BARONSMEAD

Baronsmead VCT 2 plc

2013

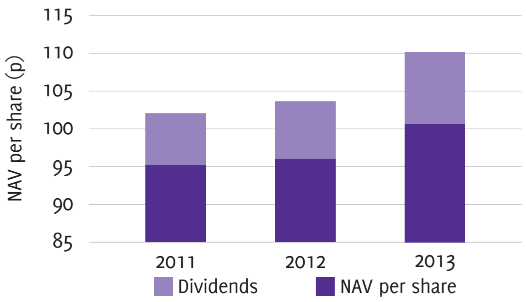
Annual report & accounts
for the year ended
30 September 2013

Contents

www.baronsmeadvct2.co.uk

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

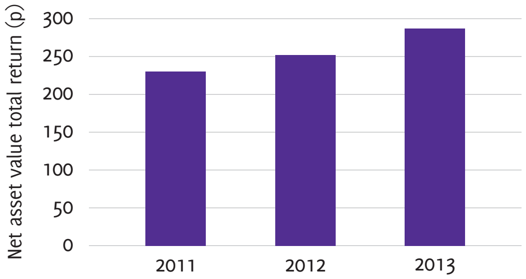
Financial Headlines



Net asset value per share

Net asset value ("NAV") per share increased 14.6 per cent to 110.13p in the year ended 30 September 2013, before deduction of dividends.

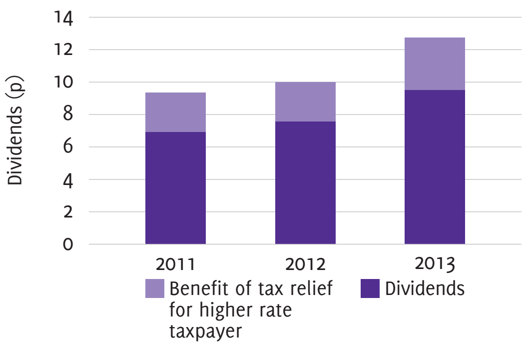
14.6%



Net asset value total return

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

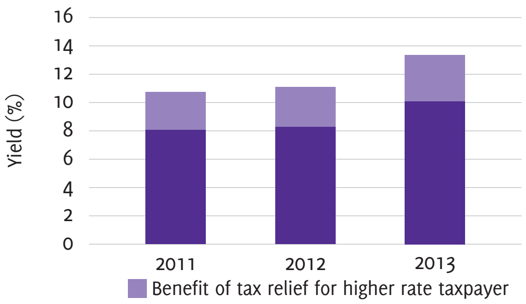
288.2p



Dividends in the year

Dividends totalled 9.5p in the twelve months to 30 September 2013, including the second interim dividend of 6.5p paid on 20 September 2013.

9.5p



Annual dividend yield

Net annual dividend yield of 10.1 per cent and gross annual yield of 13.4 per cent.

10.1%

Strategic Report

The Strategic Report, on pages 2 to 14, has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006 and best practice. Its purpose is to inform the members of the Company and help them to assess how the Directors have performed their duty to promote the success of the Company, in accordance with Section 172 of the Companies Act 2006.

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.

Investment objective

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

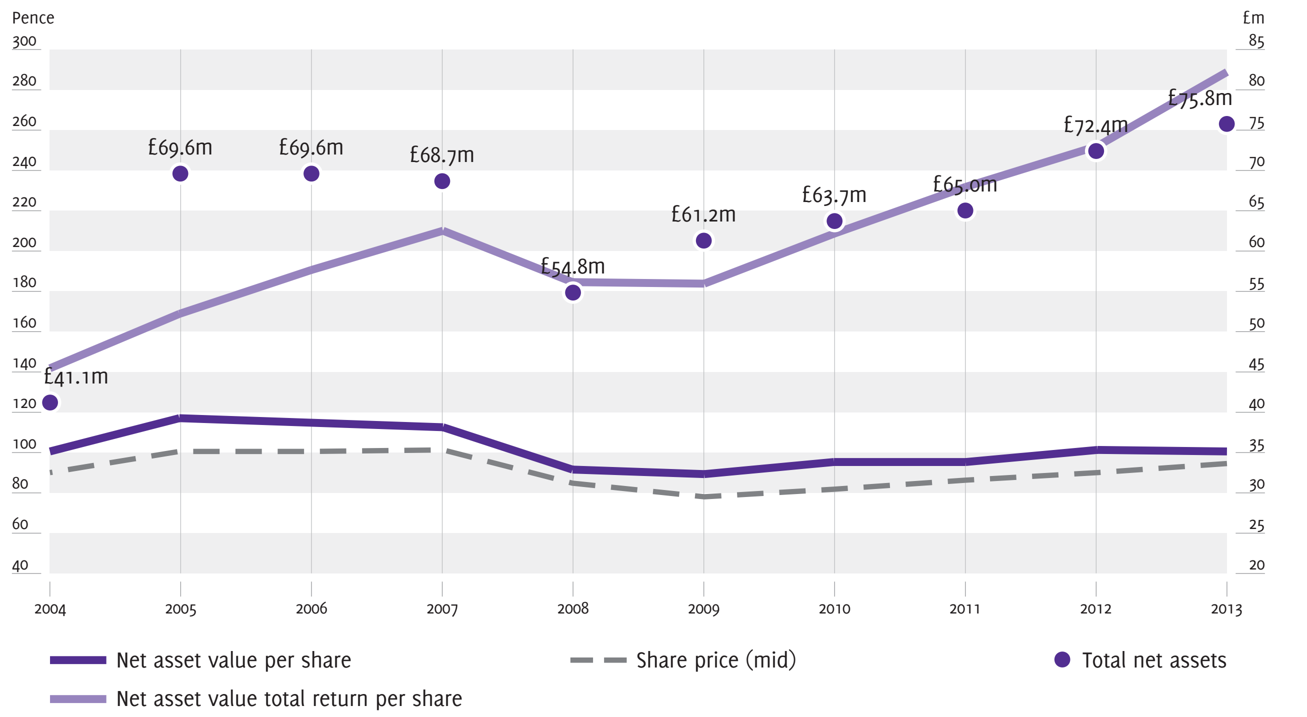
Investment policy

- 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 how this is achieved are contained in the "Other Matters" section of the Strategic Report on page 11.

Performance Summary

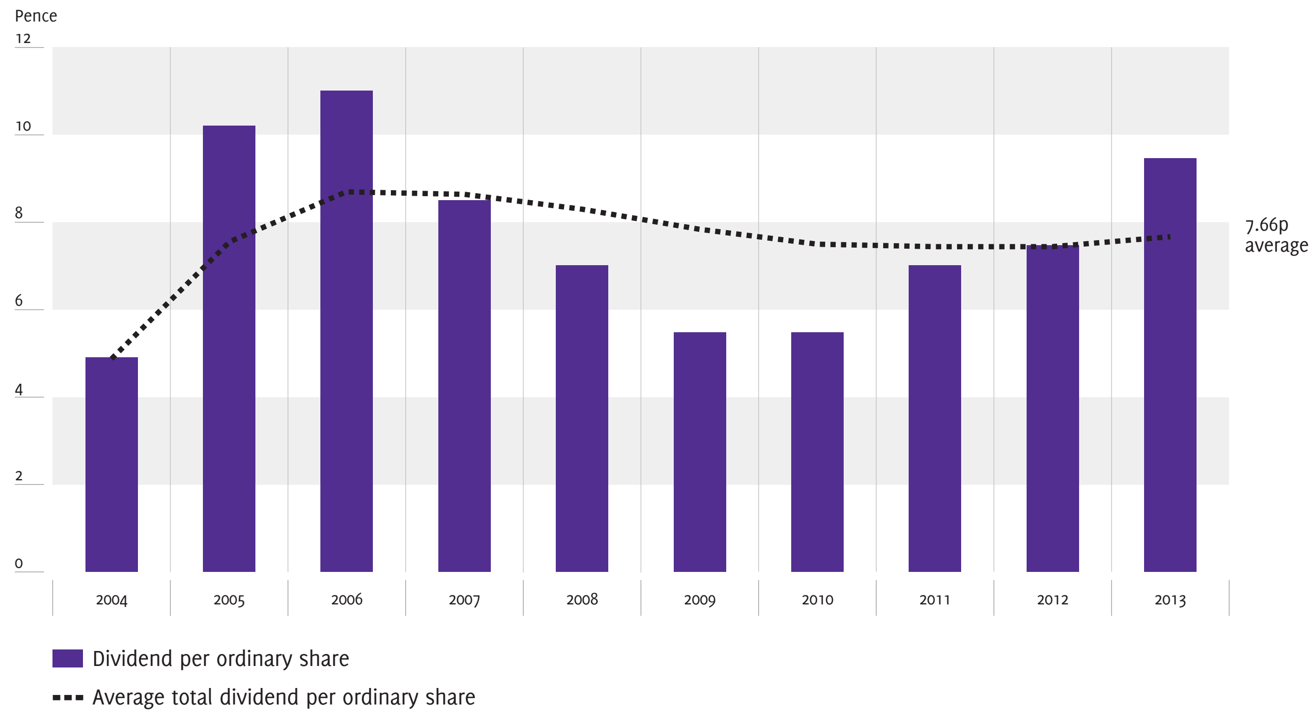
Performance Record in the last ten years



Source: ISIS EP LLP

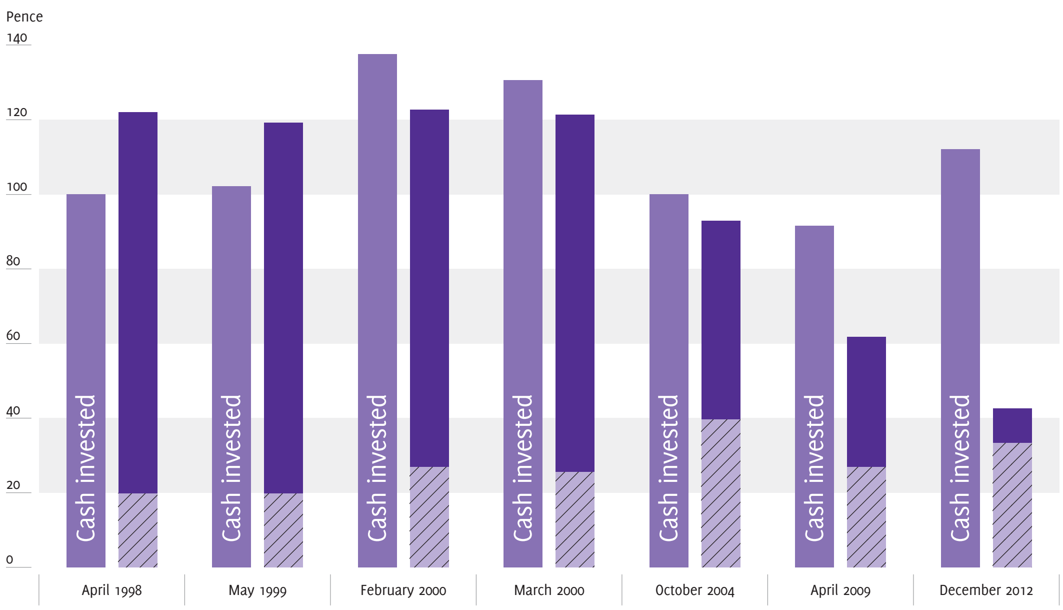
Performance Summary

Dividend History in the last ten years



Source: ISIS EP LLP

Cash Returned to Shareholders by date of investment



	April 1998	May 1999	February 2000	March 2000	October 2004	April 2009	December 2012
Net annual yield	8.3%	8.5%	6.5%	6.8%	10.0%	12.1%	15.7%
Gross equivalent yield	11.1%	11.3%	8.6%	9.1%	13.3%	16.2%	20.9%

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

Source: ISIS EP LLP

Chairman's Statement

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

Clive Parritt Chairman

I am pleased to report that the Company had a very satisfactory year. Net Asset Value ("NAV") before payment of dividends increased by 14.03p a share (14.6 per cent).

The total dividend for the year was 9.5p all of which has been paid out of the profits from successful investment realisations in recent years.

RESULTS

Analysis of change in NAV over the year

	Pence per ordinary share
NAV as at 1 October 2012 (after deducting the final dividend of 5.0p for the year to 30 September 2012)	96.10
Valuation uplift (14.6 per cent)	14.03
NAV as at 30 September 2013 before dividends	110.13
Less:	
Interim dividend paid 14 June 2013	(3.00)
Second interim dividend paid on 20 September 2013	(6.50)
NAV as at 30 September 2013 after paying dividends	100.63

This year approximately two thirds of the increase in NAV has been paid to shareholders as dividends. While this is pleasing, the level of future dividends (which the Board aims to keep at a minimum of 6.5p a year) will, of course, depend upon continued profitable realisations. Shareholders have expressed a preference to receive consistent tax free income while also achieving capital growth and so the increase in NAV per share to 100.63p, after dividends, is a positive step.

Our portfolio is diverse and this has helped to smooth investor returns, from year to year. The unquoted portfolio has seen several years of strong growth, but last year the return was more modest, principally because many of the current investments are relatively new and, as immature companies they are only just starting to deliver their full potential. We remain focused primarily on unquoted investments and the Manager is now working to help these newer investments achieve their demanding growth targets in future years.

In contrast, the quoted portfolio experienced significant growth of 43 per cent in the year. Undoubtedly this performance was due partly to strong markets and a welcome return of investor appetite for smaller quoted companies. However it is also a vindication of the proactive strategies that the Manager has deployed in the quoted arena since 2008. The Wood Street Microcap fund was set up in May 2009 as a way of holding a number of more liquid stakes in larger non VCT qualifying companies. Additionally the Manager has built a small number of significant shareholdings in selected AIM companies in order to become a more influential longer term partner and to contribute its private equity experience to these investees.

During the market turbulence of recent years, the Manager has taken a long term view of solid, core investments based on the fundamentals of the investee rather than over reacting to weak and cyclical market sentiment. This approach and these decisions are now paying dividends and have contributed to the quoted performance.

The portfolio (apart from Wood Street Microcap) has increased to 73 investments. New and follow-on investments totalled £5.7 million across 8 unquoted and 11 AIM companies. Sales of investments realised £9.2 million and delivered net gains of £5.7 million. The portfolio as a whole, remains in good health with 78 per cent of investees reporting steady or improving performance against their business plans.

LONG TERM PERFORMANCE

The Company's investment and dividend policies which are aimed at producing consistent returns over the long-term continue to be met. Following the payment of the second interim dividend, total tax-free dividends of 102.9p a share have been paid since launch. This exceeds the initial subscription price of 100p per share and, additionally the NAV at

Chairman's Statement

the year end is also over 100p. Accordingly founder shareholders have received back in tax-free dividends more than their initial subscription and that initial gross subscription (before taking account of upfront income tax relief) is wholly represented in the NAV of 100.63p a share at the year end.

Statistics produced by the Association of Investment Companies (www.theaic.co.uk) show that over the past ten years, the share price total return of 243.60p (before VCT tax benefits) for every 100p invested compares to 240.24p for the FTSE All-Share Index during the same period.

In the past ten years, annual tax-free dividends have averaged 7.66p a share (6.64p since launch). For the higher rate taxpayer, the gross equivalent represents 10.21p a share per annum. The full record of performance since launch is set out on page 60 of this annual report as well as on our website, www.baronsmeadvct2.co.uk.

The strong performance this year has continued the cumulative progress achieved since the onset of the financial crisis in 2008. During the financial year the cumulative NAV Total Return above which the Manager is due a performance fee was exceeded and a performance fee of £1.4 million (the equivalent of 1.9p per share) became payable to the Manager (see Performance Incentive on page 13 for further information). A performance fee was last paid in 2007. The results for the year are stated net of all running costs as well as the performance fee earned by the Manager.

SHAREHOLDER MATTERS

Fundraising

An offer for subscription is currently expected to be launched in early 2014 to raise gross proceeds of up to £10 million. The securities note which will contain the subscription form and the full terms and conditions, will be sent to existing shareholders as soon as it is published.

Share price discount policy

In November 2012 the Company announced that it would seek to maintain a mid share price discount of 5 per cent to NAV instead of the previous policy of a 10 per cent discount to NAV. I am pleased to report that significant progress has been made in meeting this target. The mid share price discount to NAV averaged 6.3 per cent in the twelve months to 30 September 2013. During the year the Company bought in to Treasury 1,005,000 shares at an average discount of 6.3 per cent and sold 200,000 shares out of Treasury at a discount of 4.97 per cent to NAV. The net number of shares bought back during the year represents approximately 1.1 per cent of the shares in issue (excluding shares held in treasury) at the beginning of the financial year.

In view of this experience, the Company will continue to try and maintain a mid share price discount to NAV of 5 per cent. However, the share price discount policy will be kept under continuous review and may be subject to revision. Shares will be bought back depending on market conditions at the time and only where the Directors believe such a transaction to be in the best interests of all shareholders.

VCT legislation

A recent Treasury consultation regarding the use of "Enhanced Share Buy Backs" has no direct impact on your Company as we have never used such structures and have preferred to create an orderly market for all shareholders by striving to keep the discount rate low. However, the Company's Manager has participated in discussions regarding proposed legislation with the aim of identifying and reducing the impact of any unintended adverse consequences that might arise.

In addition, the European Commission is currently undertaking a review of the state aid regulations including the risk capital guidelines under which VCTs are approved at the European level. The aim of the review is to set out a clear framework to allow member states to grant aid without the need for the European Commission to be involved. Our trade association, the Association of Investment Companies ("AIC") is engaged in the discussion and the Manager has provided data and case studies to assist the construction of a suitable response.

Chairman's Statement

Management Arrangements

The Board has considered the impact on your Company of EU driven legislation regulating Alternative Investment Fund Managers, into which category we fall, along with most other investment funds in the UK. To minimise the regulatory cost of compliance with this directive we have decided that the Company will register directly under the rules. This will not affect the arrangements with the Manager (ISIS) who will continue to manage the investment process on a day to day basis reporting to the Board.

Annual General Meeting

I look forward to meeting as many shareholders as possible at our sixteenth Annual General Meeting to be held on Wednesday, 18 December 2013 at the Plaisterers' Hall, One London Wall, London, EC2Y 5JU at 10:30 a.m. This will be followed by presentations from the Manager, a light lunch and a shareholder workshop.

OUTLOOK

There is a growing consensus that the outlook for the UK economy is recovering and there is a greater degree of optimism than has existed for many years. The Company's portfolio has demonstrated a high degree of resilience since 2008. This is testament to the expertise and skill of the Manager who has helped steer portfolio companies through the difficult times, enabling them to increase profits and employment.

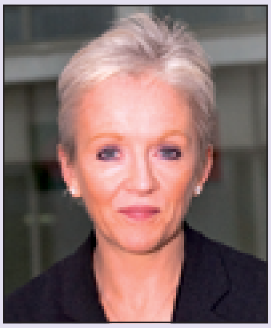
The overall portfolio remains widely diversified, well resourced and adequately funded. There are also encouraging signs that the number of available investment opportunities is increasing with eight unquoted investments completed in the year together with some notable successful exits. We believe that the Company is well placed to take advantage of the recovery as it gathers momentum. We will continue to focus on delivering a consistent yield for shareholders while protecting the asset base.

Clive Parritt
Chairman
18 November 2013

Manager's Review

Andrew Garside
Head of Unquoted Investments

Ken Wotton
Head of Quoted Investments



Sheenagh Egan
Chief Operating Officer

Michael Probin
Investor Relations

The year has been characterised by a stronger period of new investment, particularly in unquoted investments. Five new unquoted investee companies have been added to the portfolio and a further one has been added since the end of the financial year.

In addition, strong upward performance has been delivered by the quoted portfolio which is a welcome reward for patience through an uncertain market over the recent past. The unquoted portfolio has remained robust and delivered two successful realisations of longstanding investments.

PORTFOLIO REVIEW

Overview

The net assets of £75.8 million were invested as follows:

Asset class	NAV £m	% of NAV	Number of investees	Annual return %
Unquoted	£36.5	48	26	5
Quoted	£27.2	36	47	43
Wood Street Microcap	£6.1	8	34	47
Cash and near cash	£6.0	8	–	–

During the year there were:

- New investments of £4.2 million in 9 new companies and £1.4 million in 10 follow ons;
- Divestments of £9.2 million from 4 full exits and 5 partial realisations.

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 2013, 78 per cent of the 73 companies in the portfolio (excluding Wood Street Microcap) were progressing steadily or better.

Unquoted Private Equity Portfolio

After a strong year of growth last year of 8 per cent, the unquoted portfolio showed more modest growth this year of 5 per cent including income. 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 comes from operational improvements (revenue and margin growth), rather than financial leverage.

A very pleasing result during the period was the successful realisation of two longstanding investments. Independent Living Services Ltd, the care business based in Scotland, has been in the portfolio since 2005 and was sold to Mears Group plc generating a profit multiple of 2.5x cost. MLS Ltd, the school library software business, was an investment from 2006 that realised 2.8x cost on its sale to Capita plc. These represent strong realised returns.

Since the period end, there has been a further significant realisation. CableCom has been in the portfolio since 2007 and manages internet services to high density accommodation such as student accommodation. The business has been sold via a secondary management buy-out and the realisation has delivered 4.8x the original cost of investment

Manager's Review

which is an excellent result. In addition, a £5 million investment (£1.25 million for Baronsmead VCT 2) has been negotiated in the new transaction on the same terms as the lead private equity buyer as ISIS believes there is an opportunity for further growth.

Quoted Portfolio (AIM traded and other listed investments)

There has been a significant uplift in the quoted portfolio of 43 per cent reflecting a positive re-rating of the small cap sector in the year. This recovery has been welcome following recent years of headwinds from a challenging AIM market environment and weak share prices.

The performance of the quoted portfolio also reflects the changes introduced by the ISIS Quoted Investment team since 2009. The Quoted team is now more likely to build progressive stakes. An investment in a new smaller company might start at an initial low level. As the team becomes more comfortable with performance and where it is possible within the constraints of VCT qualifying investing, the holding will be increased. Several more significant holdings of over 20 per cent have now been built where the team has a closer, more influential relationship and can utilise some of the good practice from Private Equity experience. In addition, during the weaker AIM market, the team endeavoured to focus on the fundamentals of the investees and demonstrated patient support when market sentiment depressed share prices of sound companies. The ISIS team believes the benefits of this work are now being reflected in improved Quoted performance.

Realisations during the year from the quoted portfolio totalled £4.9 million at an average multiple of 3.9x cost which is an excellent result. Notably within this is the full realisation due to a takeover of FFastFill plc (2.8x cost) and the partial sales in the market of IDOX plc (at 5.5x cost) and Staffline Group plc (at 6.0x).

Whilst it is expected that work in the Quoted arena will deliver future positive growth, the high annual growth achieved in this period should be considered as exceptional.

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 larger and more liquid non VCT qualifying AIM and Small Cap opportunities. It represents another innovation introduced by the ISIS Quoted team to seek performance improvement. At 30 September 2013, Baronsmead VCT 2 had invested £3.5 million through Wood Street into a portfolio of 34 companies, now valued at £6.1 million. Wood Street generated a positive return of 47 per cent over the year.

Liquid assets (cash and near cash)

Baronsmead VCT 2 had cash and near cash resources of approximately £6.0 million at the year-end. This asset class is conservatively managed to take minimal or no capital risk, a strategy outlined in prospectuses that have been issued in the past.

In addition, investments within the Wood Street fund are expected to be relatively more liquid than other investments as explained 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, £4.0 million was invested in 8 unquoted companies including 5 new additions to the unquoted portfolio, one of which utilised an existing acquisition vehicle. The new unquoted investments were:

- Create Health is an internationally renowned fertility clinic which is the UK's leading specialist in natural and mild IVF techniques. Natural and mild IVF uses lower levels of drugs and is viewed as more ethical and healthier – it is used widely in advanced overseas fertility markets and is growing in popularity in the UK. The investment will fund the opening of a new flagship site in London.

- Eque2 is a software business that was previously owned by Sage plc and known as Sage Construction. It provides enterprise wide software systems that cater for firms of all sizes in the construction industry, helping them to control and manage all types of construction projects.

Manager's Review

- Armstrong Craven is an HR consultancy and provider of specialist executive search services to many large global and national clients. It has offices in Manchester and London. The ISIS support helped the original founder and management team acquire the business from its parent plc in a Management Buy Out.
- Luxury for Less is a fast growing online bathroom products retailer which operates the transactional website www.bathempire.com. In 2012, the business was recognised as the Small Online Business of the Year. ISIS will help the business expand its range and help fund new facilities to support growth. The investment was made by using an already established acquisition vehicle and therefore is not listed as a new investment in the following tables.
- Key Travel is a leading travel management company dedicated to serving the travel requirements of the not-for-profit, academic and faith sectors from its bases in the UK, Europe and the US. Major clients include Oxfam, Save the Children and Cambridge University. Travel arranged for clients will break through the £100m mark this year. The investment will help support the continued growth of the business.

After the period end, Baronsmead VCT 2 invested £1.0 million in an unquoted investment, Carousel Logistics Limited, a provider of bespoke logistics and supply chain solutions.

Top Ten investments

The average investment value of the top ten companies held by Baronsmead VCT 2 is £2.9 million per company. Because these investments are normally held by the other 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 their progress. The top ten investees employ some 2,277 people, which is an increase of 24 per cent over the last year. Their turnover has also grown by some 21 per cent. In this year's Annual Report, each of the top ten companies is described in more detail on pages 20 to 24.

Investment Management

ISIS continues to invest in its skills and capacity with over 40 of its total team of 60 devoted to investment management activities 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 deal flow.

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. Both 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 many 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
- Technology, Media and Telecommunications

Manager's Review

OUTLOOK

A number of commentators believe that the UK economy is unlikely to experience significant GDP growth in the medium term. This is debatable but it is a fair working assumption for investors and may mean investment returns are not going to be easy to capture.

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 and build resilient, well invested businesses, able to maintain standards, whilst growing. 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 Managers
18 November 2013

Other Matters

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 6.64p per share (equivalent to a pre-tax return of 8.85p 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.

Share price discount policy

The Company buys back its shares if, in the opinion of the Board, a repurchase would be in the best interests of the Company's shareholders as a whole. Shares are bought back through the market rather than directly from shareholders. This minimises the number of shares bought back by the Company while maximising the opportunity for investors to invest in the Company's existing shares.

The Board's current policy is to seek to maintain a mid share price discount of approximately 5 per cent to net asset value, depending on market conditions at the time.

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 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.

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities and interest bearing securities as well as cash. Unquoted investments are usually structured as a combination of ordinary shares and loan stocks, while AIM-traded investments are primarily held in ordinary shares. Pending investment in VCT qualifying and non-VCT qualifying unquoted, AIM-traded and other quoted securities (which may be held directly or indirectly through collective investment vehicles), 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 may have some 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.

Asset mix

The Company aims to be at least 90 per cent invested, directly or indirectly, in VCT qualifying and non-qualifying growth businesses subject always to the quality of investment opportunities and the timing of realisations. It is intended that at least 75 per cent of any funds raised by the Company will be invested in VCT qualifying investments. Non-VCT qualifying investments held in unquoted, AIM traded and other quoted companies may be held directly or indirectly through collective investment vehicles.

Other Matters

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 maximum the Company will invest in a single company (including a collective investment vehicle) is 15 per cent of its investments by VCT Value. 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-traded companies and to achieve this it invests alongside the other Baronsmead VCTs.

Management retention
The Manager's members and staff invest in unquoted investments alongside the Company. This scheme is in line with current practice of private equity houses and its objective is to attract, recruit, retain and incentivise the Manager's team and is made on terms which align the interests of shareholders and the Manager.

Borrowing powers
The Company's policy is to use borrowing for short term liquidity purposes only up to a maximum of 25 per cent of the Company's gross assets, as permitted by the Company's articles. The Company currently has no borrowings.

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 10 provides a review of the investment portfolio and of market conditions during the year, including the main trends and factors likely to affect the future development, performance and position of the business.

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. 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.

Other Matters

- Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.
- Operational – failure of the Manager's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- Financial – the Board has identified the Company's principal financial risks which are set out in the notes to the accounts on pages 52 to 54. 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 page 34.

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 4 to 6. The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on pages 1 to 3 of this Report and Accounts.

Performance Incentive

A performance fee will not be payable to the Manager until the total return on shareholders' funds exceeds an annual threshold of the higher of 4 per cent or base rate plus 2 per cent calculated on a compound basis. To the extent that the total return exceeds the threshold over the relevant period then a performance fee of a blended rate of 16.66 per cent of such excess to 31 March 2008, 13.33 per cent to 31 March 2009 and 10 per cent thereafter will be paid to the Manager. 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.

During the financial year the threshold has been exceeded and a performance fee of £1,436,000 is payable.

Environmental, Human Rights, Employee, Social and Community Issues

The Board recognises the requirement under Section 414 of the Act to detail information about environmental matters (including the impact of the Company's business on the environment), employee, human rights, 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.

Other Matters

Gender Diversity

The Board has an equal representation of male and female Directors, with the current Board of Directors comprising two female and two male Directors.

The Manager has an equal opportunities policy and currently employs 34 men and 24 women.

Shareholder choice

The Board wishes to provide shareholders with a number of choices that enable them to utilise their investment in Baronsmead VCT 2 in ways that best suit their personal investment and tax planning and in a way that treats all shareholders equally.

- **Fund raising** | From time to time the Company seeks to raise additional funds by issuing new shares at a premium to the latest published net asset value to account for issue costs. In December 2012, the Company's offer for subscription to raise £5 million before costs was fully subscribed.
- **Dividend Reinvestment Plan** | The Company offers a Dividend Reinvestment Plan which enables shareholders to purchase additional shares through the market in lieu of cash dividends. Approximately 1,198,000 shares were bought in this way during the year to 30 September 2013.
- **Buy back of shares** | From time to time the Company buys its own shares through the market in accordance with its share price discount policy. The Board has undertaken a review of this policy and will, subject to certain conditions, seek to maintain a mid share price discount of approximately 5 per cent to net asset value. This constitutes a revision to the Company's existing policy of buying back shares through the market at an approximate 10 per cent discount to the latest published net asset value. Further details are provided in the Chairman's Statement. In the year to 30 September 2013, 1,005,000 shares were bought back representing 1.4 per cent of the shares in issue (excluding shares held in treasury) at 30 September 2012 at an average price which represented a 3.9 per cent discount to the latest published net asset value.
- **Secondary market** | The Company's shares are listed on the London Stock Exchange and can be bought using a stockbroker or authorised share dealing service in the same way as shares of any other listed company. Approximately 622,000 shares were bought by investors in the Company's existing shares in the year to 30 September 2013.

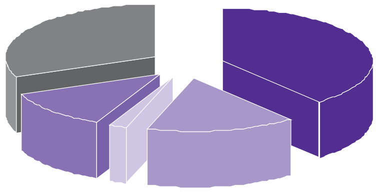
On behalf of the Board,
Clive A Parritt
Chairman

18 November 2013

Summary Investment Portfolio

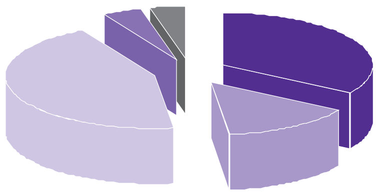
Investment Classification at 30 September 2013

Sector by value



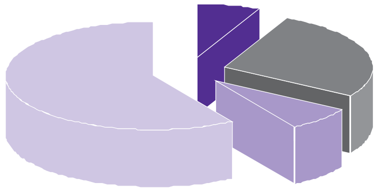
Business Services	40%
Consumer Markets	15%
Financial Services	2%
Healthcare & Education	12%
Technology, Media & Telecommunications ("TMT")	31%

Total Assets by value



Unquoted – loan note	34%
Unquoted – equity	14%
AIM, listed, PLUS & collective investment vehicle	44%
Listed interest bearing securities	4%
Net current assets principally cash	4%

Time Investments Held by value



Less than 1 year	7%
Between 1 and 3 years	27%
Between 3 and 5 years	7%
Greater than 5 years	59%

Unquoted Investments and Realisations Timeline

2013

March

Realisation

Micro Librarian Systems (MLS)
(acquired by Capita plc)
Provider of library and resource management systems to the UK education sector
Original Investment: July 2006
Results: Executed an impressive growth strategy which saw the company take market share, launch innovative new products and start building a global footprint

April

New Investment

Create Health
Fertility Clinic
Geography: London
Deal Type: Development Capital

Realisation

Independent Living Services (ILS)
(acquired by Mears Group plc)
Largest homecare provider in Scotland
Original Investment: September 2005
Results: Ten acquisitions, investment in quality, HR and technology.

May

New Investment

Eque2 (formerly Sage Construction)
Construction related Enterprise Resource Planning (ERP) software provider
Geography: Manchester
Deal Type: MBO

June

New Investment

Armstrong Craven
Specialist executive search and intelligence consultancy
Geography: London & Manchester
Deal Type: MBO

Luxury for Less
Online bathroom products retailer
Geography: Coventry
Deal Type: Replacement Capital

July

New Investment

Key Travel
Travel management for not-for-profit, faith and academic sectors
Geography: London & Manchester
Deal Type: MBO

Table of Investments and Realisations

Investments in the year

Company	Location	Sector	Activity	Book cost £'000
Unquoted investments				
New				
Create Health Limited	London	Healthcare & Education	Provider of fertility services	1,065
Key Travel Limited	London	Business Services	Travel management company, focused on the non-profit sector	954
Eque2 Limited	Manchester	TMT*	Enterprise resource planning (ERP) solutions provider to the construction industry	877
Armstrong Craven Limited	Manchester	Business Services	Provider of executive search and business intelligence services	673
Follow on				
Impetus Holdings Limited	London	Business Services	Automotive consultancy and outsourced service provider	230
Playforce Holdings Limited	Melksham	Business Services	Design and installation of playground equipment	163
Valldata Group Limited	Melksham	Business Services	Payment processing to charity sector	55
Total unquoted investments				**4,017†**
AIM-traded & PLUS investments				
New				
Bioventix plc	Farnham, Surrey	Healthcare & Education	Develops sheep monoclonal antibodies	227
Ideagen plc	Matlock	TMT*	Compliance software solutions	225
Pinnacle Technology Group plc	Stirlingshire	TMT*	B2B telecoms and IT reseller	169
One Media iP Group plc	Buckinghamshire	TMT*	Content acquisition and distribution	56
Follow on				
Hangar8 plc	Oxford	Business Services	Business jet management	344
Tangent Communications plc	London	Business Services	Digital direct marketing	254
TLA Worldwide plc	London	Business Services	Baseball sports management and marketing business	113
Accumuli plc	Salford	TMT*	Managed IT security	95
EG Solutions plc	Staffordshire	TMT*	Back office optimisation software company	78
Green Compliance plc	Worcester	Business Services	Small business compliance	50
Paragon Entertainment Limited	London	Consumer Markets	Visitor attraction business	45
Total AIM-traded & PLUS investments				**1,656**
Total investments in the year				**5,673**

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

† In addition, Consumer Investment Partners, an existing portfolio company established in 2012 to seek investments in the Consumer Markets sector, invested £0.96 million in Luxury For Less, an online bathroom products retailing business.

Table of Investments and Realisations

Realisations in the year

Company		First investment date	30 September 2012 valuation £'000	Proceeds‡ £'000	Overall multiple* return
Unquoted realisations					
Independent Living Services Limited	Full trade sale	Sep 05	2,705	3,426	2.5
Kidsunlimited Group Limited	Loan repayment	Jun 01	113	176	†
MLS Limited	Full trade sale	Jul 06	1,036	984	2.8
Valldata Group Limited	Loan repayment	Jan 11	450	540	1.2
Consumer Investment Partners Limited	Loan repayment	Apr 12	45	45	1.0
Total unquoted realisations			**4,349**	**5,171**	
AIM-traded & listed realisations					
IDOX plc	Market sale	Jan 09	1,721	2,347	5.5
Staffline Group plc	Market sale	Jul 00	889	1,575	6.0
FFastFill plc	Full trade sale	Jun 07	557	874	2.8
Active Risk Group plc	Full trade sale	May 10	90	126	0.8
Total AIM-traded & listed realisations			**3,257**	**4,922**	
Total realisations in the year			**7,606**	**10,093#**	

‡ Proceeds at time of realisation including redemption premium and interest.

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

† Kidsunlimited Group Limited was realised in April 2008. As part of the consideration, Baronsmead VCT 2 received £113,000 in loan stock, which was redeemed in April 2013. The overall multiple return for the investment in Kidsunlimited was 4.9 times original cost.

Proceeds of £2,000 were also received in respect of Adventis Group plc and £2,000 in respect of Conclusive Logic Limited, both of which were written off in a prior period.

The ISIS Approach for Unquoted Investments

PRIOR TO INVESTMENT

How do we decide where to invest?

SECTOR RESEARCH

The five sector teams at ISIS build knowledge and people networks to help identify attractive market segments. This knowledge also helps ISIS win competitive deals.

DIRECT ORIGINATION

ISIS does not wait for companies to approach it. Over 700 companies per annum are proactively approached to see how ISIS may help their future growth.

TARGET SEEKING FUNDING

ADVISOR NETWORKS

ISIS endeavours to keep relationships with the many corporate finance advisors throughout the UK, that are most likely to introduce companies that require funding.

INVESTMENT PROCESS

What happens during an investment process?

ISIS ANALYSIS

The investment team undertakes considerable analysis to substantiate the target business and the management plans. Time is also invested in building relationships with the management team.

DUE DILIGENCE

External providers are tasked with undertaking due diligence in key areas. This tests, for example, that the financial and commercial features of a business are as portrayed and where improvements can be made.

LEGALS

Legal agreements are negotiated to regulate the investment formalities and provide protections for the investment being made.

INVESTMENT COMMITTEE

All the work undertaken is ultimately shared with the ISIS Investment Committee, made up of senior experienced investors, including an independent Chairman, to ensure high quality decision making is maintained.

INVESTMENT PERIOD

How do we add value during a hold period?

PORTFOLIO MANAGEMENT

ISIS is closely involved in the management of each business and is represented on the Board of the Company playing an active part in the development of the strategy and execution.

OPERATING PARTNERS

Key functional skills can be provided to support areas such as IT, Sales/Marketing, Finance from highly experienced executives who work across the ISIS portfolio.

TALENT MANAGEMENT

The investee businesses often need to recruit additional senior talent to support growth. ISIS has experience in Talent Management to help them.

GLOBAL PE

ISIS is a member of a Global Alliance of like minded, collaborative Private Equity firms across the globe to help ISIS access overseas knowledge and network when required to support our UK investees.

EXIT	When the time is right, ISIS guides the investee through a well prepared exit process to realise value. The exit proceeds fund dividends to Baronsmead shareholders and are recycled to fund new investments.
LESSONS LEARNED, SECTOR EXPERTISE, NETWORK	Every investment delivers more sector insight; new networks and lessons learned. There is a strong feedback loop to ensure this knowledge inputs into our new investment activity.

Ten Largest Investments

The top ten investments by current value at 30 September 2013 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

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:	£5,447,000
Valuation basis:	Exit value
% of equity held:	10.56%

Year ended 30 September	2012 £million	2011 £million
Sales:	**15.2**	12.2
EBITA:	**1.9**	1.4
Net Assets:	**0.3**	0.3
No. of employees:	**68**	61

www.cablecomnetworking.co.uk

(Source: CableCom Networking Holdings Limited, Report and Financial Statement 30 September 2012)

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.

Note: This investment was sold after the year end.

2

NEXUS VEHICLE HOLDINGS LIMITED

Leeds

All ISIS EP LLP managed funds	
First investment:	February 2008
Total cost:	£9,500,000
Total equity held:	56.00%
Baronsmead VCT 2 only	
Cost:	£2,367,000
Valuation:	£4,748,000
Valuation basis:	Earnings multiple
% of equity held:	12.32%

Year ended 30 September	2012 £million	2011 £million
Sale:	**36.5**	38.3
EBITA:	**3.3**	4.3
Net Assets:	**1.8**	1.7
No of employees:	**113**	90

www.nexusrental.co.uk

(Source: Nexus Vehicle Holdings Limited, Report and Financial Statements 30 September 2012)

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.

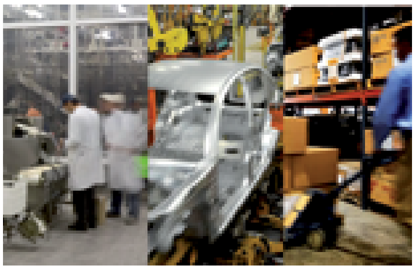
EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

3

STAFFLINE GROUP PLC

Nottingham



All ISIS EP LLP managed funds	
First investment:	July 2000
Total cost:	£290,000
Total equity held:	4.42%
Baronsmead VCT 2 only	
Cost:	£145,000
Valuation:	£3,213,000
Valuation basis:	Last Traded Price
% of equity held:	2.21%

Year ended 31 December	2012 £million	2011 £million
Sales:	367.0	288.3
EBITA:	10.7	10.3
Net Assets:	39.8	34.9
No of employees:	693	498

www.staffline.co.uk

(Source: Staffline Group Plc, Report and Financial Statements 31 December 2012)

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%.

4

CSC (WORLD) LIMITED

Pudsey, Leeds

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:	£2,838,000
Valuation basis:	Exit value
% of equity held:	8.81%

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

www.cscworld.com

(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

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:	£2,569,000
Valuation basis:	Discounted Offer
% of equity held:	15.79%

Year ended 30 September	2012 £million	2011 £million
Sales:	**19.1**	18.4
EBITA:	**2.5**	1.9
Net Assets:	**2.2**	1.5
No of employees:	**97**	105

(Source: Kafevend Holdings Limited, Directors' Report and Financial Statements 30 September 2012)

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

IDOX PLC

London

www.investors.idoxgroup.com

All ISIS EP LLP managed funds	
First investment:	May 2002
Total cost:	£1,641,000
Total equity held:	5.01%
Baronsmead VCT 2 only	
Cost:	£614,000
Valuation:	£2,498,000
Valuation basis:	Last traded price
% of equity held:	1.84%

Year ended 31 October	2012 £million	2011 £million
Sales:	**57.9**	38.6
EBITA:	**12.8**	9.5
Net Assets:	**38.9**	34.4
No of employees:	**467**	363

(Source: IDOX Plc, Directors' Report and Financial Statements 31 October 2012)

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.

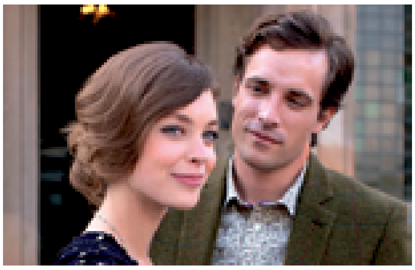
The Baronsmead VCTs first invested in IDOX in 2002, approximately two years after the company floated on AIM. Over the last decade IDOX has shown strong growth through a combination of organic growth and acquisition, and is now seeking to diversify from its core local authority markets into the private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

EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

7

CREW CLOTHING HOLDINGS LIMITED
London



www.crewclothing.co.uk

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:	£1,999,000
Valuation basis:	Earnings Multiple
% of equity held:	6.08%

Year ended 28 October	2012 £million	2011 £million
Sales:	**48.5**	40.7
EBITA:	**3.5**	3.3
Net Assets:	**6.0**	5.7
No. of employees:	**363**	311

(Source: Crew Clothing Holdings Limited, Report and Financial Statements 28 October 2012)

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 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.

8

NETCALL PLC
Hemel Hempstead

www.netcall.com

All ISIS EP LLP managed funds	
First investment:	July 2010
Total cost:	£4,354,000
Total equity held:	20.50%
Baronsmead VCT 2 only	
Cost:	£869,000
Valuation:	£1,968,000
Valuation basis:	Bid Price
% of equity held:	4.08%

Year ended 30 June	2013 £million	2012 £million
Sales:	**16.1**	14.6
EBITA:	**3.4**	3.1
Net Assets:	**16.9**	15.5
No of employees:	**141**	123

(Source: Netcall plc, Annual Report and Accounts, 30 June 2013)

Netcall is one of the UK's leading providers of customer engagement solutions. They support organisations to deliver outstanding customer service and achieve a realistic return on their investment. Some of the challenges their solutions can help overcome include customer contact across multiple channels, resource utilisation, improving customer satisfaction ratings, process automation, unifying communications effectively and maximising available budget.

Currently over 750 organisations in the Public, Private and Healthcare markets use one or more of the Netcall solutions which include contact management, business process management, workforce optimisation and enterprise content management.

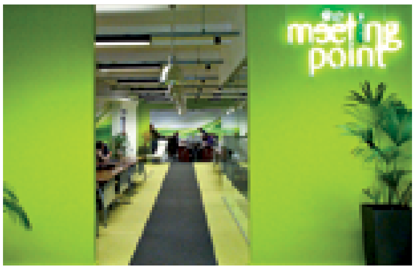
EBITA: Earnings before interest, tax and amortisation

Ten Largest Investments

9

INSPIRED THINKING GROUP LIMITED

Birmingham



www.inspiredthinkinggroup.com

All ISIS EP LLP managed funds	
First investment:	May 2010
Total cost:	£3,200,000
Total equity held:	22.50%
Baronsmead VCT 2 only	
Cost:	£796,000
Valuation:	£1,837,000
Valuation basis:	Earnings Multiple
% of equity held:	4.95%

Year ended 31 August	2012 £ million	2011 £ million
Sales:	**32.7**	21.5
EBITA:	**1.6**	1.4
Net Assets:	**2.0**	0.1
No of Employees :	**158**	117

(Source: Inspired Thinking Group Holdings Limited, Report and Financial Statements 31 August 2012)

ITG provides services that help marketing departments to operate more efficiently. This includes outsourced print management services to major retailers and consumer facing businesses. ITG also owns and provides a workflow and content system called MediaCentre that enables their clients gain tighter control over their marketing operations. The combined services are already saving some major retailers considerable sums within their marketing departments, enabling them to make fixed budgets more effective.

The ITG management team are known as experienced and innovative in this field and have been successful in winning large new accounts over time from blue chip clients.

10

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:	£1,682,000
Valuation basis:	Earnings Multiple
% of equity held:	10.45%

Year ended 31 July	2012 £million	2011* £million
Sales:	**32.7**	43.6
EBITA:	**0.1**	2.7
Net (Liabilities)/assets:	**(0.8)**	1.2
No of employees:	**118**	110

(Source: Fisher Outdoor Leisure Holdings Limited, Directors' Report and Financial Statements 31 July 2012)

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.

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

EBITA: Earnings before interest, tax and amortisation

Report of the Directors

The Corporate Governance Statement on pages 31 to 34 forms part of the Report of the Directors.

Board of Directors

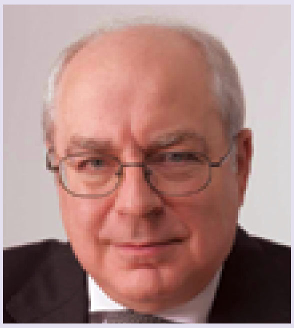
As at 30 September 2013

Clive Parritt (Chairman)

(Date of appointment 18 February 1998)
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 being 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)
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, the predecessor to the Financial Conduct Authority. 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)
is Chairman of Delmore Asset Management Limited, which manages investment portfolios and specialises in global asset allocation advice.

Currently he serves as asset allocation advisor to the Tesco Pension Fund, he was previously a director for Global Strategy at Allied Dunbar Asset Management (now Threadneedle Asset Management) and from 1997–2003 he was consultant Director on global asset allocation to Liverpool Victoria Asset Management.

Howard has over 30 years of experience in the real estate market and is a non-executive director of London & Associated Properties PLC.

Christina McComb

(Date of appointment 3 February 2011)
is currently a non-executive director of Engage Mutual Assurance, Standard Life European Private Equity Trust plc and Nexeon Ltd and is a Trustee of the Land Restoration Trust. She has just been appointed Senior Independent Director of the British Business Bank, the Government's new flagship initiative to stimulate investment in UK SMEs. She is also a director of C5 Capital Ltd, an investment company focused on the security sector. Prior to joining the Baronsmead VCT 2 Board, she was a director of Partnerships UK plc 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 where she undertook a number of investment and portfolio management roles.

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

Results and Dividends

The Directors present the sixteenth Report and audited financial statements of the Company for the year ended 30 September 2013.

Ordinary Shares	£'000
Profit on ordinary activities after taxation	10,325
Final dividend for 2012 of 5.0p per ordinary share paid on 18 January 2013	(3,772)
First interim dividend of 3.0p per ordinary share paid on 14 June 2013	(2,254)
Second interim dividend of 6.5p per ordinary share paid on 20 September 2013	(4,882)
Total dividends paid during the year	**(10,908)**

Issue and Buy-Back of Shares

As a result of a top-up offer on 21 December 2012 the Company allotted 4,471,998 ordinary shares at a price of 111.80p representing 5.2 per cent of the then issued share capital with an aggregate nominal value of £447,199.80 raising £5,000,000 of new funds in total. The terms of issue were set out in the Offer document dated 20 November 2012 and the offer price was set on 21 December 2012.

The Company also bought back 1,005,000 ordinary shares with a nominal value of 10p each to be held in treasury, representing an aggregate cost of £964,575. 200,000 ordinary 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 10,023,819 ordinary shares in treasury representing 11.75 per cent of the issued share capital as at 18 November 2013. This was the maximum number of shares held in treasury during the year.

Directors

Mr Goldring, having been elected at the Annual General Meeting in January 2013, will not retire at the forthcoming Annual General Meeting.

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

As explained in more detail under Corporate Governance on pages 31 to 34 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.

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.

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, as amended, the Directors disclose the following information:

- the Company's capital structure and voting rights are summarised in Note 3.1, 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;
- the Company does not have an employees' share scheme;
- there exist no agreements to which the Company is party that may affect its control following a takeover bid; and

Report of the Directors

- 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.

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.

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.

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 FCA's rules) have been managed by FPPE LLP. This is a limited liability partnership, which is authorised and regulated by the FCA and which has the same controlling members as the Manager. The Manager has continued to act as the Manager of the Company and as the Investment Manager of the Company's illiquid assets (being all AIM-traded and other venture capital investments).

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

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

Annual running costs are capped at 3.5 per cent of the net assets of the Company (excluding any performance fee payable to the Manager and irrecoverable VAT), any excess being refunded by the Manager by way of an adjustment to its management fee. The running cost as at 30 September 2013 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.

Report of the Directors

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.

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 per cent) of the ordinary shares available to the Baronsmead VCTs in each unquoted investment. The level of participation was increased from 5 per cent in 2007 when the Manager's performance fee was reduced from 20 per cent to its current level of 10 per cent.

Since the formation of the scheme in 2004, 52 executives have invested a total of £781k in 39 companies. At 30 September 2013 eleven of these investments have been realised generating proceeds of £103m for the Baronsmead VCTs and £5.1m for the Co-investment Scheme. For Baronsmead VCT 2 the average money multiple on these eleven realisations was 2.5 times cost. Had the co-investment shares been held instead by the Baronsmead VCTs that money multiple would have been 2.7 times cost. Over the period of nine years (based upon the current number of shares in issue) this equates to approximately 1.7p 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.

ISIS Equity Partners – Advisory Fees

During the year to 30 September 2013, ISIS EP LLP received income of £146,000 (2012: £130,000) from investee companies in connection with advisory fees and incurred abort fees of £1,000 (2012: £59,000), with respect to investments attributable to Baronsmead VCT 2.

Directors' fees of £203,000 were received in relation to services provided to companies in the investment portfolio during the year.

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.

Environment

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

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within our underlying investment portfolio.

Substantial Interests in Share Capital

At 18 November 2013 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 2013 the Company held cash balances & investments in UK Gilts with a combined value of £5,874,000. 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 10:30 a.m. on Wednesday, 18 December 2013 at the Plaisterers' Hall, One London Wall, EC2Y 5JU is set out on pages 55 to 58. The following notes provide an explanation of Resolutions 7 to 12 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 12 will be proposed as special resolutions requiring the approval of 75 per cent of the votes cast at the meeting. The Board considers that the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. The Board will be voting in favour of the resolutions and unanimously recommends that you do so as well.

Auditor

Our auditor, KPMG Audit Plc, has instigated an orderly wind down of business. The Board has decided to recommend the approval of the successor firm KPMG LLP to be appointed as auditor. 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 £3,765,747.50 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 next Annual General Meeting of the Company, to issue ordinary shares for cash without pre-emption rights applying of (i) up to an aggregate nominal 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 Company's 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 Company's 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 10,023,819 ordinary shares in treasury representing 11.75 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 shortly and Resolution 10 seeks renewal of such authority until the next Annual General Meeting of the Company (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.

Cancellation of Share Premium Account

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

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

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

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

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

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

18 November 2013

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 February 2013 ('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 September 2012 ('the Corporate Governance Code'), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. A copy of the Corporate Governance 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 Corporate Governance Code) will provide better information to shareholders.

Except as disclosed below, the Company complied throughout the period with the recommendations of the 2010 and 2013 AIC Codes and the relevant provisions of the Corporate Governance Code. Since all the Directors are non-executive the provisions of the Corporate Governance Code in respect of the role of the chief executive are not relevant to the Company and, likewise, the provisions of the Corporate Governance 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 Corporate Governance 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.

The forthcoming AGM will be held on 18 December 2013. While the Company has provided 21 days notice, in accordance with the Companies Act 2006, the Company has not provided the 20 working days notice, as required under principle 19 of the AIC Code. The Board has chosen not to comply with this requirement and will hold the AGM earlier for the convenience of shareholders.

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. 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 the 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 Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making appointments.

The Company has no executive Directors or employees.

Division of Responsibilities

Certain matters, including strategy, investment and dividend policies, gearing and corporate governance procedures, are reserved for the approval of the Board. Additionally, 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. The Board meets at least quarterly and

Corporate Governance

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.

Audit 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 Half-Yearly accounts, the system of internal controls (please refer to page 34 for further details), 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 Audit Committee regularly monitors the non-audit services being provided to the Company by its auditor.

The Audit Committee is responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements. The Audit Committee can confirm that there were no significant issues to report to the shareholders in respect of the audit of the financial statements for the year ended 30 September 2013.

The Audit Committee has identified and considered the following key areas of risk in relation to the business activities and financial statements of the company:

- valuation and existence of unquoted investments; and
- compliance with HM Revenue & Customs conditions for maintenance of approved Venture Capital Trust status.

These issues were discussed with the Manager and the auditor at the conclusion of the audit of the financial statements, as explained below.

Valuation of unquoted investments: the Manager and the auditor confirmed to the Audit Committee that the investment valuations had been performed consistently with prior periods and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data. The Directors have met quarterly to assess the estimates and judgements made by the Investment Manager in the investment valuations for their appropriateness. These were then further reviewed by the Audit Committee.

Venture capital trust status: the Manager confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been met throughout the year. The position was also reviewed by PricewaterhouseCoopers LLP in its capacity as adviser to the Company on taxation matters.

The Manager and auditor confirmed to the Audit Committee that they were not aware of any material misstatements. Having reviewed the reports received from the Manager and auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been addressed appropriately in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The committee considers that KPMG Audit Plc has carried out its duties as auditor in a diligent and professional manner.

Corporate Governance

During the year, the Audit Committee assessed the effectiveness of the current external audit process. In accordance with guidance issued by the Auditing Practices Board the audit partner is rotated every five years ensuring that objectivity and independence is not impaired. The current audit partner has been in place for two year-ends. KPMG Audit Plc was appointed as Auditor to the Company in 2003. No tender for the audit of the Company has been undertaken since this date. As part of its review of the continuing appointment of the auditors, the Audit Committee regularly considers the need to put the audit out to tender, its fees and independence from the Investment Manager along with any matters raised during each audit.

The Audit Committee considered the performance of the auditor during the year and agreed that KPMG continued to provide a high level of service and maintained a good knowledge of the venture capital trust market, making sure audit quality continued to be maintained.

Management Engagement and Remuneration Committee

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. Further information regarding the work carried out during the year can be found in the Directors' Remuneration Report.

Nomination Committee

The Nomination Committee operates within clearly defined terms of reference, 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. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge. The Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of board balance and diversity when making new appointments.

The Nomination Committee also considers the resolutions of the annual re-election of directors.

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

Board Evaluation

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.

During the period the performance of the Board, committees and individual Directors was evaluated through an assessment process by way of a questionnaire specifically designed to assess the strength of the Board and Committees and identify areas for further development. 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.

The following table sets out the number of Board and Committee meetings held during the year to 30 September 2013 and the number of meetings attended by each Director.

Corporate Governance

	Board of Directors (4 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	4	4	2	2	1	1	1	1
Gillian Nott	4	4	2	2	1	1	1	1
Howard Goldring	4	4	2	2	1	1	1	1
Christina McComb	4	4	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 18 December 2013 can be found in the Notice of Meeting on pages 55 to 58. Shareholders seeking to communicate with the Board can do so by contacting the Investment Manager in the first instance (see page 64 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 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 is 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 the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended. An ordinary resolution for the approval of this report and the Directors' remuneration policy 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'.

Annual Statement from the Chairman of the Remuneration Committee

The Board which is profiled on page 25 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 Committee 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. Accordingly the Directors' fees were increased from £18,000 to £20,000 and the Chairman's fee was increased from £26,500 to £28,500 with effect from 1 October 2013.

Directors' Remuneration Policy

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.

Assuming this policy is approved by the members at the forthcoming AGM, it is intended that this policy will continue for the year ending 30 September 2014 and subsequent years. In accordance with the Enterprise Regulatory Reform Act 2013, an ordinary resolution to approve the Director's remuneration policy will be put to shareholders at least once every three years.

The Directors are not eligible to receive pension entitlements, bonuses and no other benefits are provided. They are not entitled to participate in any long-term incentive plan or share option schemes. Fees are paid to the Directors on a monthly basis and are not performance related.

As the Directors do not have service contracts, the Company does not have a policy on termination payments. There is no notice period and no payments for loss of office were made during the period.

Shareholders' views in respect of Directors' remuneration are communicated at the company's AGM and are taken into account in formulating the Directors remuneration policy. At the last AGM, just over 95 per cent of shareholders voted for the resolution approving the Directors' Remuneration Report showing significant shareholder support.

Annual Remuneration Report

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.

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 2013	30 September 2012
	Ordinary 10p shares	Ordinary 10p shares
Clive Parritt	109,111	87,729
Gillian Nott	71,605	48,462
Howard Goldring	10,157	10,157
Christina McComb	20,315	20,315
Total shares held	**211,188**	**166,663**

There have been no changes in the holdings of the Directors between 30 September 2013 and 18 November 2013.

Directors' Remuneration Report

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
Clive Parritt	18 February 1998	December 2013
Gillian Nott	18 February 1998	December 2013
Howard Goldring	11 November 2009	AGM 2015
Christina McComb	3 February 2011	December 2013

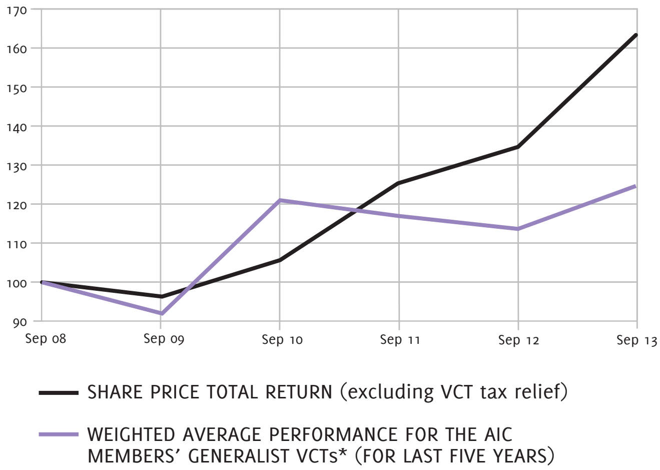
Company performance

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 to the right compares, for the five years ended 30 September 2013, 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), which the Board considers to be the most appropriate benchmark for investment performance measurement purposes. An explanation of the performance of the Company is given in the Chairman's Statement and Manager's Review.

Relative Importance of Spend on Pay

	2013 £	2012 £	Percentage increase
Dividend	7,136,000	5,576,000	27.98
Total directors fees	80,500	77,975	3.24

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 2013 £	Fees 2012 £
C Parritt	**26,500**	26,000
G Nott	**18,000**	17,325
H Goldring	**18,000**	17,325
C McComb	**18,000**	17,325
Total	**80,500**	77,975

Approved by the Board of Directors and signed by:

Gillian Nott

Chairman of the Management Engagement and Remuneration Committee

18 November 2013

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 Strategic Report, 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;
- 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; and
- the report and accounts, taken as a whole, are fair, balanced, and understandable and provide the necessary information for shareholders to assess the company's performance, business model and strategy.

On behalf of the Board,
Clive A Parritt
Chairman

18 November 2013

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BARONSMEAD VCT 2 PLC ONLY

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the financial statements of Baronsmead VCT 2 plc for the year ended 30 September 2013 set out on pages 41 to 54. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of Unquoted Investments: 48 per cent of the Company's net assets (by value) is held in investments where no quoted market price is available. As detailed in the summary of accounting policies in Note 2.3 and the Audit Committee Report on pages 32 to 33, unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments and this is one of the key judgemental areas that our audit focused on. Our procedures included:

- enquiry of the Investment Manager to document and assess the design and implementation of the investment valuation processes and controls in place;
- attendance at the quarterly Valuation meetings with the Board and Investment Manager to assess their discussion and review of the investment valuations;
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and consideration of whether they are indicative of bias or error in the Company's approach to valuations;
- challenging the Investment Manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we focussed on the appropriateness of the valuation basis selected as well as the underlying assumptions, such as discount factors, and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources and investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cashflows to understand whether borrowings can be serviced or refinancing may be required. Where a recent transaction is used to value any holding, we obtained an understanding of the circumstances surrounding those transactions and whether they were considered to be on an arms-length basis and suitable as an input into a valuation. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- attending the year-end Audit Committee meeting, where we assessed the effectiveness of the Audit Committee's challenge and approval of unlisted investment valuations; and

Independent Auditor's Report

- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in Note 3.3 in respect of unlisted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £1,554,000. This has been calculated with reference to a benchmark of Total Assets. Total Assets, which is primarily composed of the Company's investment portfolio, is considered the key driver of the Company's capital and revenue performance and, as such, we believe that it is one of the principal considerations for members of the Company in assessing its financial performance.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £77,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Investment Manager, ISIS Equity Partners, head office in London and at the Administrator, Capita Sinclair Henderson Limited (trading as Capita Asset Services), in Exeter.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Report of the Directors (pages 25 to 34) does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 29, in relation to going concern;
- the part of the Corporate Governance Statement on page 31 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 37, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

18 November 2013

Income Statement

For the year ended 30 September 2013

	Notes	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Unrealised gains on movements in fair value of investments	2.3	–	8,678	8,678	–	5,842	5,842
Realised gains on disposal of investments	2.3	–	1,535	1,535	–	750	750
Income	2.5	3,456	–	3,456	1,101	–	1,101
Investment management fee	2.6	(368)	(2,541)	(2,909)	(337)	(1,011)	(1,348)
Other expenses	2.6	(435)	–	(435)	(381)	–	(381)
Profit on ordinary activities before taxation		2,653	7,672	10,325	383	5,581	5,964
Taxation on ordinary activities	2.9	(505)	505	–	(16)	16	–
Profit on ordinary activities after taxation		2,148	8,177	10,325	367	5,597	5,964
Return per ordinary share:							
Basic	2.2	2.89p	10.99p	13.88p	0.52p	7.93p	8.45p

All items in the above statement derive from continuing operations.

There are no recognised gains and losses other than those disclosed in the Income Statement.

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

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2013

	Notes	2013 £'000	2012 £'000
Opening shareholders' funds		72,433	64,999
Profit on ordinary activities after taxation		10,325	5,964
Net proceeds of share issues & buybacks		3,944	3,284
Other costs charged to capital	3.2	(5)	(10)
Dividends paid	2.4	(10,908)	(1,804)
Closing shareholders' funds		75,789	72,433

Balance Sheet

As at 30 September 2013

Company number: 03504214

	Notes	2013 £'000	2012 £'000
Fixed assets			
Investments	2.3	72,865	69,118
Current assets			
Debtors	2.7	1,965	310
Cash at bank and on deposit		2,875	3,465
		4,840	3,775
Creditors (amounts falling due within one year)	2.8	(1,916)	(460)
Net current assets		2,924	3,315
Net assets		75,789	72,433
Capital and reserves			
Called-up share capital	3.1	8,534	8,087
Share premium	3.2	7,809	3,531
Capital reserve	3.2	41,921	47,452
Revaluation reserve	3.2	17,274	12,742
Revenue reserve	3.2	251	621
Equity shareholders' funds		75,789	72,433
Net asset value per share			
– Basic	2.1	100.63p	101.10p
– Treasury	2.1	99.88p	99.83p

The financial statements were approved by the Board of Directors on 18 November 2013 and were signed on its behalf by:

CLIVE A PARRITT FCA (Chairman)

Cash Flow Statement

For the year ended 30 September 2013

	2013 £'000	2012 £'000
Operating activities		
Investment income received	2,738	1,343
Deposit interest received	20	6
Investment management fees paid	(1,449)	(1,311)
Other cash payments	(441)	(375)
Net cash inflow/(outflow) from operating activities	868	(337)
Financial investment		
Purchases of investments	(36,620)	(99,024)
Disposals of investments	42,131	100,857
Net cash inflow from financial investment	5,511	1,833
Equity dividends paid	(10,908)	(1,804)
Net cash outflow before financing	(4,529)	(308)
Financing		
Net proceeds of share issues & buybacks	3,944	3,241
Other costs charged to capital	(5)	(10)
Net cash inflow from financing	3,939	3,231
(Decrease)/increase in cash	(590)	2,923
Reconciliation of net cash flow to movement in net cash		
(Decrease)/increase in cash	(590)	2,923
Opening cash position	3,465	542
Closing cash at bank and on deposit	2,875	3,465

Reconciliation of profit on ordinary activities before taxation to net cash inflow/(outflow) from operating activities	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	10,325	5,964
Gains on investments	(10,213)	(6,592)
(Increase)/decrease in debtors	(700)	276
Increase in creditors	1,456	44
Income reinvested	–	(29)
Net cash inflow/(outflow) from operating activities	868	(337)

Notes to the Accounts

In preparing the 2013 financial statements, Baronsmead VCT 2 has made a number of changes in structure, layout and wording in order to make the financial statements less complex and more relevant for shareholders and other users.

We have grouped notes into sections under three key categories:

1. Basis of preparation
2. Investments, performance and shareholder returns
3. Other required disclosures

The key accounting policies have been incorporated throughout the notes to the financial statements adjacent to the disclosure to which they relate. All accounting policies are included within an outlined box.

1. Basis of Preparation

1.1 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.

2. Investments, performance and shareholder returns

2.1 Net asset value per share

	Number of ordinary shares		Net asset value per share attributable		Net asset value attributable	
	2013 number	2012 number	**2013 pence**	2012 pence	**2013 £'000**	2012 £'000
Ordinary shares (basic)	**75,314,950**	71,647,952	**100.63**	101.10	**75,789**	72,433
Ordinary shares (including treasury)	**85,338,769**	80,866,771	**99.88**	99.83	**85,236**	80,730

The treasury net asset value per share as at 30 September 2013 included ordinary shares held in treasury valued at the mid share price of 94.25p at 30 September 2013 (2012: 90.00p).

2.2 Return per share

	Weighted average number of ordinary shares		Return per ordinary share		Net profit on ordinary activities after taxation	
	2013 number	2012 number	**2013 pence**	2012 pence	**2013 £'000**	2012 £'000
Revenue	**74,397,698**	70,544,594	**2.89**	0.52	**2,148**	367
Capital	**74,397,698**	70,544,594	**10.99**	7.93	**8,177**	5,597
Total			**13.88**	8.45	**10,325**	5,964

Notes to the Accounts

2. Investments, performance and shareholder returns (continued)

2.3 Investments

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

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

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 guidelines ("IPEV"). 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.

All investments are initially recognised and subsequently measured at fair value. Changes in fair value are recognised in the income statement.

The methods of fair value measurement are classified into a hierarchy based on reliability of the information used to determine the valuation.

- Level 1 – Fair value is measured based on quoted prices in an active market.
- Level 2 – Fair value is measured based on directly observable current market prices or indirectly being derived from market prices.
- Level 3 – Fair value is measured using a valuation technique that is not based on data from an observable market.

	2013 £'000	2012 £'000
Level 1		
Listed interest bearing securities	**2,999**	5,939
Investments traded on AIM	**24,994**	20,750
Investments traded on PLUS	**346**	–
Investments listed on LSE	**1,901**	1,526
	30,240	28,215
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	**6,140**	4,183
Level 3		
Unquoted investments	**36,485**	36,720
	72,865	69,118

Notes to the Accounts

2. Investments, performance and shareholder returns (continued)

2.3 Investments (continued)

	Level 1				Level 2	Level 3	
	Listed Interest bearing securities £'000	Traded on AIM £'000	Traded on PLUS £'000	Listed on LSE £'000	Collective investment vehicle £'000	Unquoted £'000	Total £'000
Opening book cost	5,939	17,338	–	1,536	3,525	28,038	56,376
Opening unrealised appreciation/(depreciation)	–	3,412	–	(10)	658	8,682	12,742
Opening valuation	5,939	20,750	–	1,526	4,183	36,720	69,118
Movements in the year:							
Purchases at cost	29,992	1,429	227	–	–	4,017	35,665
Sale – proceeds	(32,932)	(4,926)	–	–	–	(4,273)	(42,131)
– realised gains(losses) on sales	–	1,611	–	–	–	(76)	1,535
Unrealised gains realised during the year	–	2,215	–	–	–	1,931	4,146
Increase/(decrease) in unrealised appreciation	–	3,915	119	375	1,957	(1,834)	4,532
Closing valuation	**2,999**	**24,994**	**346**	**1,901**	**6,140**	**36,485**	**72,865**
Closing book cost	2,999	17,667	227	1,536	3,525	29,637	55,591
Closing unrealised appreciation	–	7,327	119	365	2,615	6,848	17,274
Closing valuation	**2,999**	**24,994**	**346**	**1,901**	**6,140**	**36,485**	**72,865**
Equity shares	–	24,994	346	1,901	6,140	10,907	44,288
Loan notes	–	–	–	–	–	25,578	25,578
Fixed income securities	2,999	–	–	–	–	–	2,999
Closing valuation	**2,999**	**24,994**	**346**	**1,901**	**6,140**	**36,485**	**72,865**

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

For Level 3 unquoted investments, the effect on fair value of changing one or more assumptions to reasonably possible alternatives has been considered. 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 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 £2.1 million or 5.8 per cent lower. Using the upside alternatives the value would be increased by £2.6 million or 7 per cent.

.

Notes to the Accounts

2. Investments, performance and shareholder returns (continued)

2.4 Dividends

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 30 September 2013						
– First interim dividend of 3.0p per ordinary share paid on 14 June 2013	451	1,803	2,254	–	–	–
– Second interim dividend of 6.5p per ordinary share paid on 20 September 2013	1,690	3,192	4,882	–	–	–
For the year ended 30 September 2012						
– Interim dividend of 2.5p per ordinary share paid on 15 June 2012	–	–	–	–	1,804	1,804
– Final dividend of 5.0p per ordinary share paid on 18 January 2013	377	3,395	3,772	–	–	–
	2,518	8,390	10,908	–	1,804	1,804

2.5 Income

Interest income on loan notes 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 notes 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 when the related investments are marked ex-dividend and where no dividend date is quoted, when the Company's right to receive payment is established.

Notes to the Accounts

2. Investments, performance and shareholder returns (continued)

2.5 Income (continued)

	2013 Quoted securities £'000	2013 Unquoted securities £'000	2013 Total £'000	2012 Quoted securities £'000	2012 Unquoted securities £'000	2012 Total £'000
Income from investments†						
UK franked	505	–	505	323	–	323
UK unfranked	8	2,468	2,476	21	689	710
UK unfranked – reinvested	–	–	–	–	29	29
Redemption premium	–	455	455	–	33	33
	513	2,923	3,436	344	751	1,095
Other income‡						
Deposit interest			14			6
Other income			6			–
Total income			3,456			1,101
Total income comprises:						
Dividends			505			323
Interest			2,951			778
			3,456			1,101

† 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.

2.6 Investment management fee and other expenses

All expenses are recorded on an accruals basis.

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Investment management fee	368	1,105	1,473	337	1,011	1,348
Performance fee	–	1,436	1,436	–	–	–
	368	2,541	2,909	337	1,011	1,348

Management fees are allocated 25 per cent income: 75 per cent capital derived in accordance with the Board's expected split between long term income and capital returns. Performance fees are allocated 100 per cent capital.

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.

Notes to the Accounts

2. **Investments, performance and shareholder returns** (continued)

2.6 **Investment management fee and other expenses** (continued)

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.

Amounts payable to the Manager at the year end are disclosed in note 2.8.

Other expenses

	2013 £'000	2012 £'000
Directors' fees	**81**	78
Secretarial and accounting fees paid to the Manager	**134**	125
Remuneration of the auditors and their associates:		
– audit	**22**	22
– other services supplied pursuant to legislation (interim review)	**–**	5
– other services supplied relating to taxation	**6**	11
– other services supplied relating to financial statements' reorganisation	**6**	–
Other	**186**	140
	435	381

Information on directors' remuneration is given in the directors' remuneration table on page 36.

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.

2.7 **Debtors**

	2013 £'000	2012 £'000
Prepayments and accrued income	**1,010**	310
Amounts paid for future settlement	**955**	–
	1,965	310

2.8 **Creditors** (amounts falling due within one year)

	2013 £'000	2012 £'000
Management, performance, secretarial and accounting fees due to the Manager	**1,859**	397
Other creditors	**57**	63
	1,916	460

Notes to the Accounts

2. Investments, performance and shareholder returns (continued)

2.9 Tax

UK corporation tax payable is provided on taxable profits at the current rate.

Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability.

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:

	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000	2012 Revenue £'000	2012 Capital £'000	2012 Total £'000
Profit on ordinary activities before taxation	2,653	7,672	10,325	383	5,581	5,964
Corporation tax at 23.5 per cent (2012: 26 per cent)	624	1,803	2,427	100	1,451	1,551
Effect of:						
Non-taxable gains	–	(2,400)	(2,400)	–	(1,714)	(1,714)
Non-taxable dividend income	(119)	–	(119)	(84)	–	(84)
Losses carried forward	–	92	92	–	247	247
Tax charge/(credit) for the year	505	(505)	–	16	(16)	–

At 30 September 2013 the Company had surplus management expenses of £2,349,443 (2012: £1,785,618) 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.

3. Other Required Disclosures

3.1 Called-up share capital

Allotted, called-up and fully paid:

Ordinary shares	£'000
80,866,771 ordinary shares of 10p each listed at 30 September 2012	8,087
4,471,998 ordinary shares of 10p each issued during the year	447
85,338,769 ordinary shares of 10p each listed at 30 September 2013	**8,534**
9,218,819 ordinary shares of 10p each held in Treasury at 30 September 2012	(922)
(200,000) ordinary shares of 10p each sold during the year previously held in treasury	20
1,005,000 ordinary shares of 10p each repurchased during the year and held in treasury	(101)
10,023,819 ordinary shares of 10p each held in treasury at 30 September 2013	**(1,003)**
75,314,950 ordinary shares of 10p each in circulation* at 30 September 2013	**7,531**

* Carrying one vote each.

Notes to the Accounts

3. Other Required Disclosures (continued)

3.1 Called-up share capital (continued)

During the year the Company bought into treasury 1,005,000 ordinary shares and sold from treasury 200,000 ordinary shares representing 1.0 per cent of the ordinary shares in issue at the beginning of the financial year.

There were no changes in share capital between the year end and when the financial statements were approved.

Treasury shares

When the Company reacquires its own shares, they are held as treasury shares and not cancelled.

Shareholders have authorised the Board to re-issue treasury shares at a discount to the prevailing NAV subject to the following conditions:

- It is in the best interests of the Company;
- Demand for the Company's shares exceeds the shares available in the market;
- A full prospectus must be produced if funds raised are greater than €5m; and
- HMRC will not consider these 'new shares' for the purposes of the purchasers' entitlement to initial income tax relief.

3.2 Reserves

Gains and losses on realisation of investments of a capital nature are dealt with in the capital reserve. Purchases 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.

	Distributable reserves			Non-distributable reserves		
	Capital reserve £'000	Revenue reserve £'000	Total £'000	Share premium £'000	Revaluation reserve* £'000	Total £'000
At 1 October 2012	47,452	621	48,073	3,531	12,742	16,273
Gross proceeds of share issues	–	–	–	4,553	–	4,553
Purchase of shares for Treasury	(964)	–	(964)	–	–	–
Sale of shares from Treasury – cost	190	–	190	–	–	–
Sale of shares from Treasury – loss	(2)	–	(2)	–	–	–
Expenses of share issue and buybacks	(5)	–	(5)	(275)	–	(275)
Other costs charged to capital	(5)	–	(5)	–	–	–
Reallocation of prior year unrealised gains	4,146	–	4,146	–	(4,146)	(4,146)
Realised gain on disposal of investments#	1,535	–	1,535	–	–	–
Net increase in value of investments#	–	–	–	–	8,678	8,678
Management fee capitalised#	(2,541)	–	(2,541)	–	–	–
Taxation relief from capital expenses#	505	–	505	–	–	–
Revenue return on ordinary activities after taxation#	–	2,148	2,148	–	–	–
Dividends paid in the year	(8,390)	(2,518)	(10,908)	–	–	–
At 30 September 2013	**41,921**	**251**	**42,172**	**7,809**	**17,274**	**25,083**

The total of these items is £10,325,000, which agrees to the total profit on ordinary activities.
* Changes in fair value of investments are dealt with in this reserve.

Distributable reserves include the net unrealised loss on investments whose prices are quoted in an active market and deemed readily realisable in cash.

Notes to the Accounts

3. Other Required Disclosures (continued)

3.2 Reserves (continued)

Share premium is recognised net of issue costs.

The Company does not have any externally imposed capital requirements.

3.3 Financial instruments risks

The Company's financial instruments comprise equity and fixed interest investments, cash balances and liquid resources including debtors and creditors. The Company holds financial assets in accordance with its investment policy to invest in a diverse portfolio of UK growth businesses.

The Company's investing activities expose it to a range of financial risks. These key risks and the associated risk management policies to mitigate these risks are described below.

Market risk

Market risk includes price risk on investments and interest rate risk on investments and other financial assets and liabilities.

Price Risk

The investment portfolio is managed in accordance with the policies and procedures described on pages 11 to 14 of the Strategic Report.

Investments in unquoted stocks, AIM & PLUS quoted companies involve a higher degree of risk than investments in the main market. The Company aims to reduce this risk by diversifying the portfolio across business sectors and asset classes.

Management performs continuing analysis on the fair value of investments and the Company's overall market positions are monitored by the Board on a quarterly basis.

	2013			2012		
	% of total investment	5% increase in share price effect on net assets and profit £'000	5% decrease in share price effect on net assets and profit £'000	% of total investment	5% increase in share price effect on net assets and profit £'000	5% decrease in share price effect on net assets and profit £'000
LSE, AIM & PLUS	37	1,362	(1,362)	38	1,323	(1,323)
Unquoted	50	1,824	(1,824)	53	1,836	(1,836)

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 indirectly be affected by price movements on the listed exchanges.

Notes to the Accounts

3. Other Required Disclosures (continued)

3.3 Financial instruments risks (continued)

Interest rate risk

The Company has the following investments in fixed and floating rate financial assets:

	2013 Total investment £'000	2013 Weighted average interest rate %	2013 Weighted average time for which rate is fixed days	2012 Total investment £'000	2012 Weighted average interest rate %	2012 Weighted average time for which rate is fixed days
Fixed rate loan note securities	25,578	9.27	#	25,947	9.41	#
Fixed interest instruments	2,999	0.23	14	4,699	0.18	10
Floating rate instrument ("OEIC")	–	–	–	1,240	–	–
Cash at bank & on deposit	2,875	–	–	3,465	–	–
	31,452			35,351		

Due to the complexity of the instruments and uncertainty surrounding timing of realisation the weighted average time for which the rate is fixed has not been calculated.

Credit Risk

Credit risk refers to the risk that counterparty will default on its obligation resulting to a financial loss to the Company. The Investment Manager monitors credit risk on an ongoing basis.

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

	2013 £'000	2012 £'000
Investments in fixed rate instruments	2,999	4,699
Investments in floating rate instruments	–	1,240
Cash at bank & on deposit	2,875	3,465
Interest, dividends and other receivables	1,965	310
	7,839	9,714

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

Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed earlier in the note.

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.

Notes to the Accounts

3. **Other Required Disclosures** (continued)

3.3 **Financial instruments risks** (continued)

Credit Risk (continued)

All the assets of the Company which are traded on a recognised exchange are held by JP Morgan Chase ("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 of this report.

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 2013 or 30 September 2012. No individual investment exceeded 7.2 per cent of the net assets attributable to the Company's shareholders at 30 September 2013 (2012: 6.5 per cent).

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 and PLUS traded equity investments, all 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 in place as described in the Extract from the Report of the Directors above. 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 2013 these investments were valued at £5,874,000 (2012: £9,404,000).

3.4 **Related parties**

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS EP LLP, as disclosed in notes 2.6 and 2.8, and fees paid to the Directors as disclosed in note 2.6. In addition, the Manager operates a Co-investment Scheme, detailed in the Extract from the Report of the Directors, whereby employees of the Manager are entitled to participate in all unquoted investments alongside the Company.

3.5 **Post balance sheet events**

The Company's investment in CableCom Networking Holdings Limited was sold to a financial buyer on 25 October 2013 for proceeds of £5,684,000 of which £1,250,000 was rolled over into a new investment in CableCom alongside the financial buyer and £740,000 into a bridging loan note that is expected to be refinanced within twelve months.

A new investment of £955,000 was made in Carousel Logistics Limited, a provider of bespoke logistics and supply chain solutions, on 2 October 2013.

Notice of Annual General Meeting

Notice is hereby given that the sixteenth Annual General Meeting of Baronsmead VCT 2 plc ("the Company") will be held at the Plaisterers' Hall, One London Wall, EC2Y 5JU, on Wednesday, 18 December 2013 at 10:30 a.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 12 being proposed as special resolutions.

Ordinary Business

1. To receive the Report and Financial Statements for the year ended 30 September 2013.
2. To approve the Directors' Remuneration Report for the year ended 30 September 2013.
3. To approve the Directors' Remuneration Policy.
4. To re-elect Mrs G Nott as a director.
5. To re-elect Mr C Parritt as a director.
6. To re-elect Ms McComb as a director.
7. To appoint KPMG LLP as the independent auditors and to authorise the Directors to determine their remuneration.
8. THAT, in substitution for all 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 £3,765,747.50 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 and the Directors of the Company shall be entitled to allot shares or grant Rights pursuant to any such offers or agreements as if the authority conferred by this resolution had not expired.
9. THAT, subject to the passing of resolution 8 set out in the notice of this meeting, and in substitution for all subsisting authorities to the extent unused, 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 of the Company (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 of the Company (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 of the Company (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 next Annual General Meeting of the Company, 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, in substitution for all subsisting authorities to the extent unused, 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 11,289,711 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 next annual general meeting of the Company, 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.

Special Business

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

By Order of the Board

ISIS EP LLP
Secretary
18 November 2013

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 16 December 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 15 November 2013 the Company's issued share capital consists of 85,338,769 Ordinary Shares of which 10,023,819 are held in treasury. The total number of voting rights in the Company is 75,314,950.

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);

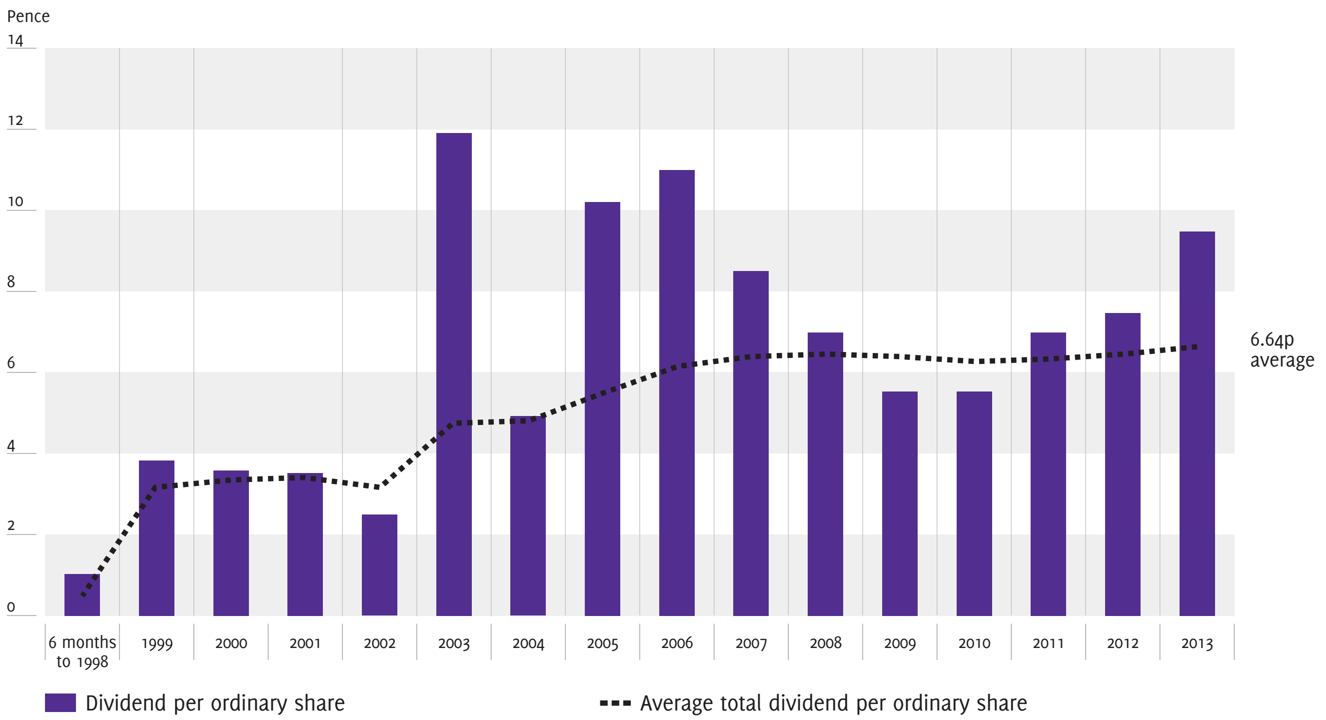
    (b) it is defamatory of any person; or

    (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.

Appendices

Dividend History Since Launch



Source: ISIS EP LLP

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	102.9	8.3	11.1
1999 (May) – Ordinary	102.0	20.4	81.6	99.4	8.5	11.3
2000 (February) – Ordinary	137.0	27.4	109.6	96.2	6.5	8.6
2000 (March) – Ordinary	130.0	26.0	104.0	96.2	6.8	9.1
2004 (October) – C	100.0	40.0	60.0	53.9	10.0	13.3
2009 (April)	91.6	27.5	64.1	35.0	12.1	16.2
2012 (December)	111.8	33.5	78.3	9.5	15.7	20.9

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

* 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 the higher rate of tax on dividends (currently 32.5 per cent). The gross equivalent yield based on additional rate of tax on dividends (42.5 per cent in the tax year 2011/12 and 2012/13 and 37.5 per cent from the 2013/14 tax year), has not been included. For those shareholders who earn over £150,000 per tax year and who would otherwise pay this additional rate of tax on dividends, the gross equivalent yield will be higher than the figures stated above.

Appendices

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†
30/09/2013	**75.79**	**100.63**	**94.25**	**288.19**	**2.49†**

* Source: ISIS EP LLP.

† Figures from 30 September 2012 are 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
30/09/2013	**2.85**	**6.65**	**9.50**	**102.90**	**6.64**

Appendices

Breakdown of Shareholdings

The shareholdings of ordinary shares as at 30 September 2013 (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	312	7.77	425,960	0.57
2001 – 5000	962	23.97	3,514,838	4.67
5001 – 10000	939	23.40	7,058,872	9.37
10001 – 25000	1,025	25.54	16,491,193	21.90
25001 – 50000	494	12.31	17,595,368	23.35
50001 – 100000	195	4.86	13,554,580	18.00
More than 100001	86	2.15	16,674,139	22.14
Total	**4,013**	**100.00**	**75,314,950**	**100.00**

Full Investment Portfolio

Company	Sector	Book cost £'000	30 September 2013 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							
CableCom Networking Holdings Limited	TMT*	1,381	5,447	4,131	7.2	10.6	48.0
Nexus Vehicle Holdings Limited	Business Services	2,367	4,748	4,721	6.3	12.3	56.0
CSC (World) Limited	TMT*	1,606	2,838	2,295	3.7	8.8	40.0
Kafevend Holdings Limited	Consumer Markets	1,252	2,569	2,908	3.4	15.8	66.5
Crew Clothing Holdings Limited	Consumer Markets	1,344	1,999	3,049	2.6	6.1	25.5
Inspired Thinking Group Limited	Business Services	796	1,837	1,571	2.4	5.0	22.5
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	1,682	2,329	2.2	10.5	44.0
Valldata Group Limited	Business Services	1,221	1,682	1,769	2.2	11.3	58.9
Independent Community Care Management Limited	Healthcare & Education	1,346	1,599	1,346	2.1	10.9	55.0
Impetus Holdings Limited	Business Services	1,305	1,174	1,075	1.6	7.8	40.0
Pho Holdings Limited	Consumer Markets	987	1,092	987	1.4	5.5	28.0
Create Health Limited	Healthcare & Education	1,065	1,065	–	1.4	5.7	29.0
Arcas Investments Limited	Business Services	1,000	1,000	1,000	1.3	9.6	48.6
HealthTech Innovation Partners Limited	Healthcare & Education	1,000	1,000	1,000	1.3	9.6	48.6
Quest Venture Partners Limited	Business Services	1,000	1,000	1,000	1.3	9.6	48.6
Riccal Investments Limited	Business Services	1,000	1,000	1,000	1.3	9.6	48.6
Key Travel Limited	Business Services	954	954	–	1.3	4.0	40.9
Eque2 Limited	TMT*	877	877	–	1.2	7.6	38.5
Happy Days Consultancy Limited	Healthcare & Education	833	824	833	1.1	8.4	42.5
Luxury For Less Limited	Consumer Markets	955	767	1,000	1.0	4.0	40.0
Armstrong Craven Limited	Business Services	673	673	–	0.9	7.7	46.0
Playforce Holdings Limited	Business Services	1,196	658	512	0.9	9.7	44.0
Carnell Contractors Limited	Business Services	941	0	0	0.0	##	##
Empire World Trade Limited	Business Services	1,297	0	0	0.0	‡	‡
Music Festivals plc Loan note	Consumer Markets	400	0	0	0.0	N/A	N/A
Surgi C Limited	Healthcare & Education	1,102	0	340	0.0	13.3	57.5
Xention Discovery Limited	Healthcare & Education	316	0	0	0.0	0.4	3.0
Total unquoted		**29,637**	**36,485**		**48.1**		

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.

Appendices

Full Investment Portfolio (continued)

Company	Sector	Book cost £'000	30 September 2013 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							
Staffline Group plc	Business Services	145	3,213	2,129	4.2	2.2	4.4
IDOX plc	TMT*	614	2,498	4,215	3.3	1.8	5.0
Netcall plc	TMT*	869	1,968	1,386	2.6	4.1	20.5
Murgitroyd Group plc	Business Services	319	1,317	1,066	1.7	3.0	5.9
Driver Group plc	Business Services	564	1,288	720	1.7	4.1	19.4
TLA Worldwide plc	Business Services	733	1,182	713	1.6	4.2	20.4
Tasty plc	Consumer Markets	469	1,178	729	1.6	2.5	17.1
Jelf Group plc	Financial Services	761	1,024	743	1.4	1.4	5.6
Accumuli plc	TMT*	504	1,007	611	1.3	4.5	24.7
Escher Group Holdings plc	TMT*	614	947	770	1.2	1.9	9.7
Anpario plc	Healthcare & Education	275	817	430	1.1	2.0	14.7
Inspired Energy plc	Business Services	300	786	286	1.0	2.3	11.6
Synectics plc	Business Services	296	542	308	0.7	0.6	2.1
Dods (Group) plc	TMT*	1,344	522	559	0.7	4.4	20.1
Sinclair IS Pharma plc	Healthcare & Education	524	522	481	0.7	0.4	2.2
Plastics Capital plc	Business Services	473	496	307	0.7	1.7	9.8
EG Solutions plc	TMT*	453	443	269	0.6	3.4	15.5
Sanderson Group plc	TMT*	387	441	286	0.6	1.8	6.8
GB Group plc	TMT*	150	439	336	0.6	0.3	1.7
InterQuest Group plc	Business Services	310	439	191	0.6	1.7	6.7
PROACTIS Holdings plc	TMT*	619	409	341	0.5	5.4	26.3
Tangent Communications plc	Business Services	522	408	316	0.5	2.2	11.2
Vianet Group plc	Business Services	646	399	497	0.5	1.9	9.7
Hangar8 plc	Business Services	388	389	38	0.5	2.5	11.3
Electric Word plc	TMT*	696	366	335	0.5	5.1	27.7
Paragon Entertainment Limited	Consumer Markets	245	293	350	0.4	3.5	18.5
Ideagen plc	TMT*	225	261	–	0.3	1.0	4.3
Begbies Traynor Group plc	Financial Services	231	226	210	0.3	0.6	2.5
Cohort plc	Business Services	179	215	149	0.3	0.3	1.4
Brady plc	TMT*	176	184	289	0.2	0.4	2.1
Ubisense Group plc	TMT*	130	150	157	0.2	0.3	1.6
Pinnacle Technology Group plc	TMT*	169	124	–	0.2	1.8	7.8
AimShell Acquisitions plc	Business Services	400	102	93	0.1	3.1	12.3
Tristel plc	Healthcare & Education	217	95	130	0.1	1.0	5.4
STM Group plc	Financial Services	162	89	104	0.1	0.6	4.0
One Media iP Group plc	TMT*	56	67	–	0.1	1.1	4.9
RTC Group plc	Business Services	355	49	49	0.1	2.8	5.7
Green Compliance plc	Business Services	932	42	101	0.1	0.8	4.1
Bglobal plc	Business Services	176	39	41	0.1	0.4	2.5
AorTech International plc	Healthcare & Education	285	12	9	0.0	0.3	0.6
Zoo Digital Group plc	TMT*	438	6	11	0.0	0.2	0.6
Zattikka plc	TMT*	316	0	348	0.0	1.4	7.1
Total AIM		**17,667**	**24,994**		**33.0**		
Listed							
Vectura Group plc	Healthcare & Education	578	1,334	1,037	1.8	0.4	1.3
Chime Communications plc	TMT*	369	517	399	0.7	0.2	0.8
Marwyn Value Investors Limited	Financial Services	64	27	34	0.0	1.3	6.0
Marwyn Management Partners plc	Financial Services	525	23	56	0.0	0.3	1.6
Total listed		**1,536**	**1,901**		**2.5**		

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

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

Appendices

Full Investment Portfolio (continued)

Company	Sector	Book cost £'000	30 September 2013 Valuation £'000	30 September 2012 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds#
PLUS							
Bioventix plc	Healthcare & Education	227	346	–	0.4	1.7	7.7
Total PLUS		**227**	**346**		**0.4**		
Listed interest bearing securities							
UK T-Bill 14/10/13		2,999	2,999	–	4.0		
Total listed interest bearing securities		**2,999**	**2,999**		**4.0**		
Collective investment vehicle							
Wood Street Microcap Investment Fund		3,525	6,140	4,183	8.1		
Total collective investment vehicle		**3,525**	**6,140**		**8.1**		
Total investments		**55,591**	**72,865**		**96.1**		
Net current assets			**2,924**		**3.9**		
Net assets			**75,789**		**100.0**		

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

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

December 2013	Sixteenth Annual General Meeting
May 2014	Announcement and posting of interim report for the six months to 31 March 2014
November 2014	Announcement and posting of final results for year to 30 September 2014

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 FCA. 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

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Investment Manager

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Registered Number

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Registrars and Transfer Office

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Solicitors

Martineau
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Birmingham B4 6AA

VCT Status Adviser

PricewaterhouseCoopers LLP
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London WC2N 6RH

Website

www.baronsmeadvct2.co.uk

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

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 64.

Notes

Notes

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Investment Manager
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