BARONSMEAD

Baronsmead VCT 2 plc

2010

Annual report & accounts
for the year ended
30 September 2010

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 19 and 20.

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 6.3p per share (equivalent to a pre-tax return of 8.4p per Ordinary Share for a higher rate taxpayer). For Shareholders who claimed tax reliefs of 20 per cent, 30 per cent or 40 per cent, their returns would have been higher.

Contents

Secondary market in the shares of Baronsmead VCT 2 plc

The existing shares of the Company are listed on the London Stock Exchange and can be bought and sold using a stockbroker in the same way as shares of any other listed company.

Qualifying investors* who invest in the existing shares of the Company can benefit from:

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

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 a capital gain in respect of new shares acquired prior to 6 April 2004.

*UK income tax payers, aged 18 or over, who acquire no more than £200,000 worth of VCT shares in a tax year.

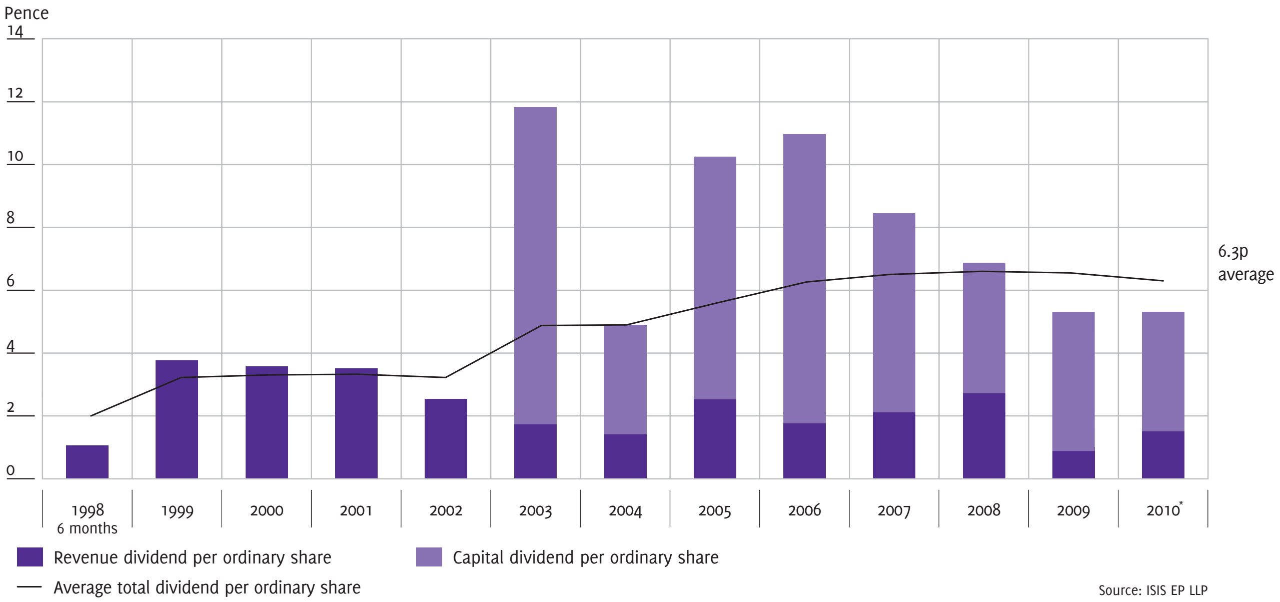
www.baronsmeadvct2.co.uk

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

13.1%	Net asset value ("NAV") per ordinary share increased 13.1 per cent to 97.29p before deduction of dividends.
5.5p	Dividends for the year totalled 5.5p per share which includes the proposed final dividend of 3.0p, payable to shareholders on 14 January 2011, subject to shareholder approval.
78.9p	Cumulative tax free dividends total 78.9p per share for founder shareholders since 1998, equivalent to an annual average dividend of 6.3p per share.
208.3p	NAV total return to shareholders for every 100p invested since launch.
6.8%	A tax free return of 6.8 per cent has been received by qualifying shareholders, based on the 5.5p dividends paid and proposed in the year and the mid share price of 81.25p at the year end. The gross equivalent yield for a higher rate taxpayer is 9.0 per cent.

Dividend history since launch



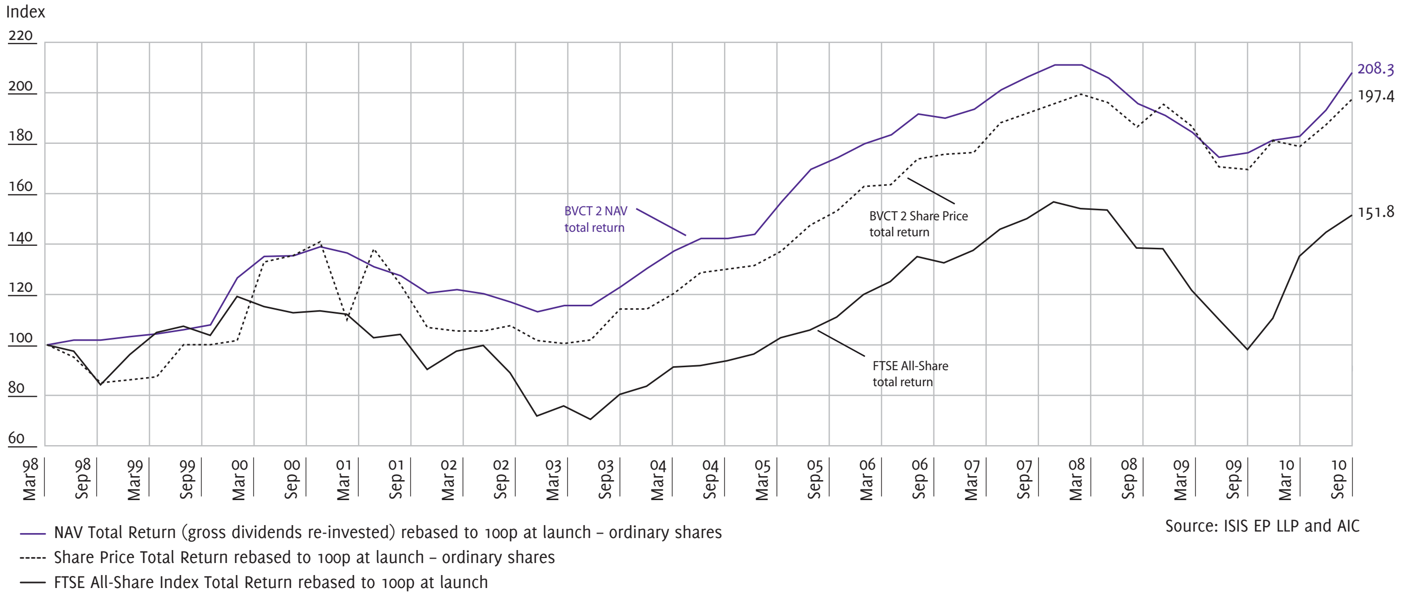
Source: ISIS EP LLP

* 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



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 2010

Total return*	1 year %	5 years %	10 years %	Since launch (2 April 1998) %
Net asset value†	13.3	16.4	50.5	108.3
Share price†	10.2	17.4	24.8	97.4
FTSE All-Share	12.5	24.7	31.9	51.8

* Source: ISIS EP LLP and AIC.
† These returns for Baronsmead VCT 2 ignore up front tax reliefs and the impact of receiving dividends tax free.

Performance Record

Year ended	Total net assets £m	Ordinary share: Net asset value p	Ordinary share: Share price (mid) p	Ordinary share: Net asset value total return* p	FTSE All-Share total return p	Combined total expense ratio† %
31/03/1999	9.50	95.65	85.00	104.44	105.06	2.90
31/03/2000	31.00	119.59	125.00	134.62	115.45	3.40
31/03/2001	45.00	112.30	125.00	130.66	103.02	3.10
31/03/2002	41.20	100.54	92.50	120.15	99.76	2.70
31/03/2003	36.70	89.65	80.00	115.49	70.02	2.70
31/03/2004	41.10	100.63	90.00	141.80	91.72	2.70
31/03/2005	69.60	116.92	100.50	168.70	105.99	2.70
31/03/2006	69.60	114.62	100.50	190.51	135.69	2.90
30/09/2007	68.70	112.19	101.00	209.62	154.89	3.00
30/09/2008	54.80	91.68	84.50	184.02	121.80	2.85
30/09/2009	61.22	89.06	77.50	183.81	134.96	2.66
30/09/2010	**63.67**	**94.79**	**81.25**	**208.25**	**151.81**	**2.58**

* 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
30/09/2010*	**1.50**	**4.00**	**5.50**	**78.90**	**6.31**

*Includes proposed final dividend of 3.00p.

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# p	Net annual yield* %	Gross equivalent yield† %
1998 (April) – Ordinary	100.0	20.0	80.0	78.9	7.9	10.5
1999 (May) – Ordinary	102.0	20.4	81.6	75.4	8.1	10.8
2000 (February) – Ordinary	137.0	27.4	109.6	72.2	6.2	8.3
2000 (March) – Ordinary	130.0	26.0	104.0	72.2	6.6	8.7
2004 (October) – C	100.0	40.0	60.0	27.6	7.7	10.2
2009 (April)	91.6	27.5	64.1	11.0	11.5	15.3

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.

#Includes proposed final dividend of 3.0p to be paid on 14 January 2011.

†The gross equivalent yield if the dividends had been subject to higher rate tax (currently 32.5 per cent on dividend income). The new additional rate of tax on dividend income of 42.5 per cent which came into force from the 2010 / 11 tax year for those shareholders who earn more than £150,000 has not been included. For those shareholders who would otherwise pay this additional rate of tax on dividends, the future gross equivalent yield will be higher than the figures shown.

Chairman's Statement

This Chairman's Statement forms part of the Report of the Directors.

Clive Parritt Chairman

I am pleased to report an increase in NAV total return of 13.1 per cent for the year to 30 September 2010, as a result of increased valuations of both unquoted and AIM investments following improved trading results. The 5.5p per share dividend has been maintained.

INVESTMENT PERFORMANCE

Results

In the year to 30 September 2010, the Net Asset Value ("NAV") per share increased 13.1 per cent from 86.06p to 97.29p before dividends. The position can be summarised as follows:

	p per ordinary share
NAV as at 1 October 2009	
(after final dividend of 3.0p deducted)	86.06
Valuation uplift	11.23
	97.29
Interim dividend paid on 7 June 2010	(2.50)
Proposed final dividend payable on 14 January 2011	(3.00)
NAV as at 30 September 2010	**91.79**

The 13.1 per cent growth in NAV per share over the year was attributable to an uplift in the valuation of the unquoted investments as a result of strong trading performances at many companies in the portfolio as well as a sharp increase in the value of the AIM and listed portfolio towards the end of the financial year.

During the year, the Company realised profits from the sale of a number of unquoted and AIM investments, including ScriptSwitch, Active Assistance and WIN. These profitable realisations underpin the ability of the Company to continue to pay dividends in accordance with its dividend policy. The proposed final dividend of 3.0p per share will take total dividends to 5.5p per share for the year.

The Board is aware of shareholders' previously expressed preference to receive income while also achieving capital growth and so the increase in NAV per share to 91.79p is a positive step.

All of the VCT qualifying tests had also been met throughout the year.

Longer term performance

Including the proposed final dividend of 3.0p per share, dividends totalling 78.9p per share will have been paid to founder shareholders. These dividends are tax free for qualifying shareholders and do not need to be declared in a tax return. This represents an average annual dividend of 6.3p per share since launch in April 1998 when founder shareholders subscribed £1 per share (prior to taking account of any initial income tax relief available to qualifying shareholders).

Since the initial fundraising, shareholders have invested in four subsequent prospectus offers. It is pleasing to be able to report that investors in all five prospectus offers have achieved positive absolute total returns. The comparable returns for the FTSE All-Share Index over differing time periods are set out on page 2 of this annual report. The ten year Share Price total return from Baronsmead VCT 2 is 197.4p for each 100p invested which compares favourably with the 151.8p for the FTSE All-Share.

The returns to shareholders are significantly enhanced by the various VCT tax reliefs available to qualifying investors. Depending on when investors subscribed for new shares, qualifying shareholders would have been able to claim up to 20 per cent, 30 per cent or 40 per cent of the amount they invested. In addition, qualifying shareholders who subscribed before 6 April 2004 will have benefited by being able to use their subscription to defer a capital gain.

Chairman's Statement

The tax free nature of VCT dividends are of particular benefit for VCT qualifying shareholders who do not have to suffer income tax equivalent to 25 per cent (for higher rate taxpayers) and 36.1 per cent (for additional rate taxpayers) on the cash dividend they receive. To generate the same after-tax dividends, it would be necessary for the dividend received from a non-VCT investment to be 33.3 per cent or 56.5 per cent higher, respectively. If the initial tax reliefs are taken into account, the extra yield required from a non-VCT investment to deliver the same after-tax returns is substantial.

PORTFOLIO

The portfolio, consisting of sixty-six companies, has shown a strong valuation increase over the twelve months to 30 September 2010, particularly in the last three months of the financial year. The direction of travel of these companies is recorded every quarter so that the Board can understand overall portfolio health. At the year end, 92 per cent of companies in the portfolio are progressing steadily or better, which is the highest level since recording began in 2004. The level of investee company borrowings has fallen generally and profit margins have grown.

49 per cent of the £63.7 million of net assets was invested in unquoted companies, 25 per cent in AIM and other listed elements and the balance of 26 per cent remained in liquid assets or government securities. The largest unquoted investment, Reed & Mackay, and the largest AIM investment, Staffline Group represented 6.7 and 2.4 per cent of net asset value respectively.

The performance of the unquoted portfolio has been robust and its valuation has increased by 20 per cent. On average, the current portfolio of unquoted investments is valued at some 36 per cent higher than original cost. This is a reflection of the quality of the portfolio and the effectiveness of close cooperation and active management by the Manager, ISIS Equity Partners.

The share prices of the AIM and other listed investments in the portfolio have improved 10 per cent over the last twelve months, although it was not until August 2010 that market sentiment really began to recognise the value implicit in many profitable AIM-traded companies. Nine investees have been sold outright to acquirers, which confirm 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.

The exposure to the UK public sector is relatively light and the only new provision made is in the investment Carnell Contractors, which provides motorway maintenance and technical services to many of the Highway Agencies.

ACQUIRING SHARES IN BARONSMEAD VCT 2 PLC

Offer for Subscription

An offer for subscription to raise up to the sterling equivalent of €2.5 million is being sent to shareholders to coincide with the publication of this Annual Report. This offer is restricted to existing shareholders and in the event that subscriptions are received in excess of the limit, the Directors reserve the right to use their discretion in the allocation of successful subscriptions but will otherwise seek to deal with subscriptions on a "first come, first served" basis. The full terms and conditions of this offer are contained in the offer document.

Dividend Reinvestment and the market for the Company's shares

Shareholders can reinvest their dividends by purchasing further shares through the Dividend Reinvestment Plan ("DRIP"). Shareholders who increase their holdings via the DRIP will be buying into a well-diversified portfolio, which has shown positive returns. Currently, shareholders holding approximately 11 per cent of the Company's shares participate in the DRIP. The DRIP may be appropriate for those subscribers who are investing primarily for capital growth.

During the twelve months to 30 September 2010, 553,688 shares were acquired by participants of the DRIP. These shares were acquired through the market in the Company's shares and the price paid for these shares represented a discount of approximately 10 per cent to the then prevailing NAV during the time the shares were purchased. In addition, third party purchasers acquired 127,625 shares through conventional stock market activity.

In contrast to many other VCTs, the Company has consistently maintained its policy of buying back shares if, in the opinion of the Board, a repurchase of shares is in the interests of the shareholders as a whole. Historically, the repurchase price has represented an approximate discount to NAV of 10 per cent. Shareholders are asked annually to give their authority to the Directors to acquire up to 14.99 per cent of the Company's shares. During the twelve months to 30 September 2010, the Company bought back 1.56 million shares to be held in treasury representing 2 per cent of the share capital at the start of the year.

Chairman's Statement

The Manager works closely with the Company's broker, Matrix Corporate Capital, and the difference between the buy and sell price of the Company's shares (the spread) has been an average of 2p per share since their appointment in August 2009. The quarterly valuation of the unquoted investments and regular communication to shareholders and financial advisers also enables the market to have better information on which the buying and selling of shares can be transacted.

ANNUAL GENERAL MEETING

I look forward to meeting as many shareholders as possible at our 13th Annual General Meeting to be held on Tuesday 11 January 2011 at the London Stock Exchange, 10 Paternoster Square near St Paul's Cathedral. Proceedings for the day commence at 11.30 a.m. with presentations from the Manager and an investee company plus a light lunch. The AGM will be held at 1.30 pm followed by a shareholder workshop.

OUTLOOK

While corporate profits in the portfolio companies have grown, there remains uncertainty in the economy as a whole, particularly while the impact of the anticipated UK public sector cuts is being assessed. Furthermore international markets are not providing a clear sense of direction either. In this rapidly changing economic climate there will be many specific sector opportunities and threats to which the Manager remains alert.

Many of our portfolio companies have improved their market positions and operating efficiency over the last year. Both the Board and Manager share the belief that these ambitious companies can continue to grow and also benefit from a more favourable investment environment when it comes. It is companies such as those within our portfolio which are the lifeblood of the United Kingdom economy. If the Government succeeds in creating a more business friendly and less restrictively regulated environment, it is companies like our investees which will drive the growth that our economy needs.

Clive Parritt
Chairman
19 November 2010

Manager's Review

Andrew Garside

Sheenagh Egan

Michael Probin

Trading across the unquoted and AIM companies in the portfolio has markedly improved in the last year. Stability has also begun to be restored in a number of sectors and new transactions have been completed in three unquoted and five AIM companies.

PORTFOLIO REVIEW

The total portfolio comprised sixty-six investee companies at the year end after thirteen full realisations and four write offs. All new and further round financings as well as realisations are scheduled on pages 12 and 13. Cash proceeds from all realisations totalled £8.4 million and net capital profits realised in the period were £1.9 million.

Unquoted investment totalled £3.8 million in the year under review, including further round financings into two existing portfolio companies.

The new unquoted investments were:

- Surgi C, the UK's leading independent distributor of spinal implants is based in Birmingham. The business has developed its strong market position as a result of the high levels of education and technical support it provides to spinal surgeons on its broad range of products. www.surgi-c.com

- Birmingham based Inspired Thinking Group ("ITG") provides services that help large marketing departments operate more efficiently, including improved procurement of artwork and print management. The new funding was used to acquire Total Marketing Service, a provider of workflow management systems to marketing departments. www.inspiredthinkinggroup.com

- Getting Personal is a leading online retailer, based in Manchester, which sells personalised and unique gifts. The business was established in November 2005 with just one product, a personalised calendar. www.GettingPersonal.co.uk now sells over 4,000 items ranging from personalised cards, notebooks, mugs and chocolate to non-personalised items for general gifting.

The further round financings were:

- Nexus Vehicle Holdings is a leading provider of vehicle rental services to the UK corporate market and it is a pioneer of paperless rental trading through its web based IRIS procurement system. It acquired Adapted Vehicle Hire, which is a niche rental business providing adapted vehicles for the disabled driver market. www.nexusrental.com

- Two small investments were made into portfolio company Independent Living Services ("ILS"), an acute domiciliary care provider based in Scotland, firstly to fund a small acquisition and secondly to repurchase shares. www.ilsscotland.com

The volume of qualifying AIM opportunities also increased from the depressed levels of 2009. In all £1.4 million was invested into five AIM-traded companies and another £1.2 million as additional capital for six existing investments.

Manager's Review

Wood Street Microcap Investment Fund ("Wood Street") was established by ISIS in May 2009 to provide flexibility for the Baronsmead VCT's to invest in generally larger and more liquid non VCT qualifying AIM and Small Cap opportunities. At 30 September 2010 Baronsmead VCT 2 had invested £1.5 million across twenty-four companies through Wood Street and had generated a positive return of 10.4 per cent over the year. The Manager receives no additional fee for managing this fund.

It is pleasing to see the improvement in trading performance across the majority of the portfolio companies, some of which have exhilarating stories as they have grown their profits and work-forces through the recession. Often this has come from robust business models where growth has been less dependent on the overall UK economy, and where these companies have delivered superior value to their customers.

Case studies

The four case studies highlighted within the portfolio are set out on pages 10 and 11.

- Reed & Mackay is featured for the third year due to its sustained growth providing a superior travel management service to its business customers.
- Nexus Vehicle Holdings is growing both organically and by acquisition.
- Crew Clothing Company continues to grow its networks of shops, creating jobs as well as experiencing fast growth from its direct mail/website retailing.
- Staffline Group is an AIM-traded company showing strong revenue and profits growth.

The combined value growth of these four investments in the last twelve months is £4.7 million, up 64 per cent year on year.

Active portfolio management

The investment in Occam DM Ltd, the longest standing unquoted company in the portfolio, was sold in May 2010 to St Ives Group realising 1.7 times and an internal rate of return of 11 per cent over six years. At 31 December 2009, it had been valued at 25 per cent of cost, which illustrates how quickly the business was successfully repositioned towards data-centred direct marketing and data management solutions. The new management team was led by an executive chairman who is one of the operating partners at ISIS.

Post the year end the unquoted investment in Credit Solutions Limited was successfully sold realising a 1.76x money multiple on original cost for Baronsmead VCT 2.

The investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs. For example the original shareholding in WIN plc, a provider of mobile data solutions, had been subscribed in 2004 but the aggregate shareholding had increased to 20 per cent of the company by August 2009. The average price paid for the total shareholding was 85p and the sale price in August 2010 was 150p. ISIS believed that the concentration of WIN's shareholder base enabled its board to improve on the original lower offer received for the business.

The sale of WIN is an example of how trade purchasers perceive good value in a number of the portfolio companies and three other full trade sales have been completed over the last twelve months. Investor sentiment towards the AIM market too has improved in recent months as earnings growth for smaller companies has started to catch up larger quoteds.

This strategy will lead to the AIM portfolio becoming more concentrated and already the tail of smaller investments has been shortened with a number of sales and write offs. Some of these investments, however, may be retained over the medium term as they still contribute significantly to the 70 per cent VCT qualifying test even though they have a relatively low market value.

OUTLOOK

The focus of both the unquoted and AIM-traded portfolio companies has moved from cautious management to now taking advantage of opportunities which have emerged. This is evidenced in many cases by increased profits, stronger balance sheets and higher valuations. Hopefully any improvement to the present economic climate can also assist these companies to grow and continue to be important job creators for the UK.

It will be the continued innovation and drive of these companies aided by our encouragement and experience as active investors that can generate shareholder value for Baronsmead VCT 2.

ISIS EP LLP
Investment Managers
19 November 2010

Creating Shareholder Value

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

Access to an attractive, diverse portfolio

Baronsmead VCT 2 plc gives shareholders access to a diverse portfolio of growth businesses, both unquoted Private Equity and AIM traded companies.

Each business has already demonstrated profitable success from its business model before investment to provide a degree of stability and foundation from which to build. Each business is led by entrepreneurial management teams that are aspiring to achieve above average growth from attractive and differentiated market positions.

The Manager's approach to investing

The Manager, ISIS, aspires to select the best opportunities and has a distinctive selection criteria based on;

- Businesses that demonstrate elements of market leadership in their niche
- Management teams that can develop and deliver profitable and sustained growth
- The company being able to be an attractive asset appealing to a range of buyers at the appropriate time to exit

In order to ensure there is a strong pipeline of opportunities, ISIS invests in sector knowledge and networks. It then undertakes significant pro-active marketing to interesting unquoted targets in preferred sectors. This is building a database of businesses that are keen to maintain a relationship with ISIS ahead of possible investment opportunities.

ISIS as an influential shareholder

For unquoted private equity investments, ISIS is an involved shareholder and representatives of the Manager join the investee Board. The role of ISIS is to ensure that strategy is clear, the business plan is 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 investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs.

This year we have focused on four companies; three unquoted, and one AIM-traded which have demonstrated strong performance during the recent period of economic uncertainty and now, with the help of ISIS have emerged with a strong appetite and ability to deliver growth both through acquisition and organically.

Creating Shareholder Value

REED & MACKAY *''Strong organic growth''*

Reed & Mackay was founded in 1962 as a City-based travel agency. During the late 90's, the Company decided that technology was critical and by 2002 the business had developed a proprietary in-house IT capability that was more advanced than that available to its competitors. This positioned the Company as a strategic partner to leading multi-national clients such as law firms and insurance companies and gave it a sound platform for growth.

In November 2005, the Baronsmead family, through the Manager, ISIS, invested £4.9m to fuel growth enabling the founders to realise a return and new members of the management team to participate in the equity of the business.

"I immediately had a good impression of ISIS. They were interested in our business and asked all the right questions. We looked forward to changing from a family business to a professional business with family values"

– Richard Boardman, CEO

Since the investment, ISIS has worked with the business to strengthen the senior management team, and further develop the technology which supports the consultants enabling Reed & Mackay to deliver outstanding customer service.

The business prides itself on exceptional services. It contacted executive clients in Mumbai hotels during the terrorist attacks before their security companies did, and during the Icelandic volcano ash cloud crisis the travel consultants worked 24 hours a day to ensure customers could be repatriated as quickly and effectively as possible.

The business has continued to achieve strong organic growth throughout the recession. **www.reedmac.com**

NEXUS VEHICLE HOLDINGS *''Growth by acquisition''*

Nexus is an innovative provider of vehicle rental to corporate users and the public sector. At the heart of Nexus is a web based procurement system called IRIS that is fully integrated into both customers and suppliers. IRIS automates traditional back office functions to save time and money whilst also offering wide capability of supply choices.

In March 2008, the Baronsmead VCTs invested in the £11m management buyout/management buy in led by highly experienced industry veteran Neil McCrossan who had previously been a VP at National Car Rental.

Seven months later, with support from ISIS, Nexus acquired the Vehicle Rental Management division of a larger fleet management business with a second investment from the Baronsmead VCTs. During the period under review the Baronsmead VCTs have provided a third investment to support the growth of Nexus, the acquisition of Adapted Vehicle Hire Limited, which specialises in renting adapted cars and vans throughout the UK to drivers with disabilities.

On the acquisitions, the Chairman of Nexus reflected,

"In one move Nexus burst through the glass ceiling. It meant more revenue, more big clients but with no more overheads. It proved the scalability of Nexus way beyond our expectations".

Sales are now four times the level they reached in 2007, the year before the MBO.

Nexus demonstrates the ability of the Manager to back ambitious management teams with a well thought out strategy to grow value by selected acquisitions, supported by further investment from the Baronsmead VCTs.

www.nexusrental.co.uk

Creating Shareholder Value

CREW CLOTHING COMPANY

''Sector knowledge and experience''

Crew Clothing Co has its heritage in its south-coast roots, having been founded by Alastair Parker-Swift as a single retail site in Salcombe in 1993. The brand has since evolved into the fast growing premium active and casual wear sectors but has retained its unique heritage and position as the quintessentially English brand for customers who enjoy an active and outdoor social lifestyle.

The Baronsmead VCTs initially acquired a 25 per cent stake in the company in a £7.75 million fund raising in November 2006. The Manager has a successful track record of backing consumer businesses which brought about the initial contact with Crew Clothing Co.

Since investment Crew has grown significantly. With the support of ISIS, the business has grown from 34 to over 60 stores across the UK and it now has over 400 employees. Particular success has been gained from direct sales through catalogues and web with currently over 3.2 million catalogues mailed to customers every year.

The CEO Octavia Morley commented,

"We are looking forward to continuing our strong growth with our partners at ISIS by developing the Crew brand to reach new customers both by opening stores across the UK and through our catalogue and online channels".

The depth of retail sector experience within the Manager helped both the investment decision and the subsequent development of Crew.

www.crewclothing.co.uk

STAFFLINE GROUP

''Supportive shareholder''

Staffline is the leading provider of specialist blue-collar labour outsourcing solutions to UK industry, with particular expertise in food processing.

The original investment by the Baronsmead VCTs was in July 2000. This investment helped the business create new, innovative strategies including OnSite, which provides high quality temporary staff together with management, training and motivation leading to significantly increased operating efficiency for clients and therefore much greater profitability. Turnover grew from £29m to £40m prior to Staffline joining AIM in 2004. With the ongoing support of Baronsmead the company has continued to grow, with expected sales in 2010 of £200m.

The Chairman, Andy Hogarth, commented,

"Having Baronsmead as a long term involved and supportive shareholder has brought us real benefits. The investment team from ISIS understand and help us grow our business so we have built up a very close working relationship over 10 years".

The investment demonstrates the flexibility of Baronsmead being able to continue holding an investment after a business has achieved an IPO.

www.staffline.co.uk

Table of Investments and Realisations

Investments in the year to 30 September 2010

Company	Location	Sector	Activity	Book cost £'000
Unquoted investments				
New				
Surgi C Limited	Birmingham	Healthcare & Education	Distribution of spinal implants	1,102
Getting Personal Limited	Manchester	Consumer Markets	On-line retail of personalised gifts	988
Inspired Thinking Group Limited	Birmingham	Business Services	Marketing services & work flow systems	796
Follow on				
Nexus Vehicle Holdings Limited	Pudsey	Business Services	Vehicle rental provider to corporates	499
Independent Living Services Limited	Alloa	Healthcare & Education	Care at home services	211
Paper consideration				
Independent Living Services Limited*	Alloa	Healthcare & Education	Care at home services	150
Crew Clothing Company Limited*	London	Consumer Markets	Branded clothing retailer	51
Total unquoted investments				**3,797**
AIM-traded & listed investments				
New				
Netcall plc	St Ives	IT & Media	Communications software	712
Green Compliance plc	Cirencester	Business Services	Small business compliance	406
Bglobal plc	Darwen	Business Services	Smart metering	176
Marwyn Value Investors plc	Guernsey	Financial Services	Specialist fund	64
Strategic Thought Group plc	Maidenhead	IT & Media	Risk management software	35
Follow on				
PROACTIS Holdings plc	Wetherby	IT & Media	Procurement software	219
Jelf Group plc	Bristol	Financial Services	Financial solutions consultancy	210
Electric Word plc	London	IT & Media	Business to business publisher	179
Tasty plc	London	Consumer Markets	Restaurant operator	114
Adventis Group plc	London	IT & Media	Marketing services agency	81
Paper consideration				
Chime Communications Group plc†	London	IT & Media	Marketing services agency	369
Total AIM-traded & listed investments				**2,565**
Collective investment vehicles				
Follow on				
Wood Street Microcap Investment Fund				1,000
Total collective investment vehicles				**1,000**
Total investments in the year				**7,362**

* Paper consideration from rolled up interest reinvested.
† Paper consideration from sale of Essentially Group Ltd.

Table of Investments and Realisations

Realisations in the year to 30 September 2010

Company		First Investment date	30 September 2009 valuation £'000	Realised profit/(loss) this period £'000	Overall multiple return*
Unquoted realisations					
Active Assistance	Trade sale	Mar 08	1,044	525	2.7
Occam DM Ltd	Trade sale	Jul 04	121	423	1.7
ScriptSwitch	Trade sale	May 07	2,959	361	4.1
Total unquoted realisations			**4,124**	**1,309**	
AIM-traded & listed realisations					
WIN plc	Trade sale	Oct 04	315	360	1.6
Ffastfill plc	Part sale	Jun 07	233	125	1.6
Essentially Group Ltd	Paper consideration	Jun 04	283	86	0.8
Research Now plc	Trade sale	Dec 07	306	70	1.4
Character Group plc	Trade sale	Feb 08	86	46	0.9
Brainjuicer Group plc	Trade sale	Nov 06	65	20	1.7
Vero Software plc	Trade sale	Mar 98	390	17	0.8
Alere Inc	Part sale	Aug 09	27	2	1.3
Cobra Biomanufacturing plc	Trade sale	Jun 03	7	(1)	–
Silverdell plc	Trade sale	May 08	2	(1)	0.1
INVU plc	Trade sale	May 07	3	(2)	–
Advanced Computer Software plc	Part sale	Jul 08	579	(26)	2.1
Mission Marketing Group (The) plc	Trade sale	Dec 07	60	(43)	0.1
			2,356	653	
Written off					
Optimisa plc		Oct 07	0	0	–
Payzone plc		May 03	2	(2)	–
MKM Group plc		May 04	6	(6)	–
Relax Group plc		Feb 08	70	(70)	–
			78	(78)	
Total AIM-traded & listed realisations			**2,434**	**575**	
Total realisations in the year			**6,558**	**1,884†**	

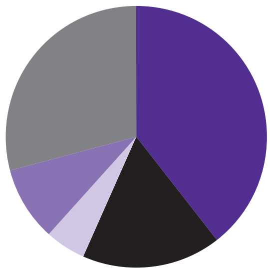
* Includes interest/dividends received, loan note redemptions and partial realisations accounted for in prior periods.

† Proceeds of £5,000 were also received in respect of an investment, Interactive Prospect Targeting plc, which had been written off in a prior period. In addition, a loss of £14,000 was realised during the year on the redemption on 7 December 2009 of a UK Treasury Gilt which had paid a rate of interest of 5.75 per cent.

Investment Portfolio

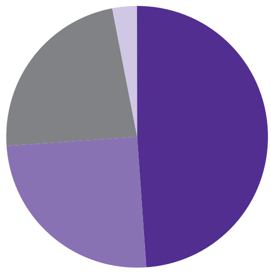
Investment Classification at 30 September 2010

By Sector*



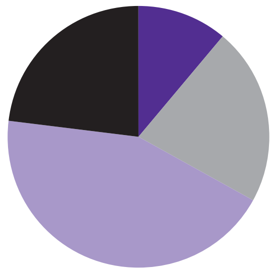
- Business Services 39%
- Consumer Markets 18%
- Financial Services 5%
- Healthcare & Education 9%
- IT & Media 29%

Total Assets*



- Unquoted – loan stock, ordinary and preference shares 49%
- AIM, Listed, PLUS & Collective Investment Vehicles 25%
- Interest bearing securities 23%
- Net current Assets 3%

Time Investments Held*



- Less than 1 year 11%
- Between 1 and 3 years 22%
- Between 3 and 5 years 44%
- Greater than 5 years 23%

*at 30 September 2010 valuation

Company	Sector	Book cost £'000	30 September 2009 valuation £'000†	30 September 2010 valuation £'000	% of net assets	% of total held by Baronsmead VCT 2 plc	% of Equity held by all Funds*
Unquoted							
Reed & Mackay Limited	Business Services	1,211	2,984	4,247	6.7	9.5	40.0
Nexus Vehicle Holdings Limited	Business Services	2,367	2,528	4,197	6.6	12.6	57.4
Crew Clothing Company Limited	Consumer Markets	984	1,286	2,519	4.0	5.7	24.1
CableCom Networking Holdings Limited	IT & Media	1,381	1,846	2,200	3.4	10.6	48.0
Quantix Limited	IT & Media	1,194	1,801	1,984	3.1	11.4	48.0
Kafevend Holdings Limited	Consumer Markets	1,252	1,346	1,786	2.8	15.8	66.5
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	1,433	1,777	2.8	10.5	44.0
Independent Living Services Limited	Healthcare & Education	1,161	1,568	1,755	2.8	16.2	68.1
CSC (World) Limited	IT & Media	1,606	1,250	1,687	2.6	8.8	40.1
Credit Solutions Limited	Financial Services	1,032	1,126	1,253	2.0	8.6	35.0
MLS Limited	IT & Media	781	1,132	1,136	1.8	5.3	22.5
Surgi C Limited	Healthcare & Education	1,102	–	1,102	1.7	9.8	44.7
Playforce Holdings Limited	Business Services	1,033	1,096	1,024	1.6	9.7	44.0
Getting Personal Limited	Consumer Markets	988	–	988	1.5	8.3	37.5
Inspired Thinking Group Limited	Business Services	796	–	979	1.5	5.0	22.5
Empire World Trade Limited	Business Services	1,297	765	833	1.3	‡	‡
TVC Group Limited	IT & Media	1,233	293	698	1.1	13.0	59.3
Carnell Contractors Limited	Business Services	1,499	2,468	674	1.1	8.3	37.5
Kidsunlimited Group Limited	Business Services	113	113	113	0.2	0.0	0.0
Xention Discovery Limited	Healthcare & Education	316	63	55	0.1	1.2	4.9
Total unquoted		**22,769**	**23,098**	**31,007**	**48.7**		
AIM							
Staffline Group plc	Business Services	249	499	1,534	2.4	4.3	8.5
IDOX plc	IT & Media	1,038	1,081	1,276	2.0	3.3	9.7
Murgitroyd Group plc	Business Services	319	711	711	1.1	3.1	6.2
Green Compliance plc	Business Services	406	–	656	1.0	2.6	14.4
Brulines Group plc	Business Services	646	595	621	1.0	1.8	9.6
PROACTIS Holdings plc	IT & Media	619	326	563	0.9	5.4	26.5
Jelf Group plc	Financial Services	761	381	548	0.9	1.4	6.3
Netcall plc	IT & Media	712	–	504	0.8	3.2	16.1
Advanced Computer Software Group plc	IT & Media	263	1,158	494	0.8	0.4	2.2
Electric Word plc	IT & Media	378	207	450	0.7	4.2	26.8
Begbies Traynor Group plc	Financial Services	231	625	425	0.7	0.6	2.5
Mount Engineering plc	Business Services	385	319	413	0.6	2.3	13.4
EG Solutions plc	IT & Media	375	110	397	0.6	3.1	14.2
Tasty plc	Consumer Markets	469	226	364	0.6	2.5	17.1
Kiotech International plc	Healthcare & Education	275	342	321	0.5	2.2	15.8
InterQuest Group plc	Business Services	310	270	309	0.5	1.8	7.2
Craneware plc	IT & Media	72	180	302	0.5	0.2	1.1

†The total investment valuation at 30 September 2009 per the table above does not agree to the audited accounts due to purchases and sales since that date.
*All funds managed by the same investment manager, ISIS EP LLP, including Baronsmead VCT 2.
‡Following a restructuring, the effective ownership percentage is dependent on final exit proceeds.

Investment Portfolio

Company	Sector	Book cost £'000	30 September 2009 valuation £'000†	30 September 2010 valuation £'000	% of net assets	% of total held by Baronsmead VCT 2 plc	% of Equity held by all Funds*
AIM (continued)							
FfastFill plc	IT & Media	251	475	288	0.5	0.9	6.5
Dods Group plc	IT & Media	666	201	246	0.4	1.7	4.4
Bglobal plc	Business Services	176	–	218	0.3	0.5	2.7
IS Pharma plc	Healthcare & Education	246	268	217	0.3	1.0	5.9
Stagecoach Theatre Arts plc	Consumer Markets	419	248	198	0.3	4.5	9.1
Quadnetics Group plc	Business Services	296	176	196	0.3	0.6	2.1
Plastics Capital plc	Business Services	473	151	180	0.3	1.7	9.8
Sanderson Group plc	IT & Media	387	102	170	0.3	1.8	6.9
Adventis Group plc	IT & Media	361	197	163	0.3	3.1	20.7
Praesepe plc	Consumer Markets	525	179	155	0.2	0.6	3.6
Autoclenz Holdings plc	Business Services	400	134	122	0.2	3.1	12.3
Driver Group plc	Business Services	438	372	120	0.2	2.3	10.4
Prologic plc	IT & Media	310	132	103	0.2	4.1	15.0
Real Good Food Company (The) plc	Consumer Markets	620	31	101	0.2	0.7	2.3
Cohort plc	Business Services	179	189	74	0.1	0.3	1.4
Colliers International UK plc	Financial Services	470	158	63	0.1	0.3	0.8
STM Group plc	Financial Services	140	72	49	0.1	0.5	3.8
Clarity Commerce Solutions plc	IT & Media	50	50	48	0.1	0.3	6.0
Tangent Communications plc	Business Services	180	90	42	0.1	0.8	4.5
RTC Group plc	Business Services	355	37	37	0.0	4.2	8.5
Strategic Thought Group plc	IT & Media	35	–	36	0.0	0.4	2.1
Zoo Digital Group plc	IT & Media	438	12	36	0.0	0.2	0.9
AorTech International plc	Healthcare & Education	285	28	25	0.0	0.3	0.6
Highams Systems Services Group plc	Business Services	197	3	6	0.0	0.3	1.0
Total AIM		**15,405**	**10,335**	**12,781**	**20.1**		
Listed							
Vectura Group plc	Healthcare & Education	578	1,019	615	1.0	0.4	1.3
Chime Communications plc	IT & Media	369	–	343	0.5	0.2	1.5
Marwyn Value Investors plc	Financial Services	64	–	59	0.1	1.3	6.0
Total Listed		**1,011**	**1,019**	**1,017**	**1.6**		
PLUS							
Chemistry Communications Group plc	Business Services	500	109	136	0.2	3.1	6.3
Total PLUS		**500**	**109**	**136**	**0.2**		
New York Stock Exchange							
Alere Inc	Healthcare & Education	157	212	150	0.2	0.0	0.0
Total New York Stock Exchange		**157**	**212**	**150**	**0.2**		
Interest bearing securities							
UK T-Bill 11/10/10		1,598	–	1,598	2.5		
UK T-Bill 10/01/11		1,596	–	1,596	2.5		
BlackRock Cash Market OEIC		7,000	7,000	7,000	11.0		
JP Morgan Europe OEIC		4,800	–	4,800	7.6		
Total interest bearing securities		**14,994**	**7,000**	**14,994**	**23.6**		
Collective investment vehicles							
Wood Street Microcap Investment Fund		1,525	525	1,654	2.6		
Total collective investment vehicles		**1,525**	**525**	**1,654**	**2.6**		
Total investments		**56,361**	**42,298**	**61,739**	**97.0**		
Net current assets				**1,934**	**3.0**		
Net assets				**63,673**	**100.0**		

† The total investment valuation at 30 September 2009 per the table above does not agree to the audited accounts due to purchases and sales since that date.

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

Unquoted, AIM, Listed, PLUS and NYSE Portfolio Concentration Analysis at 30 September 2010

Investment ranking by valuation	Book cost £'000	Valuation £'000	% of portfolio
Top Ten	12,828	23,686	52.5
11-20	9,619	10,000	22.2
21-30	6,093	5,550	12.3
30+	11,302	5,855	13.0
Total	**39,842**	**45,091**	**100.0**

Ten Largest Investments

The top ten investments by current value at 30 September 2010 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.

1 REED & MACKAY LIMITED London

High quality business travel

All ISIS EP LLP managed funds

First Investment:	November 2005
Total Cost:	£4,870,000
Total equity held:	40.00%

Baronsmead VCT 2 only

Cost:	£1,211,000
Valuation:	£4,247,000
Valuation basis:	Earnings Multiple
% of equity held:	9.49%

*EBITA represents earnings before interest, tax and amortisation.

Year ended 31 March	**2010**	2009
	£ million	£ million
Sales	**16.0**	16.0
EBITA	**3.5**	2.7
PBT	**2.4**	1.6
Net Assets	**3.9**	2.3
No. of Employees	**218**	221

www.reedmac.com

(Source: Reed & Mackay Holdings Limited, Report and Financial Statements 2010)

Reed & Mackay provides specialist business travel management services to professional services firms and corporates. Its 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 NEXUS VEHICLE HOLDINGS LIMITED Leeds

Vehicle rental broker

All ISIS EP LLP managed funds

First Investment:	February 2008
Total Cost:	£9,500,000
Total equity held:	57.38%

Baronsmead VCT 2 only

Cost:	£2,367,000
Valuation:	£4,197,000
Valuation basis:	Earnings Multiple
% of equity held:	12.62%

Year ended 30 September	**2009**	2008*
	£ million	£ million
Sales	**19.4**	6.9
EBITA	**2.2**	0.4
Loss before tax	**(0.1)**	(0.5)
Net Assets	**0.3**	0.2
No. of Employees	**32**	22

www.nexusrental.co.uk

* Accounts for 9 month period.
(Source: Nexus Vehicle Holdings Limited, Financial Statements 2009)

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.

3 CREW CLOTHING COMPANY LIMITED London

Multi-channel clothing retailer

All ISIS EP LLP managed funds

First Investment:	November 2006
Total Cost:	£3,935,000
Total equity held:	24.08%

Baronsmead VCT 2 only

Cost:	£984,000
Valuation:	£2,519,000
Valuation basis:	Earnings Multiple
% of equity held:	5.72%

Year ended 25 October	**2009**	2008
	£ million	£ million
Sales	**29.3**	22.0
EBITA	**0.8**	1.4
PBT	**0.2**	0.8
Net Assets	**2.3**	2.3
No. of Employees	**273**	209

www.crewclothing.co.uk

(Source: Crew Clothing Holdings Limited, Consolidated Financial Statements 2009)

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.

4 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:	£2,200,000
Valuation basis:	Earnings Multiple
% of equity held:	10.56%

Year ended 30 September	**2009**	2008
	£ million	£ million
Sales	**8.1**	6.1
EBITA	**0.9**	1.3
Loss before tax	**(0.4)**	(0.1)
Net Assets	**0.9**	1.3
No. of Employees	**40**	41

www.cablecomnetworking.co.uk

(Source: Cablecom Networking Holdings Limited, Audited Annual Report and Accounts 2009)

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.

5 QUANTIX LIMITED Nottingham

Oursourced database maintenance

(A trading name of Newincco 635 Limited)

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:	£1,984,000
Valuation basis:	Earnings Multiple
% of equity held:	11.40%

Year ended 30 September	**2009**	2008
	£ million	£ million
Sales	**8.6**	8.3
EBITA	**1.6**	1.2
Profit/(loss) before tax	**0.2**	(0.3)
Net Assets	**0.7**	0.7
No. of Employees	**46**	42

www.quantix-uk.com

(Source: Newincco 635 Limited, audited Annual Report and Accounts 2009)

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.

Ten Largest Investments

6 KAFÉVEND HOLDINGS 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:	£1,786,000
Valuation basis:	Earnings Multiple
% of equity held:	15.79%

Year ended 30 September	**2009**	2008
	£ million	£ million
Sales	**14.7**	16.1
EBITA	**1.0**	1.1
PBT	**1.0**	1.2
Net Assets	**3.5**	2.7
No. of Employees	**98**	107

www.kafevending.co.uk

(Source: Kafevend Group Limited, audited Annual Report and Accounts 2009)

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.

7 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:	£1,777,000
Valuation basis:	Earnings Multiple
% of equity held:	10.45%

Year ended 31 January	**2010**	2009
	£ million	£ million
Sales	**26.5**	22.2
EBITA	**2.3**	1.8
PBT	**0.7**	0.1
Net Assets	**1.4**	1.0
No. of Employees	**96**	83

www.fisheroutdoor.co.uk

(Source: Fisher Outdoor Leisure Holdings Limited, Directors Report and Financial Statements 2010)

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.

8 INDEPENDENT LIVING SERVICES LIMITED Alloa *Acute domiciliary care*

All ISIS EP LLP managed funds

First Investment:	September 2005
Total Cost:	£4,679,000
Total equity held:	68.12%

Baronsmead VCT 2 only

Cost:	£1,161,000
Valuation:	£1,755,000
Valuation basis:	Earnings Multiple
% of equity held:	16.18%

Year ended 30 September	**2009**	2008
	£ million	£ million
Sales	**16.5**	12.7
EBITA	**1.8**	1.8
PBT	**0.1**	0.6
Net Assets	**0.9**	0.9
No. of Employees	**1,133**	838

www.ilsscotland.com

(Source: ILS Group Limited, Directors Report and Financial Statements 2009)

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 LAs outsource more work, ISIS has supported four acquisitions to date.

9 CSC (WORLD) LIMITED Pudsey, Leeds *Structural engineering software*

All ISIS EP LLP managed funds

First Investment:	January 2008
Total Cost:	£6,450,000
Total equity held:	40.03%

Baronsmead VCT 2 only

Cost:	£1,607,000
Valuation:	£1,687,000
Valuation basis:	Earnings Multiple
% of equity held:	8.81%

Year ended 31 March	**2010**	2009
	£ million	£ million
Sales	**6.4**	6.6
EBITA	**1.9**	1.9
Loss before tax	**(0.8)**	(1.0)
Net (Liabilities)/Assets	**(0.6)**	0.3
No. of Employees	**55**	51

www.cscworld.com

(Source: Cobco 867 Limited, Directors Report and Consolidated Financial Statements 2010)

CSC World Limited (CSC) is the UK market leading structural engineering software company based in Leeds. The Company supplies engineering calculation software, building design software and analysis packages including TEDDS, Fastrak and Orion to corporate businesses worldwide, with a substantial presence in South East Asia.

10 STAFFLINE GROUP PLC Nottingham *Labour outsourcing*

All ISIS EP LLP managed funds

First Investment:	July 2000
Total Cost:	£497,497
Total equity held:	8.53%

Baronsmead VCT 2 only

Cost:	£249,000
Valuation:	£1,534,000
Valuation basis:	Bid price
% of equity held:	4.26%

Year ended 31 December	**2009**	2008
	£ million	£ million
Sales	**115.0**	120.8
EBITA	**3.6**	3.7
PBT	**3.5**	3.4
Net Assets	**26.1**	24.3
No. of Employees	**243**	217

www.staffline.co.uk

(Source: Staffline Group plc Financial Statements 2009)

Staffline Group is the leading provider of specialist blue-collar labour outsourcing solutions to UK industry, with particular expertise in food processing.

Board of Directors

As at 30 September 2010

Clive Parritt (Chairman)

(Date of appointment 18 February 1998)
(age 67) 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 Deputy 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.

Gillian Nott OBE

(Date of appointment 18 February 1998)
(age 65) 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 a non-executive director of Baronsmead VCT 3 and Baronsmead AIM VCT.

Howard Goldring

(Date of appointment 11 November 2009)
(age 60) 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

The Chairman's Statement on pages 4 to 6 and the Corporate Governance Statement on pages 25 and 26 form part of this Report of the Directors.

Results and Dividends

The Directors present the thirteenth Report and audited financial statements of the Company for the year ended 30 September 2010.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	7,443
Final dividend for 2009 of 3.0p per ordinary share paid 30 December 2009	(2,062)
Interim dividend of 2.5p per ordinary share paid on 7 June 2010	(1,692)
Total dividends paid during the year	(3,754)

Subject to approval at the forthcoming Annual General Meeting the final proposed dividend in respect of the year ended 30 September 2010 of 3.0p per ordinary share will be paid on 14 January 2011 to shareholders recorded on the register on 24 December 2010.

Principal Activity and Status

The Company is registered in England as a Public Limited Company (Registration number 03504214). 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.

Report of the Directors

Co-investment

The Company aims to invest in larger more mature unquoted and AIM companies and to achieve this it invests alongside the other Baronsmead VCTs. 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 and 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. General changes in legislation, regulations or government policy could significantly influence the decisions of investors or impact upon the markets in which the Company invests.
- 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 41 to 44. 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 FRC's "Revised Guidance for Directors on the Combined Code".

Details of the Company's internal controls are contained in the Corporate Governance section on pages 25 and 26.

Report of the Directors

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 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 seven 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 no ordinary shares.

During the period the Company bought back 1,560,000 ordinary shares with a nominal value of 10p to be held in Treasury, representing at an aggregate cost of £1,224,904. 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 7,553,906 ordinary shares in Treasury representing 10.1 per cent of the issued share capital as at 18 November 2010. The maximum number of shares held in Treasury during the year was 7,553,906 shares representing 10.1 per cent of the issued share capital.

Directors

Biographies of the Directors are shown on page 18.

Mr N G L Timpson retired as a director on 14 December 2009 at the cessation of the Annual General Meeting. Mr G Jillings resigned as director on 28 September 2010 in order to ensure that the Company does not breach the revised listing rule relating to the independence of directors. The Board would like to thank Mr Timpson and Mr Jillings for their valuable contributions during their appointments.

As explained in more detail under Corporate Governance on pages 25 and 26 and in accordance with the provisions of the AIC Code of Corporate Governance, the Board has agreed that Directors who have held office for more than nine years will retire annually. Accordingly, as Mr C Parritt and Mrs G Nott have held office for a period of more than nine years, they will retire by rotation at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. Mrs G Nott who is a director of Baronsmead AIM VCT plc and Baronsmead VCT 3 plc is also required to seek annual re-election under the terms of the UKLA's Listing Rules.

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 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 2010	30 September 2009
	Ordinary 10p shares	Ordinary 10p shares
Clive Parritt	**73,941**	71,212
Gillian Nott	**23,341**	23,341
Howard Goldring*	**–**	–
Total shares held	**97,282**	94,553

*Appointed on 11 November 2009.

There have been no changes in the holdings of the Directors between 30 September 2010 and 18 November 2010.

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 12, 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 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;

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

Report of the Directors

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.

Save for such indemnity provisions in the Company's Articles of Association and in the Directors' letters of appointment, there are no qualifying third party indemnity provisions.

Conflicts of Interest

The Directors have declared any conflicts or potential conflict of interest to the Board of Directors which has the authority to approve such situations. The Company Secretary maintains the Register of Directors' Conflicts of Interests which is reviewed quarterly by the Board and when changes are notified. The Directors advise the Company Secretary and Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest do not take part in 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. 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 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. If the management agreement is terminated, the Manager is only entitled to the management fees paid to it and any interest due on unpaid fees.

In addition, the Manager receives an annual secretarial and accounting fee of £36,380 (linked to the movement in the UK Retail Price Index ("RPI")), subject to annual review, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. The annual secretarial and accounting fee is subject to a maximum of £105,634 per annum (linked to the movement in RPI) subject to annual review.

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.

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. The Board believes that the knowledge and experience accumulated by the Manager in the period since the launch of the first Baronsmead VCT in 1995 is reflected in processes which are designed to find, manage and realise good quality growth businesses.

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 2010 forty-two executives of the Manager had invested a total of approximately £141,000 in the ordinary shares of twenty-two unquoted investments through the Co-investment Scheme alongside Baronsmead VCT 2 plc. The amount invested by Baronsmead VCT 2 in those twenty-two companies totals approximately £24.5 million. As at September 2010 four of the investments in the scheme have been sold realising total proceeds of £7.3 million for Baronsmead VCT 2, and £0.6 million for the members of the Co-investment Scheme.

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

Report of the Directors

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 per cent calculated on a compound basis. To the extent that the total return exceeds the threshold of base rate plus 2 per cent on shareholders' funds compounded over the relevant period then a performance fee will be paid to the Manager of 10 per cent. The amount of any performance fee which is paid in an accounting period shall be capped at 5 per cent of shareholders' funds for that period.

ISIS Equity Partners – Arrangement Fees

During the year to 30 September 2010, ISIS EP LLP received net income of £92,750 (2009: £nil) from investee companies in connection with arrangement fees and incurred abort fees of £12,896 (2009: £7,780), with respect to investments attributable to Baronsmead VCT 2.

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. At 30 September 2010, there were no outstanding supplier invoices (2009: none).

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 18 November 2010 the Company was not aware of any beneficial interests exceeding 3 per cent of the Ordinary Share capital in circulation.

Going Concern

After making enquires, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the Directors have considered the liquidity of the Company and its ability to meet obligations as they fall due for a period of at least twelve months from the date that these financial statements were approved. As at 30 September 2010 the Company held cash balances & investments in UK Gilts and Money Market Funds with a combined value of £16,862,000. Cash flow projections have been reviewed and show that the Company has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the share buyback programme and dividend policy. The Company has no external loan finance in place and therefore is not exposed to any gearing covenants.

Annual General Meeting

A notice for the Annual General Meeting of the Company to be held at 1.30 pm on Tuesday, 11 January 2011 at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS is set out on pages 45 and 46. The following notes provide an explanation of Resolutions 6 to 12, which together with the other ordinary business, will be proposed at the meeting. Resolutions 1 to 7 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent of the votes cast at the meeting and Resolutions 8 to 12 will be proposed as special resolutions requiring the approval of 75 per cent of the votes cast at the meeting. 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 and unanimously recommends that you do so as well.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and Resolution 6 to be proposed at the Annual General Meeting relates to such appointment.

Authority to Allot Shares and Disapplication of Pre-Emption Rights

The authority proposed under Resolution 7 will authorise Directors, until the fifth anniversary of the passing of the resolution, to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £2,238,985 representing 33.33 per cent of the issued share capital. Any consequent increase in the size of the Company will, in the opinion of the Directors, be in the interests of shareholders generally. Any issue proceeds will be available for investment in line with the Company's investment policy and may be used to purchase ordinary shares of the Company.

The Directors intend to use this authority for the purposes described below under Resolution 8.

Resolution 8 renews and extends, subject to passing Resolution 7, the Directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution will authorise the Directors, until the date falling 15 months after the date of the passing of the resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue ordinary shares for cash without pre-emption rights applying of (i) up to an aggregate nominal value of £2,238,985 for offers for subscription representing 33.33 per cent of the Company's issued share capital as at 18 November 2010, (ii) up to an aggregate nominal amount representing 10 per cent of the issued share capital from time to time pursuant to a dividend reinvestment scheme (which may be at a discount to NAV) and (iii) up to an aggregate nominal amount representing 10 per cent of the issued share capital from time to time (which may be at a discount to NAV) for allotments from time to time. 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 and the proceeds of which may be used to purchase shares in the Company.

Report of the Directors

Treasury Shares

The Company currently holds 7,553,906 ordinary shares in Treasury representing approximately 10.1 per cent of the Company's issued ordinary shares. If Resolution 8 is passed, the Board will consider itself permitted by shareholders to re-issue ordinary shares out of Treasury through 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 market 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 9 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months after the passing of the resolution, 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. 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.

Notice of General Meetings

The Board believes that it is in the best interests of shareholders of the Company to have the ability to call meetings on 14 days' clear notice should a matter require urgency. The Board is therefore proposing Resolution 10 to approve the reduction in the minimum notice period from 21 clear days to 14 clear days for all general meetings other than annual general meetings. The Directors do not intend to use less than 21 clear days notice unless immediate action is required.

Cancellation of Share Premium and Capital Redemption Reserves

One of the main principles of company law is that the capital of a company should be maintained and, therefore, a company with share capital must obtain proper consideration for the shares that it issues and must not return funds which have been subscribed for shares except in certain prescribed ways. The principle of maintenance of capital underlies various provisions of the Companies Act 2006. For example, a company may only make distributions to its members out of distributable profits and a company may only buy back its own shares in limited circumstances.

A company can, however, reduce its share capital in circumstances where creditors will not be adversely affected, provided that the company complies with certain procedural requirements. A company may reduce its capital by special resolution and subject to confirmation by the court. A special reserve will then be created from the sums set free from such a cancellation which can be regarded as a distributable reserve.

The Company has completed previous cancellations of its share premium and the special reserve created by such cancellation has assisted the Company in buying back shares, writing off losses and enhancing the ability to make distributions.

Buy backs can result in the creation of capital redemption reserves and the issue of new Shares (in particular in connection with the Offer) will create further share premium. The Board, therefore, considers it appropriate to obtain approval of Shareholders at the Annual General Meeting to cancel further share premium and capital redemption reserves (subject to court sanction) to create further distributable reserves to fund buy backs and distributions, to set off or write off losses and for other corporate purposes of the Company.

Resolution 11 to be proposed at the Annual General Meeting will authorise the cancellation of the amount standing to the credit of the share premium account of the Company at the date an order confirming such cancellation is made.

Resolution 12 to be proposed at the Annual General Meeting will authorise the cancellation of the amount standing to the credit of the capital redemption reserve of the Company at the date an order confirming such cancellation is made.

By Order of the Board,
ISIS EP LLP
Secretary
100 Wood Street
London EC2V 7AN

19 November 2010

Corporate Governance

This Corporate Governance Statement forms part of the Report of the Directors.

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'). A copy of the AIC Code can be found at www.theaic.co.uk. 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 June 2008 ('the Combined Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. A copy of the Combined Code can be found at www.frc.org.uk.

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 be subject to retirement 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. Whilst notice of the Company's annual general meeting held on 14 December 2009 was served on shareholders in sufficient time to meet the Company's statutory deadline, it did not meet the Combined Code recommendation that the notice be sent to shareholders at least 20 working days before the meeting. The Board has taken account of this requirement when setting the date for the forthcoming annual general meeting.

The Board, of which Mr Parritt is Chairman, consists solely of non-executive Directors and Mrs Nott is Senior Independent Director. All Directors are considered by the Board to be independent of the Company's Manager.

As explained earlier, Mrs Nott is a director of Baronsmead AIM VCT plc and Baronsmead VCT 3 plc, both of which are 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 Goldring, comprises the full Board and operates within clearly defined terms of reference. Mr Goldring replaced Mr Parritt as chairman of the Audit Committee on 11 November 2010. 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 Mrs Nott, 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. A formal independent recruitment process is underway to appoint a fourth director.

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.

During the period the performance of the Board, committees and individual Directors was evaluated through an assessment process. The Directors met as a group to discuss performance during the year, the existing corporate governance arrangements and areas where the Board and individual directors could develop.

Corporate Governance

The following table sets out the number of Board and Committee meetings held during the year to 30 September 2010 and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Management Engagement and Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Clive Parritt	5	5	2	2	1	1	2	2
Godfrey Jillings†	5	4	2	2	1	1	2	2
Gillian Nott	5	4	2	2	1	1	2	1
Nicholas Timpson*	1	1	1	1	1	1	1	1
Howard Goldring	5	5	2	2	1	1	1	1

*retired on 14 December 2009

†resigned on 28 September 2010

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 11 January 2011 can be found in the Notice of Meeting on pages 45 and 46. Shareholders seeking to communicate with the Board can do so by contacting the Investor Relations Manager in the first instance.

Internal Controls

The Board is responsible for the Company's system of internal controls 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. The process adopted is one whereby the Board identifies all of the risks to which the Company is exposed including among others market risk, investment risk, operational and regulatory risks which are recorded on a risk register. The controls employed to mitigate these risks are identified and the residual risks are rated taking into account the impact of the mitigating factors.

This register is updated at least twice a year and reports produced to the board highlighting any material changes in the nature of each risk and where necessary corrective action taken. A formal annual review of the risks and related controls is carried out by the audit committee.

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.

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 18 consists solely of independent non-executive Directors and considers at least annually the level of the Board's fees, in accordance with the AIC Code of 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, and taking account of the fees paid to other directors in the Company's sector, that, to reflect the increase in the amount and quality of work required of Directors of VCTs it was appropriate to increase the Directors fees, broadly in line with inflation, to £16,500 pa and the Chairman's fee to £24,750 pa from 1 October 2010.

The Management Engagement and Remuneration Committee comprises all the Directors of the Company. The Chairman of the Committee is Mrs G Nott. As the Company has no executive Directors, the Management Engagement and 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 ending 30 September 2011 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.

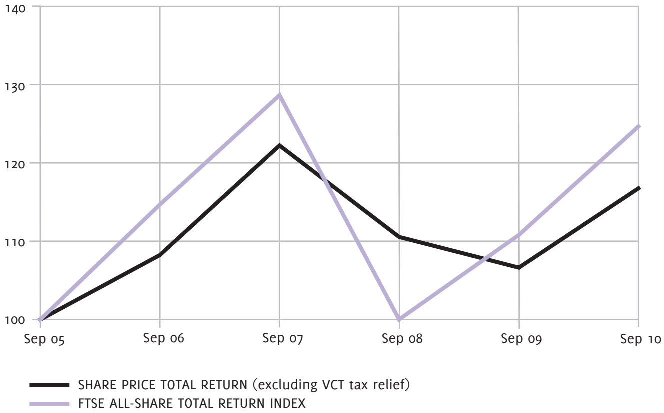
Director	Date of Original appointment	Due date for Re-election/ election
C Parritt	18 February 1998	AGM 2011
G Jillings	18 February 1998	N/A
G Nott	18 February 1998	AGM 2011
N Timpson	18 February 1998	N/A
H Goldring	11 November 2009	AGM 2013

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 Code of 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 ended 30 September 2010, 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 year (audited)

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

	Fees 2010 £	Fees 2009 £
C Parritt	**23,500**	21,000
G Jillings†	**15,500**	14,000
G Nott	**15,500**	14,000
N Timpson•	**3,100**	14,000
H Goldring*	**13,751**	–
Total	**71,351**	63,000

†Resigned on 28 September 2010
*Appointed on 11 November 2009
•Retired on 14 December 2009

Approved by the Board of Directors and signed by:

Gillian Nott
Chairman of the Management Engagement and Remuneration Committee

19 November 2010

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 adequate 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

19 November 2010

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 2010 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 28, 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 2010 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 23, 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.

Simon Pashby (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Registered Auditor
Edinburgh
19 November 2010

Income Statement

For the year ended 30 September 2010

	Notes	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Unrealised gains on investments	9	–	4,924	4,924	–	343	343
Realised gains/(losses) on investments	9	–	1,875	1,875	–	(154)	(154)
Income	2	2,218	–	2,218	1,297	–	1,297
Recoverable VAT	3	–	–	–	68	299	367
Investment management fee	4	(304)	(910)	(1,214)	(291)	(872)	(1,163)
Other expenses	5	(360)	–	(360)	(405)	–	(405)
Profit/(loss) on ordinary activities before taxation		1,554	5,889	7,443	669	(384)	285
Taxation on ordinary activities	6	(354)	354	–	(120)	120	–
Profit/(loss) on ordinary activities after taxation		1,200	6,243	7,443	549	(264)	285
Return per ordinary share:							
Basic	8	1.77p	9.19p	10.96p	0.83p	(0.40p)	0.43p

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 2010

	Notes	2010 £'000	2009 £'000
Opening shareholders' funds		61,215	54,822
Profit for year		7,443	285
Purchase of shares for treasury	13	(1,225)	(582)
Increase in issued share capital		–	8,881
Expenses on share issue and buybacks	13	(6)	(477)
Dividends paid	7	(3,754)	(1,714)
Closing shareholders' funds		63,673	61,215

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 30 September 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments	9	61,739	59,529
Current assets			
Debtors	10	479	554
Cash at bank and on deposit		1,868	1,684
		2,347	2,238
Creditors (amounts falling due within one year)	11	(413)	(552)
Net current assets		1,934	1,686
Net assets		63,673	61,215
Capital and reserves			
Called-up share capital	12	7,473	7,473
Share premium account	13	12,573	12,573
Capital redemption reserve	13	9,254	9,254
Capital reserve	13	27,590	29,665
Revaluation reserve	13	5,378	1,569
Revenue reserve	13	1,405	681
Equity shareholders' funds	14	63,673	61,215
Net asset value per share			
– Basic	14	94.79p	89.06p
– Treasury	14	93.42p	88.13p

The financial statements on pages 30 to 32 were approved by the Board of Directors on 19 November 2010 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

For the year ended 30 September 2010

	Notes	2010 £'000	2009 £'000
Operating activities			
Investment income received		1,991	1,301
Interest received		4	123
Recoverable VAT		–	1,108
Investment management fees		(1,202)	(1,134)
Other cash payments		(373)	(434)
Net cash inflow from operating activities	16	420	964
Capital expenditure and financial investment			
Purchases of investments		(58,627)	(75,075)
Disposals of investments		63,391	65,885
Net cash inflow/(outflow) from capital expenditure and financial investment		4,764	(9,190)
Dividends			
Equity dividends paid		(3,754)	(1,714)
Net cash inflow/(outflow) before financing		1,430	(9,940)
Financing			
Purchase of shares for treasury		(1,225)	(924)
Increase in issued share capital		–	8,886
Expenses on share issue and buybacks		(21)	(461)
Net cash (outflow)/inflow from financing		(1,246)	7,501
Increase/(decrease) in cash in the year		184	(2,439)
Reconciliation of net cash flow to movement in net cash			
Increase/(decrease) in cash		184	(2,439)
Opening cash position		1,684	4,123
Closing cash position	15	1,868	1,684

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 in accordance with the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") in January 2009 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.

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 Valuation ("IPEV") 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 or a redemption premium to be paid on redemption, the interest and redemption premium 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 per cent 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

	2010 £'000	2009 £'000
Income from investments†		
UK franked	**290**	208
UK unfranked	**1,413**	896
UK unfranked – reinvested	**201**	–
Redemption premium	**310**	78
	2,214	1,182
Other income‡		
Interest	**4**	115
Total income	**2,218**	1,297
Total income comprises:		
Dividends	**291**	208
Interest	**1,927**	1,089
	2,218	1,297
Income from investments:		
AIM-traded & listed securities	**319**	453
Unquoted securities	**1,895**	729
	2,214	1,182

†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 JP Morgan 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 no VAT (2009: £367,000) has been recovered. In the prior year the recovered VAT was 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 in the year to 30 September 2009 was also recognised in the period.

Notes to the Accounts

4. Investment management fee

	2010 £'000	2009 £'000
Investment management fee	**1,214**	1,163
Performance fee	**–**	–
	1,214	1,163

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 twelve 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 exceeds the threshold of UK base rate plus 2 per cent on shareholders' funds (calculated on a compound basis). The Manager is entitled to 10 per cent of the excess. 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.

In addition, the Manager receives an annual secretarial and accounting fee of £36,380 (linked to the movement in the UK Retail Price Index ("RPI")), subject to annual review, plus a variable fee of 0.125 per cent of the net assets of the Company which exceed £5 million. The annual secretarial and accounting fee is subject to a maximum of £105,634 per annum (linked to the movement in RPI) subject to annual review. It is chargeable 100 per cent to revenue.

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

5. Other expenses

	2010 £'000	2009 £'000
Directors' fees	**71**	63
Secretarial and accounting fees	**110**	108
Remuneration of the auditors and their associates:		
– audit	**20**	22
– other services supplied pursuant to legislation (interim review)	**5**	5
– other services supplied relating to taxation	**5**	5
Other	**149**	202
	360	405

The Chairman received £23,500 per annum (2009: £21,000). Each of the other Directors received £15,500 per annum (2009: £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

6. Tax on ordinary activities

6a. Analysis of charge for the year

	2010 £'000	2009 £'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 year is lower than the standard rate of corporation tax in the UK for a company. The differences are explained below:

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Profit/(loss) on ordinary activities before tax	1,554	5,889	7,443	669	(384)	285
Corporation tax at 28%	435	1,649	2,084	187	(108)	79
Effect of:						
Non-taxable dividend income	(81)	–	(81)	(58)	–	(58)
Non-taxable gains	–	(1,904)	(1,904)	–	(53)	(53)
Losses (utilised)/carried forward	–	(99)	(99)	–	32	32
Marginal tax relief	–	–	–	(9)	9	–
Tax charge/(credit) for the year (note 6a)	354	(354)	–	120	(120)	–

At 30 September 2010 the Company had surplus management expenses of £1,268,823 (30 September 2009: £1,636,459) 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

	2010 Revenue £'000	2010 Capital £'000	2010 Total £'000	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 30 September 2010						
– First interim dividend of 2.5p per ordinary share paid on 7 June 2010	338	1,354	1,692	–	–	–
Amounts recognised as distributions to equity holders in the year:						
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
– Final dividend of 3.0p per ordinary share paid on 30 December 2009	138	1,924	2,062	–	–	–
	476	3,278	3,754	344	1,370	1,714

Notes to the Accounts

8. Returns per share

The 10.96p return per ordinary share (2009: 0.43p) is based on the net profit from ordinary activities after tax of £7,443,000 (2009: £285,000) and on 67,917,384 ordinary shares (2009: 65,802,901), being the weighted average number of shares in issue during the year.

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.

Financial Reporting Standard 29 'Financial Instruments: Disclosures' (the Standard) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investment prices quoted in an active market.
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices.
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

	2010 £'000	2009 £'000
Level 1		
Interest bearing securities	14,994	18,512
Investments traded on AIM	12,781	11,930
Investments listed on LSE	1,017	1,019
Investment traded on NYSE	150	212
Investment traded on PLUS	136	109
	29,078	31,782
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	1,654	525
Level 3		
Unquoted investments	31,007	27,222
	61,739	59,529

	2010 £'000	2009 £'000
Equity shares	25,696	21,724
Loan notes	20,994	19,196
Preference shares	55	97
Fixed income securities	14,994	18,512
	61,739	59,529

Notes to the Accounts

9. Investments (continued)

	Level 1					Level 2	Level 3	
	Interest bearing securities £'000	Traded on AIM £'000	Listed on LSE £'000	Traded on NYSE £'000	Traded on PLUS £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	18,538	17,086	578	180	500	525	20,553	57,960
Opening unrealised (depreciation)/appreciation	(26)	(5,156)	441	32	(391)	–	6,669	1,569
Opening valuation	18,512	11,930	1,019	212	109	525	27,222	59,529
Movements in the year:								
Purchases at cost	51,710	2,132	433	–	–	1,000	3,797	59,072
Sales – proceeds	(55,214)	(2,985)	–	(29)	–	–	(5,433)	(63,661)
– realised (losses)/gains on sales	(14)	578	–	2	–	–	1,309	1,875
Unrealised (losses)/gains realised during the year	(26)	(1,406)	–	4	–	–	2,543	1,115
Increase/(decrease) in unrealised appreciation	26	2,532	(435)	(39)	27	129	1,569	3,809
Closing valuation	**14,994**	**12,781**	**1,017**	**150**	**136**	**1,654**	**31,007**	**61,739**
Closing book cost	14,994	15,405	1,011	157	500	1,525	22,769	56,361
Closing unrealised (depreciation)/appreciation	--	(2,624)	6	(7)	(364)	129	8,238	5,378
	14,994	**12,781**	**1,017**	**150**	**136**	**1,654**	**31,007**	**61,739**

During the year the Company incurred brokerage costs on sales and purchases of £7,500 (2009: £5,338).

The gains and losses included in the above table have all been recognised in the Income Statement on page 30.

The Standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternatives have been identified and applied to the valuation of each of the unquoted investments. The inputs flexed in determining the reasonably possible alternative assumptions include the earnings stream and marketability discount. Applying the downside alternatives the value of the unquoted investments would be £2.6 million or 8.3 per cent lower. Using the upside alternative the value would be increased by £3.0 million or 9.6 per cent.

10. Debtors

	2010 £'000	2009 £'000
Prepayments and accrued income	**307**	283
Amounts due from escrow	**172**	–
Amounts due from brokers	**–**	271
	479	554

11. Creditors (amounts falling due within one year)

	2010 £'000	2009 £'000
Management and secretarial and accounting fees due to the Manager	**348**	336
Amounts due to brokers	**–**	125
Other creditors	**65**	91
	413	552

Notes to the Accounts

12. Called-up share capital

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and at the Company's last Annual General Meeting, the Company's Articles of Association were amended to reflect this. Whilst the Company no longer has authorised share capital, the Directors will still be limited as to the number of shares they can at any time allot as the Companies Act 2006 requires that Directors seek authority from the shareholders for the allotment of new shares.

Allotted, called-up and fully paid:

Ordinary Shares	£'000
74,730,194 ordinary shares of 10p each listed at 30 September 2009	7,473
74,730,194 ordinary shares of 10p each listed at 30 September 2010	**7,473**
5,993,906 ordinary shares of 10p each held in treasury at 30 September 2009	(599)
1,560,000 ordinary shares of 10p each repurchased during the year and held in treasury	(156)
7,553,906 ordinary shares of 10p each held in treasury at 30 September 2010	**(755)**
67,176,288 ordinary shares of 10p each in circulation at 30 September 2010	**6,718**

As at 18 November 2010 the Company's issued share capital was 74,730,194 ordinary shares, of which 7,553,906 shares were held in treasury. The number of shares in circulation was 67,176,288 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. 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.

The Company does not have any externally imposed capital requirements.

Where shares are bought back but not cancelled the share capital remains unchanged. The NAV is calculated by using the number of shares in issue less those bought back and held in treasury.

Notes to the Accounts

13. Reserves

	Share premium £'000	Capital redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000
At 1 October 2009	12,573	9,254	29,665	1,569	681
Purchase of shares for treasury	–	–	(1,225)	–	–
Expenses on share issue and buybacks	–	–	(6)	–	–
Reallocation of prior year unrealised gains	–	–	1,115	(1,115)	–
Realised on disposal of investments	–	–	1,875	–	–
Net increase in value of investments	–	–	–	4,924	–
Management fee capitalised net of associated tax	–	–	(910)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	1,200
Dividends paid in the year	–	–	(3,278)	–	(476)
Taxation relief from capital expenses	–	–	354	–	–
At 30 September 2010	**12,573**	**9,254**	**27,590**	**5,378**	**1,405**

At 30 September 2010, reserves distributable by way of dividend amounted to £26,006,000 (2009: £25,246,000) comprising the capital reserve, revenue reserve and the net unrealised loss on those level one investments whose prices are quoted in an active market and deemed readily realisable in cash.

14. Net asset value per share

The net asset value per share and the net asset values attributable to the ordinary shares at the year 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	
	2010 number	2009 number	**2010 pence**	2009 pence	**2010 £'000**	2009 £'000
Ordinary shares (basic)	**67,176,288**	68,736,288	**94.79**	89.06	**63,673**	61,215
Ordinary shares (treasury)	**74,730,194**	74,730,194	**93.42**	88.13	**69,811**	65,861

Basic net asset value per share is based on net assets at the year end, and on 67,176,288 (2009: 68,736,288) ordinary shares, being the respective number of shares in circulation at the year end.

The treasury net asset value per share as at 30 September 2010 included ordinary shares held in treasury valued at the mid share price of 81.25p at 30 September 2010.

15. Analysis of changes in cash

	2010 £'000	2009 £'000
Beginning of year	**1,684**	4,123
Net cash inflow/(outflow)	**184**	(2,439)
As at 30 September 2010	**1,868**	1,684

Notes to the Accounts

16. Reconciliation of profit on ordinary activities before taxation to net cash inflow from operating activities

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	**7,443**	285
Gains on investments	**(6,799)**	(189)
(Increase)/decrease in debtors	**(24)**	870
Increase/(decrease) in creditors	**1**	(2)
Income reinvested	**(201)**	–
Net cash inflow from operating activities	**420**	964

17. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company as at 30 September 2010 (30 September 2009: nil).

18. Significant interests

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

Further information on the significant interests is disclosed on pages 14 and 15.

19. 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 IPEV 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 held at the balance sheet date and the risk management policies employed by the Company are discussed in notes 20 to 23.

Notes to the Accounts

20. 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 19. 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 pages 19 to 24, 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 14 and 15. An analysis of investments between debt and equity instruments is disclosed in note 9.

23 per cent (2009: 22 per cent) of the Company's investments are listed on the London or New York Stock Exchange or traded on AIM or PLUS. A 5 per cent increase in stock prices as at 30 September 2010 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £704,000 (2009: £664,000); 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.

49 per cent (2009: 44 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 2010 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,550,000 (2009: £1,361,000); 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

21. Interest rate risk

At 30 September 2010 £3,194,000 (2009: £11,512,000) 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 2010 £20,994,000 (2009: £19,196,000) fixed rate loan notes were held by the Company. The weighted average effective interest rate for the loan note securities is 10.87 per cent as at 30 September 2010 (2009: 8.79 per cent). Due to the 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:

Fixed rate

	2010			2009		
	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	3,194	0.51	57	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 which 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 2010 (2009: 0.5 per cent).

	2010 £'000	2009 £'000
Floating rate		
OEIC	11,800	7,000
Cash at bank and on deposit	1,868	1,684

Notes to the Accounts

22. 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 represent 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:

	2010 £'000	2009 £'000
Investments in floating rate instruments	**11,800**	7,000
Investments in fixed rate instruments	**3,194**	11,512
Cash at bank and on deposit	**1,868**	1,684
Interest, dividends and other receivables	**479**	283
	17,341	20,479

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 money market open ended investment companies managed by BlackRock and JP Morgan Chase ("JPM"). Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed in note 20.

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 JPM, the Company's custodian. The Board monitors the Company's risk by reviewing the custodian's internal controls reports as described in the Corporate Governance section on pages 25 and 26.

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 controls 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 2010 or 30 September 2009. No individual investment exceeded 11.0 per cent of the net assets attributable to the Company's shareholders at 30 September 2010 (2009: 11.5 per cent).

23. 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 20. 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 2010 these investments were valued at £16,862,000 (2009: £20,196,000).

24. 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 22, 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 thirteenth 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 Tuesday, 11 January 2011 at 1.30 pm for the purposes of considering and, if thought fit, passing the following resolutions, resolutions 1 to 7 being proposed as ordinary resolutions and resolutions 8 to 12 as special resolutions:

Ordinary Business

1. To receive the Report and Financial Statements for the year ended 30 September 2010.
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 2010.
4. To re-elect Mrs G Nott as a director.
5. To re-elect Mr C A Parritt as a director.
6. To re-appoint KPMG Audit Plc as the independent auditors and to authorise the directors to determine their remuneration.

Special Business

7. THAT in substitution for all subsisting authorities to the extent unused, 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 ("Rights") up to an aggregate nominal amount of £2,238,985 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.
8. THAT, subject to the passing of resolution 7 set out in the notice of this meeting, the directors be and are hereby empowered, pursuant to sections 570 and 573 of the Act to allot equity securities as defined in section 560 of the Act for cash pursuant to the authority given pursuant to resolution 7 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 £2,238,985 pursuant to one or more offers for subscription;

(b) the allotment of equity securities up to an aggregate nominal amount representing 10 per cent of the issued share capital (including treasury shares) from time to time which may be at a discount to NAV pursuant to any dividend reinvestment scheme operated by the Company; and

(c) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (a) and (b) above) up to an aggregate nominal amount representing 10 per cent of the issued share capital (including treasury shares) from time to time which may be at a discount to NAV

and in each case where such proceeds of issue may be used to purchase shares in the Company and the power conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution (unless previously revoked, varied, renewed or extended by the Company in general meeting) or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2012, 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.

Notice of Annual General Meeting

9. THAT the Company be and hereby is empowered to make market purchases within the meaning of section 693(4) of 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 10,069,725 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;

   (d) the authority conferred by this resolution shall expire on the date falling 15 months after the date of the passing of this resolution or, if earlier, the conclusion of the annual general meeting to be held in 2012, 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.

10. THAT 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.

11. THAT the amount standing to the credit of the share premium account of the Company, at the date an order is made confirming such cancellation by the court, be and hereby is cancelled.

12. THAT the amount standing to the credit of the capital redemption reserve of the Company, at the date an order is made confirming such cancellation by the court, be and hereby is cancelled.

By Order of the Board

ISIS EP LLP
Secretary
100 Wood Street
London EC2V 7AN
19 November 2010

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 1.30 pm on 9 January 2011 (or, in the event of any adjournment, 48 hours 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 6ZZ 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. A person authorised by a corporation is entitled to exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company. On a vote on a resolution on a show of hands, each authorised person has the same voting rights as the corporation would be entitled to. On a vote on a resolution on a poll, if more than one authorised person purports to exercise a power in respect of the same share:

   (a) If they purport to exercise the power in the same way as each other, the power is treated as exercised in that way; or

   (b) If they do not purport to exercise the power in the same way as each other, the power is treated as not exercised.
7. 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.
8. 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.
9. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should the member subsequently decide to do so. A member can only appoint a proxy using the procedures set out in these notes and the notes to the proxy card. The termination of the authority of a person to act as a proxy must be notified to the Company in writing. Amended instructions must be received by Computershare Investor Services PLC by the deadline for receipt of proxies.

   Should a member wish to appoint a proxy electronically, such proxy appointment must be registered electronically at www.eproxyappointment.com, 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 to take the poll. To vote electronically, you will be asked to provide the Control Number, Shareholder Reference Number (SRN) and PIN, details of which are contained in the personalised proxy card enclosed. This is the only acceptable means by which proxy instructions may be submitted electronically.
10. As at 18 November 2010 the Company's issued share capital consists of 74,730,194 Ordinary Shares of which 7,553,906 are held in Treasury. The total number of voting rights in the Company is 67,176,288.
11. 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.
12. 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.

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**.

Shareholder Helpline

BARONSMEAD

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

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, joining the DRIP, queries re: 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 statistics 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

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

Tel: Michael Probin 020 7506 5796; 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 2010 (excluding 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 – 2000	215	5.70	312,360	0.46
2001 – 5000	948	25.15	3,440,282	5.12
5001 – 10000	939	24.91	7,069,965	10.52
10001 – 25000	984	26.11	16,214,541	24.14
25001 – 50000	451	11.97	16,117,587	23.99
50001 – 100000	165	4.38	11,193,835	16.66
More than 100001	67	1.78	12,827,718	19.10
Total	**3,769**	**100.00**	**67,176,288**	**100.00**

Financial Calendar

11 January 2011	Thirteenth Annual General Meeting
May 2011	Announcement and posting of interim report for the six months to 31 March 2011
November 2011	Announcement and posting of final results for year to 30 September 2011

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

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Gillian Nott OBE¶†‡
Howard Goldring*

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Investment Manager
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‡Chairman of Nomination Committee
†Chairman of Management Engagement and Remuneration Committee
¶Senior Independent Director

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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 48.

Notes

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