

BARONSMEAD

Baronsmead VCT 2 plc

2014

Report and Accounts for the year ended
30th September 2014



About Baronsmead VCT 2

Our Investment Objective

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

Investment Policy

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

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 amount of dividends paid year on year.

Some examples of our Investments



Nexus Vehicle Holdings Limited

Nexus enables corporate users to source all their vehicle rental needs from one source – a highly efficient and cost effective online based process. It offers fast access to a large range of rental fleets and enables customers to benefit from the buying scale of Nexus.



Netcall plc

Netcall is one of the UK's leading providers of customer engagement solutions. 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.



Crew Clothing Holdings Limited

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.



Tasty plc

Tasty plc is a branded restaurant operator in the UK casual dining market. Its two core trading brands are DimT (Pan Asian food) and Wildwood (pizza, pasta and grill).

Strategic Report

Financial Headlines	3
Performance Summary	4
Chairman's Statement	5
Manager's Review	8
Ten Largest Investments	15
Risk Matrix	19
Business Model	21
Other Matters	22

Directors' Report

Report of the Directors	26
Board of Directors	26
Corporate Governance	29
Directors' Remuneration Report	36
Statement of Directors' Responsibilities	39
KPMG Independent Auditor's Report	40

Financial Statements

Income Statement	42
Reconciliation of Movements in Shareholders' Funds	42
Balance Sheet	43
Cash Flow Statement	44
Notes to the Accounts	45

Appendices

Investment Policy	57
Dividend History in the last ten years	59
Dividends Paid Since Launch	59
Performance Record Since Launch	60
Cash Returned to Shareholders	60
Full Investment Portfolio	61
Breakdown of Shareholdings	63

Information

Shareholder Information and Contact Details	64
Corporate Information	66



Chairman's Statement

Fund overview and
key developments

P5



Manager's Review

Portfolio review
including new
investments and sales

P8

Ten Largest Investments

Further details on key
investments

P15

Directors' Report

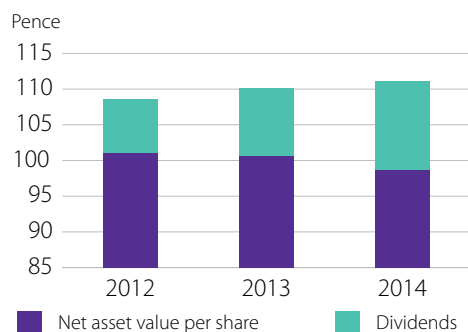
Overview of
shareholder matters
and corporate
governance

P26

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.

Strategic Report

Financial Headlines



Net asset value per share

Net asset value ("NAV") per share increased 10.4 per cent to 111.12p in the 12 months to 30th September 2014, before deduction of dividends.

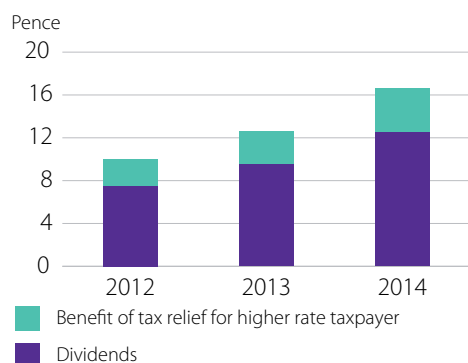
+ 10.4%



Net asset value total return

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

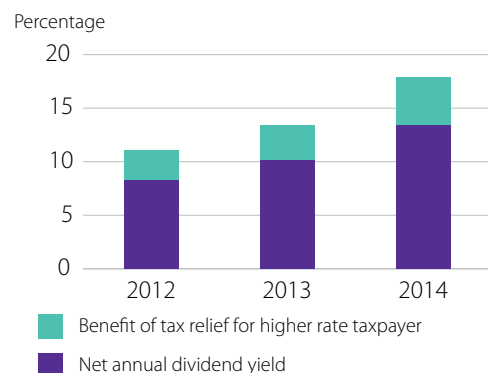
318.8p



Dividends in the year

Dividends totalled 12.5p in the year to 30th September 2014, after the second interim dividend of 4.5p paid on 19th September 2014.

12.5p



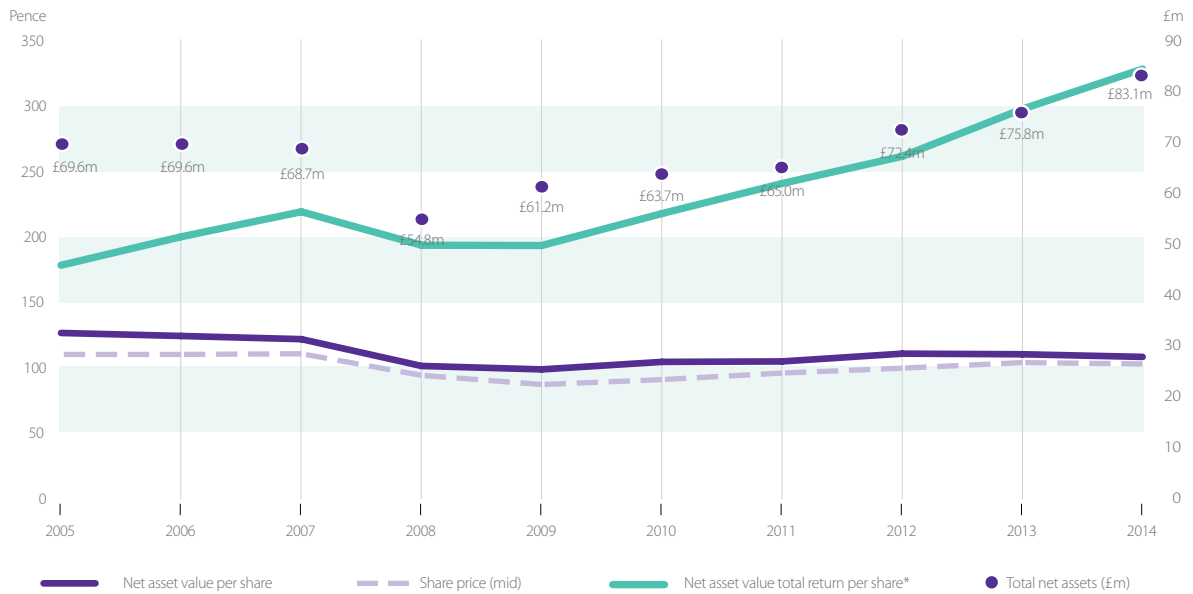
Annual dividend yield

Net annual dividend yield of 13.4 per cent and gross annual yield of 17.9 per cent.

13.4%

Performance Summary

Net Asset Value in the last ten years



* Net asset value total return (gross dividends reinvested) rebased to 100p.
Source: ISIS VC LLP

Cash Returned to Shareholders by date of investment

The chart and table below show the cash returned to shareholders based on the subscription price and the income tax reclaimed on subscription.



Strategic Report

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

Chairman's Statement



Clive Parritt
Chairman

We have had an excellent year. Net Asset Value ("NAV") grew by 10.49p a share (10.4 per cent.) to 111.12p a share before dividends. A series of profitable realisations has enabled us to pay tax free dividends of 8.0p in March and 4.5p in September 2014.

This brings the total tax free dividend for the year to 12.5p. As shareholders will know the Board seeks to maintain average annual dividends of 6.5p a share, so the additional payment arising from the realisations should be viewed as an exceptional, albeit welcome, extra.

Results

The increase in the NAV and the dividends paid over the year can be summarised as follows:

	p per ordinary share
NAV as at 1st October 2013	100.63
Valuation uplift (10.4 per cent.)	10.49
NAV as at 30th September 2014 before dividends	111.12
Interim dividend paid on 7th March 2014	(8.00)
Second interim dividend paid on 19th September 2014	(4.50)
NAV as at 30th September 2014	98.62

The value of the unquoted portfolio increased modestly during the year as many of the current investments are still relatively immature and have yet to realise their potential. However, increases of 32 per cent in the value of the investments in the AIM portfolio and a 24 per cent gain in the Wood Street Microcap fund ensured a good growth in NAV.

10.4% increase in NAV per share before payment of dividends

Dividends

The Company's dividend policy is to try to maintain annual average dividends of 6.5p per ordinary share mindful of the need to maintain NAV. To achieve this, the Directors have sought to spread the distribution of realised capital profits from years when more gains are realised to years when fewer gains are realised. As a result of the strong results and to comply with VCT rules we have paid a much higher dividend this year.

The 12.5p per share dividend equates to an annual yield of 13.4 per cent. based on the 30th September 2014 mid-price of 93.25p. For higher rate taxpayers this is the equivalent of 17.9 per cent.

Future dividends are, of course, subject to our ability to achieve profitable realisations as well as any fiscal considerations that may have an impact. They will therefore vary from time to time although we will strive to deliver the average dividend in accordance with our policy.

Strong growth from AIM and quoted investments

Long term investment performance

The Company's investment policy aims to produce consistent returns over the long-term. For founder shareholders, their original subscription of 100p a share has returned 318.8p in terms of NAV total return. This is stated before taking account of the upfront VCT income tax relief on subscription and the additional benefit of receiving 115.4p a share in tax free dividends. The chart at the foot of page 4 shows the cash returned to investors in each of the original and subsequent fundraisings, based on the subscription price and the income tax available on subscription. The full record of performance is set out in the appendices 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 of 2008. The cumulative NAV Total Return was once again above the level at which the Manager is due to receive a performance fee and a performance fee of £0.55 million (the equivalent of 0.66p per share) is payable.

In assessing performance the directors focus primarily on the NAV total return. Our challenge to the Manager is to deliver an overall positive return which, taking one year with another, is in the top quartile for generalist VCTs and, allowing for the restricted asset classes in which we can invest, compares favourably with the market as a whole. Costs are a part of that assessment but the key factor is that the results are stated net of all running costs including the performance fees earned by the Manager, so NAV total return is paramount. Details of costs including the performance incentive and the other fees and charges received by the Manager are set out on pages 23 and 24.

Portfolio

This has been a particularly active year for portfolio realisations. In the year to 30th September 2014, the Company achieved gross proceeds of approximately £21.2 million plus £4 million from the liquidation of acquisition vehicles. Gains of approximately £9.3 million were realised. The Manager's Review on pages 8 to 14 provides a commentary on some of the most significant realisations and the table on page 10 sets out the proceeds received and the return achieved from each realisation. This was an exceptional level of divestment in a single year and it equates to approximately 35% of the value of the investment portfolio at the beginning of the year.

During the year the Company invested approximately £5.9 million in 10 new investments and £0.9 million in 10 follow-on investments in existing portfolio companies. The table on page 9 in the Manager's Review provides details of these new and follow-on investments. As a result, at the year end, there were sixty-six companies in the unquoted and quoted portfolio and we had exposure to another forty investments through the Company's investment in Wood Street Microcap. Realisations of the unquoted investments in particular and the increase in value of the quoted portfolio have together had a significant impact on the portfolio mix as shown in the charts at the foot of page 11. The Board does not believe that it is appropriate to set specific parameters for the proportion of the Company's assets invested in unquoted investments as compared with quoted investments. Nevertheless it does consider the proportion of unquoted investments to be at a cyclical low at present and over the medium term it expects this should rise as the newer unquoted investments develop, mature and grow in value.

12.5p per share in total dividend payments for the year

£9.7m raised from new and existing shareholders

NAV total return of 319p per 100p invested for founder shareholders

Strategic Report

Fundraising Update

The Company raised £9.7 million net of expenses earlier in the year and realised approximately £25.2 million from the sale of investments in the year to 30th September 2014. As a result, it is unlikely that the Company will seek to raise significant new funds in the current tax year, preferring to continue investing from the currently available cash resources.

Annual General Meeting

I look forward to meeting as many shareholders as possible at our seventeenth Annual General Meeting to be held on Wednesday, 17th December 2014 at the Plaisterers' Hall, One London Wall, London EC2Y 5JU at 12.30 pm. As well as my own review of the year, there will be presentations from the Manager, a light lunch and a shareholder workshop.

Outlook

I commented on the improved outlook for the UK economy in the half-yearly report earlier in the year. We are hopeful that this improvement in the economic environment in which your portfolio companies operate will be sustained, but this cannot be guaranteed. Concerns over growth in Europe, China and the emerging economies as well as political instability in various regions have led to volatility in quoted markets and heightened concerns about the robustness of the underlying UK economy. However, the Company's portfolio diversity and asset mix should help to deliver consistent returns over the medium to long term.

The investment portfolio continues to evolve following recent sales and new investments. Increases in the value of the newer unquoted investments might be expected to be more modest during the initial period of ownership. These companies are only now beginning to deploy our investment to grow and adopt strategic changes that will help them to deliver increasing profits, employment and consequently future profitable realisations. The quoted portfolio though is more mature and the Manager has made a good start in taking profits.

Clive Parritt

Chairman

14th November 2014

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 notable for a very strong level of divestment, particularly in unquoted investments. In addition investment levels are also up on the prior year with four new unquoted and six new quoted investee companies that have been added to the portfolio.

Strong upward performance has once again been delivered by the quoted portfolio. The unquoted portfolio performance overall has increased more steadily over the year and has also contributed a high level of successful realisations, from some longstanding holdings.

PORTFOLIO REVIEW

Overview

The net assets of £83.1 million were invested as follows:

Asset class	NAV (£m)	% of NAV	Number of investees	% return in the year
Unquoted	25.0	30	21	6
Quoted	29.3	35	45	32
Wood Street Microcap	7.6	9	40	24
Cash and near cash	21.2	26	-	-

During the year there were;

- 4 new and 5 follow on investments in unquoted companies totalling £4.4 million
- 6 unquoted exits delivered proceeds totalling £13.7 million

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 30th September 2014, 76 per cent of the 66 companies in the portfolio (excluding Wood Street Microcap) were progressing steadily or better.

The tables on the following pages show the breakdown of new investments and realisations over the course of the year and are followed by commentary on some of the key highlights in both the unquoted and quoted portfolios.

Strategic Report

Investments in the year

Company	Location	Sector	Activity	Book cost £'000
Unquoted investments				
<i>New</i>				
CableCom II Networking Holdings Limited	Somerset	TMT*	Internet service provider for high density accommodation	1,250
Carousel Logistics Limited	Kent	Business Services	Provider of bespoke logistics and supply chain solutions	955
Kingsbridge Limited	Gloucestershire	Business Services	Independent insurance broker	952
CR7 Services Limited	Kent	TMT*	Provider of payment services	949
<i>Follow on</i>				
Happy Days Consultancy Limited	Newquay	Healthcare & Education	Provider of nursery based childcare in the South West of England	180
Crew Clothing Holdings Limited	London	Consumer Markets	Branded clothing retailer	110
Independent Community Care Management Limited	Kettering	Healthcare & Education	High acuity care for home based users	12
Nexus Vehicle Holdings Limited	West Yorkshire	Business Services	Vehicle rental broker	8
Pho Holdings Limited	London	Consumer Markets	Restaurant group specialising in Vietnamese street food	3
Total unquoted investments				4,419
AIM-traded investments				
<i>New</i>				
Scholium Group plc	London	Consumer Markets	Rare book and collectibles dealer	450
Everyman Media Group plc	London	Consumer Markets	Boutique independent cinema chain	391
MartinCo plc	Bournemouth	Consumer Markets	UK letting agency franchise network	343
Daily Internet plc	Stockport	TMT*	SME Domain registration & hosting	340
Crawshaw Group plc	Rotherham	Consumer Markets	Value meat retailer	200
Synety Group plc	Leicester	TMT*	Cloud based telephony platform	112
<i>Follow on</i>				
Sanderson Group plc	Coventry	TMT*	Retail and manufacturing IT	225
Plastics Capital plc	London	Business Services	Specialist plastic products buy and build	189
Tasty plc	London	Consumer Markets	Restaurant chain	125
One Media iP Group plc	Buckinghamshire	TMT*	Content acquisition and distribution	57
EG Solutions plc Loan note	Staffordshire	TMT*	Back office optimisation software	33
Total AIM-traded investments				2,465
Total investments in the year				6,884

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

Realisations in the year

Company		First investment date	Book Cost £'000	Proceeds‡ £'000	Overall multiple return*
Unquoted realisations					
CableCom Networking Holdings Limited	Full trade sale	May 07	1,381	5,819	4.8
CSC (World) Limited	Full trade sale	Jan 08	1,606	3,129	2.4
Kafvend Holdings Limited	Full trade sale	Oct 05	1,252	2,430	2.5
Inspired Thinking Group Limited	Full trade sale	May 10	796	2,315	3.4
Quest Venture Partners Limited	Dissolved	Sep 11	1,000	1,000	1.0
Arcas Investments Limited	Dissolved	Sep 11	1,000	998	1.0
Riccal Investments Limited	Dissolved	Apr 12	1,000	997	1.0
HealthTech Innovation Partners Limited	Dissolved	Sep 11	1,000	996	1.0
Empire World Trade Limited	Full trade sale	Aug 06	1,297	25	0.0
Music Festivals plc Loan note	Write off	Jun 11	400	9	0.0
Total unquoted realisations			10,732	17,718	
AIM-traded & listed realisations					
Vectura Group plc	Full market sale	Mar 02	578	1,703	2.9
Staffline Group plc	Market sale	Jul 00	58	1,681	9.0
Murgitroyd Group plc	Full market sale	Nov 01	319	1,523	5.5
PROACTIS Holdings plc	Full market sale	May 06	619	621	1.0
Chime Communications plc	Full market sale	Nov 09	369	560	1.7
Sinclair IS Pharma plc	Full market sale	Mar 08	524	546	1.0
Anpario plc	Market sale	Nov 06	69	284	4.1
Tristel plc	Full market sale	Nov 10	217	281	1.3
GB Group plc	Market sale	Nov 11	42	159	3.7
Bglobal plc	Write off	Jun 10	176	51	0.3
Inspired Energy plc	Market sale	Nov 11	13	49	3.9
Zattikka plc	Write off	Apr 12	316	0	0.0
Total AIM-traded & listed realisations			3,300	7,458	
Total realisations in the year			14,032	25,176†	

‡ Proceeds at time of realisation of unquoted investments include redemption premium and interest.

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

† Proceeds of £14,000 were also received in respect of Quantix Limited and £27,000 in respect of Reed & Mackay Limited, both of which had been sold in a prior period.

Strategic Report

Unquoted Portfolio

The unquoted portfolio performance has increased steadily by around 6 per cent over the course of this year including capitalised interest and redemption premium income received on the sale of investments. This reflects the fact that many of the older investments where the Manager has been able to complete the planned investment strategy have been successfully divested. Hence, a greater portion of the current portfolio is skewed towards newer investments which are still in their development phase.

The unquoted portion of the portfolio is valued using a consistent process every three months which the Board oversees and approves. The majority of the value creation in unquoted investments comes from operational improvements (revenue and margin growth), rather than financial leverage.

Unquoted Investment Activity

During the year, £4.4 million was invested in 9 unquoted companies including 4 new additions to the portfolio, one of which represented a rollover investment following the successful exit from the original CableCom investment. The other new unquoted investments were;

- Carousel Logistics ("Carousel") is a "next generation" provider of logistic solutions to its industrial and commercial clients. Carousel has a proprietary IT system that clients use to manage their logistics demands. Carousel then manages the provision of downstream logistics through multiple outsourced providers of transport with its IT system selecting the best carrier for each sub category of work. This allows Carousel to develop tailored solutions for clients with complex transport demands in areas such as automotive or luxury goods. The business has strong growth momentum and ISIS will support the company to invest further in its innovative IT and expand its offering across Europe.

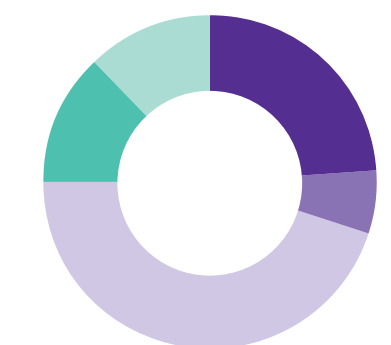
Investment Diversification at 30th September 2014

Sector by value



Business Services	45%
Consumer Markets	15%
Healthcare & Education	10%
Technology, Media & Telecommunications ("TMT")	30%

Total assets by value



Unquoted - loan stock	24%
Unquoted - equity	6%
AIM, listed, ISDX & collective investment vehicle	45%
Listed interest bearing securities	13%
Net current assets (principally cash)	12%

Time investments held by value



Less than 1 year	14%
Between 1 and 3 years	26%
Between 3 and 5 years	13%
Greater than 5 years	47%

- Kingsbridge is a top 100 independent insurance broker. It has a specialist business to business (B2B) advisory business focusing on the water industry, environmental risks and professional services. It also has a fast growing division called KPSol which provides business insurance services to contractors, freelancers and self employed professionals in professions such as engineering and IT. The ISIS investment will support the growth of the KPSol division including new product development and management team development.
- CR7 has a UK operating division called Optomany. CR7 is led by an experienced team of executives who have achieved success before in the international field of card payment processing. Optomany has developed a new advanced payment processing platform for merchants accepting card payments which is new to the UK market. The investment by ISIS has enabled CR7 to make an acquisition of another company, 123 Send, which will form a second division for the group. 123 Send is a major UK provider of point of sale card terminals and services, with an estate of 15,000 terminals placed in 11,000 merchants.

Unquoted Divestment Activity

The year saw an exceptional level of divestment. Excluding the dissolution of four acquisition vehicles there were five realisations and one write-off which yielded proceeds of close to £14 million for Baronsmead VCT 2.

- CableCom Networking Holdings Ltd has been in the portfolio since 2007 and manages internet services to high density accommodation such as student accommodation. The business was sold in October 2013 via a secondary management buy-out and the realisation delivered 4.8 times the original cost. In addition, a £5 million investment (£1.25 million for Baronsmead VCT 2) was negotiated in the



New investment - Carousel

- Next generation logistics using proprietary IT
- Complex logistics for world leading brands
- ISIS clients provide funds of £5.6m to support international growth



Realisation - ITG

- Sales growth from £14m in 2010 to £43m in 2013
- Strong management team lead secondary MBO to provide exit delivering 3.4x

Strategic Report

new transaction on the same terms as the lead private equity buyer as ISIS believes there is an opportunity for further growth.

- CSC (World), which provides software packages for structural engineers, has been in the Baronsmead portfolio since 2008. During the investment period, CSC with ISIS support has remained as a UK market leader through a difficult economic period for the UK construction sector. The business has also been successful in growing sales across six continents. The company was sold in November 2013 to Trimble, a US business listed on NASDAQ, delivering 2.4x return.
- Kafevend Holdings is a leading provider of workplace vending supplying hot drinks, coffee vending machines, water and snack vending to 10,000 company sites across the UK. ISIS first invested in 2005 and since then sales have grown to £20m in 2013 and staff numbers grown to 100. A successful exit was achieved to international trade buyer Eden Springs in December 2013, delivering 2.5x return on cost of investment.
- The investment in Inspired Thinking Group ("ITG") has been realised via a secondary MBO supported by a larger private equity fund. ITG was originally backed in 2010 to fund an acquisition of a workflow software solution that the company was using extensively in its clients. ITG supplies the workflow software and related services to the marketing departments of consumer brands and high street retailers. During the investment period sales grew from £14m to £43m by 2013 and the exit delivered a return on cost of 3.4x.
- The investment in Empire World Trade has also been realised in the year but this was not a successful investment for the fund. Empire World Trade is a well respected and leading importer and distributor of apples

During the year there were;

- 6 new and 5 follow on investments in quoted companies which totalled £2.5 million
- 12 quoted divestments delivered proceeds of £7.5 million

and pears from growers around the world to the large UK retailers. ISIS invested in 2006 and since then the market has become increasingly competitive supplying the large retailers. The valuation of this investment had already been fully provided previously. After considerable work by the management team and ISIS, it was ultimately concluded that the business would be better as part of a large group and the business was acquired by Univeg UK. There was only a modest return of £100,000 on the investment across the Baronsmead VCTs, (£25,000 for Baronsmead VCT 2).

Quoted Portfolio (AIM traded and other listed investments)

This has been another year with a significant uplift in the quoted portfolio of 32 per cent building on the strong positive re-rating of the small cap sector last year. The performance of the quoted portfolio also reflects the changes introduced by the ISIS Quoted Investment Team since 2009. As outlined in last year's report a number of more significant holdings 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 and the results from this approach are starting to come through.

Whilst it is expected that work in the quoted arena will deliver future positive growth over the long term, the high annual growth rates achieved in the last two years have been helped by the fact we have emerged from a recession.

Quoted Investment Activity

The level of new quoted investment for Baronsmead VCT 2 of £2.5 million was made across six new and five follow on investments. Two of the larger new investments were:

- Scholium Group ("Scholium") is a niche high end art and collectibles retail and trading business that provides exposure to the growing high net worth segment of the consumer market. Scholium has an experienced management team who intend to use the additional capital raised at IPO to grow the inventory they are able to offer and also work with a network of dealer experts to trade selected products.

- Everyman Media Group ("Everyman") offers a differentiated proposition in the independent UK cinema market. It provides a premium product with a greater emphasis on comfort as well as high quality food and drink offering for the cinema visitor. Everyman has potential to grow through improving spend per customer at the current sites and through rolling out new sites across the UK. The management team are known to ISIS through their involvement in successful investments in Tasty and Prezzo.

Quoted Divestment Activity

Realisations during the year from the quoted portfolio totalled £7.5 million and delivered an aggregate return of 2.3 x cost. Notably within this is the full realisation of Vectura Group (2.9x cost) which had been held by Baronsmead VCT 2 as both an unquoted and quoted investment, the full realisation of Murgitroyd (5.5x cost) and the partial sales in the market of Staffline Group (at 9.0x cost) and Anpario (4.1x cost).

The Investment Manager has pursued a deliberate policy of realising a higher than normal level of quoted investments to take advantage of strong pricing and improved liquidity which can often be a constraint when looking to divest stakes in smaller quoted companies.

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 30th September 2014, Baronsmead VCT 2 had invested £3.5 million through Wood Street into a portfolio of 40 companies, now valued at £7.6 million. Wood Street generated a positive return of 24 per cent over the year.

Liquid assets (cash and near cash)

Baronsmead VCT 2 had cash and near cash resources of approximately £21.1 million at the year end. This higher than normal level reflects both the proceeds from the fund raising in early 2014 and proceeds from high levels of divestment in

both the quoted and unquoted portfolios. 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.

CHANGE OF NAME

The Manager has previously announced that it intends to change its name and it is expected that the new name will be announced shortly.

OUTLOOK

Following a period of gradual recovery and improving confidence in the UK economy we believe there are more settled conditions for finding and growing good businesses. However, we remain cautious due to the potential impact of global events and the uncertainty likely to be caused by a UK general election in 2015 which may slow the recovery. We have already seen increased volatility in quoted markets either side of the year end and continue to monitor the external environment carefully, although this may also provide opportunities for investment.

ISIS seeks to invest in businesses that have strong potential for growth but that are also resilient if conditions become more challenging. We work closely with these businesses to help them develop their strategy and operational infrastructure to prepare for such external challenges. Hence, we believe that Baronsmead VCT 2's diversified portfolio is well positioned to continue its progress in the current market.

ISIS VC LLP

Investment Manager

14th November 2014

Strategic Report

The top ten investments by current value at 30th September 2014 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.

Ten Largest Investments



1 Nexus Vehicle Holdings Limited Leeds

www.nexusrental.co.uk

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 its growth.

All funds managed by ISIS

First investment: February 2008

Total cost: £9,535,000

Total equity held: 62.11%

Baronsmead VCT 2 only

Cost: £2,375,000

Valuation: £5,369,000

Valuation basis: Earnings Multiple

% of equity held: 13.67%

Year ended 30th September

	2013 £ million	2012 £ million
Sales:	41.3	36.5
EBITA:	2.6	3.3
Net Assets:	1.5	1.8
No of Employees :	130	113

(Source: Nexus Vehicle Holdings Limited, Report & Financial Statements 30th September 2013)



2 Netcall Plc Hemel Hempstead

www.netcall.com

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.

All funds managed by ISIS

First investment: July 2010

Total cost: £4,354,000

Total equity held: 18.00%

Baronsmead VCT 2 only

Cost: £869,000

Valuation: £3,021,000

Valuation basis: Bid Price

% of equity held: 3.62%

Year ended 30th June

	2014 £ million	2013 £ million
Sales:	16.9	16.1
EBITA:	4.9	3.9
Net Assets:	20.2	16.9
No of Employees :	146	141

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



3 Staffline Group Plc Nottingham

www.staffline.co.uk

Staffline is 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 per cent with pre-tax profits up 100 per cent.

All funds managed by ISIS

First investment: July 2000

Total cost: £174,000

Total equity held: 2.40%

Baronsmead VCT 2 only

Cost: £87,000

Valuation: £2,986,000

Valuation basis: Last Traded Price

% of equity held: 1.20%

Year ended 31st December

	2013 £ million	2012 £ million
Sales:	416.0	367.0
EBITA:	12.8	11.1
Net Assets:	113.4	100.0
No of Employees :	807	693

(Source: Staffline Recruitment Limited, Annual Report 31st December 2012)

The top 10
investments
represent 45% of
the value of the
investment portfolio.



4 IDOX Plc London

www.idoxgroup.com

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.

All funds managed by ISIS

First investment: May 2002

Total cost: £1,641,000

Total equity held: 4.90%

Baronsmead VCT 2 only

Cost: £614,000

Valuation: £2,642,000

Valuation basis: Bid Price

% of equity held: 1.8%

Year ended 31st October

	2013 £ million	2012 £ million
Sales:	57.3	55.4
EBITA:	14.3	16.0
Net Assets:	44.7	38.9
No of Employees :	558	467

(Source: IDOX PLC Annual Report and Accounts 2013)



5 Crew Clothing Holdings Limited London

www.crewclothing.co.uk

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.

All funds managed by ISIS

First investment: November 2006

Total cost: £5,833,000

Total equity held: 25.51%

Baronsmead VCT 2 only

Cost: £1,453,000

Valuation: £2,446,000

Valuation basis: Earnings Multiple

% of equity held: 6.08%

Year ended 28th October

	2013 £ million	2012 £ million
Sales:	52.7	48.5
EBITA:	1.3	3.5
Net Assets:	6.0	6.0
No of Employees :	381	363

(Source: Crew Clothing Holdings Limited, Report and Financial Statements 28th October 2013)

Nexus

- Leading IT solution IRIS helps corporates access rental
- Strong sales growth of 13% from 2012 to 2013
- Attracted new industry CEO

Netcall

- Customer engagement software to improve service and efficiency for consumer facing organisations
- Increased EBITDA by 65% over the past 3 years
- One in five NHS Acute Trusts use Netcall Appointment Management Solution.

Strategic Report



6 Accumuli Plc Salford

www.accumuli.com

Accumuli is a leading, rapidly growing, UK-based independent specialist in IT Security. Accumuli specialises in value-added solutions and services to help organisations secure their business against the ever-increasing threat landscape. Accumuli's solutions and services secure IT infrastructure, remove complexity of security management, provide real time security intelligence and reduce total cost of implementation and on-going management. Accumuli achieves this through a combination of Technology, Professional and Managed Services, underpinned by its highly experienced, highly skilled employees.

Accumuli's global customer base consists of companies of all sizes across an expanding range of industry sectors, including financial services, utilities, telecommunication, manufacturing and government.

All funds managed by ISIS

First investment: November 2010

Total cost: £2,707,000

Total equity held: 23.20%

Baronsmead VCT 2 only

Cost: £504,000

Valuation: £1,678,000

Valuation basis: Bid Price

% of equity held: 4.20%

Year ended 31st March

	2014	2013
	£ million	£ million
Sales:	16.6	14.1
EBITA:	2.6	2.0
Net Assets:	15.1	14.6
No of Employees :	73	55

(Source: Accumuli plc, Annual Report and Accounts 2013)



7 Independent Community Care Management Limited Kettering

www.iccmcares.co.uk

Based in Kettering, ICCM supports adults and children with a range of conditions, including spinal chord injuries, acquired brain injuries and other degenerative disabilities such as multiple sclerosis, motor neurone disease and cerebral palsy. By building a nurse-led package to suit individuals needs, ICCM gives clients freedom to live independent lives in the community.

The investment will ensure that ICCM can continue its excellent reputation in the East Midlands, whilst also building on existing relationships in other geographies. As part of the transaction, ICCM also acquired Excel at Care to ensure that industry leading training continues to be delivered to carers.

All funds managed by ISIS

First investment: October 2011

Total cost: £6,070,000

Total equity held: 70.00%

Baronsmead VCT 2 only

Cost: £1,358,000

Valuation: £1,554,000

Valuation basis: Earnings Multiple

% of equity held: 13.9%

Year ended 31st March

	2014	2013
	£ million	£ million
Sales:	9.8	8.4
EBITA:	0.3	0.2
Net Assets:	0.8	0.5
No of Employees :	441	390

(Source: ICCM Ltd, Directors' report and financial statements 31st March 2014)

Jelf

Insurance | Employee Benefits | Financial Planning

8 Jelf Group Plc Bristol

www.jelfgroup.com

Jelf is a leading consultancy providing expert advice on insurance, employee benefits, healthcare and financial planning for businesses and individuals. Jelf has more than 30 offices across England, Wales and Scotland and is a full service intermediary with national reach. Jelf works side-by-side with their clients to understand their business needs and individual circumstances. From this position they can recommend bespoke solutions from their broad range of products and services that mitigate risk and add value. In 2014 Jelf retained its '3 Star' Investor in Customers rating for excellence in client service and was awarded the title of 'Insurance Broker of the Year' by publishers Insurance Age, alongside a number of other independent industry awards.

All funds managed by ISIS

First investment: October 2004

Total cost: £2,942,000

Total equity held: 5.60%

Baronsmead VCT 2 only

Cost: £761,000

Valuation: £1,535,000

Valuation basis: Bid Price

% of equity held: 1.4%

Year ended 30th September

	2013	2012
	£ million	£ million
Sales:	76.2	73.0
EBITA:	11.5	10.4
Net Assets:	99.4	96.5
No of Employees :	941	961

(Source: Jelf Group Plc Annual Report and Accounts for Year End 30th September 2013)

Year on year sales
growth of 11% p.a
across the top ten
investments.

Tasty

- A branded restaurant operator in the UK casual dining market
- 35 branches trading under the "Wildwood" and "dim t" brands
- Increased EBITDA ten-fold over five years

Create Health

- Internationally renowned fertility clinic in natural and mild IVF
- Strong sales growth of 20% from 2012 to 2013
- Launched new London flagship clinic in St Pauls in September 2014



9 Create Health Limited London

www.createhealth.org

Create Health is a renowned fertility clinic specialising in Natural and Mild In Vitro Fertilisation (IVF) and In Vitro Maturation (IVM). Natural and Mild IVF uses lower levels of drugs making it cheaper, safer and healthier for the mother and baby.

Its leading edge fertility service has an international reputation through its research and development of advanced ultrasound techniques, IVM and the one stop fertility MOT. The investment will enable the business to expand nationally and internationally, making this type of choice available to more women.

All funds managed by ISIS

First investment: March 2013
Total cost: £4,750,000
Total equity held: 29.00%

Baronsmead VCT 2 only

Cost: £1,065,000
Valuation: £1,520,000
Valuation basis: Earnings Multiple
% of equity held: 5.74%

Year ended 31st March

	2013 £ million	2012 £ million
Sales:	4.2	3.5
EBITA:	1.3	1.2
Net Assets:	2.3	1.7
No of Employees :	#	#

(Source: Create Health Ltd Abbreviated Accounts 31st March 2013)

not disclosed



10 Tasty Plc London

www.dimt.co.uk

Tasty plc is a branded restaurant operator in the UK casual dining market. Tasty's two core trading brands are Dim T and Wildwood restaurants. Wildwood serves pizza, pasta and grills and offers customers a warm, homely and rustic feeling. It is the core growth brand with 17 units around the M25 and South East of England. Dim T serves pan Asian food with Dim Sum and offers customers a modern, ethnic and relaxed feel, trading from six units. It is primarily London focused, positioned in high footfall areas. With both brands now established and the group having achieved critical mass Tasty is now self-funding for its continued roll-out strategy. Tasty's highly regarded management team have prior experience of opening over 20 restaurants a year and have critical knowledge of the UK property market, which underpin this strategy.

All funds managed by ISIS

First investment: September 2006
Total cost: £3,223,000
Total equity held: 14.52%

Baronsmead VCT 2 only

Cost: £594,000
Valuation: £1,473,000
Valuation basis: Bid Price
% of equity held: 2.53%

Year ended 29th December

	2013 £ million	2012 £ million
Sales:	23.2	19.3
EBITA:	1.9	1.6
Net Assets:	17.4	12.3
No of Employees :	506	453

(Source: Tasty Plc Report and Financial Statements 29th December 2013)

Risk Matrix

Principal Risk	Context	Specific risks we face	Possible impact	Mitigation
Investment performance	The Company invests in small, mainly UK based companies, both unquoted and quoted. 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 and hence tend to be riskier than larger businesses.	Investment in poor quality companies with the resultant risk of a high level of failure in the portfolio.	Reduction in both the capital value of investors shareholdings and in the level of income distributed.	The Company has a diverse portfolio where the cost of any one investment is typically less than 5% of NAV thereby limiting the impact of any one failed investment. The Board has appointed an Investment Manager that has a strong and consistent track record over a long period, invests in profitable companies in sectors in which it has specialised for the past sixteen years, undertakes extensive due diligence on all prospective investments, has an experienced value enhancement team who actively manage its investments and who take board seats and appoint experienced non executive Directors on all unquoted and significant quoted investments.
Regulatory & Compliance	The Company is authorised as a self managed Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive and is also subject to the Prospectus and Transparency Directives. It is required to comply with the Companies Act 2006, the UKLA listing Rules.	Failure of the Company to comply with any of its regulatory or legal obligations could result in the suspension of its listing by the UKLA and/or financial penalties and sanction by the regulator or a qualified audit report.	The Company's performance could be impacted severely by financial penalties and a loss of reputation resulting in the alienation of shareholders, a significant demand to buy back shares and an inability to attract future investment. The suspension of its shares would result in the loss of its VCT taxation status and most likely the ultimate liquidation of the Company.	The Board and the Investment Manager employ the services of leading regulatory lawyers, sponsors, auditors and other advisers to ensure the Company complies with all of its regulatory obligations. The Board has strong systems in place to ensure that the Company complies with all of its regulatory responsibilities. The Investment Manager has a strong compliance culture and employs dedicated compliance specialists within its team who support the Board in ensuring that the Company is compliant.
Legislative	VCTs were established in 1995 to encourage private individuals to invest in early stage companies that are considered to be risky and therefore have limited funding options. In return the state provides these investors with tax reliefs which fall under the definition of state aid.	A change in government policy regarding the funding of small companies or changes made to VCT regulations to comply with EU State Aid rules could result in a cessation of the tax reliefs for VCT investors or changes to the reliefs that make them less attractive to investors.	The Company might not be able to maintain its asset base leading to its gradual decline and potentially an inability to maintain either its buy back or dividend policies.	The Board and the Investment Manager engage on a regular basis with HMT and industry representative bodies to demonstrate the cost benefit of VCTs to the economy in terms of employment generation and taxation revenue. In addition the Board and the Investment Manager have considered the options available to the Company in the event of the loss of tax reliefs to ensure that it can continue to provide a strong investment proposition for its shareholders despite the loss of tax reliefs.
Loss of approval as a Venture Capital Trust	The Company must comply with section 274 of the Income Tax Act 2007 which enables its investors to take advantage of tax relief on their investment and on future returns.	Breach of any of the rules enabling the Company to hold VCT status could result in the loss of that status.	The loss of VCT status would result in shareholders who have not held their shares for the designated holding period having to repay the income tax relief they had already obtained and future dividends and gains would be subject to income tax and capital gains tax.	The Board maintains a safety margin on all VCT tests to ensure that breaches are very unlikely to be caused by unforeseen events or shocks. The Investment Manager monitors all of the VCT tests on an ongoing basis and the Board reviews the status of these tests on a quarterly basis. Specialist advisors audit the tests on a bi-annual basis and report to the audit committee on their findings.
Economic, political and other external factors	Whilst the Company invests in predominantly UK businesses, it relies heavily on Europe as one of its largest trading partners. This together with the increase in globalisation means that economic unrest and shocks in other jurisdictions, as well as in the UK, can impact on UK companies, particularly smaller ones that are more vulnerable to changes in trading conditions.	Events such as economic recession, movement in interest or currency rates, civil unrest, war or political uncertainty or pandemics can adversely affect the trading environment for underlying investments and impact on their results and valuations.	Reduction in the value of the Company's assets with a corresponding impact on its share price may result in the loss of investors through buybacks and may limit its ability to pay dividends.	The Company invests in a diversified portfolio of companies across a number of industry sectors which provides protection against shocks as the impact on individual sectors can vary depending upon the circumstances. In addition, the Manager uses a limited amount of bank gearing in its investments which enables its investments to continue trading through difficult economic conditions. The Company always maintains healthy cash balances so that it can support portfolio companies with further investment should the investment case support it. The Board reviews the make up and progress of the portfolio each quarter to ensure that it remains appropriately diversified and funded.
Operational	The Company relies on a number of third parties including the Investment Manager to provide it with the necessary services such as registrar, sponsor, custodian, receiving agent, lawyers and tax advisers.	The risk of failure of the systems and controls of any of the Company's advisers leading to an inability to service shareholder needs adequately, to provide accurate reporting and accounting and to ensure adherence to all VCT legislation rules.	Errors in shareholders records or shareholdings, incorrect marketing literature, non compliance with listing rules, loss of assets, breach of legal duties and inability to provide accurate reporting and accounting all leading to reputational risk and the potential for litigation.	The Board has appointed an audit committee who, along with the external auditors, review the internal control (ISAE3402) and / or internal audit reports from all significant third party service providers, including the Investment Manager, on a biannual basis to ensure that they have strong systems and controls in place including Business Continuity Plans. The Board regularly reviews the performance of its service providers to ensure that they continue to have the necessary expertise and resources to provide a high class service and always where there has been any changes in key personnel or ownership.

The financial risks faced by the Company are covered within the notes to the Financial Statements on pages 53 to 56.

Strategic Report

Business Model

Baronsmead VCT 2 has maintained the appointment of ISIS as Investment Manager to help achieve the investment objective of the Company. The key elements of the investment strategy and its application are outlined below.

Access to an attractive, diverse portfolio

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

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

The Manager's approach to investing

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

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

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

ISIS as an influential shareholder

For unquoted investments, ISIS is an involved shareholder and representatives of the Manager (on behalf of the Baronsmead family of VCTs) join the investee board. The role of ISIS is to ensure that strategy is clear, the business plan is well thought through and the management resources are in place to deliver profitable growth. The intention is to build on the initial platform and grow the business so that it can become an attractive target able to be either sold or floated in the medium term.

The investment strategy for AIM-traded companies has increasingly focused on taking more influential stakes through the collective shareholdings of the Baronsmead family of VCTs.

A more detailed explanation of how the business model is applied is provided in the Other Matters section of the Strategic Report on pages 22 to 25.

Other Matters

Applying the Business Model

The Company's investment objective and investment policy are set out on page 1. This section of the Strategic Report sets out the practical steps that the Board has taken in order to achieve the investment objective and adhere to the investment policy.

Appointment of the right investment manager

The Board has delegated the management of the investment portfolio to ISIS VC LLP ("ISIS" or the "Manager").

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.

The Manager's Review on pages 8 to 14 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.

On 22nd July 2014 the Company was registered as a Small UK registered AIFM (Alternative Investment Fund Manager) under the Alternative Investment Fund Managers Directive ("AIFMD"). In preparation for this the investment management agreement between the Company and ISIS EP LLP dated 20th December 2006 was novated to ISIS VC LLP (previously named FPPE LLP), a MiFID (Markets in Financial Instruments Directive) authorised company with the same controlling members as ISIS EP LLP. The terms of the agreement and the personnel involved in providing management and investment management services to the Company have not changed as a result of the implementation of these arrangements.

The Board have also engaged the Manager to provide or procure company secretarial, accounting and administrative services to the Company.

Investing in the right companies

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 comprising 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 6th 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.

Strategic Report

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

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.

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.

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 and Growth Fund.

Incentivising and remunerating the Manager

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 year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on pages 5 to 7. The Board assesses the performance of the Manager in meeting the Company's objective against the primary KPIs highlighted on page 3 of this Report and Accounts.

The investment management agreement

Under the management agreement, the Manager receives a fee of 2.0 per cent per annum of the net assets of the Company. In addition, the Manager receives an annual secretarial and accounting fee of £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 30th September 2014 was 2.39 per cent.

The management agreement may be terminated at any date by either party giving twelve months' notice of termination and if terminated, the Manager is only entitled to the management fees paid to it and any interest due on unpaid fees.

Performance fees

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 10 per cent of the excess 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 £553,000 (2013: £1,436,000) is payable.

Management retention

A co-investment scheme was introduced in November 2004 under which members of the Manager's investment team invest their own money 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 sector 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 which investments to participate in. 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, 58 executives have invested a total of £838k in 40 companies. At 30th September 2014 twenty of these investments have been realised generating proceeds of £175m for the Baronsmead VCTs and

£8.9m for the co-investment scheme. For Baronsmead VCT 2 the average money multiple on these twenty realisations was 2.1 times cost. Had the co-investment shares been held instead by the Baronsmead VCTs that money multiple would have been 2.2 times cost. Over the period of ten years (based upon the current number of shares in issue) this equates to approximately 2.6p per share.

Advisory Fees

During the year to 30th September 2014, the Manager received income of £89,000 (2013: £146,000) in connection with advisory fees and incurred abort fees of £1,000 (2013: £1,000), with respect to investments attributable to Baronsmead VCT 2.

Directors' fees of £207,000 (2013: £203,000) were received during the year in relation to services provided to companies in the investment portfolio, with respect to investments attributable to Baronsmead VCT 2.

Environmental, Human Rights, Employee, Social and Community Issues

The Company is required, by company law, to provide details of the 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. The Company does not have any employees and as a result does not maintain specific policies in relation to these matters. Information that is relevant to these matters has been set out below:

Responsible Investment

The Company seeks to conduct its affairs responsibly and the Manager is encouraged to consider environmental, human rights, social and community issues, where appropriate, 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 its underlying investment portfolio.

Strategic Report

Gender Diversity

The Board of Directors of the Company comprises two female and two male Directors. The Manager has an equal opportunity policy and currently employs 34 men and 24 women.

Returns to investors

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 amount of dividends paid year on year.

Since launch, the average annual tax free dividend paid to shareholders has been 7p per ordinary share (equivalent to a pre-tax return of 9.3p per ordinary share for a higher rate taxpayer). For shareholders who received up front tax reliefs of 20 per cent, 30 per cent or 40 per cent, their returns would have been even higher.

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 March 2014, the Company's offer for subscription to raise £10 million (£9.7 million after 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 1,041,000 shares were bought in this way during the year to 30th September 2014.
- **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. Subject to certain conditions, the Company seeks to maintain a mid share price discount of approximately 5 per cent to 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 629,000 shares were bought by investors in the Company's existing shares in the year to 30th September 2014.

On behalf of the Board

Clive Parritt

Chairman

14th November 2014

Report of the Directors

Baronsmead VCT 2 plc

Annual Report & Accounts for the year ended 30th September 2014

The Chairman's Statement on pages 5 to 7, the Corporate Governance Statement on pages 29 to 35 and the Strategic Report on pages 3 to 25 forms part of the Report of the Directors.

Board of Directors

As at 30th September 2014



Clive Parritt	Chairman	
Appointed:	18th February 1998	Next due for re-election: 2014
Past experience	Clive 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. In addition, he has chaired or been a director of a number of investment trusts, VCTs and media business.	
Other appointments	Console TopCo Limited (Group Finance Director), BG Consulting Group Limited (chairman), London & Associated Properties plc (director) and F&C US Smaller Companies plc (director).	
Beneficial Shareholding	151,288 Ordinary Shares	



Gillian Nott OBE	Senior Independent Director, Nomination Committee Chairman and Management Engagement and Remuneration Committee Chairman	
Appointed:	18th February 1998	Next due for re-election: 2014
Past experience	Gillian has in-depth experience of private investors from her experience 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. In addition, Gillian held Board positions at Liverpool Victoria Friendly Society (director), Association of Investment Companies (deputy chairman), Martin Currie Global Portfolio Investment Trust plc (non-executive director) and Witan Pacific Investment Trust plc (chairman).	
Other appointments	BlackRock Smaller Companies Trust plc (non-executive director), JP Morgan Russian Securities plc (non-executive director), Baronsmead VCT 3 plc (non-executive director) and Baronsmead VCT 5 plc (non-executive director).	
Beneficial Shareholding	90,871 Ordinary Shares	



Howard Goldring	Audit Committee Chairman	
Appointed:	11th November 2009	Next due for re-election: 2014
Past experience	Howard has over 30 years' experience in wealth management and the global real estate market. He is an acknowledged specialist on global asset allocation. 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.	
Other appointments	Delmore Asset Management Limited (executive chairman), Tesco Pension Fund (asset allocation advisor), London & Associated Properties plc (non-executive director).	
Beneficial Shareholding	24,607 Ordinary Shares	



Christina McComb	Non-Executive Director	
Appointed:	3rd February 2011	Next due for re-election: 2015
Past experience	Christina has a broad background in public and private sectors, with a strong focus on investing in SMEs and early stage companies. She is a former director of 3i plc where she undertook a number of investment and portfolio management. She was also a director of the Shareholder Executive, an agency established in 2003 to manage the Government's holdings in publicly owned companies.	
Other appointments	Engage Mutual Assurance (Chair); British Business Bank plc (non-executive director); Standard Life European Private Equity Trust plc (non-executive director); Nexxon Ltd (non-executive director).	
Beneficial Shareholding	25,131 Ordinary Shares	

Report of the Directors

The Directors of Baronsmead VCT 2 plc (Reg: 03504214) present their seventeenth Report and audited financial statements of the Company for the year ended 30th September 2014.

Shares and shareholders

Share capital

The Company issued an offer for subscription for new ordinary shares of the Company in January 2014. The offer was fully subscribed and 9,633,363 new ordinary shares (nominal value £963,336.30) were allotted on 14th March 2014 at a price of 103.80p per share, representing 10.14 per cent of the issued share capital following allotment. The terms of issue were set out in the prospectus dated 22nd January 2014 and the offer price was set on 14th March 2014.

During the year the Company bought back a total of 645,000 ordinary shares to be held in Treasury, representing 0.7 per cent of the issued share capital as at 30th September 2014, with an aggregate nominal value of £64,500. The total amount paid for these shares was £617,725. The Company's remaining authority to buy back shares from the 2013 AGM is 10,744,711.

As at the date of this report the Company's issued share capital was as follows:

Shares	Total	% of Shares in issue	Nominal Value
In issue	94,972,132	100.00	£ 9,497,213.20
Held In treasury	10,668,819	11.23	£ 1,066,881.90
In circulation	84,303,313	88.77	£8,430,331.30

The number of shares held in Treasury at the date of the report was the maximum held during the year. Shares will not be sold out of Treasury at a discount wider than the discount at which the shares were initially bought back by the Company.

Shareholders

Each 10p ordinary share entitles the holder to attend and vote at general meetings of the Company, to participate in the profits of the Company, to receive a copy of the Annual Report & Accounts and to participate in a final distribution upon the winding up of the Company.

There are no restrictions on voting rights, no securities carry special rights and the Company is not aware of any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights. There are no agreements to which the Company is party that may affect its control following a takeover bid.

In addition to the powers provided to the Directors under UK company law and the Company's Articles of Association, at each Annual General Meeting ("AGM") the shareholders are asked to authorise certain powers in relation to the issuing and purchasing of the Company's own shares. Details of the powers granted at the 2013 AGM, all of which remain valid, can be found in the previous Annual Report & Accounts.

The Board is not, and has not been throughout the year, aware of any beneficial interests exceeding 3 per cent of the total voting rights.

Tax free dividends

The Company paid the following dividends for the year ended 30th September 2014:

Tax Free Dividends	£'000
Interim dividend of 8.0p per ordinary share paid on 7th March 2014	6,017
Second interim dividend of 4.5p per ordinary share paid on 19th September 2014*	3,801
Total dividends paid for the year	9,818

*the second interim dividend was paid in lieu of a final dividend.

Annual General Meeting

The notice of the Annual General Meeting of the Company to be held at 12:30 pm on 17th December 2014 at the Plaisterers' Hall, One London Wall, London EC2Y 5JU has been sent to shareholders and is available on the Company's website.

Directors

Appointments

The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association and the Companies Act 2006. Further details in relation to the appointed Directors and the governance arrangements of the Board can be found on page 26 and in the Corporate Governance Statement.

Directors are not compensated by the Company for loss of office in the event of a takeover bid.

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 in force.

Conflicts of Interest

The Directors have declared any conflicts or potential conflicts 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. Directors advise the Company Secretary and the Board as soon as they become aware of any conflicts of interest and do not take part in discussions which relate to any of their conflicts.

Responsibility for accounts and going concern

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 Auditor is 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 Auditor is aware of that information.

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 30th September 2014, the Company held cash balances and investments in UK Treasury Bills with a combined value of £21,135,000. 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 or covenants.

The Directors have chosen to include its report on global greenhouse emissions in its Strategic Report under the section on environmental, human rights, employee, social and community issues.

By Order of the Board

ISIS VC LLP

Secretary
100 Wood Street London EC2V 7AN
14th November 2014

Corporate Governance

This Corporate Governance statement forms part of the Report of the Directors

Arrangements in respect of corporate governance, appropriate to a venture capital trust, have been made by the Board. The Board has considered the principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in February 2013 ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") which is available 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 ("FRC") ("the Corporate Governance Code"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company. The FRC confirmed in January 2013 that they considered the updated AIC Guide to be appropriate and that investment companies may report against the AIC Code. The Corporate Governance Code is available on the FRC website 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.

The table on pages 29 to 33 provide an explanation of how the Company has complied with the AIC Code during the year and provide explanations where the Company has not complied. Since all the Directors are non-executive the provisions of the Corporate Governance Code in respect of the role of the chief executive and Directors' remuneration are not relevant to the Company. 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.

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
1	The Chairman should be independent.	The Board does not consider that Mr Parritt has any conflict of interest that compromises his independence and the Company's independent directors (excluding the Chairman) have determined that he remains an independent director.
2	A majority of the board should be independent of the manager.	All of the Directors' appointments are non-executive and, having considered the performance and independence of each Director, the Board has determined that each Director is independent in character and judgement and that there are no relationships or circumstances which are likely to affect their judgement or impair their independence. Mrs Nott is a director of Baronsmead VCT 3 plc and Baronsmead VCT 5 plc, both of which are managed by ISIS VC LLP. In addition, Mr Parritt and Mr Goldring are both 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 VC LLP does not impede their independence.
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	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.
4	The board should have a policy on tenure, which is disclosed in the annual report.	The Board does not believe that the tenure of a director on a wholly non-executive board has any direct bearing on their independence and, in common with many VCTs the Board ensure that its membership includes longer-serving directors who provide a balance of knowledge and experience that is not present in the absence of executive directors. In addition, the average period for holding private equity investments is considerably longer than for other types of investment. As a result the Nomination Committee considers the composition of the Board regularly and has determined that a formal policy on tenure would not be appropriate.

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
5	There should be full disclosure of information about the board.	The Board is profiled on page 26 and biographies are available on the Company's website. Details of the Board's committees are set out below this table.
6	The board should aim to have a balance of skills, experience, length of service and knowledge of the Company.	The profiles of each of the Directors is set out on page 26 and highlights their range of skills, experience, length of service and knowledge. The Board believes that diversity of experience and approach, including gender diversity, amongst board members is of great importance and the Board and its Nomination Committee give careful consideration to issues of board balance and diversity when considering the composition of the Board and making new appointments.
7	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 results of the evaluation were considered by the Nomination Committee which ultimately concluded that the Directors, the Board and its Committees remained effective.
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent.	The Board's Remuneration Committee considers at least annually the level of the Board's fees, in accordance with the Remuneration Policy approved by shareholders at the 2013 AGM. Further details on the Directors' remuneration is contained in the Directors' Remuneration Report on pages 36 to 38.
9	The independent directors should take the lead in the appointment of new directors and the process should be disclosed in the annual report.	The Nomination Committee, which is comprised entirely of independent directors, is responsible for overseeing the recruitment of new directors. During the year there have not been any new director appointments. The Nomination Committee has reviewed the composition of the Board and believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge.
10	Directors should be offered relevant training and induction.	New Directors are provided with an induction pack containing key information and governance documents relating to the Company when they are appointed. In addition they are offered a tailored induction programme with the Manager which covers the investment portfolio and the Manager's approach to investment. Directors receive detailed updates on market and regulatory developments and are provided periodically with training to enhance and refresh their knowledge.
11	The chairman (and the board) should be brought into the process of structuring a new launch at an early stage.	Principle 11 applies to the launch of new investment companies and is therefore not applicable to the Company.

Corporate Governance

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
12	Boards and managers should operate in a supportive, co-operative and open environment.	Formal board meetings provide important forums for the Directors and key members of the Manager's team to interact and for Directors to receive reports and provide challenge to the Manager but interaction between the Board and the Manager is not restricted to these meetings. Between meetings the Manager continuously updates the Board on developments and responds to queries and requests by Directors as they arise. Informal meetings take place regularly between the Directors and the Manager and senior members of the Manager's team are also invited to the Board's annual strategy meeting.
13	The primary focus at regular board meetings should be a review of investment performance and associated matters, such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.	At each quarterly meeting, the Board receives a report on the performance of the Company, its investments and the VCT sector (including competitors). The report also outlines compliance with the 70% Test and includes forecasts for future periods, highlighting investment opportunities, operational matters and regulatory developments that will/may impact upon the Manager's management of the investment portfolio. The Board has agreed with the Manager specific KPIs that enable both parties to monitor compliance with the agreed Investment Policy and Risk Management framework. Directors regularly seek additional information from the Manager to supplement these reports and formally review the performance measures and KPIs at their annual strategy meeting.
14	Boards should give sufficient attention to overall strategy.	As mentioned above, the Board monitors performance against its agreed strategy on an ongoing basis and reviews its overall strategy, including the viability of the Company in its current form, at its annual strategy meeting.
15	The board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed fund).	The Management Engagement and Remuneration Committee reviews the overall performance of the Manager annually and considers both the appropriateness of the Manager's appointment and the contractual arrangements (including the structure and level of remuneration) with the Manager. The Board believe that the Manager's track record in the VCT sector remains outstanding and that its ability to continue to achieve strong results by adapting to an ever changing regulatory environment has been particularly impressive. As a result, the Board has concluded that the continuing appointment of ISIS VC LLP remains in the best interest of shareholders as a whole.

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
16	The board should agree policies with the manager covering key operational issues.	<p>Certain matters, including strategy, investment and dividend policies, gearing, and corporate governance procedures, are reserved for the approval of the Board. Under the terms of a management agreement, the Board has delegated the management of the investment portfolio to the Manager. The management agreement sets out the matters over which the Manager has authority and the limits above which Board approval must be sought.</p> <p>The Manager also provides or procures the provision of company secretarial, accounting, administrative and custodian services to the Company.</p> <p>In the absence of explicit instructions from the Board, the Manager 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.</p> <p>The Board has considered the adequacy 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 organisation.</p>
17	Boards should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	<p>The Company has stated its aim to seek a mid share price discount to NAV of 5 per cent but keeps the share price discount policy under continuous review. The performance of the Company's share price and the discount to NAV is monitored continuously and shares will be bought back depending on market conditions at the time and only where the Directors believe it to be in the best interests of all shareholders.</p>
18	The board should monitor and evaluate other service providers.	<p>The Board has established a framework for monitoring and evaluating the performance of its third party services providers and, on the Company's behalf, the Manager monitors the performance and systems and controls employed by the service providers. The Audit Committee receives service provider controls reports from the Manager and the Board considers if a provider should be replaced.</p>

Corporate Governance

AIC Code	Principle	Evidence of compliance and/or explanation of departure from the Code
19	<p>The board should regularly monitor the shareholder profile of the company and put in place a system for canvassing shareholder views for communicating the board's view to shareholders.</p>	<p>As a VCT, the Company's share register is made up almost entirely of retail shareholders and the Board, through the Manager, remains in constant engagement with wealth managers and brokers to inform their understanding of its investor base. Periodically the Board canvasses the views of its shareholders as a whole by issuing a shareholder questionnaire.</p> <p>The Company's Annual Report & Accounts provides the Board with an opportunity to report on the performance and outlook for the Company and to update shareholders on developments. At the AGM shareholders have an opportunity to receive more detailed presentations from the Manager on specific investments and it also provides a forum to speak directly to the Directors and members of the Manager's team. The Manager also runs a shareholder workshop on the same day as the AGM. The Directors welcome the views of shareholders and are happy to correspond directly with shareholders or make themselves available to meet shareholders. Shareholders seeking to communicate with the Board should contact the Manager in the first instance (see page 66 for contact details).</p> <p>The 2013 AGM was held on 18th December 2013 and the forthcoming AGM will be held on 17th December 2014. In both cases the Company has provided 21 days' notice, in accordance with the Companies Act 2006, but the Company has not provided the 20 working days' notice, as required under the AIC Code. The Board has chosen not to comply with this requirement and will hold the AGM earlier for the convenience of the shareholders.</p>
20	<p>The board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.</p>	<p>The Board takes responsibility for approving the content and timing of communications regarding major corporate issues. Communications usually take the form of stock exchange announcements, press releases and direct correspondence with shareholders and the Board seeks the advice and guidance of the Manager when drafting such communications.</p>
21	<p>The board should ensure that shareholders are provided with sufficient information for them to understand the risk/reward balance to which they are exposed by holding the shares.</p>	<p>The Company's annual report is drafted to provide shareholders with sufficient information to understand the nature of their investment in the Company. The format and content of the annual report is updated each year in response to changes in best practice and to improve the quality of the information available to shareholders.</p> <p>Details of the Company's full portfolio, as at 30th September 2014 can be found on the Company's website and on pages 61 and 62 of this Annual Report and Accounts.</p>

The Board's Committees

The Board has delegated certain responsibilities to its Audit, Management Engagement and Remuneration and Nomination Committees. Given the size and nature of the Board it is felt appropriate that all Directors are members of the Committees. The Board has established formal terms of reference for each of the Committees which are available from the Company Secretary upon request. An outline of the remit of each of the Committees and their activities during the year are set out in the below table:

Audit Committee

Chairman: Mr Goldring

Key responsibilities:

1. reviewing the content and integrity of the Annual and Half-Yearly Accounts;
2. reviewing the Company's internal control and risk management systems;
3. reviewing the remuneration and terms of appointment of the external auditor;
4. ensuring auditor objectivity and independence is safeguarded in the provision of non-audit services; and
5. providing a forum through which the auditor may report to the Board.

Activity during the year:

During the year the Committee's work included:

1. A consideration of the significant issues in relation to the financial statements. Whilst the Committee did not identify any significant issues it paid particular attention to:
 - a. The Valuation and existence of unquoted investments: The Manager and external auditor confirmed 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 had met quarterly to assess the estimates and judgements made by the Manager in the valuations for their appropriateness. These were then further reviewed by the Audit Committee.
 - b. Venture capital trust status: the conditions for maintaining the status as an approved venture capital trust had been met throughout the year. The position had also been reviewed by PricewaterhouseCoopers LLP in its capacity as adviser to the Company on taxation matters.
2. Recommending to the Board the Annual and Half-yearly Reports. In preparing the Annual Report & Accounts for the year ended 30th September 2014, the Manager and external auditor confirmed that they were not aware of any material misstatements. Having reviewed the reports received from both parties the Committee was satisfied that the key areas of risk and judgement had been addressed 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.
3. Assessing the effectiveness of the current external audit process. The Committee's assessment was that KPMG had continued to carry out its duties in a diligent and professional manner, maintained a good knowledge of the VCT market and continued to provide a high level of service. In accordance with guidance issued by the Auditing Practices Board the audit partner is rotated every five years to ensure objectivity and independence is not impaired. The current audit partner has been in place for three year-ends. KPMG was appointed to the Company in 2003 and 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. An explanation of how auditor objectivity and independence is safeguarded and details of the non-audit services provided can be found in note 2.6 to the financial statements.
4. Overseeing the operation of the Company's system of internal controls and reviewing its effectiveness. The Committee has established procedures which have been designed to identify and manage, rather than eliminate, risk. These procedures involve the maintenance of a risk register which records the risks to which the Company is exposed, including, among others, market, investment, operational and regulatory risks, and the controls employed to mitigate these risks. The residual risks are rated taking into account the impact of the mitigating factors. This register is updated when changes are identified and reviewed at each Committee meeting and where necessary, corrective action is taken. A formal annual review of the effectiveness of the risk management process is carried out by the Audit Committee.
5. Monitoring and evaluating appointed third party service providers (further detail is provided on page 32).
6. Reviewing the need for an internal audit function. The Committee 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, was therefore not required.

Corporate Governance

Management Engagement & Remuneration Committee

Chairman: Mrs Nott

Key responsibilities:

1. reviewing the appropriateness of the Manager's appointment (including key executives thereof) together with the terms and conditions of the appointment; and
2. determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman and non-executive Directors;

Activity during the year:

During the year the Committee's work included:

1. Reviewing the Manager's performance and considering their ongoing appointment. The review carried out by the Committee concluded 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 continue to find, manage and realise good quality growth businesses. The Board's opinion remains that the continuing appointment of ISIS VC LLP on the terms agreed is in the best interest of shareholders as a whole.
2. Reviewing the remuneration paid to the Chairman and Directors, in accordance with the Remuneration Policy approved by shareholders at the 2013 AGM. Further information on the work of the Committee can be found in the Directors' Remuneration Report on page 36.

Nomination Committee

Chairman: Mrs Nott

Key responsibilities:

1. considering the appointment of additional Directors as and when considered appropriate.
2. considering the resolutions relating to annual re-election of directors; and
3. considering the ongoing requirements of the Company and the need to have a balance of skills, experience, knowledge and diversity within the Board.

Activity during the year:

1. considering succession planning for directors, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the board in the future;
2. reviewing the results of the board performance evaluation process particularly the items that related to the composition of the board; and
3. reviewing the time required from non-executive directors.

The below table sets out the Directors' attendance at Board and Committee meetings held during the year to 30th September 2014. In addition the Board established committees to approve financial statements, the payment of interim dividends and fundraising. The Directors also attended quarterly meetings to consider in detail the valuations of the unquoted investments in the portfolio.

	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	3	2	2	1	1	1	1

Directors' Remuneration Report

Baronsmead VCT 2 plc
Annual Report & Accounts for the
year ended 30th September 2014

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An Ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's Auditor, KPMG LLP, 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' on pages 40 and 41.

Annual Statement from the Chairman of the Remuneration Committee

The Board, which is profiled on page 26, consists solely of non-executive Directors and is considered to be entirely independent. The Board considers at least annually the level of the Board's fees, in accordance with the AIC Code.

During the year, the Management Engagement and Remuneration Committee reviewed the Directors' fees to ensure that these were in line with the industry and other VCTs within the Baronsmead family. Subsequent to this review it was concluded that it was appropriate to increase the Directors' fees to £22,000 per annum, the Chairman of the Audit Committee's fees to £24,000 per annum and the Chairman's fee to £29,500 with effect from 1st October 2014.

In determining the remuneration of the directors the Board has had regard to the prevailing market conditions, including the increase in RPI since last year and the level of comparative fees paid by other VCTs of similar size. It also considered the time spent by directors in carrying out their duties and the performance of the VCT.

Directors spend a considerable amount of time preparing for Board meetings, the quarterly valuation meetings and in a number of other ad hoc meetings all in addition to the time taken up in the formal meetings of the Board. The Board's time is spent setting the strategy for the successful development of the company and then monitoring the performance of the company against the strategic objectives set. It sets the investment guidelines and monitors the investment manager's adherence to them. The Directors regularly review the portfolio of investments and determine the valuation of the unquoted companies on a quarterly basis. The Board is also responsible

for the overall risk management of the company. Additionally the Board regularly reviews the investment performance of the company and scrutinises closely the cost of running the company to ensure that all costs are kept to an appropriate level. It also monitors carefully the working of the co investment scheme.

The Board is keen to ensure that communications with shareholders are as clear as possible and spends time considering how to improve regular reporting to shareholders in all forms, from the website to the Annual Report, which you will see is in a new format this year.

VCTs are the subject of numerous complex regulations relating to the types of investment they can make and the overall financial structure of the VCT itself. With assistance from its professional advisers and the Manager, the Board spends much time monitoring compliance with these regulations to ensure that no breach is likely to occur which would result in the loss of tax relief for shareholders. This year an additional EU regulatory burden has been added in the form of the Alternative Investment Fund Managers Directive ("AIFMD") with which the VCT has had to comply. This is in addition to the normal compliance with the Companies Act and the Listing Rules. Under the AIFMD the company has applied to the Financial Conduct Authority and has been accepted as a Small Registered AIFM. This required the Company to review and revise the investment management agreement with ISIS, and appoint a custodian for the unquoted shares.

In addition, the Directors are responsible for deciding when it is appropriate for the company to raise new funds, and for the subsequent documentation that is needed for such fundraising.

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 properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs.

Directors' Remuneration Report

This policy was approved by the members at the 2013 AGM, and it is intended that this policy will continue for the year ending 30th September 2015 and subsequent years. In accordance with the regulations, an ordinary resolution to approve the directors' remuneration report 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, over 93 per cent of shareholders voted for the resolution approving the Directors' Remuneration Report (6 per cent against, 1 percent withheld) and over 93 per cent of shareholders voted for the resolution approving the Directors' Remuneration Policy (6 per cent against, 1 percent withheld), showing significant shareholder support.

Annual Remuneration Report

The Management Engagement and Remuneration Committee comprises all the Directors of the Company. The Chairman of the Committee is Mrs Nott. As the Company has no executive Directors, the Management Engagement and Remuneration Committee meets, at least annually, to review the remuneration and terms of appointment of the Investment Manager, and the level of the Board's fees, in accordance with the AIC Code of Corporate Governance.

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:

	30th September 2014	30th September 2013
	Ordinary 10p shares	Ordinary 10p shares
Clive Parritt	151,288	109,111
Gillian Nott	90,871	71,605
Howard Goldring	24,607	10,157
Christina McComb	25,131	20,315
Total shares held	291,897	211,188

There have been no changes in the holdings of the Directors between 30th September and 14th November 2014.

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 AIC 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	18th February 1998	December 2014
Gillian Nott	18th February 1998	December 2014
Howard Goldring	11th November 2009	December 2014
Christina McComb	3rd February 2011	AGM 2015

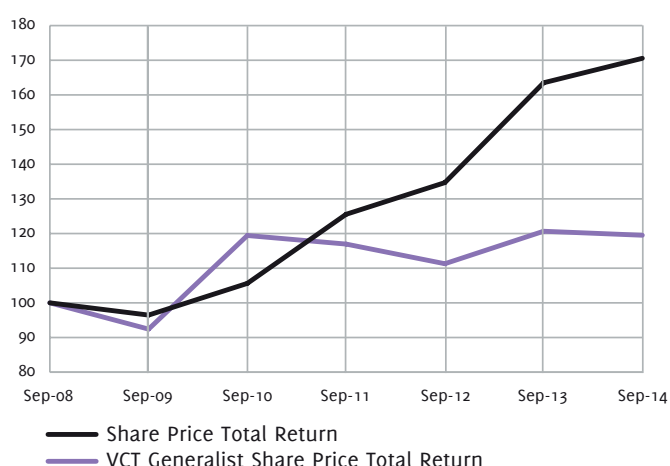
Company performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Manager through the management agreement, as referred to in the 'Report of the Directors'. The graph below compares, for the six years ended 30th September 2014, 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

	2014 £	2013 £	Percentage increase
Dividend	9,818,000	7,136,000	37.6
Total directors fees	88,500	80,500	9.9

Share Price and the VCT Generalist Share Price Total Return Performance Graph



Directors' emoluments for the year (audited)

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

	Fees 2014 £	Fees 2013 £
Clive Parritt	28,500	26,500
Gillian Nott	20,000	18,000
Howard Goldring	20,000	18,000
Christina McComb	20,000	18,000
Total	88,500	80,500

Approved by the Board of Directors and signed by:

Gillian Nott

Chairman of the Management Engagement
and Remuneration Committee

14th November 2014

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 Parritt

Chairman

14th November 2014

Independent Auditor's Report

Baronsmead VCT 2 plc
Annual Report & Accounts for the
year ended 30th September 2014

Independent Auditor's Report to the Members of Baronsmead VCT 2 Plc Only

Opinions and conclusions arising from our audit

1. Opinion on financial statements

We have audited the financial statements of Baronsmead VCT 2 plc for the year ended 30th September 2014 set out on pages 42 to 56. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30th September 2014 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.

2. 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 (£25.0m)

The risk – 34.3% of the Company's total assets (by value) is held in investments where no quoted market price is available. 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 prices 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 response – Our procedures included:

- documenting and assessing the design and implementation of the investment valuation processes and controls in place;
- attendance at the quarterly Valuation meetings with the Directors 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 determine 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 challenged 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, 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 whether refinancing may be required. Where a recent transaction had been used to value a holding, we obtained an understanding of the circumstances surrounding the transaction and whether it was 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
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

3. 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 £1,684,031, determined with reference to a benchmark of Total Assets (of which it represents 2%).

We report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £84,201, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Independent Auditor's Report

Our audit of the company was undertaken to the materiality level specified above and was performed at the Manager, ISIS Equity Partners, head office in London and at the administrator, Capita Asset Services, in Exeter.

4. We have nothing to report in respect of the 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 Audit Committee section of the Corporate Governance report 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 28, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 29 to 35 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 39, 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 is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, 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 LLP, Statutory Auditor
Chartered Accountants**

Saltire Court
20 Castle Terrace Edinburgh
EH1 2EG

14th November 2014

Income Statement

Baronsmead VCT 2 plc

Annual Report & Accounts for the year ended 30th September 2014

For the year ended 30th September 2014

	Notes	Revenue £'000	2014 Capital £'000	Total £'000	Revenue £'000	2013 Capital £'000	Total £'000
Unrealised gains on movements in fair value of investments	2.3	-	7,898	7,898	-	8,678	8,678
Realised gains on disposal of investments	2.3	-	639	639	-	1,535	1,535
Income	2.5	2,100	-	2,100	3,456	-	3,456
Investment management fee	2.6	(382)	(1,701)	(2,083)	(368)	(2,541)	(2,909)
Other expenses	2.6	(464)	-	(464)	(435)	-	(435)
Profit on ordinary activities before taxation		1,254	6,836	8,090	2,653	7,672	10,325
Taxation on ordinary activities	2.9	(164)	164	-	(505)	505	-
Profit on ordinary activities after taxation		1,090	7,000	8,090	2,148	8,177	10,325
Return per ordinary share:							
Basic	2.2	1.35p	8.71p	10.06p	2.89p	10.99p	13.88p

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 30th September 2014

	Notes	2014 £'000	2013 £'000
Opening shareholders' funds		75,789	72,433
Profit on ordinary activities after taxation		8,090	10,325
Net proceeds of share issues & costs of buybacks		9,078	3,944
Other costs charged to capital		-	(5)
Dividends paid	2.4	(9,818)	(10,908)
Closing shareholders' funds		83,139	75,789

Balance Sheet

As at 30th September 2014

Company number: 03504214

	Notes	2014 £'000	2013 £'000
Fixed assets			
Investments	2.3	72,936	72,865
Current assets			
Debtors	2.7	1,320	1,965
Cash at bank and on deposit		10,139	2,875
Creditors (amounts falling due within one year)	2.8	11,459 (1,256)	4,840 (1,916)
Net current assets		10,203	2,924
Net assets		83,139	75,789
Capital and reserves			
Called-up share capital	3.1	9,497	8,534
Share premium	3.2	16,545	7,809
Capital reserve	3.2	40,330	41,921
Revaluation reserve	3.2	16,497	17,274
Revenue reserve	3.2	270	251
Equity shareholders' funds		83,139	75,789
Net asset value per share			
- Basic	2.1	98.62p	100.63p
- Treasury	2.1	98.02p	99.88p

The financial statements were approved by the Board of Directors on 14th November 2014 and were signed on its behalf by:

Clive Parritt
Chairman

Cash Flow Statement

Baronsmead VCT 2 plc

Annual Report & Accounts for the year ended 30th September 2014

For the year ended 30th September 2014

	2014 £'000	2013 £'000
Operating activities		
Investment income received	2,838	2,738
Deposit interest received	30	20
Other income	15	-
Investment management fees paid	(2,933)	(1,449)
Other cash payments	(432)	(441)
Net cash (outflow)/inflow from operating activities	(482)	868
Financial investment		
Purchases of investments	(56,011)	(36,620)
Disposals of investments	64,338	42,131
Net cash inflow from financial investment	8,327	5,511
Equity dividends paid	(9,818)	(10,908)
Net cash outflow before financing	(1,973)	(4,529)
Financing		
Net proceeds of share issues & costs of buybacks	9,237	3,944
Other costs charged to capital	-	(5)
Net cash inflow from financing	9,237	3,939
Increase/(decrease) in cash	7,264	(590)
Reconciliation of net cash flow to movement in net cash		
Increase/(decrease) in cash	7,264	(590)
Opening cash position	2,875	3,465
Closing cash at bank & on deposit	10,139	2,875
Reconciliation of profit on ordinary activities before taxation to net cash (outflow)/inflow from operating activities		
Profit on ordinary activities before taxation	8,090	10,325
Gains on investments	(8,537)	(10,213)
Decrease/(increase) in debtors	783	(700)
(Decrease)/increase in creditors	(818)	1,456
Net cash (outflow)/inflow from operating activities	(482)	868

Notes to the Accounts

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	
	2014 number	2013 number	2014 pence	2013 pence	2014 £'000	2013 £'000
Ordinary shares (basic)	84,303,313	75,314,950	98.62	100.63	83,139	75,789
Ordinary shares (including treasury)	94,972,132	85,338,769	98.02	99.88	93,088	85,236

The treasury net asset value per share as at 30th September 2014 included ordinary shares held in treasury valued at the mid share price of 93.25p at 30th September 2014 (2013: 94.25p).

2.2 Return per share

	Weighted average number of ordinary shares		Return per ordinary share		Net profit on ordinary activities after taxation	
	2014 number	2013 number	2014 pence	2013 pence	2014 £'000	2013 £'000
Revenue	80,388,884	74,397,698	1.35	2.89	1,090	2,148
Capital	80,388,884	74,397,698	8.71	10.99	7,000	8,177
Total			10.06	13.88	8,090	10,325

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, ISDX 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 details of which are set out in the box above.

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.

	2014 £'000	2013 £'000
Level 1		
Listed interest bearing securities	10,996	2,999
Investments traded on AIM	28,835	24,994
Investments traded on ISDX	485	346
Investments listed on LSE	24	1,901
	40,340	30,240
Level 2		
Collective investment vehicle (Wood Street Microcap Investment Fund)	7,608	6,140
Level 3		
Unquoted investments	24,988	36,485
	72,936	72,865

Notes to the Accounts

2. Investments, performance and shareholder returns (continued)

2.3 Investments (continued)

	Level 1				Level 2	Level 3	Total £'000
	Listed interest bearing securities £'000	Traded on AIM £'000	Traded on ISDX £'000	Listed on LSE £'000	Collective investment vehicle £'000	Unquoted £'000	
Opening book cost	2,999	17,667	227	1,536	3,525	29,637	55,591
Opening unrealised appreciation	-	7,327	119	365	2,615	6,848	17,274
Opening valuation	2,999	24,994	346	1,901	6,140	36,485	72,865
Movements in the year:							
Purchases at cost	50,081	2,465	-	-	-	4,419	56,965
Sale - proceeds	(42,084)	(5,195)	-	(2,263)	-	(15,889)	(65,431)
- realised gains/(losses) on sales	-	1,028	-	412	-	(801)	639
Unrealised gains realised during the year	-	1,814	-	904	-	5,957	8,675
Increase/(decrease) in unrealised appreciation	-	3,729	139	(930)	1,468	(5,183)	(777)
Closing valuation	10,996	28,835	485	24	7,608	24,988	72,936
Closing book cost	10,996	17,779	227	589	3,525	23,323	56,439
Closing unrealised appreciation/(depreciation)	-	11,056	258	(565)	4,083	1,665	16,497
Closing valuation	10,996	28,835	485	24	7,608	24,988	72,936
Equity shares	-	28,802	485	24	7,608	5,240	42,159
Loan notes	-	33	-	-	-	19,748	19,781
Fixed income securities	10,996	-	-	-	-	-	10,996
Closing valuation	10,996	28,835	485	24	7,608	24,988	72,936

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 £1.2 million or 5.0 per cent lower. Using the upside alternatives the value would be increased by £1.7 million or 6.7 per cent.

2. Investments, performance and shareholder returns (continued)

2.4 Dividends

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Amounts recognised as distributions to equity holders in the year:						
For the year ended 30th September 2014						
– First interim dividend of 8.0p per ordinary share paid on 7th March 2014	902	5,115	6,017	-	-	-
– Second interim dividend of 4.5p per ordinary share paid on 19th September 2014	169	3,632	3,801	-	-	-
For the year ended 30th September 2013						
– First interim dividend of 3.0p per ordinary share paid on 14th June 2013	-	-	-	451	1,803	2,254
– Second interim dividend of 6.5p per ordinary share paid on 20th September 2013	-	-	-	1,690	3,192	4,882
For the year ended 30th September 2012						
– Final interim dividend of 5.0p per ordinary share paid on 18th January 2013	-	-	-	377	3,395	3,772
	1,071	8,747	9,818	2,518	8,390	10,908

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)

	Quoted securities £'000	2014 Unquoted securities £'000	Total £'000	Quoted securities £'000	2013 Unquoted securities £'000	Total £'000
Income from investments†						
UK franked	509	-	509	505	-	505
UK unfranked	16	877	893	8	2,468	2,476
Redemption premium	-	652	652	-	455	455
	525	1,529	2,054	513	2,923	3,436
Other income‡						
Deposit interest			21			14
Other income			25			6
Total income			2,100			3,456
Total income comprises:						
Dividends			509			505
Interest			1,591			2,951
			2,100			3,456

† 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.

	Revenue £'000	2014 Capital £'000	Total £'000	Revenue £'000	2013 Capital £'000	Total £'000
Investment management fee	382	1,148	1,530	368	1,105	1,473
Performance fee	-	553	553	-	1,436	1,436
	382	1,701	2,083	368	2,541	2,909

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 VC LLP, receives a fee of 2 per cent per annum of the net assets of the Company, calculated and payable on a quarterly basis.

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

	2014 £'000	2013 £'000
Directors' fees	89	81
Secretarial and accounting fees paid to the Manager	139	134
Remuneration of the auditors and their associates:		
– audit	23	22
– other services supplied relating to taxation	7	6
– other services supplied relating to financial statements' reorganisation	6	6
Other	200	186
	464	435

Information on directors' remuneration is given in the directors' remuneration table on page 38.

Charges for other services provided by the auditors in the year were in relation to tax compliance work (including iXBRL) and a project relating to reorganisation of the financial statements. 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

	2014 £'000	2013 £'000
Prepayments and accrued income	226	1,010
Amounts due from brokers	1,094	-
Amounts paid for future settlement	-	955
	1,320	1,965

2.8 Creditors (amounts falling due within one year)

	2014 £'000	2013 £'000
Management, performance, secretarial and accounting fees due to the Manager	1,011	1,859
Amounts due for buyback	158	-
Other creditors	87	57
	1,256	1,916

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:

	2014			2013		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Profit on ordinary activities before taxation	1,254	6,836	8,090	2,653	7,672	10,325
Corporation tax at 22.0 per cent (2013: 23.5 per cent)	276	1,504	1,780	624	1,803	2,427
Effect of:						
Non-taxable gains	-	(1,878)	(1,878)	-	(2,400)	(2,400)
Non-taxable dividend income	(112)	-	(112)	(119)	-	(119)
Losses carried forward	-	210	210	-	92	92
Tax charge/(credit) for the year	164	(164)	-	505	(505)	-

At 30th September 2014 the Company had surplus management expenses of £3,304,577 (2013: £2,349,443) 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
85,338,769 ordinary shares of 10p each listed at 30th September 2013	8,534
9,633,363 ordinary shares of 10p each issued during the year	963
94,972,132 ordinary shares of 10p each listed at 30th September 2014	9,497
10,023,819 ordinary shares of 10p each held in treasury at 30th September 2013	(1,003)
645,000 ordinary shares of 10p each repurchased during the year and held in treasury	(64)
10,668,819 ordinary shares of 10p each held in treasury at 30th September 2014	(1,067)
84,303,313 ordinary shares of 10p each in circulation* at 30th September 2014	8,430

* Carrying one vote each.

During the year the Company bought into treasury 645,000 ordinary shares representing 0.8 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 sell 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 required; and
- HMRC will not consider these 'new shares' for the purposes of the purchasers' entitlement to initial income tax relief.

Notes to the Accounts

3. Other Required Disclosures (continued)

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 1st October 2013	41,921	251	42,172	7,809	17,274	25,083
Gross proceeds of share issues	-	-	-	9,036	-	9,036
Purchase of shares for treasury	(618)	-	(618)	-	-	-
Expenses of share issue and buybacks	(3)	-	(3)	(300)	-	(300)
Reallocation of prior year unrealised gains	8,675	-	8,675	-	(8,675)	(8,675)
Realised gain on disposal of investments [#]	639	-	639	-	-	-
Net increase in value of investments [#]	-	-	-	-	7,898	7,898
Management fee capitalised [#]	(1,701)	-	(1,701)	-	-	-
Taxation relief from capital expenses [#]	164	-	164	-	-	-
Revenue return on ordinary activities after taxation [#]	-	1,090	1,090	-	-	-
Dividends paid in the year	(8,747)	(1,071)	(9,818)	-	-	-
At 30th September 2014	40,330	270	40,600	16,545	16,497	33,042

[#] The total of these items is £8,090,000, 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.

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.

3. Other Required Disclosures (continued)

3.3 Financial instruments risks (continued)

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 21 to 25 of the Strategic Report.

Investments in unquoted stocks, AIM & ISDX 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.

	2014			2013		
	% 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 and ISDX	40	1,467	(1,467)	37	1,362	(1,362)
Unquoted	34	1,249	(1,249)	50	1,824	(1,824)

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.

Interest rate risk

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

	2014			2013		
	Total investment £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days	Total investment £'000	Weighted average interest rate %	Weighted average time for which rate is fixed days
Fixed rate loan note securities	19,781	9.17	#	25,578	9.27	#
Fixed interest instruments	10,996	0.33	22	2,999	0.23	14
Cash at bank & on deposit	10,139	-	-	2,875	-	-
	40,916			31,452		

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.

Notes to the Accounts

3. Other Required Disclosures (continued)

3.3 Financial instruments risks (continued)

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:

	2014 £'000	2013 £'000
Investments in fixed rate instruments	10,996	2,999
Cash at bank & on deposit	10,139	2,875
Interest, dividends & other receivables	1,320	1,965
	22,455	7,839

Credit risk arising on fixed interest instruments is mitigated by investing in UK Treasury Bills.

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.

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. 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 30th September 2014 or 30th September 2013. No individual investment exceeded 6.4 per cent of the net assets attributable to the Company's shareholders at 30th September 2014 (2013: 7.2 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 ISDX 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. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

3. Other Required Disclosures (continued)

3.3 Financial instruments risks (continued)

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 30th September 2014 these investments were valued at £21,135,000 (2013: £5,874,000).

3.4 Related parties

Related party transactions include Management, Secretarial, Accounting and Performance fees payable to the Manager, ISIS VC 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.

Appendices

Investment policy

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

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

Investment securities

The Company invests in a range of securities including, but not limited to, ordinary and preference shares, loan stocks, convertible securities and 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 ITA 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 6th 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.

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 funds managed by the Manager, which includes the other Baronsmead VCTs.

Management retention

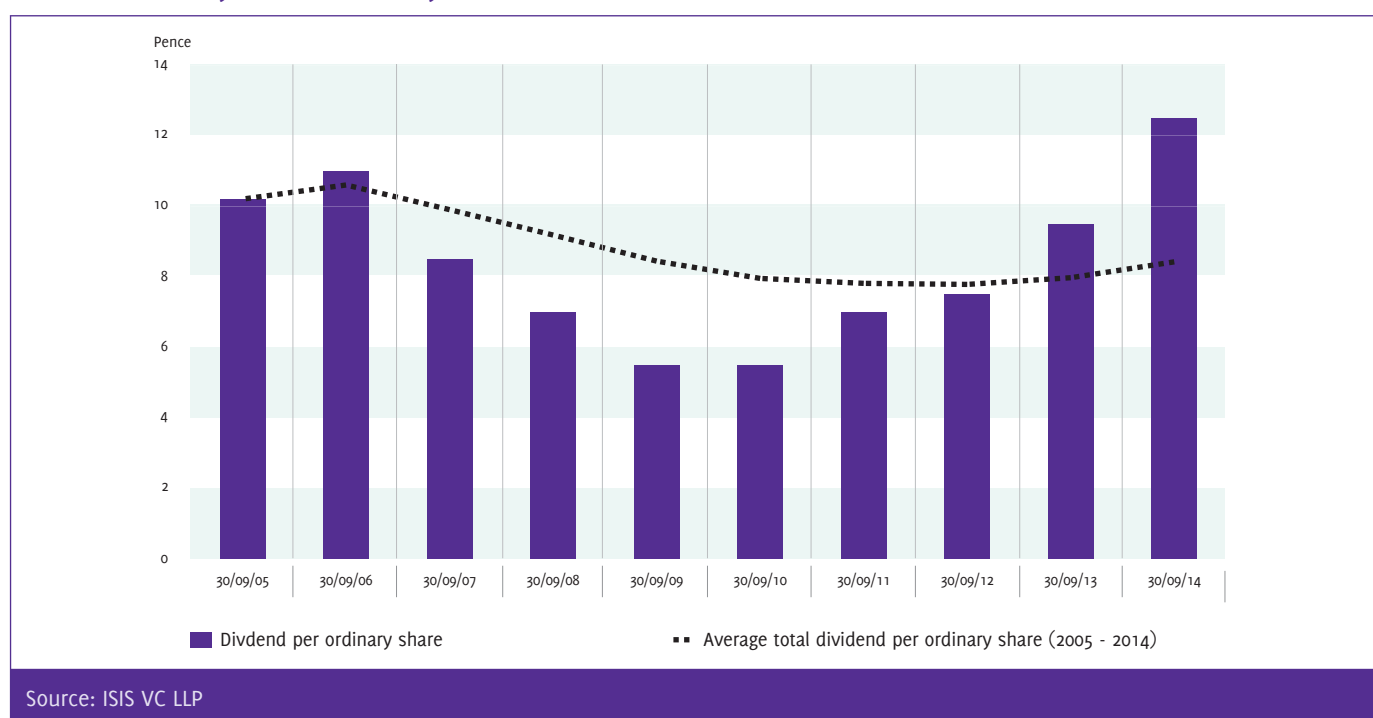
Certain members and employees of the Manager invest in unquoted investments alongside the Company. This scheme is in line with current practice of private equity houses and its objective is to attract, recruit, retain and incentivise the Manager's team and is made on terms which align the interests of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

Appendices

Dividend History in the last ten years



Dividends Paid Since Launch

Year ended	Ordinary share				
	Revenue (p)	Capital (p)	Dividend History per ordinary share (p)	Cumulative dividends (p)	Average total dividend per ordinary share (p)
6mths to 30/09/1998	1.00	0.00	1.00	1.00	0.50
30/09/99	3.80	0.00	3.80	4.80	3.20
30/09/00	3.60	0.00	3.60	8.40	3.36
30/09/01	3.50	0.00	3.50	11.90	3.40
30/09/02	2.50	0.00	2.50	14.40	3.20
30/09/03	1.70	10.20	11.90	26.30	4.78
30/09/04	1.40	3.50	4.90	31.20	4.80
30/09/05	2.50	7.70	10.20	41.40	5.52
30/09/06	1.80	9.20	11.00	52.40	6.16
30/09/07	2.10	6.40	8.50	60.90	6.41
30/09/08	2.80	4.20	7.00	67.90	6.47
30/09/09	0.70	4.80	5.50	73.40	6.38
30/09/10	1.50	4.00	5.50	78.90	6.31
30/09/11	2.65	4.35	7.00	85.90	6.36
30/09/12	0.50	7.00	7.50	93.40	6.44
30/09/13	2.85	6.65	9.50	102.90	6.64
30/09/14	1.40	11.10	12.50	115.40	6.99

Performance Record Since Launch

Year ended	Ordinary share				
	Total net assets £m	NAV per share (p)	Share price (p)	NAVTR per share (p)*	Ongoing charges %†
31/03/99	9.5	95.65	85.00	104.44	2.90
31/03/00	31.0	119.59	125.00	134.62	3.40
31/03/01	45.0	112.30	125.00	130.66	3.10
31/03/02	41.2	100.54	92.50	120.15	2.70
31/03/03	36.7	89.65	80.00	115.49	2.70
31/03/04	41.1	100.63	90.00	141.80	2.70
31/03/05	69.6	116.92	100.50	168.70	2.70
31/03/06	69.6	114.62	100.50	190.51	2.90
30/09/07	68.7	112.19	101.00	209.62	3.00
30/09/08	54.8	91.68	84.50	184.02	2.85
30/09/09	61.2	89.06	77.50	183.81	2.66
30/09/10	63.7	94.79	81.25	208.25	2.58
30/09/11	65.0	95.15	86.25	231.26	2.44
30/09/12	72.4	101.10	90.00	252.04	2.49
30/09/13	75.8	100.63	94.25	288.19	2.49
30/09/14	83.1	98.62	93.25	318.80	2.39

* Net asset value total return (Gross dividends reinvested) rebased to 100p. Source: ISIS VC LLP.

† Figures from 30th September 2012 onwards are based on the new AIC guidelines for the calculation of ongoing charges.

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	Cash invested (p)	Income tax reclaim (p)	Net cash invested (p)	Cumulative dividends (p)*	Net annual yield**	Gross equivalent yield†
1998 (April) - Ordinary	100.00	20.00	80.00	115.40	8.7%	11.6%
1999 (May) - Ordinary	102.00	20.40	81.60	111.90	8.9%	11.9%
2000 (February) - Ordinary	137.00	27.40	109.60	108.70	6.8%	9.1%
2000 (March) - Ordinary	130.00	26.00	104.00	108.70	7.2%	9.6%
2004 (October) - C	100.00	40.00	60.00	66.00	11.0%	14.7%
2009 (April)	91.60	27.48	64.12	47.50	13.5%	18.0%
2012 (December)	111.80	33.54	78.26	22.00	15.8%	21.1%
2014 (March)	103.80	31.14	72.66	4.50	11.3%	17.7%

* 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

Full Investment Portfolio

Company	Sector	Book cost £'000	30th September 2014 Valuation £'000	30th September 2013 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds#
Unquoted							
Nexus Vehicle Holdings Limited	Business Services	2,375	5,369	4,748	6.4	13.7	62.1
Crew Clothing Holdings Limited	Consumer Markets	1,453	2,446	1,999	2.9	6.1	25.5
Independent Community Care Management Limited	Healthcare & Education	1,358	1,554	1,599	1.9	13.9	70.0
Create Health Limited	Healthcare & Education	1,065	1,520	1,065	1.8	5.7	29.0
Eque2 Limited	TMT*	877	1,333	877	1.6	7.6	38.5
Valldata Group Limited	Business Services	1,221	1,328	1,682	1.6	‡	‡
CableCom II Networking Holdings Limited	TMT*	1,250	1,293	-	1.6	2.5	11.2
Pho Holdings Limited	Consumer Markets	990	1,228	1,092	1.5	5.5	28.0
Carousel Logistics Limited	Business Services	955	1,182	-	1.4	6.0	40.0
Kingsbridge Limited	Business Services	952	1,154	-	1.4	5.7	34.0
Luxury For Less Limited	Consumer Markets	955	1,121	767	1.3	4.0	40.0
Key Travel Limited	Business Services	954	1,101	954	1.3	4.7	48.0
Happy Days Consultancy Limited	Healthcare & Education	1,013	993	824	1.2	12.9	65.0
CR7 Services Limited	TMT*	949	949	-	1.1	4.4	52.1
Impetus Holdings Limited	Business Services	1,305	881	1,174	1.1	8.9	45.6
Armstrong Craven Limited	Business Services	673	824	673	1.0	7.7	46.0
Playforce Holdings Limited	Business Services	1,196	388	658	0.5	13.2	60.0
Surgi C Limited	Healthcare & Education	1,102	324	0	0.4	13.3	57.5
Carnell Contractors Limited	Business Services	941	0	0	0.0	##	##
Fisher Outdoor Leisure Holdings Limited	Consumer Markets	1,423	0	1,682	0.0	10.5	44.0
Xention Discovery Limited	Healthcare & Education	316	0	0	0.0	0.6	2.9
Total unquoted		23,323	24,988		30.0		
AIM							
Netcall plc	TMT*	869	3,021	1,968	3.6	3.6	18.0
Staffline Group plc	Business Services	87	2,986	3,213	3.6	1.2	2.4
IDOX plc	TMT*	614	2,642	2,498	3.2	1.8	4.9
Accumuli plc	TMT*	504	1,678	1,007	2.0	4.2	23.2
Jelf Group plc	Business Services	761	1,535	1,024	1.8	1.4	5.6
Tasty plc	Consumer Markets	594	1,473	1,178	1.8	2.5	14.5
TLA Worldwide plc	Business Services	733	1,382	1,182	1.7	3.0	14.6
Driver Group plc	Business Services	564	1,179	1,288	1.4	4.0	18.9
Inspired Energy plc	Business Services	287	981	786	1.2	2.2	10.8
Dods (Group) plc	TMT*	1,344	970	522	1.2	4.4	20.1
Escher Group Holdings plc	TMT*	614	921	947	1.1	1.9	9.7
Sanderson Group plc	TMT*	612	781	441	0.9	2.2	8.9
Anpario plc	Healthcare & Education	206	740	817	0.9	1.5	9.5
Plastics Capital plc	Business Services	662	714	496	0.9	2.2	11.7
InterQuest Group plc	Business Services	310	675	439	0.8	1.6	6.6
Hangar8 plc	Business Services	388	663	389	0.8	2.4	11.2
Electric Word plc	TMT*	696	628	366	0.8	5.1	27.6
Tangent Communications plc	Business Services	522	486	408	0.6	2.3	11.3
Everyman Media Group plc	Consumer Markets	391	420	-	0.5	1.3	5.8
Vianet Group plc	Business Services	646	414	399	0.5	1.9	9.7
EG Solutions plc	TMT*	453	405	443	0.5	3.3	15.0
GB Group plc	TMT*	108	403	439	0.5	0.2	1.1
Ideagen plc	TMT*	225	379	261	0.5	1.0	4.3
Synectics plc	Business Services	296	375	542	0.4	0.6	2.1
Scholium Group plc	Consumer Markets	450	369	-	0.4	3.3	14.7

Full Investment Portfolio (continued)

Company	Sector	Book cost £'000	30th September 2014 Valuation £'000	30th September 2013 Valuation £'000	% of net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds#
AIM (continued)							
MartinCo plc	Consumer Markets	343	350	-	0.4	1.6	6.9
Daily Internet plc	TMT*	340	337	-	0.4	4.7	20.8
Begbies Traynor Group plc	Business Services	231	279	226	0.3	0.6	2.5
Crawshaw Group plc	Consumer Markets	200	262	-	0.3	0.6	9.1
Brady plc	TMT*	176	235	184	0.3	0.4	2.1
Cohort plc	Business Services	179	234	215	0.3	0.3	1.4
Paragon Entertainment Limited	Consumer Markets	245	146	293	0.2	3.5	18.5
RTC Group plc	Business Services	355	131	49	0.2	2.8	5.7
One Media iP Group plc	TMT*	113	127	67	0.2	1.6	7.0
Mi-Pay Group plc	Business Services	400	118	102	0.1	0.9	3.8
Ubisense Group plc	TMT*	130	112	150	0.1	0.3	1.4
STM Group plc	Business Services	162	87	89	0.1	0.6	4.0
Synety Group plc	TMT*	112	74	-	0.1	0.5	2.4
Pinnacle Technology Group plc	TMT*	169	44	124	0.1	1.5	6.7
APC Technology Group plc	Business Services	932	37	42	0.0	0.2	0.8
EG Solutions plc Loan note	TMT*	33	33	-	0.0	N/A	N/A
AorTech International plc	Healthcare & Education	285	5	12	0.0	0.3	0.6
Zoo Digital Group plc	TMT*	438	4	6	0.0	0.2	0.6
Total AIM		17,779	28,835		34.7		
Listed							
Marwyn Value Investors Limited	Business Services	64	16	27	0.0	1.3	6.0
Marwyn Management Partners plc	Business Services	525	8	23	0.0	0.0	0.2
Total listed		589	24		0.0		
ISDX							
Bioventix plc	Healthcare & Education	227	485	346	0.6	1.7	7.6
Total ISDX		227	485		0.6		
Listed interest bearing securities							
UK T-Bill 13/10/14		4,998	4,998	-	6.0		
UK T-Bill 27/10/14		4,249	4,249	-	5.1		
UK T-Bill 13/11/14		1,749	1,749	-	2.1		
Total listed interest bearing securities		10,996	10,996		13.2		
Collective investment vehicle							
Wood Street Microcap Investment Fund		3,525	7,608	6,140	9.2		
Total collective investment vehicle		3,525	7,608		9.2		
Total investments		56,439	72,936		87.7		
Net current assets			10,203		12.3		
Net assets			83,139		100.0		

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

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

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

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

Appendices

Breakdown of Shareholdings

The shareholdings of ordinary shares as at 30th September 2014 (excluding shares held in Treasury) are analysed as follows:

Size of shareholding	Ordinary shares			
	Number of shareholders	Percentage of total number of shareholders	Number of shares	Percentage of shares
1 - 2,000	354	8.10	489,675	0.58
2,001 - 5,000	1,031	23.58	3,766,328	4.47
5,001 - 10,000	1,019	23.30	7,782,108	9.23
10,001 - 25,000	1,122	25.65	18,120,475	21.49
25,001 - 50,000	542	12.39	19,439,359	23.06
50,001 - 100,000	202	4.62	14,059,615	16.68
More than 100,001	103	2.36	20,645,753	24.49
Total	4,373	100.00	84,303,313	100.00

Shareholder Information and Contact Details

Baronsmead VCT 2 plc
Annual Report & Accounts for the
year ended 30th September 2014

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:	0800 923 1533	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	

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 66.

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

Winterflood 020 3400 0251

Financial Calendar

December 2014 Seventeenth Annual General Meeting

May 2015 Announcement and posting of interim report for the six months to 31st March 2015

November 2015 Announcement and posting of final results for year to 30th September 2015

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 VC 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 VC 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 6th 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.

Directors

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

Secretary

ISIS VC LLP

Registered Office

100 Wood Street
London EC2V 7AN

Investment Manager

ISIS VC LLP
100 Wood Street
London EC2V 7AN
020 7506 5717

Registered Number

03504214

Registrars and Transfer Office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Tel: 0800 923 1533

Brokers

Panmure Gordon & Co
One New Change
London EC4M 9AF
Tel: 020 7886 2500

Auditors

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors

Martineau
No 1 Colmore Square
Birmingham B4 6AA

VCT Status Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Website

www.baronsmeadvct2.co.uk

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

* Chairman of the Audit Committee

Notes



Investment Manager
T 020 7506 5600
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