BARONSMEAD

Baronsmead VCT 2 plc

2012

Annual report & accounts
for the year ended
30 September 2012

Contents

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 61.

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.

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 Report of the Directors on pages 20 to 22.

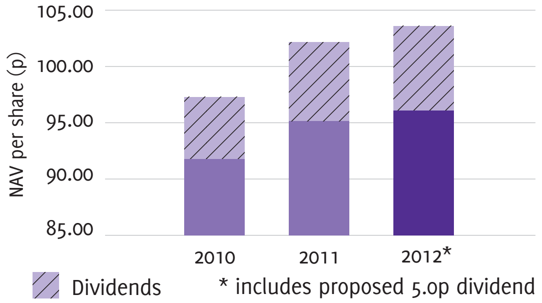
Dividend policy

The Board of Baronsmead VCT 2 aims to sustain a minimum annual dividend level at an average of 6.5p per Ordinary Share, mindful of the need to maintain net asset value. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations and cannot be guaranteed. There will be variations in the amounts of dividends paid year on year.

Since launch, the average annual tax free dividend paid to Shareholders has been 6.4p per share (equivalent to a pre-tax return of 8.5p 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.

Financial Headlines

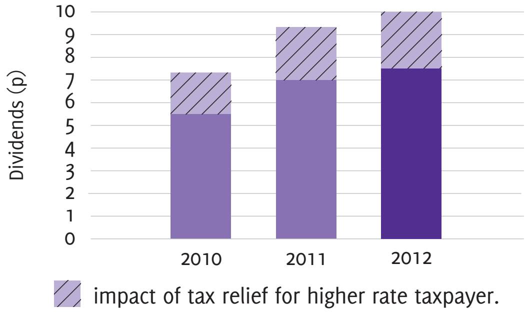
Net asset value per share



Net asset value ("NAV") per share increased 8.9 per cent to 103.6p in the twelve months ended 30 September 2012, before deduction of the interim and proposed final dividends.

+8.9%

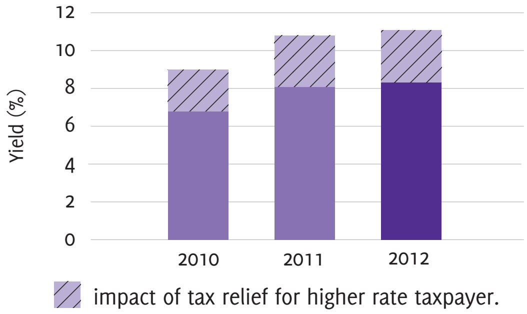
Dividends in the year



Tax free dividends totalled 7.5p for the year to 30 September 2012, including the proposed final dividend of 5.0p.

7.5p

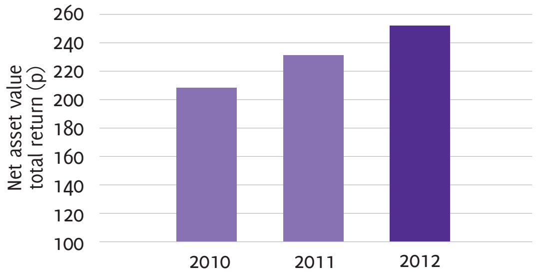
Annual dividend yield



Net annual dividend yield of 8.3 per cent and gross annual yield of 11.1 per cent.

8.3%

Net asset value total return

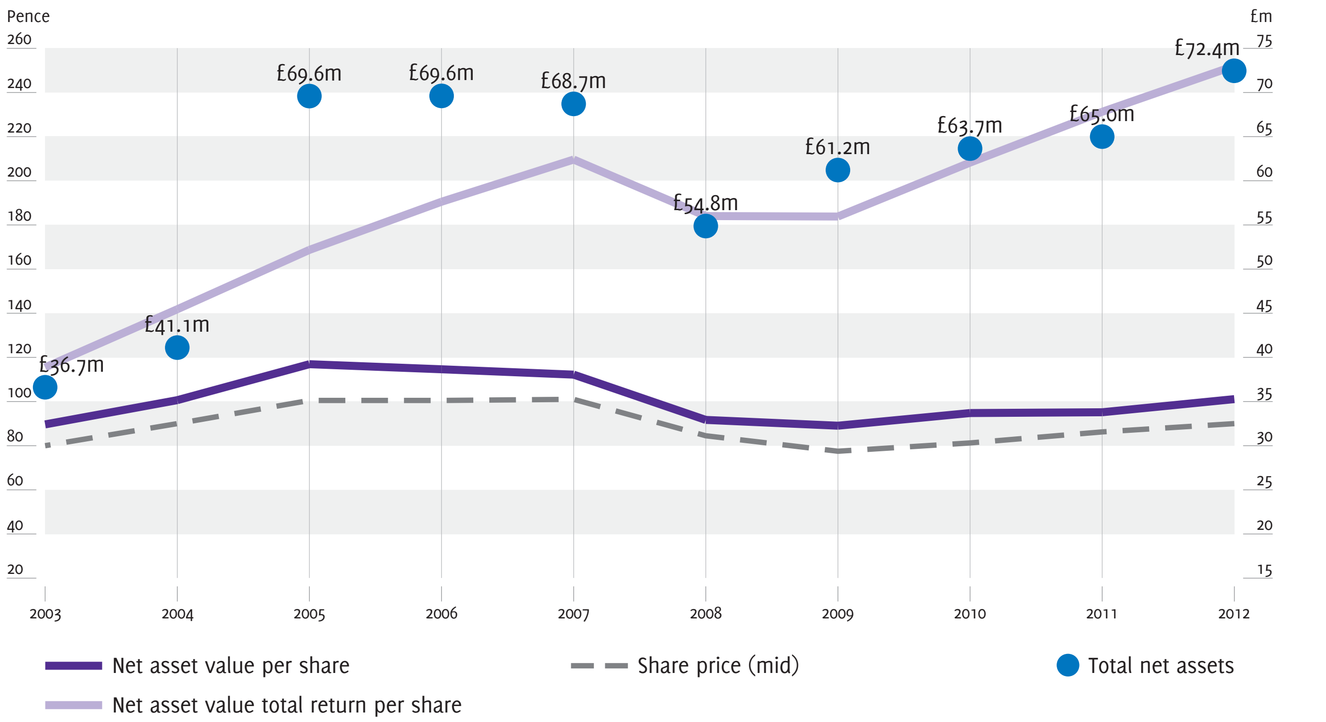


NAV total return to shareholders for every 100.0p invested at launch.

252.0p

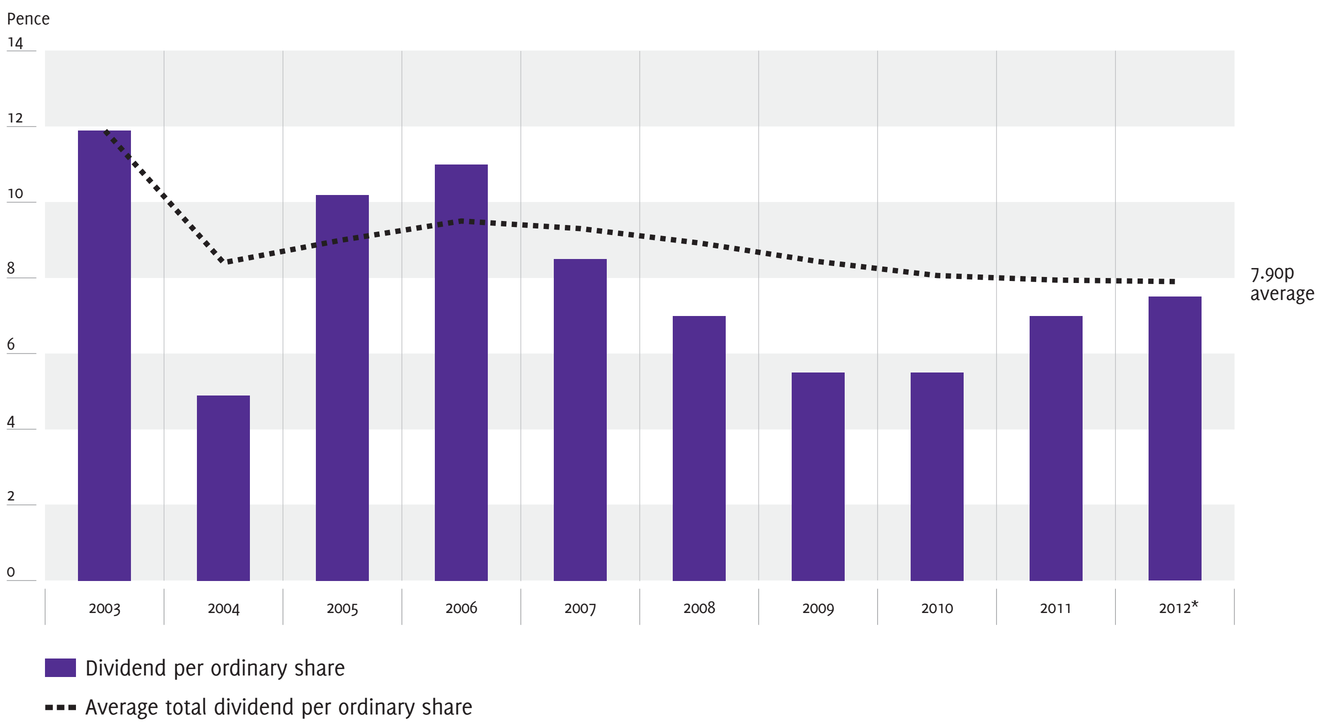
Performance Summary

Performance Record in the last ten years



Source: ISIS EP LLP

Dividend History in the last ten years

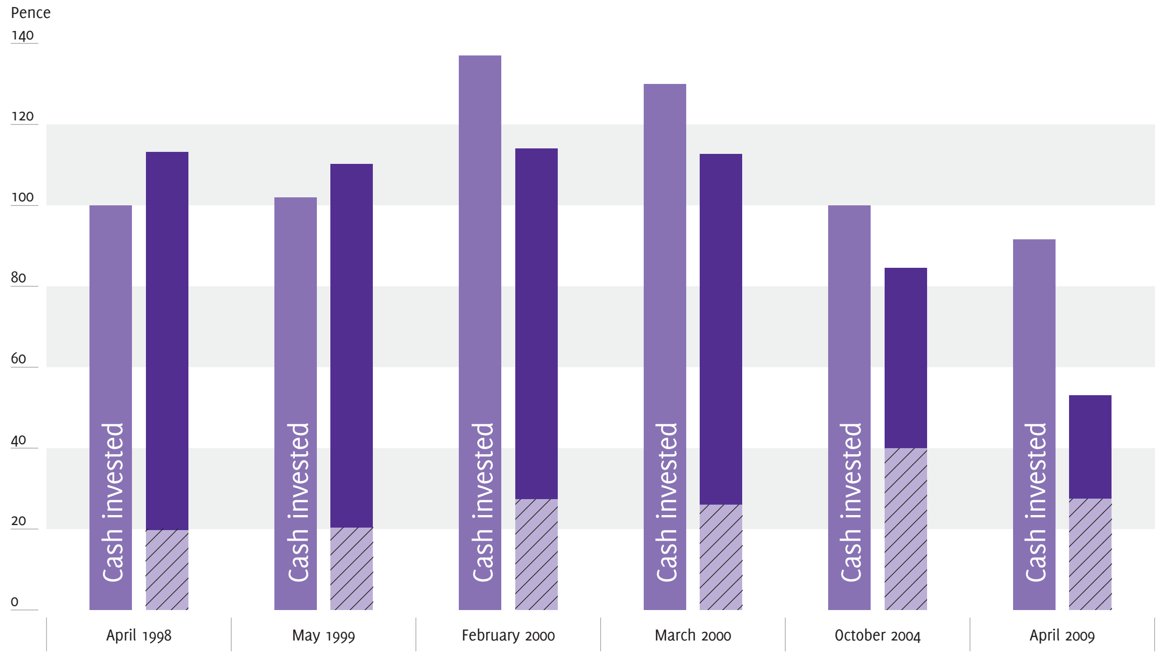


Source: ISIS EP LLP

* Includes proposed final dividend of 5.0p.

Performance Summary

Cash Returned to Shareholders by date of investment



	April 1998	May 1999	February 2000	March 2000	October 2004	April 2009
Net annual yield	**8.0%**	**8.2%**	**6.3%**	**6.6%**	**9.3%**	**11.4%**
Gross equivalent yield	**10.7%**	**11.0%**	**8.4%**	**8.8%**	**12.4%**	**15.2%**

Cash invested (p) Income tax reclaim (p) Cumulative dividends (p)*

Source: ISIS EP LLP

* Includes proposed final dividend of 5.0p.

Chairman's Statement

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

Clive Parritt Chairman

INVESTMENT PERFORMANCE

Results

In the year to 30 September 2012, the net asset value ("NAV") grew by 8.45p per share (8.9 per cent) to 103.60p before payment of dividends. This growth (together with reserves accumulated from successful realisations) has enabled us to recommend a final dividend of 5p making a total of 7.5p for the year.

	Pence per ordinary share
NAV as at 1 October 2011	95.15
Valuation uplift (8.9 per cent)	8.45
	103.60
Interim dividend paid on 15 June 2012	(2.50)
Proposed final dividend of 5.0p, payable after shareholder approval, on 18 Jan 2013	(5.00)
NAV as at 30 September 2012 assuming final dividend paid	96.10

We continue to be very satisfied with the management provided by ISIS. They have created a valuable portfolio of investments and this has enabled us to pay good dividends in a period in which investment returns more generally have been depressed. We are proud of our dividend record which has provided shareholders with an average tax free dividend of 7.9p per share for the last 10 years. With a share price of 90p per share this is equivalent to a tax free yield of 8.8 per cent (11.7 per cent for higher rate tax payers). Compared with the returns achievable on deposits and many other investments in the current market place this is outstanding.

Our policy is to invest in growth companies. It is pleasing to report that, despite a weak economy, lack of bank finance and a recession in the euro zone our top ten investments (representing 51 per cent by value of the portfolio) have delivered an outstanding 18 per cent average annual growth in profits over the last three years. Indeed the overall portfolio (of 71 companies) is in good health with 85 per cent showing steady or better progress.

The value of the unquoted and AIM portions of the portfolio, increased by 8 per cent and 19 per cent during the year. The largest gains came from the investments in Independent Living Services and IDOX, which both increased in value by some £1.7 million in the last year.

I am also delighted to report that, in November 2011, Baronsmead VCT 2 and Baronsmead VCT 3 were jointly voted VCT of the year at the Investment Trust Awards 2011. The judging process was based on a mixture of a quantitative assessment of investment performance and a qualitative assessment of the fund manager. This year Baronsmead VCT 2, Baronsmead VCT 3 as well as Baronsmead VCT 4 have been short listed for the same award.

LONGER TERM INVESTMENT PERFORMANCE

The Company is a generalist investor and our investment objective and the investment and dividend policies are aimed at producing consistent returns over the long-term.

The NAV total return over the last ten years has been 222.8p (before taxation benefits) for each 100p invested compared with an average of 166.3p for the VCT generalist sector as a whole (source AIC). Over the same period, cumulative tax free dividends paid to shareholders, including the proposed final dividend of 5.0p, amount to 79p per share (equivalent to 105p for a higher rate taxpayer). This is before taking account of the initial income tax relief available on subscription.

Over the same period, the FTSE All-Share Index grew to 235.7p using the same metrics, but this comparison takes no account of the restricted nature of VCT investments or the benefit of tax reliefs available to investors in VCTs.

Chairman's Statement

FUND RAISING AND SHAREHOLDER OPPORTUNITIES

Our top up offer in February 2012 generated proceeds of £3.9 million net of expenses. We expect to make a further prospectus offer for subscription shortly seeking to raise net proceeds of approximately £5 million.

In deciding how much to raise the Directors have considered the level of cash that will be required by the Company for investment over the next few years as well as the need to maintain sufficient liquidity to pay dividends and costs.

Since inception the Board has, as a service to shareholders, maintained a buy back policy to acquire shares through the market, generally at a 10 per cent discount to NAV. The level of such buy backs has, in recent years, been small (0.75 million shares or 1 per cent of shares in issue last year). The Directors have decided that in an effort to minimise the discount between the share price and the NAV and increase the attractiveness of the Company's shares the Company will in future endeavour to buy back shares at a 5 per cent discount to NAV. This will also enable those shareholders who sell their shares to achieve a return closer to net asset value.

This new share buy back policy will be kept under continuous review based on the number of shares bought back and may be subject to revision. Shares will be bought back depending on market conditions at the time and only where the Directors believe they will be in the best interests of shareholders as a whole.

ANNUAL GENERAL MEETING

I look forward to meeting as many shareholders as possible at our 15th Annual General Meeting to be held on Thursday 10 January 2013 at the Plaisterers' Hall, One London Wall, EC2Y 5JU. Proceedings for the day commence at 11.00 a.m. with presentations from the Manager and an investee company followed by lunch before the AGM, at 1.30 p.m., which is expected to finish at 2.00 p.m.

OUTLOOK

As anticipated in my half-yearly report the continued scarcity of bank debt in the UK and concerns regarding the stability of the European Union has resulted in both uncertain and slower growth for the UK economy generally.

Against this backdrop it is good to report that there has been steady growth across many of the portfolio companies as witnessed by the 'top ten' investees showing excellent increases in turnover and more importantly in profits. The relatively low levels of debt in our portfolio companies should enable them to be more resilient if trading conditions remain uncertain.

Government continues to talk about helping smaller companies such as those in our portfolio. However the burden of regulation and the difficulty of raising capital for growth remains a problem for investees. VCTs have an excellent record of generating growth by investing in well managed companies, but proposed restrictions on fund raising (by the FSA in particular) threaten this well proven source of capital. Small companies are the large employers of the future and they need more equity investment rather than more bank borrowing. What is needed is fiscal and regulatory encouragement for individuals and others so that equity investment in any small growing company is made desirable.

The Company will continue to seek out and invest in growing businesses and further enhance our excellent portfolio.

Clive Parritt
Chairman
16 November 2012

Manager's Review

Andrew Garside

Sheenagh Egan

Michael Probin

The progress made by the Company's investees has been creditable given the ongoing economic uncertainty during the period under review. The portfolio has overall performed very well. It is pleasing to see a pickup in new investment, particularly in unquoted Private Equity.

PORTFOLIO REVIEW

Overview

The net assets of £72 million were invested as follows:

Asset class	NAV	% of NAV	Number of investees	Annual return %
Unquoted	£36,720,000	51	25	8
Quoted	£22,276,000	30	46	19
Wood Street Microcap	£4,183,000	6	33	8
Cash and near cash	£9,254,000	13	n/a	n/a

During the year in total there were;

- New investments of £9.14 million in eleven new companies and six follow ons;
- Divestments of £2.38 million from eight full investments and a partial loan realisation.

Each quarter the direction of general trading and profitability of all investee companies is recorded so that the Board can monitor the overall health and trajectory of the portfolio. At 30 September 2012, 85 per cent of the 71 companies in the quoted and unquoted portfolio were progressing steadily or better.

Unquoted Private Equity

The unquoted portfolio has again performed well and there has been an increase in unquoted values of 8 per cent. The unquoted portion of the portfolio is valued using a consistent process every three months which the Board oversees and approves. Almost all of the value creation in unquoted investments has come from operational improvements (revenue and margin growth), rather than financial leverage. For example, external bank debt within the top ten investments on average is only 0.7 times earnings, which is very low within the Private Equity arena.

The sale of TVC Group to the Economist Group realised £1.32 million.

Quoted (AIM traded and other listed investments)

There has also been a significant uplift in the quoted portfolio of 19 per cent partially reflecting a positive re-rating of the small cap sector in the first quarter of 2012. This recovery has been helpful to the quoted portfolio following several years of headwinds from a challenging AIM market environment and weak share prices.

Manager's Review

Over the three years to 30 September 2012, the approach in quoted investments has been to concentrate on making fewer AIM investments and becoming a more engaged shareholder where possible and appropriate. This has taken time to implement as only a small minority of AIM companies qualify for VCT purposes. The average size by value of the investments in the portfolio in September 2009 was £246,000 but this had nearly doubled to £484,000 by September 2012.

Realisations of £737,000 came from realising seven AIM-traded companies, three through trade sales (Clarity Commerce Solutions plc, Stagecoach Theatre Arts plc and Prologic plc); two through market sales (Real Good Food Company plc and Nakama Group plc) and two written off (Colliers International UK and Adventis Group). The latter five were mainly legacy companies that were valued below cost and were divested largely to reduce the tail of older and poorer performing investments.

Wood Street

Wood Street Microcap Investment Fund ("Wood Street") was established by ISIS in May 2009 to provide flexibility for the Baronsmead VCTs to invest in generally larger and more liquid non VCT qualifying AIM and Small Cap opportunities. At 30 September 2012, Baronsmead VCT 2 had invested £3.5 million into Wood Street. At the year end Wood Street was invested in a portfolio of 33 companies and the Baronsmead VCT 2 investment was valued at £4.2 million. Wood Street generated an increase of 8 per cent over the year.

During the year, a further investment of £1 million was made into Wood Street. The Manager receives no additional fee for managing this fund.

Liquid assets (cash and near cash)

Baronsmead VCT 2 had cash and near cash resources of approximately £9.3 million at the year-end. This asset class is conservatively managed to take minimal or no capital risk.

In addition, investments within the Wood Street fund are expected to be relatively more liquid than other investments as covered in the section above. This gives the Manager the possibility of realising cash from Wood Street should this ever be required to supplement liquid assets.

Unquoted Investments

During the year £6.60 million was invested in unquoted companies. The principal unquoted investments were:

- Independent Community Care Management ("ICCM") is a care business based in Kettering. It is a leading provider of homecare to individuals with complex long-term spinal and neurological conditions. This is a specialist healthcare business where the Manager has experience, most recently from the investment in Active Assistance which was successfully realised in 2010. The investment will help build infrastructure and capacity to grow the business.
- Happy Days Consultancy, a children's nursery business, is based in the South West of the UK. The business has 17 sites already and the investment will help accelerate growth in new sites. This is a sector that the Manager has invested in before with a successful investment in Kidsunlimited which was realised in 2008.
- Pho Holdings is a group of traditional Vietnamese restaurants based in London. The Pho sites are informal, fast casual environments, specialising in Vietnam's national dish of Pho, a tasty and nutritious noodle soup. Pho was awarded 'Best Emerging Concept' at this year's Retailer of the Year Awards. The first Pho location opened on St. John Street, Clerkenwell, London, in June 2005 and the group now has a total of seven sites across London and the South East. The new investment enables the team to open new sites, but with each site retaining a unique and independent feel.
- Impetus Holdings is a specialist business consultancy, supplying sales and after sales support services to the automotive industry. The business delivers a diverse range of programmes and projects for vehicle manufacturers, with much of their work taking place within dealerships and national sales Companies. Impetus Holdings has achieved strong growth in recent years with revenues increasing by 50 per cent since 2010. Clients include VW, Land Rover, Audi, Toyota, BMW, Citroen, Fiat, Ford and Jaguar. Approximately 15 per cent of work is delivered outside of the UK. The investment

Manager's Review

by ISIS will support the business in its continued expansion into new markets, building on the strong presence established in the UK and further development of new services to clients.

Top Ten investments

The average investment value of the top ten companies held by Baronsmead VCT 2 is £3 million per company. As these investments are normally held by the other four Baronsmead VCTs, the total managed by ISIS in each investee is significantly larger than this, which enables ISIS to dedicate significant resource to manage each investment and its progress. The top ten investees employ some 2,600 people which is an increase of 22 per cent over the last year. They have grown their turnover and profits by some 18 per cent annually for the last three years. In this year's Annual Report, each of the top ten companies is described in more detail on pages 14 to 18.

Investment Management

ISIS continues to invest in its skills and capacity with over 40 of its total team of 60 devoted to investment management across all its investing activities. Its focus is on generating strong investment returns from its portfolio through a mixture of intelligent investment selection and hands on portfolio management. Its ability to select good investments owes much to its in depth sector research and specialisation and to its strong origination team that help the team to generate proprietary dealflow. Its investments are supported from the outset by an experienced internal value enhancement team together with a panel of proven Operating Partners who work exclusively with ISIS to assist management teams to deliver both strategic development and operational efficiencies. They have enabled ISIS to build a strong track record of producing consistent returns from its unquoted investments.

ISIS has pursued a strategy of sector specialisation over the past fourteen years and in that time its executives have developed in-depth knowledge of these sectors and valuable networks of contacts which have enabled it to capitalise on opportunities that have presented themselves in an ever changing environment. Its key sectors are:

- Business Services
- Financial Services
- Consumer Markets
- Healthcare & Education
- Energy & Environmental
- Technology, Media & Telecommunications

ISIS' Operating Partners are all proven executives with a track record within the portfolio. Some are experienced Chairmen to lead change within investees. Others have deep functional experience including Sales, IT, Talent Management and Finance. This is an important additional resource on top of the experience of the ISIS executives to support investments made by the fund.

OUTLOOK

A number of commentators believe that the UK economy is unlikely to experience significant growth in the next decade. At this stage of the recovery, this is hard to dispute and it is a fair working assumption for investors.

However, many of our portfolio companies and their management teams are now more experienced at handling the economic uncertainties, including managing their growth and operations in a tougher environment than in previous decades. Low bank borrowings within the portfolio give them robust financial structures.

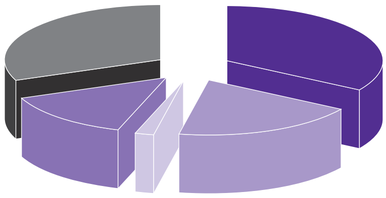
ISIS is an active investment manager who partners with our investees to help them to grow revenue and earnings whilst continuing to enhance customer service and build resilient businesses with good momentum. Our intention is to seek out the best opportunities where growth is driven by innovation and gaining market share through differentiation rather than relying on favourable economic growth. We continue to be confident that good levels of performance can be maintained through the ongoing challenging environment.

ISIS EP LLP
Investment Manager
16 November 2012

Summary Investment Portfolio

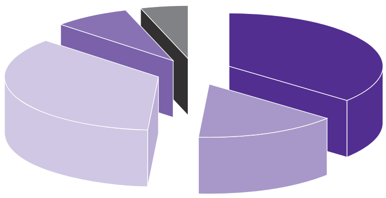
Investment Classification at 30 September 2012

By Sector*



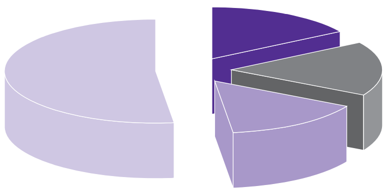
Business Services	34%
Consumer Markets	19%
Financial Services	2%
Healthcare & Education	14%
Technology, Media & Telecommunications ("TMT")	31%

Total Assets*



Unquoted – loan stock	36%
Unquoted – ordinary and preference	15%
AIM, listed & collective investment vehicle	36%
Listed interest bearing securities	8%
Net current assets principally cash	5%

Time Investments Held*



Less than 1 year	16%
Between 1 and 3 years	17%
Between 3 and 5 years	15%
Greater than 5 years	52%

* at 30 September 2012 valuation

Table of Investments and Realisations

Investments in the year

Company	Location	Sector	Activity	Book cost £'000
Unquoted investments				
New				
Independent Community Care Management Limited	Kettering	Healthcare & Education	High acuity care for home based care users	1,346
Impetus Holdings Limited	London	Business Services	Automotive consultancy and outsourced service provider	1,075
Consumer Investment Partners Limited	London	Consumer Markets	Company seeking to acquire businesses in the consumer markets sector	1,000
Riccal Investments Limited	London	Business Services	Company seeking to acquire businesses in the business services sector	1,000
Pho Holdings Limited	London	Consumer Markets	Restaurant group specialising in Vietnamese street food	987
Happy Days Consultancy Limited	Newquay	Healthcare & Education	Provider of nursery based childcare in Cornwall & Plymouth across 16 settings	833
Follow on				
Crew Clothing Holdings Limited	London	Consumer Markets	Multi-channel clothing retailer	360
Total unquoted investments				**6,601**
AIM-traded & listed investments				
New				
TLA Worldwide plc	London	Business Services	Baseball sports management and marketing business	620
Zattikka plc	London	TMT*	Online games development	316
Inspired Energy plc	Kirkham	Business Services	Energy procurement consultancy services	300
Paragon Entertainment Limited	London	Consumer Markets	Visitor attraction business	200
GB Group plc	Chester	TMT*	ID verification and data solutions	150
Follow on				
Dods (Group) plc	London	TMT*	Political information and communication	678
Electric Word plc	London	TMT*	Business to business publisher	80
Accumuli plc	Salford	TMT*	Managed IT security	76
FFastFill plc	London	TMT*	Trading platform software provider	62
Driver Group plc	Rossendale	Business Services	Dispute resolution	61
Total AIM-traded & listed investments				**2,543**
Collective investment vehicle				
Follow on				
Wood Street Microcap Investment Fund				1,000
Total collective investment vehicle				**1,000**
Total investments in the year				**10,144**

* Technology, Media & Telecommunications ("TMT").

Table of Investments and Realisations

Realisations in the year

Company		First investment date	30 September 2011 valuation £'000	Realised profit/(loss) this period £'000	Overall multiple return
Unquoted realisations					
TVC Group Limited	Full trade sale	Jul 08	766	558	^
MLS Limited	Loan repayment	Jul 06	320	0	1.00
Total unquoted realisations			**1,086**	**558**	
AIM-traded & listed realisations					
Stagecoach Theatre Arts plc	Full trade sale	Feb 01	153	140	0.70
Prologic plc	Full trade sale	Jun 04	103	48	0.49
Real Good Food Company (The) plc	Full market sale	Dec 03	218	40	0.42
Clarity Commerce Solutions plc	Full trade sale	Oct 09	26	6	0.63
Nakama Group plc	Full market sale	Dec 96	5	(1)	0.02
Adventis Group plc	Written off	Jun 04	22	(22)	0.00
Colliers International UK plc	Written off	Jul 01	27	(27)	0.00
Total AIM-traded & listed realisations			**554**	**184**	
Total realisations in the year			**1,640**	**742†**	

^ Not disclosed.

† Proceeds of £8,000 were also received in respect of Getting Personal Limited, which had been sold in the year ended 30 September 2011.

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 an ISIS investment is made 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, seeks to select the best opportunities and has a clear 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.

Ten Largest Investments

The top ten investments by current value at 30 September 2012 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

NEXUS VEHICLE HOLDINGS LIMITED

Leeds

www.nexusrental.co.uk

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:	£4,721,000
Valuation basis:	Earnings multiple
% of equity held:	12.62%

Year ended 30 September	2011 £million	2010 £million
Sale:	38.3	33.5
EBITA:	4.3	4.0
Profit before tax:	1.4	1.3
Net Assets:	1.7	0.8
No of employees:	90	73

(Source: Nexus Vehicle Holdings Limited, Report and Financial Statements 30 September 2011)

Nexus enables corporate users to source all their vehicle rental needs from one source – a highly efficient and cost effective online based process. The service is provided using its proprietary system, IRIS, an advanced web based IT tool that is highly regarded in the industry. It offers fast access to a large range of rental fleets and enables customers to benefit from the buying scale of Nexus.

Vehicle rental in the UK represents a large market and Nexus is gaining market share through its innovative approach. Two acquisitions have also added to the growth of Nexus.

2

IDOX PLC

London

www.investors.idoxgroup.com

All ISIS EP LLP managed funds	
First investment:	May 2002
Total cost:	£3,015,000
Total equity held:	9.52%
Baronsmead VCT 2 only	
Cost:	£1,038,000
Valuation:	£4,215,000
Valuation basis:	Bid Price
% of equity held:	3.19%

Year ended 31 October	2011 £million	2010 £million
Sales:	38.6	31.3
EBITA:	9.5	7.5
Profit before tax:	5.6	4.9
Net Assets:	34.4	31.0
No of employees:	363	332

(Source: IDOX Plc, Directors' Report and Financial Statements 31 October 2011)

IDOX group is a leading software and information management solutions provider, providing local authorities with software and managed services. These deliver seamless integration and automation from consumer websites through to document storage. In the private sector, its engineering information management software combines McLaren and CTSpace, who are leaders in their markets.

The Baronsmead VCTs first invested in IDOX in 2002, approximately two years after the company floated on AIM. Over the last decade IDOX has shown strong growth through a combination of organic growth and acquisition, and is now seeking to diversify from its core local authority markets into the private sector to become a leading player in industries like oil, gas and pharmaceuticals.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

3

CABLECOM NETWORKING HOLDINGS LIMITED

Clevedon

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:	£4,131,000
Valuation basis:	Earnings Multiple
% of equity held:	10.56%

Year ended 30 September	2011 £million	2010 £million
Sales:	12.2	8.2
EBITA:	1.4	0.9
Loss before tax:	(0.2)	(0.5)
Net Assets:	0.3	0.5
No. of employees:	61	52

www.cablecomnetworking.co.uk

(Source: CableCom Networking Holdings Limited, Report and Financial Statement 30 September 2011)

Cablecom is a leader in the provision of IT and communication managed services to accommodation blocks for the UK student and key worker sectors. Under term contracts, it manages the full range of communication services including broadband, telephony and TV at university sites. The business is also a provider of networking solutions to corporate clients.

Since investment, the proposition has been transformed by adding additional services such as a fully interactive web portal offering a wide range of services to both the accommodation owner and user. This is allowing Cablecom to capture a strong share of newly outsourced contracts.

4

CREW CLOTHING HOLDINGS LIMITED

London

All ISIS EP LLP managed funds	
First investment:	November 2006
Total cost:	£5,395,000
Total equity held:	25.51%
Baronsmead VCT 2 only	
Cost:	£1,344,000
Valuation:	£3,049,000
Valuation basis:	Earnings Multiple
% of equity held:	6.08%

Year ended 30 October	2011 £million	2010 £million
Sales:	40.7	34.6
EBITA:	3.3	2.7
Profit before tax:	2.8	2.0
Net Assets:	5.7	3.8
No. of employees:	311	284

www.crewclothing.co.uk

(Source: Crew Clothing Holdings Limited, Report and Financial Statements 30 October 2011)

Crew Clothing Co. is an English clothing brand with a wide range of active, outdoor and casual wear for men and women. Since it was founded in 1993, the brand has since evolved into the fast growing premium active and casual wear sectors, but retained its unique heritage and positioning. Today it is a well known, respected and aspirational clothing brand in the UK.

The business is a multi-channel retailer with its own significant retail estate, wholesale accounts and direct mail order channels. It is growing by expanding all these routes to market as the brand grows in presence.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

5

KAFEVEND HOLDINGS LIMITED
Crawley

www.kafevend.co.uk

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:	£2,908,000
Valuation basis:	Earnings Multiple
% of equity held:	15.79%

Year ended 30 September	2011 £million	2010 £million
Sales:	**18.4**	15.6
EBITA:	**1.9**	2.0
Profit before tax:	**0.6**	0.8
Net Assets:	**1.5**	1.2
No of employees:	**105**	95

(Source: Kafevend Holdings Limited, Directors' Report and Financial Statements 30 September 2011)

Kafevend is a leading supplier of workplace refreshments and vending machines in the UK. The business offers a wide range of quality commercial coffee and vending machines for sale, rental and also an arrangement based on paying just for consumables. The revenues are predominantly recurring sales of consumables used in its installed base.

Kafevend is building a reputation as a quality supplier for UK companies of all sizes. The market is fragmented and the company is one of the few UK players with a true national presence and a network of engineers available at short notice to service clients.

6

INDEPENDENT LIVING SERVICES LIMITED
Aberdeen

www.ilsscotland.com

All ISIS EP LLP managed funds	
First investment:	September 2005
Total cost:	£5,829,000
Total equity held:	65.68%

Baronsmead VCT 2 only	
Cost:	£1,599,000
Valuation:	£2,705,000
Valuation basis:	Earnings Multiple
% of equity held:	16.18%

Year ended 30 September	2011 £million	2010 £million
Sales:	**11.5**	10.1
EBITA:	**(0.7)**	(0.8)
Loss before tax:	**(0.9)**	(1.1)
Net Assets:	**0.4**	3.1
No of employees:	**836**	705

(Source: Independent Living Services Limited, Directors' Report and Financial Statements 30 September 2011)

ILS is one of the largest independent providers of domiciliary care in Scotland, providing carers to support individuals to live independently in their own homes. The business has grown from its single base at the time of investment to now cover a significant part of the Scottish geography.

The market in Scotland is very fragmented and a significant volume of this type of care is provided by Local Authorities. ILS is well placed to benefit as some of this care is outsourced to the best private providers over time. The business has completed several acquisitions, expanding its footprint across Scotland.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

7

FISHER OUTDOOR LEISURE HOLDINGS LIMITED

St. Albans

www.fisheroutdoor.co.uk

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:	£2,329,000
Valuation basis:	Earnings Multiple
% of equity held:	10.45%

Year ended 31 July	2011[2] £million	2010[1] £million
Sales:	**43.6**	26.5
EBITA:	**2.7**	2.3
Profit before tax:	**0.0**	0.7
Net Assets:	**1.2**	1.4
No of employees:	**110**	96

(Source: Fisher Outdoor Leisure Holdings Limited, Directors' Report and Financial Statements 31 July 2011)

Fisher Outdoor Leisure is one of the UK's leading distributors of cycles and cycle accessories to retailers. Fisher's product range consists of over 30 exclusively distributed industry leading brands from international manufacturers which want Fisher's support for their brands. It also provides a strong range of service and spares products essential for the specialist cycle retailer and its own range of house brands.

Since investment in 2006, the business has grown on the back of significant investment in people and systems, and improving its services for its end customers. It is a key added value distributor within a buoyant end market.

[1] 12 month period ended 31 January 2010

[2] 18 month period ended 31 July 2011. The Company changed its year end from 31 January to 31 July

8

CSC (WORLD) LIMITED

Pudsey, Leeds

www.cscworld.com

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:	£1,606,000
Valuation:	£2,295,000
Valuation basis:	Earnings Multiple
% of equity held:	8.81%

Year ended 31 March	2012 £million	2011 £million
Sales:	**7.9**	7.3
EBITA:	**2.4**	2.3
Loss before tax:	**(0.5)**	(0.4)
Net Liabilities:	**(2.0)**	(1.3)
No of employees:	**59**	58

(Source: Cobco 867 Limited, Financial Statements 31 March 2012)

CSC provides market leading software solutions for structural engineers, including structural analysis and modelling, steelwork and concrete design. The business has been developing innovative software and providing technical support to structural engineers for over 35 years. The software tools allow engineers to deliver complex solutions and with effective compliance back up.

The current customer base comprises companies in the UK, Ireland, USA, Asia, Australia and India. CSC is a business with strong growth prospects and with plans to continue international market development opportunities.

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

9

STAFFLINE GROUP PLC

Nottingham

All ISIS EP LLP managed funds	
First investment:	July 2000
Total cost:	£498,000
Total equity held:	8.38%
Baronsmead VCT 2 only	
Cost:	£249,000
Valuation:	£2,129,000
Valuation basis:	Bid Price
% of equity held:	4.19%

Year ended 31 December	2011 £million	2010 £million
Sales:	**288.3**	206.2
EBITA:	**10.3**	7.8
Profit before tax:	**7.5**	7.0
Net Assets:	**34.9**	30.5
No of employees:	**498**	291

www.staffline.co.uk

(Source: Staffline Recruitment Limited, Report and Financial Statements 31 December 2011)

Staffline are a specialist blue-collar labour supplier. Instead of serving clients from its branches, Staffline operates from client premises, providing a full on-site outsourcing service. This approach transformed the business from a regional temporary staff provider into a national innovative business.

By the time of Staffline's flotation on AIM in 2004, its Onsite business was operating in 35 locations and in 2010, after the completion of 3 acquisitions sales were increased by 79% with pre-tax profits up 100%.

10

VALLDATA GROUP LIMITED

Melksham

All ISIS EP LLP managed funds	
First investment:	January 2011
Total cost:	£6,475,000
Total equity held:	39.84%
Baronsmead VCT 2 only	
Cost:	£1,616,000
Valuation:	£1,769,000
Valuation basis:	Earnings Multiple
% of equity held:	8.76%

Year ended 31 March	2012 £million	2011 £million
Sales:	**7.1**	6.3
EBITA:	**0.8**	0.9
Profit before tax:	**0.7**	0.8
Net Assets:	**0.8**	0.6
No of employees:	**137**	126

www.valldata.co.uk

(Source: Valldata Services Limited, Directors Report and Financial Statements 31 March 2012)

Valldata is the UK's leading provider of outsourced donation processing and fulfilment services for the UK not-for-profit sector. Using its advanced technology and IT systems it manages over 8 million interactions with donors every year covering paper-based donation, donations via telephone and online services, and also manages the database updates for its customers. Investment in technology and infrastructure means it can typically process payments faster and at lower cost than a client could do in-house.

Many functions of this nature are undertaken in house by large charities and Valldata is growing as some of this work is outsourced.

EBITA: Earnings before interest, tax and amortisation

Board of Directors

As at 30 September 2012

Clive Parritt (Chairman)

(Date of appointment 18 February 1998)

(age 69) 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 was President of the Institute of Chartered Accountants in England and Wales in 2011–12. He is 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 67) 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, Martin Currie Global Portfolio Investment Trust plc and JP Morgan Russian Securities Plc and is chairman of Witan Pacific Investment Trust plc as well as a deputy chairman of the Association of Investment Companies. She was also a director of Liverpool Victoria Friendly Society from May 2005 until May 2011. Gill is a non-executive director of Baronsmead VCT 3 and Baronsmead VCT 5.

Howard Goldring

(Date of appointment 11 November 2009)

(age 62) 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). Prior to that 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.

Christina McComb

(Date of appointment 3 February 2011)

(age 56) is currently a non-executive director of Engage Mutual Assurance and Nexeon Ltd and is a Governor of Surbiton High School and Trustee of the Land Restoration Trust. She is also a director of C5 Capital Ltd, an investment company focused on the security sector.

Prior to joining the BVCT 2 Board, she was a director of Partnerships UK plc, a public private partnership, where she was responsible for PUK's investment activities and a director of the Shareholder Executive, an agency established in 2003 to manage the Government's shareholdings in publicly owned companies. Christina was formerly a director of 3i, a leading UK and European private equity company. In her 14 years at 3i, Christina undertook a number of investment and portfolio management roles and prior to this Christina was a member of HM Diplomatic Service.

As a fully listed Company, Baronsmead VCT 2 plc is required to comply with the Financial Reporting Council's UK Corporate Governance Code. This Code requires the Company to be headed by an effective Board of Directors who provide entrepreneurial leadership of the Company within a framework of prudent and effective controls.

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 5 and 6 and the Corporate Governance Statement on pages 28 to 30 form part of this Report of the Directors.

Results and Dividends

The Directors present the fifteenth Report and audited financial statements of the Company for the year ended 30 September 2012.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	5,964
Interim dividend of 2.5p per ordinary share paid on 15 June 2012	(1,804)
Total dividends paid during the year	**(1,804)**

Subject to approval at the forthcoming Annual General Meeting the final proposed dividend in respect of the year ended 30 September 2012 of 5.0p per ordinary share will be paid on 18 January 2013 to shareholders recorded on the register on 4 January 2013.

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 stock, convertible securities, and interest bearing securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stock, while AIM investments are primarily held in ordinary shares. Pending investment in unquoted and AIM-traded securities, cash is primarily held in interest bearing accounts, money market open ended investment companies ("OEICs"), 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.

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 by value of its investments calculated in accordance with Section 278 of the Income Tax Act 2007 (as amended) ("VCT Value") in a single company or group of companies and must have at least 70 per cent of its investments by VCT Value throughout the period in shares and securities comprised in qualifying holdings. At least 70 per cent by VCT Value of qualifying holdings must be in "eligible shares", which are ordinary shares which have no preferential rights to assets on a winding up and no rights to be redeemed, but may have certain preferential rights to dividends. For funds raised before 6 April 2011, at least 30 per cent by VCT Value of qualifying holdings must be in "eligible shares" which are ordinary shares which do not carry any rights to be redeemed or preferential rights to dividends or to assets on a winding up. At least 10 per cent of each qualifying investment must be in "eligible shares".

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment to be classed as a VCT qualifying holding.

Report of the Directors

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 uninvested 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. Generally no more than £2.5 million, at cost, is invested in the same company. The value of an individual investment is expected to increase over time as a result of trading progress and a continuous assessment is made of its suitability for sale.

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

Co-investment
The Company aims to invest in larger more mature unquoted and AIM companies and to achieve this it invests alongside the other Baronsmead VCTs. Currently ISIS EP LLP ("the Manager") and its executive members and certain staff 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 up to a maximum of 25 per cent of gross assets.

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

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

The Manager's Review on pages 7 to 9 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 corporation tax on capital 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 Act 2006, the rules of the UK Listing Authority and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report. 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.

Report of the Directors

- 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 accounts on pages 39 to 51. 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 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 "Internal Controls: Guidance to Directors".

Details of the Company's internal controls are contained in the Corporate Governance section on pages 28 to 30.

Performance and key performance indicators ("KPIs")

The Board expects the Manager to deliver a performance which meets the objective of achieving NAV total return which is in the top quartile of generalist VCTs. 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 5 and 6.

The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on pages 1 to 4 of this Report and Accounts.

Issue and Buy-Back of Shares

As a result of a top-up offer on 20 February 2012 the Company allotted 4,077,587 ordinary shares at a price of 101.40p representing 5.0 per cent of the then issued share capital with an aggregate nominal value of £407,758.70 raising £4,135,000 of new funds in total. The terms of issue were set out in the Offer document dated 12 January 2012 and the offer price was set on 20 February 2012.

The Company also bought back 744,913 ordinary shares with a nominal value of 10p each to be held in treasury, representing an aggregate cost of £651,779. No shares were sold from treasury during the period. Shares will not be sold from treasury at a discount wider than the discount prevailing at the time the shares were initially bought back by the Company. The Company holds 9,218,819 ordinary shares in treasury representing 11.40 per cent of the issued share capital as at 16 November 2012. This was the maximum number of shares held in treasury during the year.

Directors

Biographies of the Directors are shown on page 19.

Ms McComb, having been elected at the Annual General Meeting in 2012, will not retire at the forthcoming Annual General Meeting.

Mr Goldring will, in accordance with the Articles of Association, retire by rotation and submit himself for re-election at the forthcoming Annual General Meeting.

As explained in more detail under Corporate Governance on pages 28 to 30 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 Parritt and Mrs Nott have held office for a period of more than nine years, they will retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. Mrs Nott who is a director of Baronsmead VCT 3 plc and Baronsmead VCT 5 plc is also required to seek annual re-election under the terms of the UKLA's Listing Rules.

Report of the Directors

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 2012	30 September 2011
	Ordinary 10p shares	Ordinary 10p shares
Clive Parritt	**87,729**	85,316
Gillian Nott	**48,462**	48,462
Howard Goldring	**10,157**	–
Christina McComb	**20,315**	–
Total shares held	**166,663**	133,778

There have been no changes in the holdings of the Directors between 30 September 2012 and 16 November 2012.

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 11, 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

When a new director is appointed he or she is provided with 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.

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).

Report of the Directors

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. The running cost as at 30 September 2012 was 2.49 per cent.

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.

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 UK Corporate Governance 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.

Co-investment Scheme

The Co-investment Scheme was introduced in November 2004. Members of the Manager's investment team invest their own capital into a proportion of the ordinary shares of each and every unquoted investment made by the Baronsmead VCTs. 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 Baronsmead VCTs is sold. In addition, any prior ranking financial instruments, such as loan stock, held by the Baronsmead VCTs have to be repaid in full together with the agreed priority annual return before any gain accrues to the ordinary shares. This ensures that the Baronsmead VCTs achieve a good priority return before profits accrue to the Co-investment Scheme.

Report of the Directors

The Board is keen to ensure that the Manager continues to have one of the best investment teams in the VCT and private equity market place and considers the scheme to be essential in order to attract, retain and incentivise the best talent. The scheme is in line with current market practice in the private equity industry and the Board believes that it aligns the interests of the Manager with those of the Baronsmead VCTs since executives have to invest their own capital in every unquoted transaction and cannot decide selectively in which investments to participate. In addition the co-investment only delivers a return after each VCT has realised a priority return built into the structure.

The executives participating in the Co-investment Scheme subscribe jointly for a proportion (currently 12%) of the ordinary shares available to the Baronsmead VCTs in each unquoted investment. The level of participation was increased from 5% in 2007 when the Manager's performance fee was reduced from 20% to its current level of 10%.

Since the formation of the scheme in 2004, 52 executives have invested a total of £696k in 32 companies. At 30 September 2012 nine of these investments have been realised generating proceeds of £81m for the Baronsmead VCTs and £4.7m for the Co-investment Scheme. For Baronsmead VCT 2 the average money multiple on these nine realisations was 2.3 times cost. Had the co-investment shares been held instead by the Baronsmead VCTs that money multiple would have been 2.44 times cost. Over the period of eight years (based upon the current number of shares in issue) this equates to approximately 1.6p a share.

The Board reviews the operation of the Co-investment Scheme at each quarterly valuation meeting. The Co-investment Scheme was also independently reviewed during the period by Singer Capital Markets who confirmed that the investments were compliant with the Co-investment Scheme rules.

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 – Advisory Fees

During the year to 30 September 2012, ISIS EP LLP received income of £130,300 (2011: £37,500) from investee companies in connection with advisory fees and incurred abort fees of £58,901 (2011: £15,246), 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 2012, there were no outstanding supplier invoices (2011: 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 16 November 2012 the Company was not aware of any beneficial interests exceeding 3 per cent of the ordinary share capital in circulation.

Report of the Directors

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 2012 the Company held cash balances & investments in UK Gilts and Money Market Funds with a combined value of £9,404,000. 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 p.m. on Thursday, 10 January 2013 at the Plaisterers' Hall, One London Wall, EC2Y 5JU is set out on pages 52 to 55. The following notes provide an explanation of Resolutions 7 to 11 which together with Resolutions 1 to 6, will be proposed at the meeting. Resolutions 1 to 8 will be proposed as ordinary resolutions requiring the approval of more than 50 per cent of the votes cast at the meeting and Resolutions 9 to 11 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.

Auditor

KPMG Audit Plc has expressed its willingness to continue in office as auditor and Resolution 7 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 8 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 £3,582,397 representing 50 per cent of the issued share capital (excluding treasury shares). 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 9.

Resolution 9 renews and extends, subject to passing of Resolution 8, 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 Annual General Meeting of the Company held in 2014, to issue ordinary shares for cash without pre-emption rights applying of (i) up to an aggregate nominal amount representing 30 per cent of the Company's issued share capital (excluding treasury shares), (ii) up to an aggregate nominal amount representing 10 per cent of the issued share capital (excluding treasury shares) 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 (excluding treasury shares) 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.

Report of the Directors

Treasury Shares

The Company currently holds 9,218,819 ordinary shares in treasury representing 11.40 per cent of the Company's issued ordinary shares. If Resolution 9 is passed, the Board will be permitted by shareholders to reissue 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 10 seeks renewal of such authority until the Annual General Meeting to be held in 2014 (or the expiry of 15 months after the passing of the resolution, if earlier), unless such authority is renewed prior to such time. 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 11 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.

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

16 November 2012

Corporate Governance

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

Corporate Governance Codes

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 October 2010 ('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 the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 ('UK Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. A copy of the UK 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 UK 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 UK Code. Since all the Directors are non-executive the provisions of the UK Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the UK 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 UK 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.

Directors

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 B.2.3 of the UK Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine years. The Board, 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 VCT 5 plc and Baronsmead VCT 3 plc, both of which are managed by ISIS EP LLP. Mr Parritt and Mr Goldring are non-executive directors of London & Associated Properties Plc. Their fellow Directors consider that each demonstrates that they are independent in character and judgment and the existence of the common directorship or appointments to other companies managed by ISIS EP LLP does not impede their independence. 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 diversity of background 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.

Corporate Governance

Division of Responsibilities

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.

Committees

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. 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 Management Engagement and Remuneration Committee also determines and agrees with the Board the framework or broad policy for the remuneration of the Company's Chairman and non-executive Directors. In determining such policy, the Committee takes into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Corporate Governance Code and associated guidance.

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, experience, knowledge and diversity within the Board.

Principle 7 of the AIC Code and Principle B.6 of the UK Code recommends that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. It is the Board's policy to evaluate the performance of the Board, committees and individual Directors through an assessment process, led by the Chairman. The performance of the Chairman is evaluated by the other Directors under the leadership of the Senior Independent Director.

All of the Directors met quarterly to consider in detail the valuations of the unquoted investments in the Company's portfolio.

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.

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.

Copies of the terms of reference of each of the Company's committees can be obtained from the Company upon request.

Corporate Governance

The following table sets out the number of Board and Committee meetings held during the year to 30 September 2012 and the number of meetings attended by each Director.

	Board of Directors (8 meetings held)		Audit Committee (2 meetings held)		Management Engagement and Remuneration Committee (1 meeting held)		Nomination Committee (1 meeting held)	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Clive Parritt	8	7	2	2	1	1	1	1
Gillian Nott	8	8	2	2	1	1	1	1
Howard Goldring	8	5	2	2	1	1	1	1
Christina McComb	8	8	2	2	1	1	1	1

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 10 January 2013 can be found in the Notice of Meeting on pages 52 to 55. Shareholders seeking to communicate with the Board can do so by contacting the Investment Manager in the first instance (see page 63 for contact details).

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 absolute terms 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, approves 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 auditor's opinion is included in the 'Independent Auditor's Report'.

Board of Directors and their Fees

The Board which is profiled on page 19 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 Board concluded following a review of the level of Directors' fees for the forthcoming year, that, to reflect the increase in the amount and quality of work required of directors of venture capital trusts it was appropriate to increase the Directors' fees, broadly in line with the RPI, which as at 7 November 2012 was 2.6 per cent. Accordingly the Directors' fees were increased to £18,000 and the Chairman's fee was increased to £26,500 with effect from 1 October 2012.

The Management Engagement and Remuneration Committee comprises all the Directors of the Company and is chaired by Mrs Nott. As the Company has no executive directors, the Management Engagement and Remuneration Committee meets, at least annually, to consider the Directors' 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 the Company properly 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 2013 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. The terms of Directors' appointments provide that Directors should retire and be subject to 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 UK Corporate Governance Code, Directors who have served on the Board for more than nine 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. Below is a table which sets out each Directors' date of appointment and due date for re-election/election.

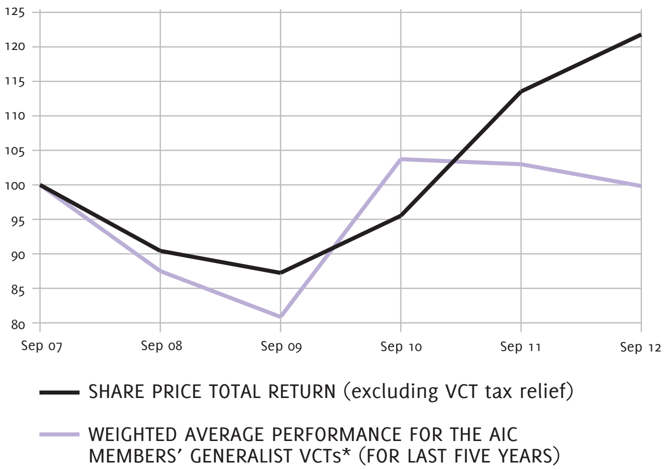
Director	Date of original appointment	Due date for re-election
C Parritt	18 February 1998	AGM 2013
G Nott	18 February 1998	AGM 2013
H Goldring	11 November 2009	AGM 2013
C McComb	3 February 2011	AGM 2014

Directors' Remuneration Report

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 2012, the percentage change over each period in the share price total return (assuming all dividends are reinvested) to shareholders compared to the share price total return of approximately 60 generalist VCTs (source AIC). 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 weighted average performance for the AIC members' generalist VCTs (for the last five years).



*Source: AIC

Directors' emoluments for the year (audited)

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

	Fees 2012 £	Fees 2011 £
C Parritt	**26,000**	24,750
G Nott	**17,325**	16,500
H Goldring	**17,325**	16,500
C McComb	**17,325**	10,873
Total	**77,975**	68,623

Approved by the Board of Directors and signed by:

Gillian Nott
Chairman of the Management Engagement and Remuneration Committee
16 November 2012

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 and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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, Directors' Remuneration Report and Corporate Governance Statement that complies 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. 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 Annual 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

16 November 2012

Independent Auditor's Report

Independent Auditor's 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 2012 set out on pages 36 to 51. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2012 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,
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 28 to 30 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditor's Report

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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 26, in relation to going concern;
- the part of the Corporate Governance Statement on pages 28 to 30 relating to the Company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

16 November 2012

Income Statement

For the year ended 30 September 2012

	Notes	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Unrealised gains on investments	8	–	5,842	5,842	–	3,346	3,346
Realised gains on investments	8	–	750	750	–	2,865	2,865
Income	2	1,101	–	1,101	2,425	–	2,425
Investment management fee	3	(337)	(1,011)	(1,348)	(323)	(970)	(1,293)
Other expenses	4	(381)	–	(381)	(368)	–	(368)
Profit on ordinary activities before taxation		383	5,581	5,964	1,734	5,241	6,975
Taxation on ordinary activities	5	(16)	16	–	(379)	379	–
Profit on ordinary activities after taxation		367	5,597	5,964	1,355	5,620	6,975
Return per ordinary share:							
Basic	7	0.52p	7.93p	8.45p	1.98p	8.21p	10.19p

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.

There are no recognised gains or losses other than those disclosed in the Income Statement, therefore a separate statement of total recognised gains or losses has not been prepared.

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2012

	Notes	2012 £'000	2011 £'000
Opening shareholders' funds		64,999	63,673
Profit for the year		5,964	6,975
Gross proceeds of share issues	11/12	4,135	2,111
Purchase of shares for treasury	12	(652)	(813)
Expenses of share issue and buybacks	12	(199)	(78)
Other costs charged to capital	12	(10)	–
Dividends paid	6	(1,804)	(6,869)
Closing shareholders' funds		72,433	64,999

The accompanying notes are an integral part of these statements.

Balance Sheet

As at 30 September 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments	8	**69,118**	64,330
Current assets			
Debtors	9	**310**	586
Cash at bank		**465**	542
Cash on deposit		**3,000**	–
		3,775	1,128
Creditors (amounts falling due within one year)	10	**(460)**	(459)
Net current assets		**3,315**	669
Net assets		**72,433**	64,999
Capital and reserves			
Called-up share capital	11	**8,087**	7,679
Share premium account	12	**3,531**	14,404
Capital redemption reserve	12	**–**	9,254
Capital reserve	12	**47,452**	28,849
Revaluation reserve	12	**12,742**	4,559
Revenue reserve	12	**621**	254
Equity shareholders' funds	13	**72,433**	64,999
Net asset value per share			
– Basic	13	**101.10p**	95.15p
– Treasury	13	**99.83p**	94.16p

The financial statements on pages 36 to 51 were approved by the Board of Directors on 16 November 2012 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 2012

	Notes	2012 £'000	2011 £'000
Operating activities			
Investment income received		1,343	2,082
Deposit interest received		6	–
Other income received		–	63
Investment management fees paid		(1,311)	(1,286)
Other cash payments		(375)	(371)
Net cash (outflow)/inflow from operating activities	15	(337)	488
Capital expenditure and financial investment			
Purchases of investments		(99,024)	(52,054)
Disposals of investments		100,857	55,846
Net cash inflow from capital expenditure and financial investment		1,833	3,792
Dividends			
Equity dividends paid		(1,804)	(6,869)
Net cash outflow before financing		(308)	(2,589)
Financing			
Gross proceeds of share issues		4,135	2,111
Purchase of shares for treasury		(695)	(770)
Expenses of share issue and buybacks		(199)	(78)
Other costs charged to capital		(10)	–
Net cash inflow from financing		3,231	1,263
Increase/(decrease) in cash at bank and on deposit in the year		2,923	(1,326)
Reconciliation of net cash flow to movement in net cash at bank and on deposit			
Increase/(decrease) in cash at bank and on deposit		2,923	(1,326)
Opening cash at bank and on deposit		542	1,868
Closing cash at bank and on deposit	14	3,465	542

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 & 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 valued at fair value 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.

Notes to the Accounts

1. Accounting policies (continued)

(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.

2. Income

	2012 £'000	2011 £'000
Income from investments†		
UK franked	**323**	331
UK unfranked	**710**	1,502
UK unfranked – reinvested	**29**	–
Redemption premium	**33**	528
	1,095	2,361
Other income‡		
Deposit interest	**6**	1
Other income	**–**	63
Total income	**1,101**	2,425
Total income comprises:		
Dividends	**323**	333
Interest	**778**	2,092
	1,101	2,425
Income from investments:		
AIM-traded & listed securities	**344**	347
Unquoted securities	**751**	2,014
	1,095	2,361

† All investments have been designated at 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.

Notes to the Accounts

3. Investment management fee

	2012 £'000	2011 £'000
Investment management fee	**1,348**	1,293
Performance fee	**–**	–
	1,348	1,293

For the purposes of the revenue and capital columns in the income statement, the management fee 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 10.

4. Other expenses

	2012 £'000	2011 £'000
Directors' fees	**78**	69
Secretarial and accounting fees	**125**	121
Remuneration of the auditors and their associates:		
– audit	**22**	21
– other services supplied pursuant to legislation (interim review)	**5**	5
– other services supplied relating to taxation	**11**	5
Other	**140**	147
	381	368

The Chairman received £26,000 per annum (2011: £24,750). Each of the other Directors received £17,325 per annum (2011: £16,500).

Charges for other services provided by the auditors in the year ended 30 September 2012 were in relation to the interim reviews and tax compliance work (including iXBRL). 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

5. Tax on ordinary activities
5a. Analysis of charge for the year

	2012 £'000	2011 £'000
UK corporation tax	–	–

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

5b. 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:

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Profit on ordinary activities before taxation	383	5,581	5,964	1,734	5,241	6,975
Corporation tax at 26 per cent (2011: 27 per cent)	100	1,451	1,551	468	1,415	1,883
Effect of:						
Non-taxable dividend income	(84)	–	(84)	(89)	–	(89)
Non-taxable gains	–	(1,714)	(1,714)	–	(1,676)	(1,676)
Losses carried forward/(utilised)	–	247	247	–	(118)	(118)
Tax charge/(credit) for the year (note 5a)	16	(16)	–	379	(379)	–

At 30 September 2012 the Company had surplus management expenses of £1,785,618 (2011: £834,592) 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.

6. Dividends

	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000	2011 Revenue £'000	2011 Capital £'000	2011 Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 30 September 2012						
– Interim dividend of 2.5p per ordinary share paid on 15 June 2012	–	1,804	1,804	–	–	–
For the year ended 30 September 2011						
– First interim dividend of 2.5p per ordinary share paid on 17 June 2011	–	–	–	515	1,200	1,715
– Second interim dividend of 4.5p per ordinary share paid on 29 September 2011	–	–	–	1,299	1,778	3,077
For the year ended 30 September 2010						
– Final dividend of 3.0p per ordinary share paid on 14 January 2011	–	–	–	692	1,385	2,077
	–	1,804	1,804	2,506	4,363	6,869

Notes to the Accounts

7. Returns per share

The 8.45p return per ordinary share (2011: 10.19p return) is based on the net profit on ordinary activities after taxation of £5,964,000 (2011: £6,975,000 profit) and on 70,544,594 ordinary shares (2011: 68,443,702), being the weighted average number of shares in circulation during the year.

8. Investments

All investments are designated as fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated as 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.

	2012 £'000	2011 £'000
Level 1		
Listed interest bearing securities	5,939	15,498
Investments traded on AIM	20,750	15,448
Investments listed on LSE	1,526	1,516
	28,215	32,462
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	4,183	2,863
Level 3		
Unquoted investments	36,720	29,005
	69,118	64,330

	2012 £'000	2011 £'000
Equity shares	37,154	29,441
Loan notes	25,947	19,391
Preference shares	78	–
Fixed income securities	5,939	15,498
	69,118	64,330

Notes to the Accounts

8. Investments (continued)

	Level 1			Level 2	Level 3	
	Listed interest bearing securities £'000	Traded on AIM £'000	Listed on LSE £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	15,498	17,222	1,536	2,525	22,990	59,771
Opening unrealised (depreciation)/appreciation	–	(1,774)	(20)	338	6,015	4,559
Opening valuation	15,498	15,448	1,516	2,863	29,005	64,330
Movements in the year:						
Purchases at cost	88,909	2,543	–	1,000	6,601	99,053
Sales – proceeds	(98,468)	(737)	–	–	(1,652)	(100,857)
– realised gains on sales	–	184	–	–	566	750
Unrealised losses realised during the year	–	(1,874)	–	–	(467)	(2,341)
Increase in unrealised appreciation	–	5,186	10	320	2,667	8,183
Closing valuation	**5,939**	**20,750**	**1,526**	**4,183**	**36,720**	**69,118**
Closing book cost	5,939	17,338	1,536	3,525	28,038	56,376
Closing unrealised appreciation/(depreciation)	–	3,412	(10)	658	8,682	12,742
Closing valuation	**5,939**	**20,750**	**1,526**	**4,183**	**36,720**	**69,118**

During the year the Company incurred brokerage costs on purchases of £1,100 (2011: £3,100) and brokerage costs on sales of £nil (2011: £2,500) in respect of ordinary shareholder interests.

The gains and losses included in the above table have all been recognised in the income statement on page 36.

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 £2.14 million or 5.84 per cent lower. Using the upside alternative the value would be increased by £2.57 million or 7.00 per cent.

Notes to the Accounts

9. Debtors

	2012 £'000	2011 £'000
Prepayments and accrued income	**310**	586
	310	586

10. Creditors (amounts falling due within one year)

	2012 £'000	2011 £'000
Management, performance, secretarial and accounting fees due to the Manager	**397**	357
Amounts due to brokers (for buybacks)	**–**	43
Other creditors	**63**	59
	460	459

11. Called-up share capital

Allotted, called-up and fully paid: *Ordinary shares*	£'000
76,789,184 ordinary shares of 10p each listed at 30 September 2011	7,679
4,077,587 ordinary shares of 10p each issued during the year	408
80,866,771 ordinary shares of 10p each listed at 30 September 2012	**8,087**
8,473,906 ordinary shares of 10p each held in treasury at 30 September 2011	(847)
744,913 ordinary shares of 10p each repurchased during the year and held in treasury	(75)
9,218,819 ordinary shares of 10p each held in treasury at 30 September 2012	**(922)**
71,647,952 ordinary shares of 10p each in circulation at 30 September 2012	**7,165**

As at 16 November 2012 the Company's issued share capital was 80,866,771 ordinary shares, of which 9,218,819 shares were held in treasury. The number of shares in circulation was 71,647,952 ordinary shares carrying one vote each.

Notes to the Accounts

11. Called-up share capital (continued)

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 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.

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.

12. Reserves

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Revaluation reserve £'000	Revenue reserve £'000
At 1 October 2011	14,404	9,254	28,849	4,559	254
Cancellation of share premium and capital redemption reserve	(14,404)	(9,254)	23,658	–	–
Costs relating to the cancellation of share premium and capital redemption reserve	–	–	(10)	–	–
Gross proceeds of share issues	3,727	–	–	–	–
Purchase of shares for treasury	–	–	(652)	–	–
Expenses of share issue and buybacks	(196)	–	(3)	–	–
Reallocation of prior year unrealised gains	–	–	(2,341)	2,341	–
Realised gain on disposal of investments*	–	–	750	–	–
Net increase in value of investments*	–	–	–	5,842	–
Management fee capitalised*	–	–	(1,011)	–	–
Taxation relief from capital expenses*	–	–	16	–	–
Revenue return on ordinary activities after taxation*	–	–	–	–	367
Dividends paid in the year	–	–	(1,804)	–	–
At 30 September 2012	**3,531**	**–**	**47,452**	**12,742**	**621**

At 30 September 2012, reserves distributable by way of dividend amounted to £48,073,000 (2011: £27,309,000) comprising the capital reserve and revenue reserve less the net unrealised loss on those investments whose prices are quoted in an active market and deemed readily realisable.

* The total of these items is £5,964,000, which agrees to the total profit on ordinary activities after taxation on page 36.

Notes to the Accounts

12. Reserves (continued)

On 2 November 2011, the share premium account and capital redemption reserve were cancelled by an Order of Court following the passing of a Special Resolution. The credit arising has been applied in crediting a special reserve, within the capital reserve, which shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with section 649 of the Companies Act 2006) are able to be applied.

13. 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	
	2012 number	2011 number	**2012 pence**	2011 pence	**2012 £'000**	2011 £'000
Ordinary shares (basic)	**71,647,952**	68,315,278	**101.10**	95.15	**72,433**	64,999
Ordinary shares (treasury)	**80,866,771**	76,789,184	**99.83**	94.16	**80,730**	72,308

Basic net asset value per share is based on net assets at the year end, and on 71,647,952 (2011: 68,315,278) 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 2012 included ordinary shares held in treasury valued at the mid share price of 90.00p at 30 September 2012 (2011: 86.25p).

14. Analysis of changes in cash at bank and on deposit

	2012 £'000	2011 £'000
Beginning of year	**542**	1,868
Net cash inflow/(outflow)	**2,923**	(1,326)
As at 30 September 2012	**3,465**	542

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

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	**5,964**	6,975
Gains on investments	**(6,592)**	(6,211)
Decrease/(increase) in debtors	**276**	(279)
Increase in creditors	**44**	3
Income reinvested	**(29)**	–
Net cash (outflow)/inflow from operating activities	**(337)**	488

16. Contingencies, guarantees and financial commitments

There were no contingencies, guarantees or financial commitments of the Company as at 30 September 2012 (2011: nil).

Notes to the Accounts

17. Significant interests

There are no interests of 20 per cent or more of any class of share capital in any underlying holdings in investee companies.

Further information on the significant interests is disclosed on page 25.

18. 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 8) 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 valued at fair value 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, interest rate 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 19 to 22.

19. Market risk

Market risk embodies the potential for both losses 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 18. 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 20 to 27, 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 58 to 60. An analysis of investments between debt and equity instruments is disclosed in note 8.

38 per cent (2011: 26 per cent) of the Company's investments are listed on the London Stock Exchange, traded on AIM or invested through Wood Street Microcap Fund. A 5 per cent increase in stock prices as at 30 September 2012 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,323,000 (2011: £848,000); 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.

53 per cent (2011: 45 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 2012 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,836,000 (2011: £1,450,000); 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

20. Interest rate risk

At 30 September 2012 £4,699,000 (2011: £9,498,000) fixed rate securities were held by the Company. As a result, the Company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. However the effect of these interest rate changes is not materially significant.

At 30 September 2012 £25,947,000 (2011: £19,391,000) fixed rate loan notes were held by the Company. The weighted average coupon rate for the loan note securities is 9.41 per cent as at 30 September 2012 (2011: 9.59 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 other fixed interest-bearing financial instruments:

Fixed rate

	2012			2011		
	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 interest instruments	**4,699**	**0.18**	**10**	9,498	0.43	3

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 2012 (2011: 0.5 per cent).

	2012 £'000	2011 £'000
Floating rate		
Floating rate instruments ("OEIC")	**1,240**	6,000
Cash at bank	**465**	542
Cash on deposit	**3,000**	–
	4,705	6,542

Notes to the Accounts

21. 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 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:

	2012 £'000	2011 £'000
Investments in fixed rate instruments	**4,699**	9,498
Investments in floating rate instruments	**1,240**	6,000
Cash at bank	**465**	542
Cash on deposit	**3,000**	–
Interest, dividends and other receivables	**310**	586
	9,714	16,626

Credit risk arising on unquoted loan notes are considered in conjunction with the associated equity investment in the portfolio company.

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 19.

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 28 to 30.

The cash held by the Company is held by JPM and Lloyds TSB. The Board monitors the Company's risk by reviewing regularly the internal control reports of these banks. Should the credit quality or the financial position of either bank 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 2012 or 30 September 2011. No individual investment exceeded 6.5 per cent of the net assets attributable to the Company's shareholders at 30 September 2012 (2011: 14.6 per cent).

Notes to the Accounts

22. 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 22. 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 2012 these investments were valued at £9,404,000 (2011: £16,040,000).

23. Related parties

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 3, 4 and 10, and fees paid to the Directors as disclosed in note 4. In addition, the Manager operates a Co-investment Scheme, detailed in the Report of the Directors on page 21, whereby employees of the Manager are entitled to participate in all unquoted investments alongside the Company.

Notice of Annual General Meeting

Notice is hereby given that the fifteenth Annual General Meeting of Baronsmead VCT 2 plc ("the Company") will be held at the Plaisterers' Hall, One London Wall, EC2Y 5JU, on Thursday, 10 January 2013 at 1.30 p.m. for the purposes of considering and, if thought fit, passing the following resolutions, resolutions 1 to 8 being proposed as ordinary resolutions and resolutions 9 to 11 being proposed as special resolutions.

Ordinary Business

1. To receive the Report and Financial Statements for the year ended 30 September 2012.
2. To declare a final dividend of 5.0p per Ordinary Share.
3. To approve the Directors' Remuneration Report for the year ended 30 September 2012.
4. To re-elect Mrs G Nott as a director.
5. To re-elect Mr C Parritt as a director.
6. To re-elect Mr H Goldring as a director.
7. To re-appoint KPMG Audit Plc as the independent auditors and to authorise the Directors to determine their remuneration.
8. THAT, in addition to any subsisting authority granted at a general meeting of the Company held between the date of the notice of this Annual General Meeting and the date of this Annual General Meeting, but otherwise in substitution for all other subsisting authorities to the extent unused, the Directors of the Company 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 £3,582,397 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.
9. THAT, subject to the passing of resolution 8 set out in the notice of this meeting, and in addition to any subsisting power granted at a general meeting of the Company held between the date of the notice of this Annual General Meeting and the date of this Annual General Meeting, the Directors of the Company 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 8 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 representing 30 per cent of the issued share capital (excluding treasury shares) 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 (excluding 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 (excluding treasury shares) from time to time which may be at a discount to NAV.

   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 2014, 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

10. 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 10,740,028 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 the passing of this resolution (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 2014, 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 expiry of such authority.

11. 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.

By Order of the Board

ISIS EP LLP
Secretary
16 November 2012

Registered Office:
100 Wood Street
London EC2V 7AN

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 6pm on 8 January 2013 (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 889 3249 or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name, the number of shares all in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided, if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. A reply paid form of proxy is enclosed with Shareholders' copies of this document. To be valid, it should be lodged with the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received not later than 48 hours before the time appointed for the meeting or any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.
6. 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.

Notice of Annual General Meeting

10. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST manual, which is available to download from the Euroclear website (www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a ''CREST Proxy Instruction'') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST manual. The message must be transmitted so as to be received by the Issuer's agent (3RA50) by the latest time for receipt of proxy appointments specified in note 5 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuers agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

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

    The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

11. As at 16 November 2012 the Company's issued share capital consists of 80,866,771 Ordinary Shares of which 9,218,819 are held in treasury. The total number of voting rights in the Company is 71,647,952.

12. A copy of the Notice of Annual General Meeting and the information required by Section 311A Companies Act 2006 is included on the Company's website, www.baronsmeadvct2.co.uk.

13. Any electronic address provided either in this Notice or in any related documents (including the form of proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

14. 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.

15. Under sections 338 and 338A Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company:

    (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting, and/or

    (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

    A resolution may properly be moved or a matter may properly be included in the business unless:

    (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise);

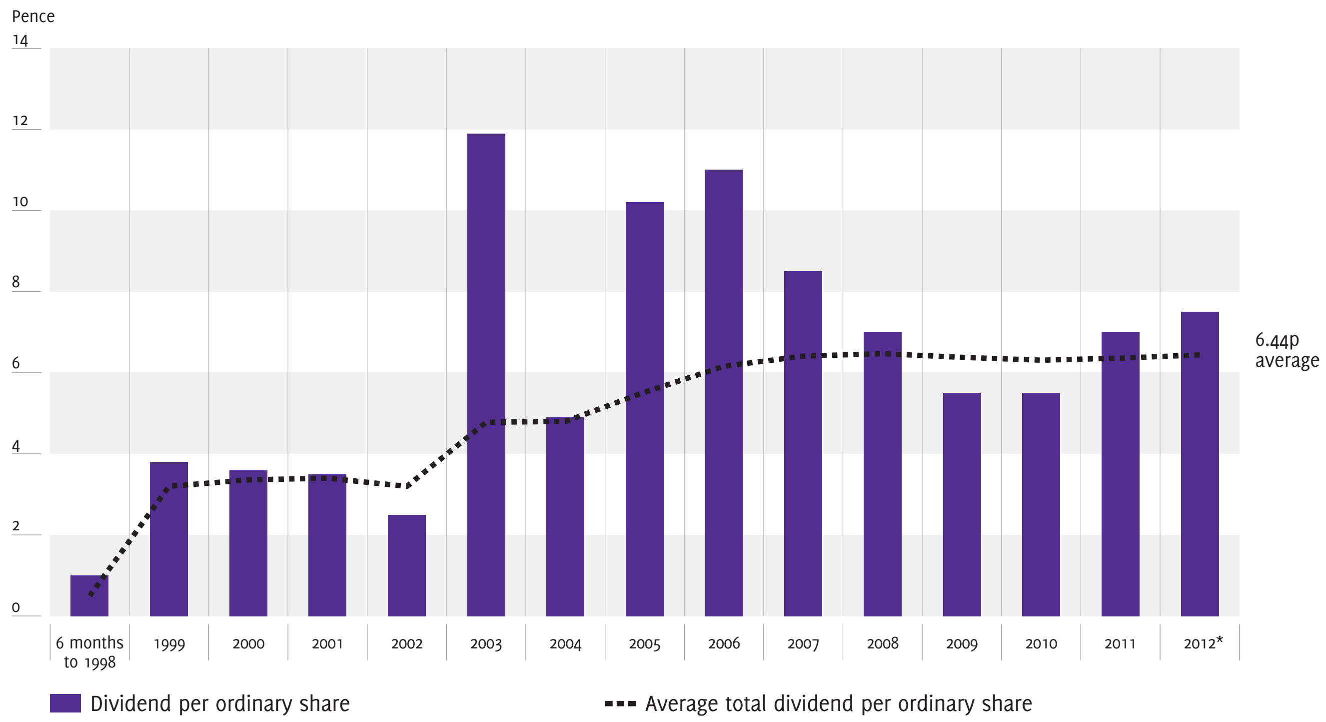
    (b) it is defamatory of any person; or

    (c) it is frivolous or vexatious.

    Such a request may be in hard copy form or in electronic form, and must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than six weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Appendix

Dividend History Since Launch



Source: ISIS EP LLP

* Includes proposed final dividend of 5.0p.

Cash Returned to Shareholders

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

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid‡ p	Net annual yield* %	Gross equivalent yield† %
1998 (April) – Ordinary	100.0	20.0	80.0	93.4	8.0	10.7
1999 (May) – Ordinary	102.0	20.4	81.6	89.9	8.2	11.0
2000 (February) – Ordinary	137.0	27.4	109.6	86.7	6.3	8.4
2000 (March) – Ordinary	130.0	26.0	104.0	86.7	6.6	8.8
2004 (October) – C	100.0	40.0	60.0	44.5	9.3	12.4
2009 (April)	91.6	27.5	64.1	25.5	11.4	15.2

C share dividend calculated using conversion ratio of 0.9657, which is the rate the C shares were converted into ordinary shares.

‡ Includes proposed final dividend of 5.0p.

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

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

Appendix

Performance Record Since Launch

Year ended	Total net assets £m	Ordinary share Net asset value p	Share price (mid) p	Net asset value total return* p	Combined total expense ratio %
31/03/1999	9.50	95.65	85.00	104.44	2.90
31/03/2000	31.00	119.59	125.00	134.62	3.40
31/03/2001	45.00	112.30	125.00	130.66	3.10
31/03/2002	41.20	100.54	92.50	120.15	2.70
31/03/2003	36.70	89.65	80.00	115.49	2.70
31/03/2004	41.10	100.63	90.00	141.80	2.70
31/03/2005	69.60	116.92	100.50	168.70	2.70
31/03/2006	69.60	114.62	100.50	190.51	2.90
30/09/2007	68.70	112.19	101.00	209.62	3.00
30/09/2008	54.80	91.68	84.50	184.02	2.85
30/09/2009	61.22	89.06	77.50	183.81	2.66
30/09/2010	63.67	94.79	81.25	208.25	2.58
30/09/2011	65.00	95.15	86.25	231.26	2.44
30/09/2012	**72.43**	**101.10**	**90.00**	**252.04**	**2.49†**

* Source: ISIS EP LLP.

† 30 September 2012 figure is based on the new AIC guidelines for the calculation of ongoing charges.

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
30/09/2011	2.65	4.35	**7.00**	85.90	6.36
30/09/2012*	**0.50**	**7.00**	**7.50**	**93.40**	**6.44**

* Includes proposed final dividend of 5.0p.

Appendix

Breakdown of Shareholdings

The shareholdings of ordinary shares as at 30 September 2012 (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	238	6.23	330,810	0.41
2001 – 5000	930	24.34	3,397,733	4.20
5001 – 10000	931	24.37	7,037,500	8.70
10001 – 25000	989	25.88	16,230,122	20.07
25001 – 50000	475	12.43	17,036,906	21.07
50001 – 100000	183	4.79	12,772,075	15.79
More than 100001	75	1.96	24,061,625	29.76
Total	**3,821**	**100.00**	**80,866,771**	**100.00**

Full Investment Portfolio

Company	Sector	Book cost £'000	30 September 2011 Valuation £'000†	30 September 2012 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds#
Unquoted							
Nexus Vehicle Holdings Limited	Business Services	2,367	5,627	4,721	6.5	12.6	57.4
CableCom Networking Holdings Limited	TMT*	1,381	3,686	4,131	5.7	10.6	48.0
Crew Clothing Holdings Limited	Consumer Markets	1,344	2,714	3,049	4.2	6.1	25.5
Kafévend Holdings Limited	Consumer Markets	1,252	2,039	2,908	4.0	15.8	66.5
Independent Living Services Limited	Healthcare & Education	1,599	980	2,705	3.7	16.2	65.7
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	1,777	2,329	3.2	10.5	44.0
CSC (World) Limited	TMT*	1,606	2,148	2,295	3.2	8.8	40.0
Valldata Group Limited	Business Services	1,616	1,616	1,769	2.4	8.8	39.8
Inspired Thinking Group Limited	Business Services	796	1,275	1,571	2.2	5.0	22.5
Independent Community Care Management Limited	Healthcare & Education	1,346	–	1,346	1.8	10.9	55.0
Impetus Holdings Limited	Business Services	1,075	–	1,075	1.5	7.9	40.0
MLS Limited	TMT*	211	1,011	1,036	1.4	5.3	22.5
Arcas Investments Limited	Business Services	1,000	1,000	1,000	1.4	9.6	48.6
HealthTech Innovation Partners Limited	Healthcare & Education	1,000	1,000	1,000	1.4	9.6	48.6
Quest Venture Partners Limited	Business Services	1,000	1,000	1,000	1.4	9.6	48.6
Consumer Investment Partners Limited	Consumer Markets	1,000	–	1,000	1.4	9.6	48.6
Riccal Investments Limited	Business Services	1,000	–	1,000	1.4	9.6	48.6
Pho Holdings Limited	Consumer Markets	987	–	987	1.4	5.5	28.0
Happy Days Consultancy Limited	Healthcare & Education	833	–	833	1.1	8.4	42.5
Playforce Holdings Limited	Business Services	1,033	512	512	0.7	9.7	44.0
Surgi C Limited	Healthcare & Education	1,102	626	340	0.5	9.8	57.5
Kidsunlimited Group Limited	Business Services	113	113	113	0.2	N/A	N/A
Carnell Contractors Limited	Business Services	941	0	0	0.0	##	##
Empire World Trade Limited	Business Services	1,297	715	0	0.0	‡	‡
Music Festivals plc Loan note	Consumer Markets	400	400	0	0.0	N/A	N/A
Xention Discovery Limited	Healthcare & Education	316	0	0	0.0	0.4	3.0
Total unquoted		**28,038**	**28,239**	**36,720**	**50.7**		

† The total investment valuation at 30 September 2011 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.

* Technology, Media & Telecommunications ("TMT").

\## Following a restructuring and partial redemption the funds no longer hold equity in Carnell Contractors Limited.

‡ Following a restructuring, the effective ownership percentage is dependent on final exit proceeds.

Appendix

Full Investment Portfolio

Company	Sector	Book cost £'000	30 September 2011 Valuation £'000†	30 September 2012 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds#
AIM							
IDOX plc	TMT*	1,038	2,440	4,215	5.8	3.2	9.5
Staffline Group plc	Business Services	249	2,013	2,129	2.9	4.2	8.4
Netcall plc	TMT*	869	854	1,386	1.9	4.1	20.4
Murgitroyd Group plc	Business Services	319	777	1,066	1.5	3.0	6.1
Escher Group Holdings plc	TMT*	614	614	770	1.1	1.9	9.7
Jelf Group plc	Financial Services	761	792	743	1.0	1.4	6.3
Tasty plc	Consumer Markets	469	607	729	1.0	2.5	17.1
Driver Group plc	Business Services	564	194	720	1.0	4.1	19.4
TLA Worldwide plc	Business Services	620	–	713	1.0	4.9	24.3
Accumuli plc	TMT*	409	384	611	0.8	3.9	22.0
Dods (Group) plc	TMT*	1,344	162	559	0.8	4.4	20.1
FFastFill plc	TMT*	313	427	557	0.8	0.9	6.0
Vianet Group plc	Business Services	646	482	497	0.7	1.8	9.6
Sinclair IS Pharma plc	Healthcare & Education	524	446	481	0.7	0.4	2.4
Anpario plc	Healthcare & Education	275	327	430	0.6	2.0	14.8
Paragon Entertainment Limited	Consumer Markets	200	–	350	0.5	3.1	17.3
Zattikka plc	TMT*	316	–	348	0.5	1.4	7.1
PROACTIS Holdings plc	TMT*	619	341	341	0.5	5.4	26.4
GB Group plc	TMT*	150	–	336	0.5	0.3	1.7
Electric Word plc	TMT*	696	429	335	0.5	5.2	28.2
Tangent Communications plc	Business Services	268	175	316	0.4	2.0	10.2
Synectics plc	Business Services	296	224	308	0.4	0.6	2.1
Plastics Capital plc	Business Services	473	331	307	0.4	1.7	9.8
Brady plc	TMT*	176	208	289	0.4	0.4	2.1
Inspired Energy plc	Business Services	300	–	286	0.4	2.4	11.8
Sanderson Group plc	TMT*	387	209	286	0.4	1.8	6.9
EG Solutions plc	TMT*	375	273	269	0.4	3.1	14.2
Begbies Traynor Group plc	Financial Services	231	110	210	0.3	0.6	2.5
InterQuest Group plc	Business Services	310	281	191	0.3	1.7	6.8
Ubisense Group plc	TMT*	130	139	157	0.2	0.3	1.7
Cohort plc	Business Services	179	105	149	0.2	0.3	1.4
Tristel plc	Healthcare & Education	217	152	130	0.2	1.0	5.4
STM Group plc	Financial Services	162	44	104	0.1	0.6	4.0
Green Compliance plc	Business Services	882	870	101	0.1	4.0	19.8
Autoclenz Holdings plc	Business Services	400	122	93	0.1	3.1	12.3
Active Risk Group plc	TMT*	159	136	90	0.1	1.1	5.6
RTC Group plc	Business Services	355	11	49	0.1	2.8	5.7
Bglobal plc	Business Services	176	42	41	0.0	0.4	2.5
Hangar8 plc	Business Services	44	31	38	0.0	0.5	2.6
Zoo Digital Group plc	TMT*	438	19	11	0.0	0.2	0.6
AorTech International plc	Healthcare & Education	285	32	9	0.0	0.3	0.6
Music Festivals plc	Consumer Markets	100	91	0	0.0	1.0	5.2
Total AIM		**17,338**	**14,894**	**20,750**	**28.6**		

† The total investment valuation at 30 September 2011 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.

* Technology, Media & Telecommunications ("TMT").

Appendix

Full Investment Portfolio

Company	Sector	Book cost £'000	30 September 2011 Valuation £'000†	30 September 2012 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds#
Listed							
Vectura Group plc	Healthcare & Education	578	1,031	1,037	1.4	0.4	1.3
Chime Communications plc	TMT*	369	323	399	0.6	0.2	1.3
Marwyn Management Partners plc	Financial Services	525	117	56	0.1	0.3	1.8
Marwyn Value Investors Limited	Financial Services	64	45	34	0.0	1.3	6.0
Total listed		**1,536**	**1,516**	**1,526**	**2.1**		
Listed interest bearing securities							
UK T-Bill 01/10/12		3,199	–	3,199	4.4		
UK T-Bill 29/10/12		1,500	–	1,500	2.0		
BlackRock ICS plc – Institutional Sterling Liquidity Fund		620	3,000	620	0.9		
JP Morgan Liquidity Funds – Sterling Liquidity Fund		620	3,000	620	0.9		
Total listed interest bearing securities		**5,939**	**6,000**	**5,939**	**8.2**		
Collective investment vehicle							
Wood Street Microcap Investment Fund		3,525	2,863	4,183	5.8		
Total collective investment vehicle		**3,525**	**2,863**	**4,183**	**5.8**		
Total investments		**56,376**	**53,512**	**69,118**	**95.4**		
Net current assets				**3,315**	**4.6**		
Net assets				**72,433**	**100.0**		

† The total investment valuation at 30 September 2011 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.
* Technology, Media & Telecommunications ("TMT").

Shareholder Information and Contact Details

Shareholder Account Queries

The Registrar for **Baronsmead VCT 2** is Computershare Investor Services PLC ("Computershare").

The Registrar will deal with all of your queries with regard to your shareholder account, such as:

- Change of address
- Latest share price
- Your current share holding balance
- Your payment history, including any outstanding payments
- Your payment options (cheque, direct payment to your bank/building society account, reinvestment)
- Paper or electronic communications
- Request replacement cheques or share certificates (for which there may be additional administrative and other charges)

You can contact Computershare with your queries in several ways:

Telephone:	0870 889 3249 *(calls charged at geographical and national rates)*	• This is an automated self-service system • It is available 24 hours a day, 7 days a week • You should have your Shareholder Reference Number ("SRN") to hand, which is available on your share certificate and dividend tax voucher and which you should always keep confidential for security reasons • Press '0' if you wish to speak to someone • The Contact Centre in Bristol is available on UK business days between 8.30am – 5.00pm Monday to Friday
On-line:	**Investor Centre** www.investorcentre.co.uk	• Computershare's secure website, Investor Centre, allows you to manage your own shareholding online • You will need to register to use this service on the Investor Centre web site • You should have your ("SRN") to hand, which is available on your share certificate and dividend tax voucher and which you should always keep confidential for security reasons
Email:	web.queries@computershare.co.uk	
Post:	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ	

The **Baronsmead VCT 2** website is **www.baronsmeadvct2.co.uk**

The Investment Manager for **Baronsmead VCT 2** plc is **ISIS EP LLP** who can be contacted as follows:

Email: baronsmeadvcts@isisep.com

Telephone: 020 7506 5717

Facsimile: 020 7506 5718

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:

Panmure Gordon	020 7886 2500
Singer Capital Markets	020 3205 7500
Winterflood	020 3400 0251

Financial Calendar

10 January 2013	Fifteenth Annual General Meeting
May 2013	Announcement and posting of interim report for the six months to 31 March 2013
November 2013	Announcement and posting of final results for year to 30 September 2013

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.

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.

Corporate Information

Directors
Clive Anthony Parritt (Chairman)
Gillian Nott OBE†
Howard Goldring*
Christina McComb

Secretary
ISIS EP LLP

Registered Office
100 Wood Street
London EC2V 7AN

Investment Manager
ISIS EP LLP
100 Wood Street
London EC2V 7AN
020 7506 5717

FPPE LLP (liquid assets only)
100 Wood Street
London EC2V 7AN

Registered Number
03504214

Registrars and Transfer Office
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Tel: 0870 889 3249

Auditors
KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors
Martineau
No 1 Colmore Square
Birmingham B4 6AA

VCT Status Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Website
www.baronsmeadvct2.co.uk

* Chairman of the Audit Committee

† Chairman of Management Engagement and Remuneration Committee, Chairman of the Nomination Committee and Senior Independent Director

Notes

ISIS
EQUITY PARTNERS
Investment Manager
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