were profiled last year and the intention this year has been to show how the Manager has worked with the management teams to prepare each business

Manager's Review

for the more difficult trading conditions that they would experience.

For example, the financial structures adopted in the unquoted portfolio have been designed to be prudent wherever possible with relatively low levels of external debt. There are several ways of measuring borrowings but the most common relates to the level of net borrowings divided by annual operating profits defined as EBITDA – earnings before interest, tax, depreciation and amortisation. At an average ratio of 1.7 times across the unquoted portfolio, the level of debt within the portfolio as a whole is relatively low and considerably less than those typically used in larger private equity transactions.

During the year the Manager recruited the services of Anna Highton, an experienced HR professional. Anna's newly established role is to enhance the impact that ISIS can have on its investees in the important areas of strategic HR, talent management and senior team development. Anna previously worked in a senior HR role at Accenture before working in her own HR consultancy. She started working with ISIS as a consultant from 2007.

The Manager is also actively involved in assisting investee companies maintain tight control of overheads, focusing on efficient working capital management and ensuring early communication with each investee company's banks to help manage risk and minimise issues. Presentations by investee companies at each AGM have illustrated the close relationship between the executive management of unquoted companies and the Manager.

AIM investment strategy

The strategy for investing in AIM companies is to use private equity disciplines where possible and focus on holdings where the Manager can be an influential shareholder. The tail of smaller investments has also been shortened with a number of write offs and sales. The two AIM holdings that were bought out during the year realised an increase in value of £0.2m since 30 September 2008. This demonstrates that further value uplifts may be possible on AIM investees through corporate activity.

OUTLOOK

The last year has been a time for entrepreneurial companies to be focused on running a tight operation and ensuring they can control their destiny despite the difficulties of the banking market. This has largely been achieved across the portfolio. In an improving economic climate the objective of these companies is to grow both market share and profits. It will be the continued innovation and drive of these companies, aided by the support of the Manager who is an experienced and active investor that will create value for the shareholders in Baronsmead VCT 2.

ISIS EP LLP
Investment Managers
17 November 2009

Table of Investments and Realisations

New investments in the year to 30 September 2009

Number	Company	Location	Sector	Activity	Investment cost (£'000)
	NYSE-traded investments				
	new				
1	Inverness Medical Inc†	USA	Healthcare & Education	Developer of health management programmes	180
	Total NYSE-traded investments				**180**
	AIM-traded investments				
	new				
1	Clarity Commerce Solutions plc	London	IT & Media	Consumer transaction software	50
	follow on				
1	Brulines Holdings plc	Stockton-on-tees	Business Services	Pub management systems	298
2	Electric Word plc	London	IT & Media	Specialist information business servicing the sport and education sectors	200
3	Ffastfill plc	Sevenoaks	IT & Media	Trading platform software provider	261
4	IDOX plc	London	IT & Media	Public sector software and services	118
5	Kiotech International plc	Surrey	Healthcare & Education	Animal feed additives	75
6	WIN plc	High Wycombe	IT & Media	Text messaging services	150
	Total AIM-traded investments				**1,152**
	Unquoted investments				
	follow on				
1	Kafevend Holdings Ltd	Crawley	Consumer Markets	Vending services	6
2	Nexus Vehicle Holdings Ltd	Leeds	Business Services	Vehicle rental broker	499
3	Occam DM Ltd	Bath	IT & Media	Integrated data services	52
4	Xention Discovery	Cambridge	Healthcare & Education	Developer of ion channel modulating drugs	38
	Total Unquoted investments				**595**
	Total Investments in the period				**1,927**

†Paper consideration from sale of Concateno plc.

Realisations in the year to 30 September 2009

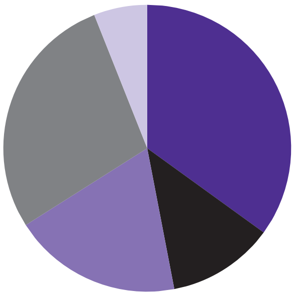
Number	Company		First investment date	Value at 30 September 2008 £'000	Realised profit/(loss) this period £'000	Overall Multiple return*
	AIM-traded realisations					
1	Begbies Traynor Group plc	Part sale	Sep 04	129	–	4.1
2	Claimar Care Group plc	Trade sale	Jan 06	73	198	0.5
3	Concateno plc	Trade sale	Oct 06	547	(22)	1.3
4	Craneware plc	Part sale	Sep 07	192	(7)	1.7
5	Electric Word plc	Transferred to Wood Street Microcap Investment Fund	Mar 08	11	1	0.7
6	Independent Media Distribution plc	Transferred to Wood Street Microcap Investment Fund	Mar 08	14	(1)	0.9
7	MBL Group plc	Market sale	Jan 03	158	224	0.9
8	Universe Group plc	Market sale	May 03	27	(6)	0.1
				1,151	**387**	
	Written off					
1	Appian Technology plc		Dec 05	157	(157)	–
2	Conder Environmental plc		Nov 00	–	–	–
3	EBTM plc		May 07	77	(77)	–
4	Fishworks plc		Jun 05	35	(35)	–
5	IPT Holdings plc		Nov 04	18	(18)	–
6	Landround plc		Aug 97	16	(16)	–
7	Loanmakers (Holdings) plc		June 05	–	–	–
8	Micap plc		Jul 03	–	–	–
9	Top Ten Holdings plc		Oct 03	11	(11)	–
				314	**(314)**	
	Total AIM-traded realisations			**1,465**	**73**	
	Unquoted realisations					
1	Green Issues	Written off	Dec 05	261	(261)	–
2	ScriptSwitch	Loan note redemption	May 07	783	–	1.3
	Total Unquoted realisations			**1,044**	**(261)**	
	Total Realisations			**2,509**	**(188)**	

*Includes interest/dividends received, loan note redemptions and partial realisations accounted for in prior periods.
Deferred proceeds were received for Kidsunlimited £1,000 and Language Line £33,000.

Investment Portfolio

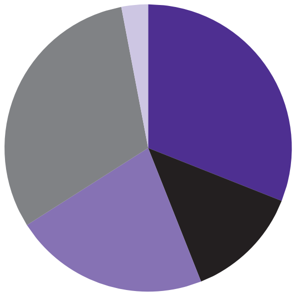
Investment Classification at 30 September 2009

By Sector



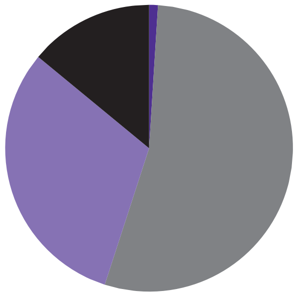
- Business Services 35%
- Consumer Markets 12%
- Healthcare & Education 19%
- IT & Media 28%
- Financial Services 6%

Total Assets



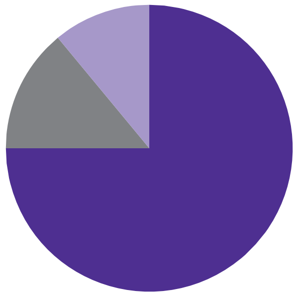
- Unquoted – loan stock 31%
- Unquoted – ordinary and preference shares 13%
- AIM, Listed & Collective Investment Vehicles 23%
- Interest bearing securities 30%
- Net current assets 3%

Time Investments Held



- Less than 1 year 1%
- Between 1 and 3 years 54%
- Between 3 and 5 years 31%
- Greater than 5 years 14%

Unquoted Valuation Basis



- Earnings 75%
- Written down* 14%
- Third party 11%

*Written down represents investments where equity value has been written down to zero and provision made against loan stock.

Company	Nature of business	Book cost £'000	Valuation £'000	% of net assets	% of equity held by Baronsmead VCT 2 plc	% of equity held by all Funds*	Total valuation £'000*
Unquoted							
Reed & Mackay	Business Services	1,211	2,984	4.88	9.3	39.2	11,938
ScriptSwitch	Healthcare & Education	384	2,959	4.83	7.2	32.5	11,834
Nexus Vehicle Holdings Ltd	Business Services	1,868	2,528	4.13	12.6	57.4	10,114
Carnell Contractors	Business Services	1,499	2,468	4.03	8.3	37.5	9,872
CableCom Networking Holdings Ltd	IT & Media	1,381	1,846	3.02	10.6	48.0	7,384
Quantix Limited	IT & Media	1,194	1,801	2.94	11.4	48.0	7,204
Independent Living Services	Healthcare & Education	801	1,568	2.56	14.4	60.5	6,272
Fisher Outdoor Leisure Holdings Ltd	Consumer Markets	1,423	1,433	2.34	10.5	44.0	5,733
Kafevend Holdings Ltd	Consumer Markets	1,252	1,346	2.20	15.8	66.5	5,385
Crew Clothing Company Ltd	Consumer Markets	933	1,286	2.10	5.9	25.0	5,144
CSC (World) Limited	IT & Media	1,606	1,250	2.04	8.8	40.0	4,999
MLS	IT & Media	781	1,132	1.85	5.3	22.5	4,521
Credit Solutions	Financial Services	1,032	1,126	1.93	8.6	35.0	4,366
Playforce Holdings Limited	Business Services	1,033	1,096	1.79	9.7	44.0	4,385
Active Assistance	Healthcare & Education	679	1,044	1.71	7.4	33.5	4,175
Empire World Trade Limited	Business Services	1,297	765	1.25	7.1	30.0	3,059
TVC Group Limited	IT & Media	1,233	293	0.48	6.4	43.5	1,173
Occam DM Ltd	IT & Media	517	121	0.20	5.8	55.2	1,189
Kidsunlimited Group Ltd	Business Services	113	113	0.18	0.0	0.0	1,400
Xention Discovery	Healthcare & Education	316	63	0.10	1.2	5.6	310
Total unquoted		**20,553**	**27,222**	**44.6**			
AIM							
Advanced Computer Software plc	IT & Media	525	1,158	1.9	0.9	5.0	6,618
IDOX plc	IT & Media	1,038	1,081	1.8	3.2	9.6	3,231
Murgitroyd Group plc	Business Services	319	711	1.2	3.1	6.2	1,423
Begbies Traynor Group plc	Financial Services	231	625	1.0	0.6	2.5	2,450
Brulines Holdings plc	Business Services	646	595	1.0	1.9	9.7	3,098
Staffline Recruitment Group plc	Business Services	249	499	0.8	4.5	9.0	997
Ffastfill plc	IT & Media	477	475	0.8	1.8	10.8	2,789
Vero Software plc	IT & Media	500	390	0.6	6.2	14.3	891
Jelf Group plc	Financial Services	551	381	0.6	1.3	5.2	1,553
Driver Group plc	Business Services	438	372	0.6	2.3	10.4	1,707
Kiotech International plc	Healthcare & Education	275	342	0.6	2.2	15.8	2,333
Proactis Holdings plc	IT & Media	400	326	0.5	3.0	15.1	1,628
Mount Engineering plc	Business Services	385	319	0.5	2.3	13.4	1,823
WIN plc	IT & Media	413	315	0.5	4.4	19.7	1,401
Research Now plc	Business Services	263	306	0.5	0.5	2.3	1,488
Essentially Group ltd	Business Services	495	283	0.5	1.9	12.1	1,779
InterQuest Group plc	Business Services	310	270	0.4	1.8	7.4	1,080
IS Pharma plc	Healthcare & Education	246	268	0.4	1.0	5.9	1,530
Stagecoach Theatre Arts plc	Consumer Markets	419	248	0.4	4.5	9.1	496
Tasty plc	Consumer Markets	356	226	0.4	1.7	13.0	1,727

Investment Portfolio

Company	Nature of business	Book cost £'000	Valuation £'000	% of net assets	% of equity held by Baronsmead VCT 2 plc	% of equity held by all Funds*	Total valuation £'000*
AIM (continued)							
Electric Word plc	IT & Media	200	207	0.3	2.4	19.4	1,666
Huveaux plc	IT & Media	666	201	0.3	1.7	4.4	521
Adventis Group plc	IT & Media	281	197	0.3	2.3	8.2	702
Cohort plc	Business Services	179	189	0.3	0.3	1.4	919
Craneware plc	IT & Media	71	180	0.3	0.2	1.1	927
Praesepe plc	Consumer Markets	525	179	0.3	1.1	6.2	1,023
Quadnetics Group plc	Business Services	296	176	0.3	0.6	2.2	593
Colliers CRE plc	Financial Services	470	158	0.3	0.9	2.6	466
Plastics Capital plc	Business Services	472	151	0.2	1.8	10.0	864
Autoclenz Holdings plc	Business Services	400	134	0.2	3.1	12.3	538
Prologic plc	IT & Media	310	132	0.2	4.1	15.0	480
EG Solutions plc	IT & Media	375	110	0.2	3.1	14.2	509
Sanderson Group plc	IT & Media	387	102	0.2	1.8	6.9	390
Tangent Communications plc	Business Services	180	90	0.1	0.8	4.7	515
Character Group plc	Consumer Markets	143	86	0.1	0.4	2.6	598
STM Group plc	Financial Services	140	72	0.1	0.5	3.8	504
Relax Group plc	Consumer Markets	263	70	0.1	1.9	10.9	400
Brainjuicer Group plc	IT & Media	50	65	0.1	0.4	1.8	324
Mission Marketing Group (The) plc	IT & Media	247	60	0.1	0.5	1.4	159
Clarity Commerce Solutions plc	IT & Media	50	50	0.1	0.4	7.8	1,000
RTC Group plc	Business Services	355	37	0.1	4.2	8.5	76
Real Good Food Company (The) plc	Consumer Markets	620	31	0.1	0.7	2.3	100
AorTech International plc	Healthcare & Education	285	28	0.0	0.0	0.0	51
Zoo Digital Group plc	IT & Media	438	12	0.0	0.3	1.0	45
Cobra Biomanufacturing plc	Healthcare & Education	210	7	0.0	0.6	0.6	7
MKM Group plc	Business Services	284	6	0.0	0.7	2.5	23
Higham Systems Services Group plc	Business Services	197	3	0.0	0.3	1.0	12
INVU plc	IT & Media	35	3	0.0	0.1	1.2	65
Payzone plc	Consumer Markets	109	2	0.0	0.0	0.1	7
Silverdell plc	Energy & Environmental	14	2	0.0	0.0	0.0	7
Optimisa plc	IT & Media	298	0	0.0	1.5	8.8	–
Total AIM		**17,086**	**11,930**	**19.5**			
Listed							
Vectura Group plc	Healthcare & Education	578	1,019	1.7	0.4	1.3	3,685
Total listed		**578**	**1,019**	**1.7**			
PLUS							
Chemistry Communications Group plc	Business Services	500	109	0.2	3.1	6.3	217
Total PLUS		**500**	**109**	**0.2**			
New York Stock Exchange							
Inverness Medical Inc.	Healthcare & Education	180	212	0.3	0.0	0.1	1,143
Total New York Stock Exchange		**180**	**212**	**0.3**			
Interest bearing securities							
UK Treasury 5.75% 07/12/09		1,568	1,542	2.5			
UK T-Bill 09/11/09		3,749	3,749	6.1			
UK T-Bill 12/10/09		4,499	4,499	7.3			
UK T-Bill 26/10/09		1,722	1,722	2.8			
BlackRock Cash Market OEIC		7,000	7,000	11.4			
Total interest bearing securities		**18,538**	**18,512**	**30.1**			
Collective Investment Vehicles							
Wood Street Microcap Investment fund		525	525	0.9			
Total Collective Investment Vehicles		**525**	**525**	**0.9**			
Total investments		**57,960**	**59,529**	**97.3**			
Net current assets			**1,686**	**2.7**			
Net assets			**61,215**	**100.0**			

*All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 2.

AIM, Listed and Plus Portfolio Concentration Analysis

Investment ranking by valuation	Book cost £'000	Valuation £'000	% of Quoted portfolio
Top Ten	5,115	6,934	52.3
11 – 20	3,643	3,048	23.0
21 – 30	3,223	1,924	14.5
30 +	6,364	1,364	10.2
Total	**18,345**	**13,270**	**100.0**

Ten Largest Investments

The top ten investments by current value at 30 September 2009 illustrate the diversity and size of investee companies within the portfolio. This financial information is taken from publicly available information, which has been audited by the auditors of the investee companies.

This analysis now details figures for the top ten investments at the holding company level rather than at the trading entity level. We believe this gives an improved presentation and although a different basis to previous annual reports the prior year comparison figures are internally consistent.

1 REED & MACKAY HOLDINGS LIMITED London

High quality business travel

All ISIS EP LLP managed funds

First Investment:	November 2005
Total Cost:	£4,870,000
Total equity held:	39.20%

Baronsmead VCT 2 only

Cost:	£1,211,000
Valuation:	£2,984,000
Valuation basis:	Earnings Multiple
% of equity held:	9.31%

Year ended 31 March	2008 £ million	2007 £ million
Sales	**13.4**	10.8
EBITA*	**3.2**	2.7
Profit before tax	**1.1**	0.7
Net Assets	**1.5**	1.0
No. of Employees	**195**	155

www.reedmac.com

(Source: Reed & Mackay Holdings Limited, Report and Financial Statements 2008)

Reed & Mackay provides specialist business travel management services to professional services firms and corporates. It's high touch service has been developed to deliver the complex travel requirements demanded by high performing clients from the legal, financial, insurance and entertainment sectors.

2 SCRIPTSWITCH HOLDINGS LIMITED Coventry

Prescription software

All ISIS EP LLP managed funds

First Investment:	May 2007
Total Cost:	£1,539,000
Total equity held:	32.50%

Baronsmead VCT 2 only

Cost:	£384,000
Valuation:	£2,959,000
Valuation basis:	Recent Offer
% of equity held:	7.15%

Year ended 30 June	2008 £ million	2007 £ million
Net (Liabilities)/Assets	**(0.4)**	0.4

(Source: ScriptSwitch Limited audited Annual Report and Accounts 2008)

Note: Due to the size of the business ScriptSwitch is not required to file a full set of accounts.

www.scriptswitch.com

ScriptSwitch provides innovative prescribing decision support software to GPs. The software enables the GP to make better medicines management decisions at the point of prescription enabling better clinical risk management and the capability to lower total drug expenditure.

3 NEXUS VEHICLE HOLDINGS LIMITED Leeds

Vehicle rental broker

All ISIS EP LLP managed funds

First Investment:	February 2008
Total Cost:	£7,500,000
Total equity held:	57.42%

Baronsmead VCT 2 only

Cost:	£1,868,000
Valuation:	£2,528,000
Valuation basis:	Earnings Multiple
% of equity held:	12.63%

Year ended 31 March	2008* £ million
Sales	**6.9**
EBITA	**0.4**
Loss before tax	**(0.5)**
Net Assets	**0.2**
No. of Employees	**22**

www.nexusrental.co.uk

*Accounts for 9 month period (Source: Nexus Vehicle Holdings Limited, Financial Statements 2008)

Nexus is a broker of car and van rental, providing a comprehensive procurement service for corporate users which delivers access to a huge range of rental suppliers and vehicle types from a single ordering point. The system is internet based and offers extensive capabilities at the same time as cost effective supply.

4 CARNELL SUPPORT SERVICES LIMITED Penkridge

Providing support to the highways sector

All ISIS EP LLP managed funds

First Investment:	March 2008
Total Cost:	£6,000,000
Total equity held:	37.50%

Baronsmead VCT 2 only

Cost:	£1,499,000
Valuation:	£2,468,000
Valuation basis:	Earnings Multiple
% of equity held:	8.25%

Year ended 30 September	2008 £ million
Sales	**13.8**
EBITA	**1.7**
Profit before tax	**0.3**
Net Assets	**0.7**
No. of Employees	**113**

www.carnellcontractors.com

(Source: Carnell Support Services Limited, Audited Annual Report and Accounts 2008)

Carnell provides specialist maintenance and support services to the Highways Agency strategic road network. It provides services across a broad spectrum including infrastructure, technology, drainage and water management.

5 CABLECOM NETWORKING HOLDINGS LIMITED Clevedon

Internet access solutions

All ISIS EP LLP managed funds

First Investment:	May 2007
Total Cost:	£5,600,000
Total equity held:	48.00%

Baronsmead VCT 2 only

Cost:	£1,381,000
Valuation:	£1,846,000
Valuation basis:	Earnings Multiple
% of equity held:	10.56%

Year ended 30 June	2008 £ million	2007* £ million
Sales	**6.1**	2.2
EBITA	**1.3**	0.5
Loss before tax	**(0.1)**	(0.1)
Net Assets	**1.4**	1.6
No. of Employees	**40**	36

*Accounts for 5 month period

www.cablecomnetworking.co.uk

(Source: Cablecom Networking Holdings Limited, Audited Annual Report and Accounts 2008)

Cablecom's primary business is to deliver and manage wired and wireless broadband communication services to high density accommodation such as student halls of residences. These managed services are provided through long term contracts. In addition the business installs networked communication systems for corporate customers.

*EBITA represents earnings before interest, tax and amortisation.

6 QUANTIX Nottingham

(a trading name of Newincco 635 Limited)

Outsourced database maintenance

All ISIS EP LLP managed funds

First Investment:	March 2007
Total Cost:	£4,800,000
Total equity held:	48.00%

Baronsmead VCT 2 only

Cost:	£1,194,000
Valuation:	£1,801,000
Valuation basis:	Earnings Multiple
% of equity held:	11.40%

Year ended 30 September	**2008**	2007
	£ million	£ million
Sales	**8.3**	3.4
EBITA	**1.2**	0.4
Loss before tax	**(0.3)**	(0.3)
Net Assets	**0.7**	1.0
No. of Employees	**42**	33

www.quantix-uk.com

(Source: Newincco 635 Limited, audited Annual Report and Accounts 2008)

Quantix operates in the growing field of IT outsourced services. It provides remote maintenance and support to corporates that use large databases, saving them the cost of employing specialist expertise in house. It also provides consultancy and product sales for database and IT security applications.

7 ILS GROUP LIMITED Alloa

Acute domiciliary care

All ISIS EP LLP managed funds

First Investment:	September 2005
Total Cost:	£3,235,000
Total equity held:	60.45%

Baronsmead VCT 2 only

Cost:	£801,000
Valuation:	£1,568,000
Valuation basis:	Earnings Multiple
% of equity held:	14.36%

Year ended 30 September	**2008**	2007
	£ million	£ million
Sales	**12.7**	11.0
EBITA	**1.8**	1.7
Profit before tax	**0.6**	0.6
Net Assets	**0.9**	0.9
No. of Employees	**838**	646

www.ilsscotland.com

(Source: ILS Group Limited, Directors Report and Financial Statements 2008)

ILS is one of the leading providers of acute domiciliary care in Scotland. ILS trained carers provide services in the home for care users on behalf of its Local Authority (LA) customers. As well as growing from winning new contracts as LA's outsource more work, ISIS has supported four acquisitions to date.

8 FISHER OUTDOOR LEISURE HOLDINGS LIMITED St. Albans

Supplying the cycling industry

All ISIS EP LLP managed funds

First Investment:	June 2006
Total Cost:	£5,700,000
Total equity held:	44.00%

Baronsmead VCT 2 only

Cost:	£1,423,000
Valuation:	£1,433,000
Valuation basis:	Earnings Multiple
% of equity held:	10.45%

Year ended 30 September	**2008**	2007
	£ million	£ million
Sales	**19.3**	12.5
EBITA	**2.1**	1.2
Profit before tax	**0.5**	0.2
Net Assets	**1.1**	0.8
No. of Employees	**83**	84

www.fisheroutdoor.co.uk

(Source: Fisher Outdoor Leisure Holdings Limited, Directors Report and Financial Statements 2008)

Fisher is a key supplier of bicycle parts and accessories to chains, on-line retailers and independent shops. It has exclusive rights to promote and distribute some of the key international branded products within the UK and also has some own branded products.

9 KAFÉVEND GROUP LIMITED Crawley

SME drinks vending

All ISIS EP LLP managed funds

First Investment:	October 2005
Total Cost:	£5,024,000
Total equity held:	66.50%

Baronsmead VCT 2 only

Cost:	£1,252,000
Valuation:	£1,346,000
Valuation basis:	Earnings Multiple
% of equity held:	15.79%

Year ended 31 March	**2008**	2007
	£ million	£ million
Sales	**16.1**	14.4
EBITA	**1.1**	0.6
Profit before tax	**1.2**	0.7
Net Assets	**2.7**	1.9
No. of Employees	**107**	103

www.kafevending.co.uk

(Source: Kafevend Group Limited, audited Annual Report and Accounts 2008)

Kafevend provides a comprehensive hot drinks vending service across the UK. It supplies corporate customers with a range of vending machines typically on rental or lease terms, and then supplies consumables and machine servicing.

10 CREW CLOTHING HOLDINGS LIMITED London

Multi-channel clothing retailer

All ISIS EP LLP managed funds

First Investment:	November 2006
Total Cost:	£3,750,000
Total equity held:	25.00%

Baronsmead VCT 2 only

Cost:	£933,000
Valuation:	£1,286,000
Valuation basis:	Earnings Multiple
% of equity held:	5.94%

Year ended 31 March	**2008**	2007
	£ million	£ million
Sales	**22.0**	15.9
EBITA	**1.4**	1.2
Profit before tax	**0.8**	0.6
Net Assets	**2.3**	1.8
No. of Employees	**209**	155

www.crewclothing.co.uk

(Source: Crew Clothing Holdings Limited, audited Annual Report and Financial Statements 2008)

Crew is a British brand of men's and women's casual upmarket clothing and accessories. All products are designed in-house and its range is sold through its own estate of retail outlets and also through its own website and via various wholesale accounts.

HOW ISIS CREATES AND REALISES VALUE FOR THE SHAREHOLDERS OF BARONSMEAD VCT 2 PLC

Baronsmead VCT 2 plc invests in a diverse portfolio of UK growth businesses run by entrepreneurial managers, whether unquoted or traded on AIM, . It is the growth aspirations of these companies and their track record that make them above average and out of the ordinary.

The following four examples show how the Manager's approach can lead to growth in the investment value over time. The ISIS selection criteria include:

- Ability to become a market leader in their chosen niche
- Management teams who can deliver profitable and sustained growth
- Company can become an attractive asset appealing to a wide range of bidders at the time of sale

ISIS seeks selective opportunities from its four UK offices through a combination of corporate finance advisers and direct approaches to attractive targets.

For the unquoted investments the ISIS team are active Board participants ensuring that strategy is clear, the business plan well thought through and the management resources are in place to deliver profitable growth. The intention is to build on the initial platform and grow the business so that it can become an attractive target able to be either sold or floated in the medium term.

The four investments described in this section were introduced to shareholders in last years report. This year we focus on the challenges faced by these portfolio companies during the recession and how, with the support of the Manager, they have emerged ready to take advantage of opportunities as the economy improves.

REED & MACKAY

Reed and Mackay is a leading strategic business travel management business based in the City. Utilising i-Q, its in house developed bespoke technology and the expertise of teams of Travel Consultants the business deals with professional services firms providing them with comprehensive corporate wide business travel services.

Baronsmead invested in 2005 as part of a replacement capital transaction and has been key to the double digit earnings growth that has been achieved each year since the investment. Critical to that growth has been the broadening and strengthening of the senior management team and the additional investment in technology to support the Travel Consultants to deliver outstanding service to the travellers.

Reed and Mackay has worked even harder than normal during the recession to support its customers looking for lower cost travel solutions. It is clear that the years of investment in i-Q combined with the extensive knowledge of the Consultants has enabled the business to deliver demonstrable value to its clients which has ensured that many more professional services firms have signed up with Reed and Mackay to gain access to its unique services; and so notwithstanding any reduction in the volume of travel undertaken by individual clients, the business has continued to grow in a difficult market.

www.reedmac.com

''Confidence to Grow''

PLAYFORCE

Playforce offers a wide range of creative play equipment from 'wobble walkways', timber trails, and climbing walls, to outdoor classrooms and shelters. All are designed to inspire children to have fun and stimulate their imagination. To date the business has been commissioned to design and install in excess of 2,000 school playgrounds for local authorities, parish councils and park authorities across the UK.

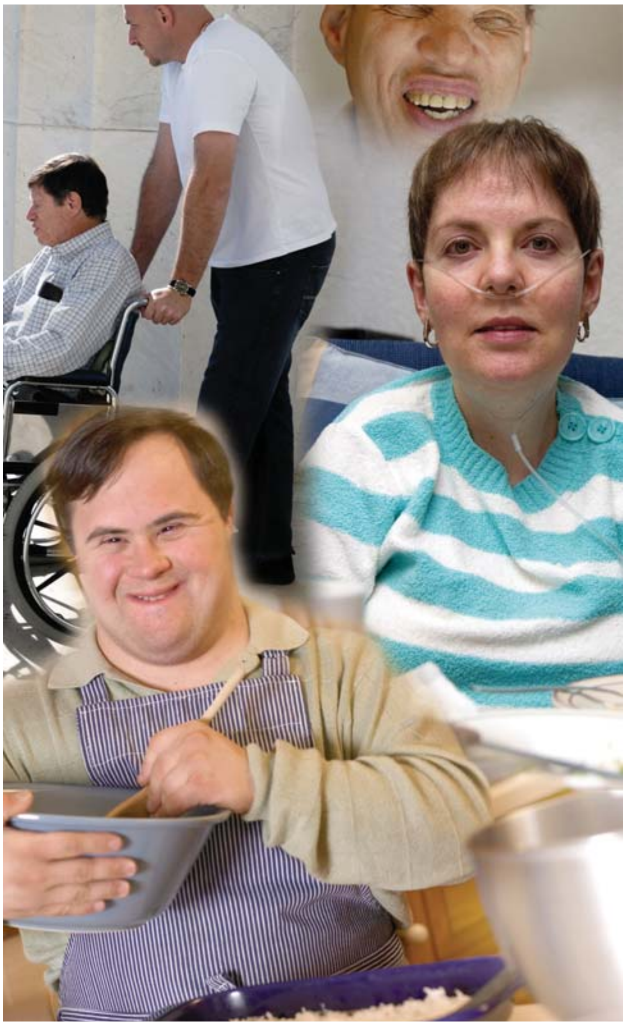
When Baronsmead invested in Playforce in 2008 it recognised that the business is at the forefront of innovation in a sector which has enjoyed increasing focus over recent years. Outdoor play and learning activities are seen as key to children's development and help counter concerns over obesity and behaviour underlined by the government's increased commitment to playground provision outlined in the Children's Plan, announced in December 2007.

The demand created by Education policy and ambition of schools and PTAs has resulted in some insulation for Playforce from recessionary pressures felt elsewhere in the economy over the last year. This has meant that the business has continued to grow, improve its operating platform, strengthen the management team and invest in new product development meaning it will enter 2010 as a stronger business looking to capitalise on the opportunities that lie ahead.

www.playforce.co.uk

''Relationship and Opportunity''

Creating Shareholder Value



INDEPENDENT LIVING SERVICES

Independent Living Services 'ILS' is the leading independent provider of 'care at home' services in Scotland. Services are developed to support both older and younger people living in the community with physical or learning disabilities. These services are delivered through partnership with local and health authorities, voluntary organizations or directly with the individual service user.

Baronsmead invested in 2005, attracted by the dynamics of the 'care at home' market in Scotland, where there were continuing moves to involve the private sector in the provision of services and the market supply was fragmented. Baronsmead has subsequently supported four acquisitions resulting in a broader geographic footprint across Scotland with the business now providing services across eighteen local authorities.

ILS provides cost efficient services to vulnerable members of society and as such has not suffered as a result of the recession. In fact the business has continued to secure new contracts and enjoyed double digit growth during the year to September 2009.

www.ilsscotland.com

''Buy and Build''

SCRIPTSWITCH

ScriptSwitch provides innovative prescribing decision support software to healthcare organisations throughout the UK. ScriptSwitch is the leading provider of software designed to support GPs with patient safety information, drug switch recommendations and dosage optimisation information at the point at which they are prescribing. Its success in boosting patient safety as well as driving cost savings on prescribed drugs has meant that it is now used by more than 60% of Primary Care Organisations in the UK, with annualised savings to the NHS now set to exceed £20 million.

Baronsmead invested in 2007 as part of a secondary management buy out having recognized the unique position the business occupied in the Healthcare IT and Medicines Management market. ISIS have supported the business to continue its impressive growth through the expansion of the senior management team, further investment in product and service development and the relocation to and investment in new premises.

ScriptSwitch has been completely unaffected by the recession. The business delivers a tangible return on investment to each PCT it partners with as the cost savings generated on drug savings exceed the annual license fee by some way. This makes the service compelling to the NHS and has fuelled the growth in the business over the last three years.

As noted in the Chairman's Statement, the investment in ScriptSwitch was realised shortly after year end resulting in a return, including expected future payments, approaching four times cost.

www.scriptswitch.com

''Investing in the business platform''

Board of Directors

as at 30 September 2009

Clive Parritt (Chairman)

Date of appointment 18 February 1998

(age 66) is a chartered accountant with over 30 years' experience of providing strategic, financial and commercial advice to medium sized businesses. Until February 2001 he was chairman of Baker Tilly having been its national managing partner for ten years until June 1996. He is Vice President of the Institute of Chartered Accountants in England and Wales and chairman of DiGiCo Europe Limited and of BG Consulting Group Limited as well as a director of London & Associated Properties PLC and F&C US Smaller Companies PLC. Previously he has chaired or been a director of a number of investment trusts, VCTs and media businesses. He is also a non-executive director of Baronsmead AIM VCT plc.

Godfrey Jillings

(Date of appointment 18 February 1998)

(age 69) is non-executive chairman of Spring Studios. He held a range of senior executive appointments at NatWest including responsibility for their retail stockbroking, unit trust and PEP operations. He was chief executive officer of FIMBRA, the regulatory body for IFAs and a deputy chief executive officer of its successor PIA (1990-1994). He was chairman of Ma Potter's until a successful trade sale and deputy chairman of DBS plc (1996-2002), the leading IFA network prior to its take-over. He was deputy chairman of Gladedale Holdings Limited until its sale earlier this year. He is also a director of Baronsmead VCT plc.

Gillian Nott OBE

(Date of appointment 18 February 1998)

(age 64) has in-depth experience of private investors as chief executive of ProShare (1994–1999). Previously she was responsible for the private equity portfolio at BP and has been on the board of the FSA. She is currently a non-executive director of BlackRock Smaller Companies Trust plc and Martin Currie Portfolio Investment Trust plc and is chairman of Witan Pacific Investment Trust plc. She has also been on the board of Liverpool Victoria Friendly Society since May 2005, and is a deputy chairman of the Association of Investment Companies. Gill is non executive Director of Baronsmead VCT 3 and Chairman of Baronsmead VCT.

Nicholas Timpson

(Date of appointment 18 February 1998)

(age 68) was the founder, chairman and managing director of Furnitureland Holdings plc. He is also a director of The Vestey Group Ltd. He brings to the Board long experience in the development of private companies. Before founding Furnitureland Holdings plc in 1973, he worked as a management consultant for McKinsey & Co. He will retire as a director at the forthcoming Annual General Meeting.

Howard Goldring

(Date of appointment 11 November 2009)

(age 59) is Chairman of Delmore Asset Management Limited, which manages investment portfolios and specialises in global asset allocation advice. He was previously director for Global Strategy at Allied Dunbar Asset Management (now Threadneedle Asset Management). Previously Howard was Allied Dunbar's lead UK equity director, managing the UK pension equity fund heading a team of UK fund managers.

Howard was retained as a consultant for global strategy by Allied Dunbar for three years after he left to set up Delmore. He later served as a non-executive director of Liverpool Victoria Asset Management Limited from 1997 to 2003, specifically providing asset allocation advice.

He is a non-executive director of London & Associated Properties PLC.

As a fully listed Company, Baronsmead VCT 2 plc is required to comply with the Financial Reporting Council's Combined Code on Corporate Governance. This Code requires the Company to be headed by an effective Board of Directors who lead and control the Company's affairs.

The directors of a VCT and the investment manager are required under the listing rules and continuing obligations of the London Stock Exchange to have sufficient and satisfactory experience in the management of a portfolio of unquoted investments of the size and type in which the VCT proposes to invest.

Report of the Directors

Results and Dividends

The Directors present the twelfth Report and audited financial statements of the Company for the year ended 30 September 2009.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	285
Interim dividend of 2.5p per ordinary share paid on 26 June 2009	(1,714)
Total dividends paid in year	(1,714)

Subject to approval at the forthcoming Annual General Meeting the final proposed dividend of 3.0p per ordinary share will be paid on 30 December to shareholders recorded on the register on 27 November 2009.

Principal Activity and Status

The Company is registered as a Public Limited Company under the Companies Acts 2006. The Directors have managed, and intend to continue to manage, the Company's affairs in such a manner as to comply with Section 274 of the Income Tax Act 2007 which grants approval as a VCT.

Business Review

The Business Review has been prepared in accordance with the requirements of Section 417 of the Companies Act 2006 and best practice. The purpose of this review is to provide shareholders with a 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 (KPIs) used to measure performance.

Strategy for achieving objectives

Baronsmead VCT 2 plc is a tax efficient company listed on the London Stock Exchange's main market for listed securities.

Investment Objective

The investment objective of the Company is to achieve long-term investment returns for private investors, including tax-free dividends.

Investment Policy

The Company's investment policy is to invest primarily in a diverse portfolio of UK growth businesses, whether unquoted or traded on AIM.

Investments are made selectively across a range of sectors in companies that have the potential to grow and enhance their value.

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities, and fixed-interest securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AIM investments are primarily held in ordinary shares. Pending investment in unquoted and AIM-traded securities, cash is primarily held in an interest bearing money market open ended investment company (OEIC), UK gilts and Treasury Bills.

UK companies

Investments are primarily made in companies which are substantially based in the UK, although many of these investees will trade overseas. The companies in which investments are made must have no more than £15 million of gross assets at the time of investment (or £7 million if the funds being invested were raised after 5 April 2006) to be classed as a VCT qualifying holding.

VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Amongst other conditions, the Company may not invest more than 15 per cent of its investments in a single company and must have at least 70 per cent by value of its investments throughout the period in shares or securities comprised in qualifying holdings, of which 30 per cent by value must be ordinary shares which carry no preferential rights. In addition, it must have at least 10 per cent by value of its total investments in any qualifying company in ordinary shares which carry no preferential rights.

Asset mix

The Company aims to be at least 90 per cent invested in growth businesses subject always to the quality of investment opportunities and the timing of realisations. Any un-invested funds are held in cash and interest bearing securities. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments.

Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses within different qualifying industry sectors using a mixture of securities. The maximum qualifying amount invested in any one company is limited to £1 million in a fiscal year and generally no more than £2.5 million at cost is invested in the same company. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale.

Investment style

Investments are selected in the expectation that the application of private equity disciplines including an active management style for unquoted companies will enhance value and enable profits to be realised from planned exits.

Co-investment

The Company aims to invest in larger more mature unquoted and AIM companies and to achieve this it invests alongside the

Report of the Directors

other Baronsmead VCTs. As such, at the time of initial investment, the combined investment can currently total up to a maximum of £6.5 million for unquoted and £4.4 million for AIM investees. Currently, ISIS EP LLP ('the Manager') and its executive members are mandated to invest in unquoteds alongside the Company on terms which align the interests of shareholders and the Manager.

Borrowing powers

The Company's Articles permit borrowing to give a degree of investment flexibility. The Company's policy is to use borrowing for short term liquidity purposes only.

Management

The Board has delegated the management of the investment portfolio to the Manager. The Manager also provides or procures the provision of company secretarial, administrative, accounting and custodian services to the Company.

The Manager has adopted a 'top-down, sector-driven' approach to identifying and evaluating potential investment opportunities, by assessing a forward view of firstly the business environment, then the sector and finally the specific potential investment opportunity. Based on its research, the Manager has selected a number of sectors that it believes will offer attractive growth prospects and investment opportunities. Diversification is also achieved by spreading investments across different asset classes and making investments for a variety of different periods.

The Manager's Review on pages 7 to 8 provides a review of the investment portfolio and of market conditions during the year.

Principal risks, risk management and regulatory environment

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

- Economic risk – events such as an economic recession and movement in interest rates could affect smaller companies valuations.

- Loss of approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

- Investment and strategic – an inappropriate strategy, poor asset allocation or consistent weak stock selection might lead to under performance and poor returns to shareholders. Therefore the Company's investment strategy is periodically reviewed by the Board which considers at each meeting the performance of the investment portfolio.

- Regulatory – the Company is required to comply with the Companies Acts 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 regulations or loss of shareholder trust.

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

- Financial – the Board has identified the Company's principal financial risks which are set out in the notes to the Financial Statements on pages 39 to 43. Inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

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

- Liquidity risk – the Company's investments may be difficult to realise. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.

- Competitive risk – retention of key personnel of the Manager is vital to the success of the Company. Appropriate incentives are in place to ensure retention of such personnel.

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, enforcement of 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 and Internal Control sections on pages 24 to 25.

Performance and key performance indicators (KPIs)

The Board expects the Manager to deliver a performance which meets the objective of achieving long term investment returns, including tax-free dividends.

Performance, measured by dividends paid to shareholders and the change in NAV per share, is also measured against the FTSE

Report of the Directors

All-Share Total Return Index. This index, as the widest measure of UK quoted equities, 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 six other generalist venture capital trusts. A review of the Company's performance during the financial period, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's statement on pages 4 to 6.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on pages 1 to 3 of this Report and Accounts.

Issue and Buy-Back of Shares

During the period the Company issued 9,694,179 ordinary shares of 10p each and raised net proceeds of £8,405,369.

During the period the Company bought back 752,136 ordinary shares to be held in Treasury, at a cost of £584,042. These shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The Company holds 5,993,906 ordinary shares in Treasury representing 8.0 per cent of the issued share capital as at 17 November 2009.

Directors

Biographies of the Directors are shown on page 16.

On 11 November 2009, Howard Goldring was appointed as a director and having been appointed during the year will submit himself for election as a director at the forthcoming Annual General Meeting being the first General Meeting since appointment. His biography appears on page 16.

Mr N G L Timpson will retire as a director on 14 December 2009 at the cessation of the forthcoming Annual General Meeting and will not seek re-election as a director.

As explained in more detail under Corporate Governance on pages 24 and 25 and in accordance with the provisions of the Combined Code, the Board has agreed that Directors who have held office for more than nine years will retire annually. Accordingly, as all the Company's Directors other than Mr H Goldring have held office for a period of more than nine years, all other Directors will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. The Board has decided that Mrs G Nott who is a director of Baronsmead VCT plc and Baronsmead VCT 3 plc, Mr G Jillings who is a director of Baronsmead VCT plc, Mr C Parritt who is a director of Baronsmead AIM VCT plc will seek annual re-election. As explained above, these Directors already seek annual re-election under the Combined Code.

The Board confirms that, following formal performance evaluations, the performance of each of the Directors continues to be effective and demonstrates commitment to the role; the Board believes that it is therefore in the best interests of shareholders that these Directors be elected or re-elected.

The interests of the Directors in the shares of the Company, at the beginning and at the end of the year, or date of appointment, if later, were as follows:

	30 September 2009	30 September 2008
	Ordinary 10p shares	Ordinary 10p shares
Clive Parritt	71,212	59,545
Godfrey Jillings	240,030	189,224
Gillian Nott	23,341	11,799
Nicholas Timpson	353,846	331,114
Howard Goldring*	–	–
Total shares held	688,429	591,682

*appointed on 11 November 2009.

There have been no changes in the holdings of the Directors between 30 September 2009 and 17 November 2009.

No Director has a service contract with the Company.

All Directors are members of the Audit, Management Engagement and Remuneration and Nomination Committees.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Companies Act 2006 Disclosures

In accordance with Schedule 7 of the Large and Medium Size Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose the following information:

- the Company's capital structure and voting rights are summarised in Note 13, and there are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there exist no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employees' share scheme;
- the rules concerning the appointment and replacement of Directors, amendment of the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- there exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid;

Report of the Directors

The Board recognises the requirement under Section 417(5) of the Act to detail information about environmental matters (including the impact of the Company's business on the environment), any Company employees and social and community issues; including information about any policies it has in relation to these matters and effectiveness of these policies. As the Company has no employees or policies in these matters this requirement does not apply.

Directors' Professional Development

When a new director is appointed he or she is offered an induction programme that is held by the Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in industry seminars.

Directors' Indemnity

Directors and officers' liability insurance cover is in place in respect of the directors. The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgement is given in their favour by the Court.

Conflicts of Interest

The Companies Act 2006 sets out Directors' general rules which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008, a Director must avoid a situation where he has, or could have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The 2006 Act allows Directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles of association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty.

On 31 July 2008 shareholders approved a resolution amending the Company's articles of association to give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position. There are safeguards which will apply when Directors decide whether to authorise a conflict of interest or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

The Directors have declared any conflicts of interest to the Company Secretary, who maintains the Register of Directors' Conflicts of Interests. It is reviewed annually by the Board, except when changes are notified, and the Directors advise the Company Secretary as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest will not take part in any discussions which relate to any of their conflicts.

Whistleblowing

The Board has considered the Combined Code's recommendations in respect of arrangements by which staff of the Manager or Secretary of the Company may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their respective organisations.

Management

ISIS EP LLP manages the investments for the Company. From 1 January 2007, the liquid assets within the portfolio (being cash, gilts and other assets, which are not categorised as venture capital investments for the purpose of the FSA's rules) have been managed by FPPE LLP. This is a limited partnership, which is authorised and regulated by the FSA and which has the same controlling members as the Manager. The Manager has continued to act as the manager of the Company and as the Investment Manager of the Company's illiquid assets (being all AIM-traded and other venture capital investments).

The personnel involved in providing management and investment management services to the Company has not changed as a result of the implementation of these arrangements.

The Manager also provides or procures the provision of secretarial, administrative and custodian services to the Company. The management agreement may be terminated at any date by either party giving twelve months' notice of termination. Under the management agreement, the Manager receives a fee of 2.0 per cent per annum of the net assets of the Company.

In addition, the Manager receives an annual secretarial and accounting fee of £39,420, adjusted annually for movements in the UK Retail Price Index, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million, subject to annual review. The annual secretarial and accounting fee is subject to a maximum of £114,000 per annum adjusted annually for movements in the UK Retail Price Index.

Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee.

Report of the Directors

It is the Board's opinion that the continuing appointment of ISIS EP LLP on the terms agreed is in the best interests of shareholders as a whole.

Co-investment Scheme

The Scheme is intended to help attract, retain and incentivise certain executive members of the Manager and reflects schemes which are used elsewhere in the private equity industry in the UK. It requires all the members of the Scheme to invest their own capital into a proportion of the ordinary shares of each and every unquoted investment made by the Baronsmead VCTs (except those life sciences transactions where the Manager is not the lead investor).

The shares held by the members of the Co-investment Scheme in any portfolio company can only be sold at the same time as the investment held by the generalist Baronsmead VCTs. In addition, any prior ranking financial instruments, e.g. loan stock, held by the Baronsmead VCTs have to be repaid in full prior to any gain accruing to the ordinary shares.

As at 30 September 2009 38 executives of the Manager had invested a total of approximately £122,000 in the ordinary shares of 19 unquoted investments through the Co-investment Scheme alongside Baronsmead VCT 2 plc. The amount invested by Baronsmead VCT 2 plc in these 19 companies totals approximately £20.8m. During the year to 30 September 2009 the investment in Green Issues was written off. In the prior financial year one investment was sold (Boldon James) and the return achieved for the Company was 3.1 times cost with the members of the Co-investment Scheme realising approximately £62,000 in respect of the proportion of the investment attributable to Baronsmead VCT 2 plc. The sale of ScriptSwitch after the financial year end will also generate an excellent return for Baronsmead VCT 2 plc and the Co-investment Scheme.

The Board reviews the operation of the Co-investment Scheme at each quarterly valuation meeting.

Performance Incentive

A performance fee will not be payable to the Manager until the total return on shareholders' funds exceeds an annual threshold of base rate plus 2% calculated on a compound basis. To the extent that the total return exceeds the threshold of base rate plus 2% on shareholders' funds compounded over the relevant period then a performance fee will be paid to the Manager of 16.66% of such excess to 31 March 2008 and 13.33% to 31 March 2009 and 10% thereafter. The amount of any performance fee which is paid in an accounting period shall be capped at 5% of shareholders' funds for that period.

ISIS Equity Partners – Arrangement Fees

During the period to 30 September 2009, ISIS EP LLP received income of £nil (2008: £203,298, net of abort costs) from investee companies in connection with arrangement fees and incurred abort fees of £7,780.

VCT Status Adviser

The Company has retained PricewaterhouseCoopers LLP (PwC) as their VCT Tax Status Advisers to advise it on compliance with VCT requirements. PwC review new investment opportunities, as appropriate, and review regularly the investment portfolio of the Company. PwC work closely with the Manager but report directly to the Board.

Creditor Payment Policy

The Company's payment policy is to settle investment transactions in accordance with market practice and to ensure settlement of supplier invoices in accordance with stated terms.

Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions.

Substantial Interests in Share Capital

At 17 November 2009 the Company was not aware of any beneficial interests exceeding 3 per cent of the issued Ordinary Share capital.

Going Concern

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the Annual Report, as after making enquiries and bearing in mind the nature of the Company's business, assets and cash flow forecasts and due consideration, the Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future.

Annual General Meeting

A notice for the Annual General Meeting of the Company to be held at 11.00 am on 14 December 2009 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 44 and 45. The following notes provide an explanation of resolutions 9 to 13.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution proposing their appointment will be submitted in the Notice of the Annual General Meeting.

Authority to Allot Shares and Disapplication of Pre-Emption Rights

The authority proposed under Resolution 9 is required so that the Directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs including, if the Directors believe it appropriate to implement a dividend reinvestment scheme, pursuant to such a scheme. Any consequent increase in the size of the Company

Report of the Directors

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.

There are no present plans to undertake a rights issue or to allot shares other than pursuant to a Dividend Reinvestment Scheme.

Resolution 10 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 Annual General Meeting of the Company in 2010, to issue ordinary shares for cash without pre-emption rights applying (i) up to a maximum of 6,873,630 ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 17 November 2009) pursuant to a dividend reinvestment scheme and (ii) up to a maximum of 13,747,260 ordinary shares (representing approximately 20 per cent of the Company's issued share capital as at 17 November 2009) pursuant to offers for shares. 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.

Treasury Shares

The Company currently holds 5,993,906 ordinary shares in Treasury representing approximately 8.0% of the Company's issued ordinary shares. If Resolution 10 is passed the Board will consider itself permitted by shareholders to re-issue ordinary shares out of Treasury pursuant to a dividend reinvestment scheme or at a discount to the prevailing NAV per ordinary share if the Board considers it in the best interests of the Company to do so. However, ordinary shares will never be re-issued out of Treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The resolution will also allow the Company to issue shares out of Treasury without pre-emption rights applying.

Currently there is a two way secondary market in the Company's shares. It is the Board's intention only to use the mechanism of re-issuing Treasury shares when demand for the Company's shares is greater than the supply available in the market place. Although shares re-issued from Treasury will not attract the 30 per cent initial income tax relief, all further dividends will be tax-free and if these shares are subsequently sold no capital gains tax is payable by qualifying shareholders.

Directors' Authority to Purchase Shares

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued share capital expires at the end of the Annual General Meeting and Resolution 11 seeks renewal of such authority until the Annual General Meeting in 2010 (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.

Articles of Association

The Company proposes to adopt new Articles of Association (the New Articles) in order to update the current Articles of Association (the Current Articles) to reflect the changes in English company law brought about by the Companies Act 2006 as amended by the Shareholders' Rights Regulations which came into force in August 2009 to increase the limit on Directors' fees and generally update the Articles of Association for current regulations and market practice. The principal changes introduced in the New Articles are summarised in the explanatory notes on pages 47 to 49. Other changes which are of a minor, technical or clarifying nature and also some changes which reflect changes made by the Companies Act 2006 or which conform certain language in the New Articles to be consistent in the Model Articles for public companies have not been noted in the explanation on pages 47 to 49. The New Articles showing all the changes to the Current Articles are available for inspection at the registered office until the time of the AGM and at the AGM venue from 15 minutes before the commencement of the AGM and until it ends.

The Shareholders' Rights Regulations which came into force in August 2009 requires the Company to convene all general meetings on at least 21 days notice unless shareholders approve a shorter period of not less than the 14 clear days for a meeting other than the annual general meeting.

The Board believes that it is in the best interests of shareholders of the Company to ensure that the minimum notice period can remain at 14 days. The Board is therefore proposing Resolution 13 as a special resolution to approve the reduction in the minimum notice period from 21 clear days to 14 clear days and as a result 14 clear days is the minimum period of notice for all general meetings other than annual general meetings.

The Board considers that the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Board will be voting in favour of the resolutions regarding the Articles and unanimously recommends that you do so as well.

By Order of the Board,

P M Forster

100 Wood Street
London EC2V 7AN

17 November 2009

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors, KPMG Audit Plc, to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in the 'Independent Auditors' Report'.

Board of Directors and their Fees

The Board which is profiled on page 16 consists solely of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors fees to the Board in advance of each review.

The Board concluded following a review of the level of Directors fees for the forthcoming year that, as the fees of the Chairman and Directors have not increased since 2006 it is appropriate to increase the Directors fees, in line with inflation which has been 10.5% over the period, to £15,500 pa and the Chairman's fee to £23,500 pa from 1 October 2009.

The Remuneration Committee comprises all the Directors of the Company. The Chairman of the Committee is G Nott. As the Company has no executive Directors, the Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Manager.

Policy on Directors' Fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ended 30 September 2010 and subsequent years.

Directors' service contracts

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

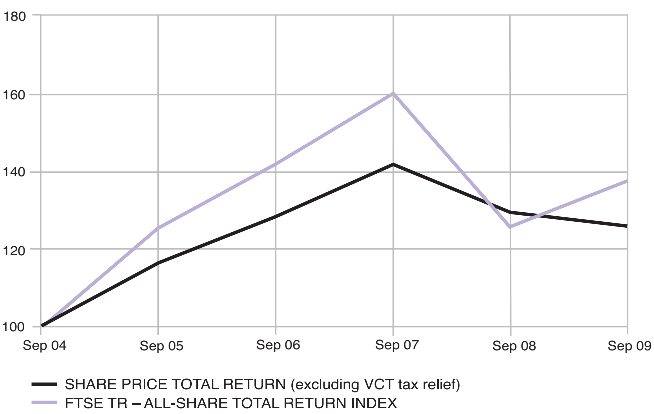
Director	Date of Original appointment	Due date for Re-election /election
C Parritt	18 February 1998	AGM 2009
G Jillings	18 February 1998	AGM 2009
G Nott	18 February 1998	AGM 2009
N Timpson	18 February 1998	N/A
H Goldring	11 November 2009	AGM 2009

The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and to offer themselves for re-election by shareholders at least every three years after that. In accordance with the Combined Code on Corporate Governance, Directors who have served on the Board for more than 9 years must offer themselves for re-election on an annual basis. There is no notice period and no provision for compensation upon early termination of appointment.

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 Manager through the management agreement, as referred to in the 'Report of the Directors'. The graph below compares for the five years ending 30 September 2009, the percentage change over each period in the total return (assuming all dividends are reinvested) to ordinary shareholders compared to the percentage change over each period in total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it represents a widely understood broad equity market index against which investors can measure the relative performance of the Company. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Ordinary Share price total return and the FTSE All-Share Index total return performance graph



Directors' emoluments for the Period (audited)

The Directors who served in the period received the following emoluments in the form of fees:

	Fees 2009 £'000	Fees 2008 £'000
C Parritt	**21**	21
G Jillings	**14**	14
G Nott	**14**	14
N Timpson	**14**	14
Total	**63**	63

Gillian Nott
Chairman of the Management Engagement and Remuneration Committee

17 November 2009

Corporate Governance

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in March 2009 ('AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ('AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 and revised in June 2006 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code) will provide better information to shareholders.

Except as disclosed below, the Company complied throughout the period with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code. Since all the Directors are non-executive the provisions of the Combined Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the Combined Code relating to Directors' remuneration are not relevant except in so far as they relate specifically to non-executive Directors. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the Board considers that these provisions are not relevant to the Company, being an externally managed venture capital trust. The Company has therefore not reported further in respect of these provisions.

In view of the requirement in the Articles of Association that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by principle 3 of the AIC Code and provision A.7.2 of the Combined Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years.

The Board consists solely of non-executive Directors of which Mr Parritt is Chairman and Mr Timpson is Senior Independent Director. Following Mr Timpson's retirement as a director, Mr Jillings will become Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager.

As explained earlier, Mr G Jillings and Mrs G Nott are directors of Baronsmead VCT plc, Mrs G Nott is also a Director of Baronsmead VCT 3 plc and Mr C Parritt is a Director of Baronsmead AIM VCT plc, which are all managed by ISIS EP LLP. The Board does not consider that a Director's tenure reduces their ability to act independently. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge. It also believes that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect the judgement of any Director.

The Company has no executive Directors or employees.

A management agreement between the Company and its Manager, ISIS EP LLP, sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information about the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. The Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable, in accordance with the Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

Throughout the period a number of committees have been in operation. The committees are the Audit Committee, the Management Engagement and Remuneration Committee and the Nomination Committee.

The Audit Committee, chaired by Mr Parritt, operates within clearly defined terms of reference and comprises the full Board. The Board has concluded that during the financial year Mr Parritt, as the only qualified chartered accountant on the Board, is best suited for the role of chairman of the Audit Committee. The duties of the Audit Committee include reviewing the annual and interim accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors and meets at least twice yearly.

The Management Engagement and Remuneration Committee, chaired by Mrs Nott, comprises the full Board and reviews the appropriateness of the Manager's appointment together with the terms and conditions thereof on a regular basis.

The Nomination Committee, chaired by Mr Jillings, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

During the period the performance of the Board, committees and individual Directors was evaluated through an assessment process, led by the Chairman. The performance of the Chairman was evaluated by the other Directors under the leadership of the Senior Independent Director.

Corporate Governance

The following table sets out the number of Board and Committee meetings held for the year to 17 November 2009 and the number of meetings attended by each Director.

	Board		Audit Committee		Management Engagement and Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Clive Parritt	6	6	2	2	1	1	3	3
Godfrey Jillings	6	6	2	2	1	1	3	3
Gillian Nott	6	6	2	2	1	1	3	3
Nicholas Timpson	6	6	2	2	1	1	3	3
Howard Goldring*	1	1	1	1	1	1	1	1

*appointed on 11 November 2009

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Chairman and other Directors are available to meet shareholders if required. The Annual General Meeting of the Company provides a forum both formal and informal, for shareholders to meet and discuss issues with the Directors and Manager of the Company. Details of the resolutions to be proposed at the forthcoming Annual General Meeting on 14 December 2009 can be found in the Notice of Meeting on pages 44 and 45.

Internal Control

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the Association of Investment Companies Corporate Governance Guide for Investment Companies. The process is based principally on the Manager's existing risk-based approach to internal control whereby a test matrix is created that identifies the key functions carried out by the Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. The test matrix is regularly updated and the Board is provided with regular reports highlighting all material changes to the risk ratings and confirming the action which has been, or is being, taken. A formal annual review of these procedures is carried out by the Audit Committee and includes consideration of internal control reports and similar reports issued by the Manager and other service providers.

Such review procedures have been in place throughout the financial period and up to the date of approval of the full Report and accounts and the Board is satisfied with their effectiveness. These procedures are designed to manage, rather than eliminate, risk and by their nature can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board monitors the investment performance of the Company in comparison to a benchmark index and to comparable venture capital trusts at each Board meeting. The Board also reviews the Company's activities since the previous Board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines and, if necessary, approve changes to such policy and guidelines.

The Board has reviewed the need for an internal audit function and has concluded that the systems and procedures employed by the Manager, provide sufficient assurance that a sound system of internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards (UK GAAP).

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards (UK GAAP) 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report (including Business Review), Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website, www.baronsmeadvct2.co.uk. Visitors to the website should be aware that legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that they face.

On behalf of the Board,

Clive A Parritt
Chairman
17 November 2009

Independent Auditors' Report

Independent Auditors' Report to the members of Baronsmead VCT 2 Plc

We have audited the financial statements of Baronsmead VCT 2 Plc for the period ended 30 September 2009 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 UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 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 auditors' 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 26, 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 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 web-site at www.frc.org.uk/apb/scope/UKP.

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 30 September 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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:

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 21, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Alastair Barbour (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
Edinburgh

17 November 2009

Income Statement

For the year ended 30 September 2009

	Notes	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Investment holding gains/(losses)		–	343	343	–	(10,241)	(10,241)
Realised (losses) on investments		–	(154)	(154)	–	(105)	(105)
Income	2	1,297	–	1,297	2,834	–	2,834
Recoverable VAT	3	68	299	367	85	655	740
Investment management fee	4	(291)	(872)	(1,163)	(350)	(1,054)	(1,404)
Other expenses	5	(405)	–	(405)	(357)	–	(357)
Profit/(loss) on ordinary activities before taxation		669	(384)	285	2,212	(10,745)	(8,533)
Taxation on ordinary activities	6	(120)	120	–	(544)	544	–
Profit/(loss) on ordinary activities after taxation		549	(264)	285	1,668	(10,201)	(8,533)
Return per ordinary share							
Basic	8	0.83p	(0.40p)	0.43p	2.73p	(16.68p)	(13.95p)

The 'Total' column of this statement is the profit and loss account of the Company.

All revenue and capital items in this statement derive from continuing operations.

No operations were acquired or discontinued in the year.

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2009

	Notes	2009 Ordinary shares £'000	2008 Ordinary shares £'000
Opening shareholders' funds		54,822	68,745
Profit/(loss) for period		285	(8,533)
Purchase of shares for treasury		(582)	(2,850)
Issue of shares		8,881	1,786
Expenses for share issue/buybacks		(477)	(81)
Dividends paid	7	(1,714)	(4,245)
Closing shareholders' funds		61,215	54,822

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 30 September 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Investments	9	**59,529**	50,191
Current assets			
Debtors	10	**554**	1,378
Cash at bank and on deposit		**1,684**	4,123
		2,238	5,501
Creditors (amounts falling due within one year)	11	**(552)**	(846)
Net current assets		**1,686**	4,655
Total assets less current liabilities		**61,215**	54,846
Creditors (amounts falling due after one year)	12	**–**	(24)
Net assets		**61,215**	54,822
Capital and reserves			
Called-up share capital	13	**7,473**	6,504
Share premium account	14	**12,573**	5,135
Capital redemption reserve	14	**9,254**	9,254
Revaluation reserve	14	**1,569**	(2,684)
Capital reserve	14	**29,665**	36,136
Revenue reserve	14	**681**	476
Equity shareholders' funds	15	**61,215**	54,822
Net asset value per share			
– Basic	15	**89.06p**	91.68p
– Treasury	15	**88.13p**	91.10p

The financial statements on pages 28 to 30 were approved by the Board of Directors on 17 November 2009 and were signed on its behalf by:

CLIVE A PARRITT FCA (Chairman)

The accompanying notes are an integral part of this balance sheet.

Cash Flow Statement

As at 30 September 2009

	Notes	2009 £'000	2008 £'000
Operating activities			
Investment income received		1,301	2,949
Interest received		123	152
Recoverable VAT		1,108	–
Investment management fees		(1,134)	(1,531)
Other cash payments		(434)	(358)
Net cash inflow from operating activities	17	964	1,212
Capital expenditure and financial investment			
Purchases of investments		(75,075)	(32,122)
Disposals of investments		65,885	38,917
Net cash (outflow)/inflow from capital expenditure and financial investment		(9,190)	6,795
Dividends			
Equity dividends paid		(1,714)	(4,251)
Net cash (outflow)/inflow before financing		(9,940)	3,756
Financing			
Issue of shares		8,886	1,786
Expenses of the issue of shares and buybacks		(461)	(60)
Buy-back of ordinary shares		(924)	(2,526)
Net cash inflow/(outflow) from financing		7,501	(800)
(Decrease)/increase in cash in the year		(2,439)	2,956
Opening cash position		4,123	1,167
Closing cash position		1,684	4,123

The accompanying notes are an integral part of this statement.

Notes to the Accounts

1. Accounting policies

(a) Basis of accounting

These financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and on the assumption that the Company maintains VCT status.

The Company is no longer an investment Company as defined by Section 833 of the Companies Act 2006, as investment Company status was revoked on 10 March 2003 in order to permit the distribution of capital profits.

The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice (''SORP'') for investment trusts issued by the Association of Investment Companies (''AIC'') in January 2003, revised January 2009, is consistent with the requirements of UK GAAP, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. Net Revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 274 of the Income Tax Act 2007.

(b) Valuation of investments

Purchases or sales of investments are recognised at the date of transaction.

Investments are valued at fair value. For AIM traded and listed securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted.

In respect of unquoted investments, these are fair valued by the Directors using methodology which is consistent with the International Private Equity and Venture Capital (IPEVC) guidelines. This means investments are valued using an earnings multiple, which has a discount or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation will include application of an arm's length third party valuation, a provision on cost or a net asset value basis.

Gains and losses arising from changes in the fair value of the investments are included in the Income Statement for the period as a capital item. Transaction costs on acquisition are included within the initial recognition and the profit or loss on disposal is calculated net of transaction costs on disposal.

(c) Income

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where the terms of unquoted loan stocks only require interest to be paid on redemption, the interest is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment.

Income from fixed interest securities and deposit interest is included on an effective interest rate basis.

Dividends on quoted shares are recognised as income on the date that the related investments are marked ex dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

(d) Expenses

All expenses are recorded on an accruals basis.

(e) Revenue/capital

The revenue column of the income statement includes all income and expenses. The capital column accounts for the realised and unrealised profit and loss on investments and the proportion of management fee charged to capital.

(f) Issue costs

Issue costs are deducted from the share premium account.

(g) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or the right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

(h) Capital reserves

(i) *Capital Reserve*

Gains and losses on realisation of investments of a capital nature are dealt with in this reserve. Purchase of the Company's own shares to be either held in treasury or cancelled are also funded from this reserve. 75% of management fees are allocated to the capital reserve in accordance with the Board's expected split between long term income and capital returns.

(ii) *Revaluation Reserve*

Changes in fair value of investments, are dealt with in this reserve.

Notes to the Accounts

2. Income

	2009 £'000	2008 £'000
Income from investments†		
UK franked	**208**	334
UK unfranked	**896**	1,987
Redemption premium	**78**	358
	1,182	2,679
Other income‡		
Interest	**115**	155
Total income	**1,297**	2,834
Total income comprises:		
Dividends	**208**	334
Interest	**1,089**	2,500
	1,297	2,834
Income from investments:		
Listed and AIM securities	**453**	1,050
Unquoted securities	**729**	1,629
	1,182	2,679

†All investments have been designated fair value through profit or loss on initial recognition, therefore all investment income arises on investments at fair value through profit or loss.

‡Other income on financial assets not designated fair value through profit or loss.

3. Recoverable VAT

HM Revenue and Customs (HMRC) confirmed in October 2007, following the European Court of Justice decision in the JPMorgan Claverhouse case, that the provision of management services to investment trusts is exempt from VAT. Accordingly ISIS EP LLP ceased to charge VAT on management fees payable by the Company with effect from 30 June 2008.

During the year to 30 September 2009 an amount of £367,000 (2008: £740,000) recovered VAT has been recognised as a separate item in the income statement, allocated between revenue and capital return in the same proportion as that in which the irrecoverable VAT was originally charged. Interest relating to the VAT claim amounting to £93,000 has also been recognised in this period.

Notes to the Accounts

4. Investment management fee

	2009 £'000	2008 £'000
Investment management fee	**1,163**	1,404
Performance fee	**–**	–
	1,163	1,404

For the purposes of the revenue and capital columns in the income statement, the management fee (including VAT) has been allocated 25 per cent to revenue and 75 per cent 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.

The management agreement may be terminated by either party giving 12 months' notice of termination. The Manager, ISIS EP LLP, receives a fee of 2 per cent per annum of the net assets of the Company, calculated and payable on a quarterly basis.

The Manager is entitled to a performance fee if at the end of any calculation period, the total return on shareholders' funds, calculated on a compound basis, exceeds the threshold of UK base rate plus 2 per cent on shareholders' funds. The Manager was entitled to 20 per cent of the excess prior to 31 March 2007 and will be entitled to 16.66 per cent to 31 March 2008, 13.33 per cent to 31 March 2009, and 10 per cent thereafter. The amount of any performance fee which is paid in respect of a calculation period shall be capped at 5 per cent of shareholders' funds at the end of the period.

ISIS EP LLP receives an annual secretarial and accounting fee of £39,420 (adjusted annually for movements in the Retail Prices Index) and a variable fee of 0.125% on net assets over £5,000,000 subject to annual review. The secretarial and accounting fee is up to a maximum of £114,000 per annum (adjusted annually for movements in the UK Retail Prices Index). It is chargeable 100 per cent to revenue.

Amounts payable to the Manager at the period end are disclosed in note 11.

5. Other expenses

	2009 £'000	2008 £'000
Directors' fees	**63**	63
Secretarial and accounting fee	**108**	126
Remuneration of the auditors and their associates:		
– audit	**22**	20
– other services supplied pursuant to legislation (interim review)	**5**	4
– other services supplied relating to taxation	**5**	6
Trail Commission	**(13)**	–
Other	**215**	138
	405	357

The Chairman received £21,000 per annum (2008: £21,000). Each of the other Directors received £14,000 per annum (2008: £14,000).

The Audit Committee reviews the nature and extent of non-audit services to ensure that independence is maintained. The Directors consider that the auditors were best placed to provide such services.

All figures include irrecoverable VAT, where applicable. The Company is not registered for VAT.

Notes to the Accounts

6a. Tax on ordinary activities

	2009 £'000	2008 £'000
UK corporation tax	–	–

The income statement shows the tax charge allocated between revenue and capital.

6b. Factors affecting tax charge for the year

The tax charge for the period is lower than the standard rate of corporation tax in the UK for a company. The differences are explained below:

	2009			2008*		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) on ordinary activities before taxation	669	(384)	285	2,212	(10,745)	(8,533)
Corporation tax at 28%	187	(108)	79	641	(3,116)	(2,475)
Effect of:						
Non-taxable dividend income	(58)	–	(58)	(97)	–	(97)
Non-taxable (gains)/losses	–	(53)	(53)	–	3,000	3,000
Losses carried forward/(utilised)	–	32	32	–	–	–
Marginal tax relief	(9)	9	–	–	–	–
Tax charge/(credit) for the year	120	(120)	–	544	(544)	–

*Blended rate of 29%

At 30 September 2009 the Company had surplus management expenses of £1,636,459 (30 September 2008: £1,527,525) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that future period and, accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses. Due to the Company's status as a VCT, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

7. Dividends

	2009			2008		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Amounts recognised as distributions to equity holders in the year/period:						
For the year ended 30 September 2009						
– First interim dividend of 2.5p per ordinary share paid on 26 June 2009	344	1,370	1,714	–	–	–
Amounts recognised as distributions to equity holders in the year/period:						
For the year ended 30 September 2008						
– First interim dividend of 3.0p per ordinary share paid on 20 June 2008	–	–	–	1,102	735	1,837
– Second interim dividend of 4.0p per ordinary share paid on 30 September 2008	–	–	–	602	1,806	2,408
	344	1,370	1,714	1,704	2,541	4,245

8. Returns per share

The 0.43p return per ordinary share (2008: (13.95)p loss per ordinary share) is based on the net profit from ordinary activities after tax of £285,000 (2008: (£8,533,000) loss for the ordinary shares) and on 65,802,901 ordinary shares (2008: 61,138,930), being the weighted average number of shares in issue during the period.

Notes to the Accounts

9. Investments

All investments are designated fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss. Given the nature of the Company's investments the fair value gains recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and therefore the movement in these fair values is treated as unrealised.

	2009 £'000	2008 £'000
Listed Investments	**1,019**	558
Interest bearing securities	**18,512**	9,486
Collective investment vehicle	**525**	–
Investments traded on AIM	**11,930**	13,002
Investments traded on NYSE	**212**	–
Investments traded on PLUS	**109**	95
Unquoted investments	**27,222**	27,050
	59,529	50,191
Equity shares	**21,724**	20,541
Preference shares	**97**	59
Loan notes	**19,196**	20,105
Fixed income securities	**18,512**	9,486
	59,529	50,191

	Traded on NYSE £'000	Listed £'000	Interest bearing securities £'000	Collective Investment Vehicle £'000	Traded on AIM £'000	Traded on PLUS £'000	Unquoted £'000	Total £'000
Opening book cost	–	578	9,486	–	21,073	500	21,238	52,875
Opening unrealised appreciation/(depreciation)	–	(20)	–	–	(8,071)	(405)	5,812	(2,684)
Opening valuation	–	558	9,486	–	13,002	95	27,050	50,191
Movements in the year:								
Purchases at cost	180	–	72,631	525	1,152	–	595	75,083
Sales – proceeds	–	–	(63,579)	–	(1,538)	–	(817)	(65,934)
– realised gains/(losses) on sales	–	–	–	–	73	–	(227)	(154)
Unrealised (losses) realised during the year	–	–	–	–	(3,674)	–	(236)	(3,910)
Increase/(decrease) in unrealised appreciation	32	461	(26)	–	2,915	14	857	4,253
Closing valuation	212	1,019	18,512	525	11,930	109	27,222	59,529
Closing book cost	180	578	18,538	525	17,086	500	20,553	57,960
Closing unrealised appreciation/(depreciation)	32	441	(26)	–	(5,156)	(391)	6,669	1,569
	212	1,019	18,512	525	11,930	109	27,222	59,529

During the period the Company incurred brokerage costs on sales and purchases of £5,338 (2008: £5,720).

An analysis of material sales during the period is disclosed in the Manager's Review on page 9.

Notes to the Accounts

10. Debtors

	2009 £'000	2008 £'000
Amounts due from brokers	**271**	222
Prepayments and accrued income	**283**	416
Other debtors	**–**	740
	554	1,378

11. Creditors (amounts falling due within one year)

	2009 £'000	2008 £'000
Amounts due to brokers	**125**	454
Management and secretarial and accounting fees due to the Manager	**336**	306
Other creditors	**91**	86
	552	846

12. Creditors (amounts falling due after one year)

	2009 £'000	2008 £'000
Trail commission payable	**–**	24
	–	24

Notes to the Accounts

13. Called-up share capital

	£'000
Authorised:	
191,238,250 ordinary shares of 10p each	19,124
2,752,350 C shares of 50p each	1,376
	20,500
Allotted, called-up and fully paid:	
Ordinary shares	
65,036,015 ordinary shares of 10p each listed at 30 September 2008	6,504
9,694,179 ordinary shares of 10p issued during the period	969
74,730,194 ordinary shares of 10p each listed at 30 September 2009	7,473
5,241,770 ordinary shares of 10p each held in treasury at 30 September 2008	(524)
752,136 ordinary shares of 10p each repurchased during the period and held in treasury	(75)
5,993,906 ordinary shares of 10p each held in treasury at 30 September 2009	(599)
68,736,288 ordinary shares of 10p each in issue at 30 September 2009	6,874

As at 17 November 2009 the Company's issued share capital was 74,730,194 ordinary shares and the number of voting shares was 68,736,288 Ordinary Shares carrying one vote each.

Treasury shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 came into force on 1 December 2003 and allowed the Company to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Up to ten per cent of each class of a Company's shares may be held in this way. Shareholders have previously approved a resolution permitting the Company to issue shares from treasury at a discount to the prevailing NAV if the Board considers it in the best interests of the Company to do so. However, treasury shares will not be sold at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. It is the Board's intention only to use the mechanism of re-issuing treasury shares when demand for the Company's shares is greater than the supply available in the market place. Such issues would be captured under the terms of the Prospectus Directive and subject to the annual cap of Euro 2.5 million on funds raised before requiring a full prospectus, although they would not be considered by HM Revenue & Customs to be new shares entitling the purchaser to initial income tax relief, and therefore shares are unlikely to be issued from treasury in the same year as a ''top up'' offer for subscription.

Notes to the Accounts

14. Reserves

	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000
At 1 October 2008	5,135	9,254	36,136	(2,684)	476
Premium on issue of ordinary shares	7,913	–	–	–	–
Expenses of share issue and buybacks	(475)	–	(2)	–	–
Shares bought back	–	–	(582)	–	–
Reallocation of prior year unrealised gains and losses	–	–	(3,910)	3,910	–
Net increase in value of investments	–	–	–	343	–
Realised on disposal of investments	–	–	(154)	–	–
Management fee capitalised net of associated tax	–	–	(872)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	549
Dividends recognised in the period	–	–	(1,370)	–	(344)
Recoverable VAT	–	–	299	–	–
Taxation	–	–	120	–	–
At 30 September 2009	**12,573**	**9,254**	**29,665**	**1,569**	**681**

At 30 September 2009, distributable reserves by way of dividend amounted to £30,346,000 (2008: £36,612,000), comprising the capital reserve and the revenue reserve.

Additional distributable reserves by way of dividend from traded, listed and interest bearing securities amounted to £447,000 (2008: nil).

15. Net asset value per share

The net asset value per share and the net asset values attributable to the ordinary shares at the period end are calculated in accordance with their entitlements in the Articles of Association and were as follows:

	Number of shares		Net asset value per share attributable		Net asset value attributable	
	2009 number	2008 number	**2009 pence**	2008 pence	**2009 £'000**	2008 £'000
Ordinary shares (basic)	**68,736,288**	59,794,245	**89.06**	91.68p	**61,215**	54,822
Ordinary shares (treasury)	**74,730,194**	65,036,015	**88.13**	91.10p	**65,861**	58,918

Basic net asset value per share is based on net assets at the period end, and on 68,736,288 (2008: 59,794,245) ordinary shares, being the respective number of shares in issue at the period end.

The Treasury net asset value per share as at 30 September 2009 included ordinary shares held in treasury valued at the mid share price of 84p at 30 September 2009.

16. Analysis of changes in cash

	2009 £'000	2008 £'000
Beginning of year	4,123	1,167
Net cash (outflow)/inflow	(2,439)	2,956
End of period	**1,684**	4,123

Notes to the Accounts

17. Reconciliation of profit/(loss) on ordinary activities before taxation to net cash inflow from operating activities

	2009 £'000	2008 £'000
Profit/(loss) on ordinary activities before taxation	**285**	(8,533)
(Gains)/losses in investments	**(189)**	10,346
Decrease/(increase) in debtors	**870**	(465)
(Decrease)/increase in creditors	**(2)**	(136)
Net cash inflow from operating activities	**964**	1,212

18. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company as at 30 September 2009 (30 September 2008: nil).

19. Significant interests

There are no interests of 20% or more of any class of share capital.

Further information on the significant interests is disclosed on pages 10 and 11.

20. Financial instruments and associated risks

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of established and profitable UK unquoted companies and companies raising new share capital on AIM.

Fixed asset investments held (see note 9) are valued at fair value. For quoted securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are fair valued by the Directors (using rules consistent with IPEVC guidelines). The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance sheet.

The Company's investing activities expose it to various types of risk that are associated with financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed in notes 21 to 24.

Notes to the Accounts

21. Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and price risk.

The Company's strategy on the management of investment risk is driven by the Company's investment objective as outlined in note 20. The management of market risk is part of the investment management process and is typical of private equity investment. The portfolio is managed in accordance with policies and procedures in place as described in more detail in the Report of the Directors on page 17 to 22, with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in unquoted stocks and AIM traded companies, by their nature, involve a higher degree of risk than investments in the main market. Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Details of the Company's investment portfolio at the balance sheet date are disclosed in the schedule of investments set out on pages 10 and 11. An analysis of investments between debt and equity instruments is disclosed in note 9.

22 per cent (2008: 25 per cent) of the Company's investments are listed on the London or New York Stock Exchange or traded on AIM. A 5 per cent increase in stock prices as at 30 September 2009 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £664,000 (2008: £683,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

44 per cent (2008: 49 per cent) of the Company's investments are in unquoted companies held at fair value. Valuation methodology includes the application of earnings multiples derived from either listed companies with similar characteristics or recent comparable transactions. Therefore the value of the unquoted element of the portfolio may also be indirectly affected by price movements on the listed exchanges. A 5 per cent increase in the valuations of unquoted investments at 30 September 2009 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,361,000 (2008: £1,353,000); an equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

Notes to the Accounts

22. Interest rate risk

At 30 September 2009 £11,512,000 (2008: £nil) fixed rate securities were held by the Company. As a result, the Company is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

At 30 September 2009 £19,196,000 (2008: £19,872,000) fixed rate loan notes were held by the Company. The weighted average effective interest rate for the loan note securities is 8.79% as at 30 September 2009 (2008: 9.30%). Due to complexity of the instruments and uncertainty surrounding timing of redemption the weighted average time for which the rate is fixed has not been calculated.

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

	2009			2008		
	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total fixed rate portfolio £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed rate						
Fixed interest securities	**11,512**	**1.02**	**31**	–	–	–

Floating rate

When the Company retains cash balances, the majority of cash is ordinarily held on interest bearing deposit accounts and, where appropriate, within an interest bearing money market open ended investment company (OEIC). The benchmark rate with determines the interest payments received on interest bearing cash balances is the bank base rate which was 0.5 per cent as at 30 September 2009 (2008: 5.00 per cent).

	2009 £'000	2008 £'000
Floating rate		
OEIC	**7,000**	9,486
Cash on deposit	**1,684**	4,123

23. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2009 £'000	2008 £'000
Investments in floating rate instruments	**7,000**	9,486
Cash and cash equivalents	**1,684**	4,123
Interest, dividends and other receivables	**283**	416
	8,967	14,025

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock.

Credit risk arising on floating rate instruments is mitigated by investing in a money market open ended investment company managed by Blackrock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed in note 21.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

All assets of the Company which are traded on a recognised exchange are held by JPMorgan Chase (JPM), the Company's custodian. The Board monitors the Company's risk by reviewing the custodian's internal control reports as described in the Corporate Governance section on page 25.

Substantially all of the cash held by the Company is held by JPM. The Board monitors the Company's risk by reviewing regularly JPM's internal control reports as previously described. Should the credit quality or the financial position of JPM deteriorate significantly the Investment Manager will seek to move the cash holdings to another bank.

There were no significant concentrations of credit risk to counterparties at 30 September 2009 or 30 September 2008. No individual investment exceeded 11.5 per cent of the net assets attributable to the Company's shareholders at 30 September 2009 (2008: 8.7 per cent).

Notes to the Accounts

24. Liquidity risk

The Company's financial instruments include investments in unquoted companies which are not traded in an organised public market as well as AIM traded equity investments both of which generally may be illiquid. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments 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 liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures as described in the Report of the Directors on page 18. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 30 September 2009 these investments were valued at £20,196,211 (2008: £13,608,628).

25. Related parties

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 4, 5 and 11, and fees paid to the Directors as disclosed in note 5. In addition, the Manager operates a Co-Investment Scheme, detailed in the Report of the Directors on page 21, whereby employees of the Manager are entitled to participate in certain unquoted investments alongside the Company.

Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of Baronsmead VCT 2 plc (''the Company'') will be held at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS, on 14 December 2009 at 11.00 am for the purposes of considering and, if thought fit, passing the following resolutions:

Ordinary business

1. To receive the Report and Financial Statements for the year ended 30 September 2009.
2. To declare a final dividend of 3.0p per ordinary share.
3. To approve the Directors' Remuneration Report for the year ended 30 September 2009.
4. To re-elect Mr G Jillings as a Director.
5. To re-elect Mrs G Nott as a Director.
6. To re-elect Mr C A Parritt as a Director.
7. To elect Mr H Goldring as a Director.
8. To re-appoint KPMG Audit Plc as the Independent Auditors and to authorise the Directors to determine their remuneration.

Special Business

9. THAT:

   in substitution for all subsisting authorities to the extent unused the Directors of the Company (the ''Directors'') be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the ''Act''), to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £2,062,089 during the period commencing on the passing of this resolution and expiring on the fifth anniversary of the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry.

10. THAT subject to the passing of resolution 9 set out in the notice of this meeting:

    the Directors of the Company (the 'Directors') be and are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006 (the 'Act'), to allot equity securities as defined in Section 560 of the Act for cash pursuant to the authorities give, pursuant to resolution 9 set out in the notice of this meeting or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

    (a) the allotment of equity securities up to an aggregate nominal amount of £687,363, provided that the maximum number of ordinary shares which may be allotted pursuant to paragraph (a) shall be 6,873,630 ordinary shares, pursuant to a dividend reinvestment scheme operated by the Company; and

    (b) the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of £1,374,726 provided that the maximum number of ordinary shares which may be allotted pursuant to this sub-paragraph shall be 13,747,260 ordinary shares, and where such proceeds of issue may be used, in whole or part, to purchase ordinary shares,

    the power conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2010, except that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offers or agreements as if the power conferred by this resolution had not expired.

11. THAT the Company be and hereby is empowered to make market purchases within the meaning of Section 693(4) of the Companies Act 2006 (''the Act'') of ordinary shares of 10p each in the capital of the Company ('Ordinary Shares') provided that:

    (a) the aggregate number of Ordinary Shares which may be purchased shall not exceed 10,303,569 or if lower such number of Ordinary Shares as shall equal 14.99 per cent of the issued Ordinary Shares as at the date of such purchase (excluding any Ordinary Shares held in treasury);

    (b) the minimum price which may be paid for an Ordinary Share is the nominal value thereof of 10 pence;

    (c) the maximum price which may be paid for an Ordinary Share is an amount equal to the higher of (i) 105 per cent of the average of the middle market quotation for an Ordinary Share taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which such Ordinary Share is to be purchased; and (ii) the amount stipulated by Article 5(1) of the Buyback and Stabilisation Regulation 2003.

Notice of Annual General Meeting

(d) the authority conferred by this Resolution shall expire on 14 March 2011 or, if earlier, the conclusion of the annual general meeting to be held in 2010 unless such authority is renewed prior to such time; and

(e) the Company may make a contract to purchase Ordinary Shares under the authority conferred by this Resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of such Ordinary Shares.

THAT:

12. (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(b) the Articles of Association contained in the document produced to the meeting and initialled by the Chairman for the purposes of identification be adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing articles of association, with effect from the conclusion of the Annual General Meeting.

13. THAT, subject to the adoption of the new articles of association of the Company by the passing of Resolution 12 as set out in the notice of this meeting, a general meeting (other than an annual general meeting) may be called on not less than 14 clear days' notice, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company.

By Order of the Board

P M Forster
Secretary
100 Wood Street
London EC2V 7AN
17 November 2009

Notes to Notice of Annual General Meeting

1. No Director has a service contract with the Company.
2. To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast), Members must be registered in the Register of Members of the Company at 11.00 am on 12 December 2009 (or, in the event of any adjournment, 11.00 am on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote on his or her behalf. A proxy need not also be a member, but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
4. To appoint more than one proxy, an additional proxy form(s) may be obtained by contacting the Company's registrars, Computershare Investor Services PLC, helpline on 0870 703 0137 or you may photocopy the proxy form. Please indicate in the box 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. A reply paid form of proxy is enclosed with Shareholders' copies of this document. To be valid, it should be lodged with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received not 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.
6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.
7. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
8. Any person receiving a copy of this 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 3 and 4 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.
9. Nominated persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.
10. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

    In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the Issuer's agent (10 RA19) by the latest time for receipt of proxy appointments specified in note 6 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuers agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

    CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

    The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.
11. As at 17 November 2009 the Company's issued share capital consists of 74,730,194 Ordinary Shares. The total number of votes in the Company is 68,736,288.
12. 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.baronsmeadvct2.co.uk.
13. 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.

    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.

    By attending the meeting, members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the Company's shares made at the meeting.

Explanatory notes of principal changes to the Company's Articles of Association

It is proposed to adopt new Articles of Association (New Articles) in order to update the Company's current Articles of Association (Current Articles) primarily to take account of changes in English company law brought about by the Companies Act 2006 that fully came into force up to and on 1 October 2009, to increase the limit on Directors' fees and to make certain clarifying and conforming changes.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted below. Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles.

The New Articles showing all the changes to the Current Articles are available for inspection at the offices of ISIS EP LLP from the date of this notice until the close of the Annual General Meeting on 14 December 2009 and will also be available for inspection at the venue of the Company's Annual General Meeting for at least 15 minutes before and during the Annual General Meeting.

1 Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main being amended to bring them into line with or to cross refer to the relevant provisions of the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions and provisions regarding the period of notice required to convene general meetings.

2 The Company's objects

The provisions regulating the operations of the Company are currently set out in the Current Articles and the Memorandum of Association (''Memorandum''). The Company's Memorandum contains the objects clause which sets out the scope of the activities the Company is authorised to undertake. This clause is drafted to give a wide scope.

Under the Companies Act 2006, the objects clause and all other provisions which are currently contained in a company's Memorandum are deemed to be contained in a company's articles but can be removed by special resolution.

The Companies Act 2006 further states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause, together with all other provisions of its Memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's Articles. The limited liability of members will be preserved in the New Articles.

3 Authorised share capital

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the Current Articles are being amended to reflect this. The Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006.

4 Redeemable shares

At present if a company wishes to issue redeemable shares, it must include in its articles the terms and manner of redemption. The Companies Act 2006 enables directors to determine such matters instead, provided they are so authorised by the articles. The New Articles will contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would seek shareholders' authority to issue new shares in the usual way.

5 Suspension of and reasons for refusal of registration of share transfers

The Current Articles permit the Directors to suspend the registration of transfers. Under the Companies Act 2006, share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement and therefore is being removed. In addition the Current Articles are being updated in line with the Companies Act 2006 so that the Directors must give reasons for any refusal to register a transfer of shares as soon as reasonably practicable and to provide such further information as the transferee may reasonably request.

6 Authority to consolidate and sub-divide shares, purchase own shares and reduce share capital

Under the Companies Act 1985, a company required specific authorisations in its articles of association to consolidate or sub-divide its shares, to purchase its own shares and to reduce its share capital. Under the Companies Act 2006, public companies will not require specific authorisations in their articles of association to undertake these actions; but shareholder authority will still be required. The New Articles reflect these changes.

Explanatory notes of principal changes to the Company's Articles of Association

7 Form of resolution

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

8 Notice of annual general meetings and general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. Accordingly, a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. However, the EU Shareholder Rights Directive implemented in the UK in August 2009 by the Shareholders' Rights Regulations increases the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for annual general meetings) provided the two conditions referred to in the Directors Report are met. As the Board believes that it is in the best interests of shareholders of the Company to ensure that the minimum notice period can remain at 14 days, the Board intends to seek shareholder approval, on an annual basis, through the passing of a special resolution at its Annual General Meetings, to permit it to convene general meetings, other than annual general meetings, on 14 days notice.

The Shareholders' Rights Regulations add a provision to the Companies Act 2006 which requires that, when a general meeting is adjourned due to lack of quorum, the reconvened meeting must be held at least 10 days later. The New Articles include amendments to make them consistent with this new requirement.

9 Amendments to resolutions

The New Articles include a provision allowing members to submit amendments to proposed ordinary resolutions 48 hours prior to the meeting at which such resolutions are to be considered.

10 Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions.

11 Retirement by rotation

The provisions in the Current Articles dealing with the retirement by rotation of directors are being updated, in particular to bring the New Articles into line with the Combined Code on Corporate Governance.

12 Age of directors on appointment

The Current Articles require special notice be given in connection with the appointment or the approval of the appointment of a director who will be, on the date of the meeting, aged 70 or more. Such provision has been removed from the New Articles.

13 Limit on fees paid to directors

The New Articles will increase the annual cap on the aggregate fees payable to directors to £100,000 or such greater figure as may be fixed by ordinary resolution. The limit in the Current Articles was fixed in 1999 at £50,000 increased annually in line with increases in the RPI and the directors now consider it appropriate to increase the limit so that the Company has sufficient flexibility to attract and retain non executive directors of the necessary calibre.

Explanatory notes of principal changes to the Company's Articles of Association

14 Notice of board meetings

Under the Current Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice, unless he supplies the Company with the information necessary to ensure that he receives notice of a meeting before it takes place.

15 Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. The existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

16 Execution of deeds

It is now possible for a company to execute a deed in the presence of a single director, provided a witness attests the signature and the New Articles reflect this.

17 Validity of proxy rights

Following the implementation of the Shareholders' Rights Regulations, proxies will be expressly required to vote in accordance with instructions given to them by members. The New Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with his instructions.

18 Record date for rights to vote at meetings

The New Articles include a new provision that, when convening a general meeting the Company may specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day), by which a person must be entered on the register of members in order to have the right to vote at the meeting. This new provision is in line with a requirement applicable to the Company introduced by the Shareholders' Rights Regulations.

19 Timing for submission of proxy appointments and revocations

The Current Articles will be amended in line with the Companies Act 2006 to permit the directors to specify, in a notice convening a general meeting, that in determining the time for delivery of proxy appointments, no account shall be taken of non-working days. Similar amendments will be made in relation to the deadline for submission of revocation of proxies. This brings the provisions relating to timing for proxy appointments and revocations into line with the new record date for voting.

20 Removal of chairman's casting vote

Pursuant to changes brought about by the Shareholders' Rights Regulations, the company is no longer permitted to allow the chairman to have a casting vote in the event of an equality of votes on an ordinary resolution. Accordingly, this provision has been removed in the New Articles.

21 Change of name

Currently, a company can only change its name by special resolution. The Companies Act 2006 additionally allows directors to resolve to change a company's name, provided they are so authorised by the company's articles. The New Articles will give the Directors this power.

22 Procedures regarding directors' resolution in writing

The Current Articles require all directors to sign a written resolution. The New Articles will clarify that a written resolution will be valid if agreed to by all the directors who would have been entitled to vote (and whose vote would be counted) on that resolution had it been passed at a directors' meeting.

23 Other

Generally the opportunity has been taken to bring clearer language into the New Articles and to update the language used in the Current Articles.

Shareholder Information and Contact Details

Shareholder communication

The Board has a policy of regular and open communication with shareholders based around quarterly statutory reporting.

Electronic communication has been introduced following new legislation in the 2006 Companies Act and the Baronsmead VCT 2 website is available at **www.baronsmeadvct2.co.uk.**

BARONSMEAD

Shareholder helpline

Tel: 0870 703 0137 (Calls charged at geographic and national rates).

The Shareholder Helpline is available on UK business days between Monday and Friday, 8.30 am to 5 pm. The helpline contains automated self-service functionality which is available 24 hours a day, 7 days a week. Using your Shareholder Reference Number which is available on your share certificate or dividend tax voucher, our self-service functionality will let you do the following things:

Automated functions

– confirm the latest share price

– confirm your current share holding balance

– confirm payment history

– order a change of address, dividend bank mandate or stock transfer form

e-mail: web.queries@computershare.co.uk

Computershare

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, joining the DRIP, queries regarding share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

www-uk.computershare.com/investor

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www-uk.computershare.com. Please note that to access this facility investors will need to quote the reference number shown on their share certificate.

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation. Please see www.investorcentre.co.uk for further information.

For comparative performance data of Baronsmead VCT 2 and other generalist VCTs please visit the AIC performance staticstics page at www.theaic.co.uk/statistics-publications/

For information on asset allocations, dividend policies, investment process, DRIP mechanism, share price movements, the share price discount and selling shares:

ISIS EP LLP (the Investment Manager) at www.isisep.com

ISIS EQUITY PARTNERS

e-mail: michael.probin@isisep.com; paul.forster@isisep.com; margaret.barff@isisep.com

Tel: Michael Probin 020 7506 5796; Paul Forster 020 7506 5652; Margaret Barff 020 7506 5630.

The Baronsmead website (www.baronsmeadvcts.co.uk) links to helpful sites, contains details of the team and some case studies of investments.

Shareholder Information and Contact Details

Share Price

The Company's ordinary shares are listed on the London Stock Exchange. The mid-price of the Company's ordinary shares is given daily in the *Financial Times* in the Investment Companies section of the London Share Service. Share price information can also be obtained from the link on the company's website and many financial websites.

Trading Shares

The Company's shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange through a stockbroker.

The market makers in the shares of Baronsmead VCT 2 plc are:

Matrix Corporate Capital LLP	020 3206 7000
Singer Capital Markets	020 3205 7500
Winterflood	020 3100 0251

Breakdown of Shareholdings

The shareholdings of Ordinary Shares as at 30 September 2009 (including shares held in Treasury) are analysed as follows:

	Ordinary Shares			
Size of shareholding	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
1–2,000	223	5.69	318,855	0.43
2,001–5,000	993	25.34	3,611,073	4.83
5,001–10,000	989	25.24	7,424,737	9.94
10,001–25,000	1,018	25.98	16,772,637	22.44
25,001–50,000	455	11.61	16,269,519	21.77
50,001–100,000	174	4.44	11,811,792	15.81
Over 100,000	66	1.68	18,521,581	24.78
Total	3,918	100.00	74,730,194	100.00

Financial Calendar

14 December 2009	Twelfth Annual General Meeting
May 2010	Announcement and posting of interim report for the six months to 31 March 2010
November 2010	Announcement and posting of final results for year to 30 September 2010

Additional Information

The information provided in this report has been produced in order for shareholders to be informed of the activities of the Company during the period it covers. ISIS EP LLP does not give investment advice and the naming of companies in this report is not a recommendation to deal in them.

Baronsmead VCT 2 plc is managed by ISIS EP LLP which is Authorised and regulated by the FSA. Past performance is not necessarily a guide to future performance. Stockmarkets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount they originally invested. Where investments are made in unquoted securities and smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investment.

Corporate Information

Directors
Clive Anthony Parritt (Chairman)*
Godfrey Frank Jillings†
Gillian Nott OBE‡
Nicholas George Lawrence Timpson¶
Howard Goldring

Secretary
Paul Forster, FCIS

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100 Wood Street
London EC2V 7AN

Investment Manager
ISIS EP LLP
100 Wood Street
London EC2V 7AN

Investor Relations
Michael Probin
Tel: 020 7506 5796

Registered Number
03504214

*Chairman of the Audit Committee
†Chairman of Nomination Committee
‡Chairman of Management Engagement and Remuneration Committee
¶Senior Independent Director

Registrars and Transfer Office
Computershare Investor Services PLC
PO Box 82
The Pavilions
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Solicitors
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No 1 Colmore Square
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VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Website
www.baronsmeadvct2.co.uk

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, offers to buy shares at a discount or offers for free company reports.

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

If you are in any doubt about the veracity of an unsolicited phone call, please call either the Company or the Registrar at the numbers provided on page 50.

MLG Edinburgh 3245

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