

Baronsmead VCT 2 plc

2006

Interim report for the
six months ended
30 September 2006



Investment Objective

Baronsmead VCT 2 is a tax efficient listed company which aims to achieve long-term capital growth and generate consistent tax-free dividends and capital distributions for private investors.

Investment Policy

- To invest primarily in a diverse portfolio of established and profitable UK unquoted companies which are seeking to raise expansion capital or are the subject of a management buy out or buy in.
- Investments include companies raising new share capital on AiM.
- Selective investments in companies which demonstrate their ability to transform and adapt their activities through the use of technology innovation.

Dividend policy

The Board seeks to sustain annual dividends at an average of 4.5p per ordinary share, whilst also maintaining a net asset value of at least 100p per ordinary share. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations and it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

Secondary market in the shares of Baronsmead VCT 2

As a fully listed public company, shares in Baronsmead VCT 2 can be freely traded via the Company's market makers in the normal way. Qualifying purchasers (individuals over the age of 18 and UK resident for tax purposes) can receive VCT dividends (including capital distributions of realised gains on investments) that are not subject to income tax, and capital gains tax is not payable on disposal of the VCT shares.

Since launch the average annual tax-free dividend paid to ordinary shareholders has been 6.1p per share (equivalent to a pre-tax return of 9.0p per share for a higher rate taxpayer).

There is no minimum time for which VCT shares bought in the secondary market need to be held, and they can be sold in the normal way.

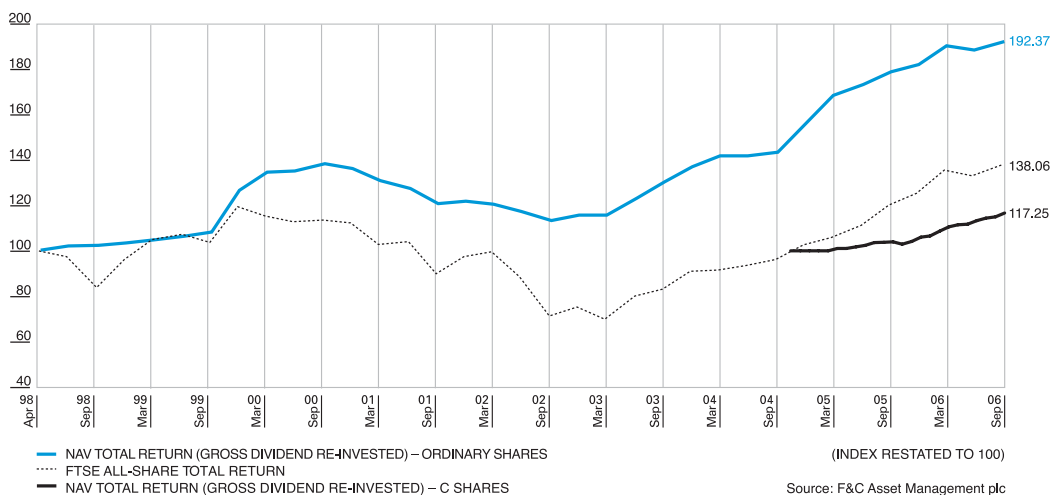
www.baronsmeadvct2.co.uk

Financial Highlights

- NAV per ordinary share increased by 1.0 per cent to 115.74p before payment of a 5.0p interim dividend.
- NAV per C share increased by 5.7 per cent to 107.75p before payment of a 1.6p interim dividend.
- Since launch in 1998 the total return to ordinary shareholders is 92.4 per cent (based on the Association of Investment Companies (AIC) method) which is equivalent to an annualised investment return of 8.0 per cent tax-free.
- The total return to C shareholders since October 2004 is 17.2 per cent, which is equivalent to an annualised investment return of 8.3 per cent tax-free.

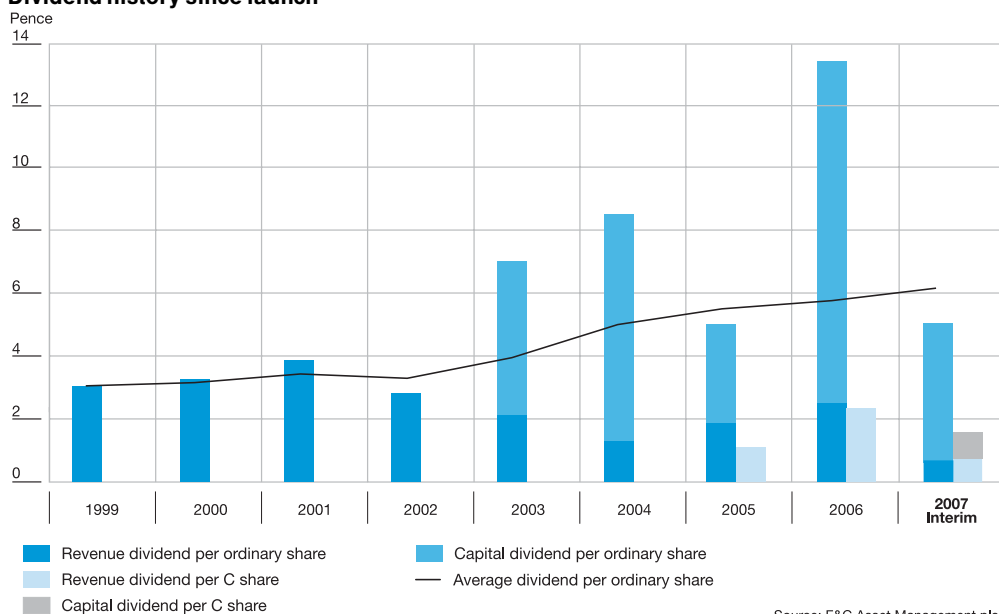
Baronsmead VCT 2 plc

NAV Total Return (based on bid market price) since launch against the FTSE All-Share Index Total Return



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

Dividend history since launch



Chairman's Statement

The 5p interim dividend takes the average annual dividend payments since 1998, to 6.1p tax-free for qualifying shareholders. The total return for the C share pool continues to progress at a rate higher than might have been expected for such an immature portfolio.

Following the Finance Act 2006, the Directors have decided to stop issuing new shares for the time being. This means the Company has suspended the current Dividend Reinvestment Scheme (DRIS). However a Dividend Reinvestment Plan (DRIP) will replace the DRIS, under which existing ordinary shares will be issued in lieu of cash dividends to ordinary shareholders who elect to participate.

Results

In the six months to 30 September 2006, the Net Asset Value (NAV) per ordinary share increased by 1.0 per cent to 115.74p before payment of the interim dividend. A 5p interim dividend for ordinary shares has been declared.

The NAV for C shares increased by 5.7 per cent to 107.75p per share. The NAV becomes 106.15p per C share after payment of the interim dividend of 1.6p. Both dividends are payable on 20 December 2006.

The required minimum 70 per cent of the portfolio has been invested in qualifying investments throughout the period. 76 per cent of the ordinary capital raised (net of launch costs) prior to 31 March 2004 was invested in VCT qualifying investments and we are on course to invest more than 70 per cent of the C share funds raised in winter 2004/05 by 31 March 2007.

The Company bought back 675,000 ordinary shares at an average price of 102.3p representing a discount of approximately 10 per cent to NAV per share. 1.8 million of these shares are currently held in Treasury.

Long term performance

Since inception in April 1998 the total return on the ordinary shares is now 92.4 per cent and since October 2004 the C shares have returned 17.2 per cent. These returns are stated net of running costs but prior to launch costs. The average annual growth in total return over the periods is 8.0 per cent and 8.3 per cent for the respective share classes.

The ordinary share total return is over 70 per cent ahead of the peer group average of seven generalist VCTs and is also 54 per cent ahead of the FTSE All-Share over the comparable period. From an investor's perspective, if a shareholder had invested £100 (before launch costs of £5) in 1998, the NAV of their holding, assuming reinvestment of the 52.4p dividends paid, becomes £183. Individual VCT tax reliefs can also be added to this amount.

The three and five year total returns to 30 September 2006 place the performance of Baronsmead VCT 2 in the middle of the 19 Private Equity Investment Trusts (as identified by the AIC, source Trustnet). If the tax-free nature of the dividends paid in these periods is also factored into the calculations, as if shareholders were higher rate taxpayers, the relative position improves significantly. The Board believes that it is appropriate to take VCT reliefs into account in this way, as they were designed to redress both the restrictive nature of

qualifying investments under VCT legislation and the perceived higher risk of investing in smaller unquoted and AiM-traded companies.

Returns table

Total return over	1 year %	3 years %	5 years %
Ordinary shares	7.5	47.7	59.7
<i>Including tax relief*</i>	9.4	59.6	74.6
FTSE All-Share	14.7	65.7	53.2

*taking account of 20 per cent initial income tax relief for subscribers

The portfolio

In the six months under review, 6 new investments were made and, after the sale of the investments in Neutec Pharma and Scott Tod plus the write-off of Spaform, the portfolio increased to 76 companies. Further rounds of investment were made in Appian and Driver Group. The C share portfolio now has twenty-six investments valued at £12.8 million. New investments are allocated between the ordinary and C shares in proportions approved quarterly by the Board giving due consideration to the constraints of VCT legislation.

The Board reviews the relative health of portfolio companies quarterly, in terms of profitability as well as other non-financial benchmarks. At the period end, 83 per cent by number and 95 per cent by value of portfolio companies were reporting better or steady progress, which is an improving trend.

Occam and SLR both showed strong trading progress while recent investments in ILS, Kafévend and Reed & Mackay were revalued for the first time. This last company presented to the eighth AGM in June and outlined their philosophy of being 'best in class' for providing strategic business travel management services to professional services firms. The additional provision against Country Artists' valuation has been balanced by a partial write-back of the provision for Hawksmere and Oxxon.

There was considerable volatility in the prices of AiM-traded companies, as the market rose strongly until the end of May and then went sharply into reverse, reducing the gains. Overall, this part of the portfolio was down 2 per cent at a time when the FTSE AIM Index fell 15 per cent. Two new investments in the flotations of Worthington Nicolls and Proactis opened strongly.

Realisations in the period to 30 September 2006

		First investment date	Cost £'000	Proceeds £'000	Multiple return
Debtmatters Group	Market sales	June 2005	53	280	5.3
Neutec Pharma	Market sales	February 2002	78	548	7.0
Interquest Group	Market sales	May 2005	14	23	1.6
Scott Tod	Market sales	May 2004	421	152	0.4
Cardpoint	Market sales	May 2003	4	7	1.8
Talarius	Market sales	May 2005	63	114	1.8
Medal Entertainment & Media	Market sales	August 2002	72	84	1.2
Boldon James	Loan note redemption	June 2005	125	125	–
Totals			830	1,333	1.6

Chairman's Statement

The cash realisations set out on the previous page show net realised gains (on a historical cost basis) of £503,000 over the six month period which, together with gains brought forward from 2005, contributed towards the capital distributions paid out at the interim stage.

Introduction of the Dividend Reinvestment Plan (DRIP)

The Finance Act 2006 signalled that the Government wishes to redirect capital raised by VCTs from 6 April 2006 into smaller companies with gross assets of up to £7 million, a level half that applying to capital raised before this date. An analysis of the last 42 investments made by Baronsmead VCT 2 showed that most would have qualified within the revised level, although a significant minority of investees would have failed to qualify for further rounds of capital.

The Board has decided not to issue new shares until the impact of the revisions is better understood. The immediate consequence is that the current DRIS is suspended and the Board has introduced a Dividend Reinvestment Plan (DRIP) to purchase existing ordinary shares, which is similar to more conventional dividend reinvestment schemes. Purchasing existing shares can provide investment attractions for ordinary shareholders who wish to build their capital as opposed to receiving cash dividends.

Shareholders who increase their holding using the DRIP will be buying into a well-diversified portfolio, which has shown consistent overall growth. Realised capital profits and net revenue have historically supported the current dividend policy and this is also the future intention. The principal difference between the DRIP and the suspended DRIS is that no initial tax-relief is available on the invested cash. However dividends generated by the DRIP shares will still be tax-free for qualifying ordinary shareholders and the shares are not subject to capital gains tax.

If shareholders wish to participate in the DRIP the Registrars need to receive the application no later than 8 December 2006 in order for this interim dividend to qualify. The DRIP scheme is not available to C shareholders as existing shares are unlikely to be available in the market until after conversion into ordinary shares in 2007.

The Terms and Conditions of the DRIP accompany this Report. Shareholders' attention is drawn to the risk warnings set out in the accompanying document.

The resolution at the EGM to enable the Board to re-issue shares out of Treasury was passed on 2 November 2006 with 94 per cent of shareholders voting in favour, some 26 per cent of the shareholder base. The authority will help satisfy demand in the event that there are insufficient existing ordinary shares available in the market.

Development of the Secondary Market

The main thrust of the survey in October 2006 was to understand shareholders' priorities, especially as the number of shareholders has grown significantly since the last survey in 2004. Over 1,000 replies were received (25 per cent of the total shareholder base) and give invaluable guidance to the Board on the key messages necessary for development of the secondary market. In summary:

- The requirement to achieve good total returns from the portfolio of investments is paramount, but tax remains an important motivation for purchasers, ie: the ability to receive tax-free dividends and incur no capital gains tax on disposal of VCT shares;
- Performance measures should focus on absolute rather than comparative results, although reports such as this will continue to state both;
- As regards the priority to maximise income or capital growth, a majority favoured capital growth; and
- Approximately 70 per cent of ordinary shareholders and 65 per cent of C shareholders intend to hold their shares indefinitely, and the balance indicated their intention to hold for the medium term.

Since launch in 1998, the track record of Baronsmead VCT 2 has shown a strong positive total return. The share price typically trades at 10 per cent below the NAV per ordinary share. The Board believes that the yield on the ordinary shares may well be a more appropriate basis for judging share price. The average annual dividend paid is currently 6.1p, for basic rate taxpayers, or 9.0p for those paying tax at the higher rate, which represents an attractive yield for purchasers with a preference for income.

Outlook

Quoted markets became more volatile in summer 2006 but the direction of travel for the existing portfolio is stronger than for some time. The Manager remains selective in its new unquoted and AiM-traded opportunities and has continued to improve its active management once invested. A key priority for the Board is to ensure that the secondary market develops and can offer shareholders the ability to buy and sell the Company's shares advantageously.

Clive Parritt

Chairman

7 November 2006

New Investments in the six months to 30 September 2006

Company	Location	Sector	Activity	Investment Cost (£'000)	
				C shares	Ordinary shares
Unquoted investments					
Empire World Trade	Spalding	Consumer	Fruit supplier	1,167	130
Fisher Outdoor Leisure	St Albans	Consumer	Distribution of bike accessories	1,139	285
MLS	Stockport	IT	School library software	624	156
Total Unquoted				2,930	571
AiM-traded investments					
Appian Technology *	Bourne End	IT	Recognition software	69	56
Driver Group *	Rosendale	Business services	Dispute resolution	56	35
Proactis Holdings	York	IT	Procurement software	320	80
Tasty	London	Consumer	Restaurant operator	36	4
Worthington Nicholls	Manchester	Business services	Air conditioning contractors	420	105
Total AiM-traded				901	280
				3,831	851
Total investment in period					4,682

* Follow-on investments

Investment Portfolio

Portfolio valuation at 30 September 2006

Company	Book cost		Valuation		% of Total Assets Less Current Liabilities	
	Ordinary Shares £'000	C Shares £'000	Ordinary Shares £'000	C Shares £'000	Ordinary Shares %	C Shares %
Unquoted						
The Art Group	1,576	–	3,430	–	7.4	–
Martin Audio	968	–	2,969	–	6.4	–
RLA Media	1,438	–	2,410	–	5.2	–
Reed & Mackay	552	659	826	986	1.8	4.1
Kafévend	485	761	659	1,033	1.4	4.3
Americana	545	–	1,533	–	3.3	–
Fisher Outdoor Leisure	285	1,139	285	1,139	0.6	4.8
Crucible Group	276	756	347	950	0.7	4.0
Empire World Trade	130	1,167	130	1,167	0.3	4.9
Boldon James	156	406	350	913	0.7	3.8
SLR Holdings	494	–	1,159	–	2.5	–
kidsunlimited	481	–	979	–	2.1	–
Independent Living Services	243	381	357	559	0.7	2.3
Occam	420	–	888	–	1.9	–
MLS	156	624	156	624	0.3	2.6
Green Issues	224	274	313	383	0.7	1.6
Domantis	400	–	469	–	1.0	–
Hawksmere	942	–	276	–	0.6	–
Country Artists	517	–	232	–	0.5	–
Oxxon Pharmaccines	250	–	151	–	0.3	–
Xention Discovery	30	67	30	67	0.1	0.3
Total unquoted	10,568	6,234	17,949	7,821	38.5	32.7
FTSE SmallCap						
Ardana	481	–	513	–	1.1	–
Total FTSE SmallCap	481	–	513	–	1.1	–
Traded on AiM						
Huveaux	666	–	1,295	–	2.8	–
Staffline Recruitment Group	249	–	1,179	–	2.5	–
Jelf Group	551	–	1,142	–	2.5	–
Vectura Group	579	–	1,091	–	2.3	–
Begbies Traynor Group	283	–	1,078	–	2.3	–
Colliers CRE	470	–	862	–	1.9	–
DebtMatters Group	39	127	203	655	0.4	2.7
Murgitroyd Group	319	–	843	–	1.8	–
Worthington Nicholls	105	420	146	584	0.3	2.4
Interactive Prospect Targeting	50	202	137	551	0.3	2.3
Driver Group	169	270	261	417	0.6	1.7
Inter Link Foods	264	–	667	–	1.4	–
Eg solutions	104	271	174	453	0.4	1.9
Talaris	67	183	142	390	0.3	1.6
Top Ten	759	–	514	–	1.1	–
InterQuest Group	86	224	140	366	0.3	1.5
Proactis Holdings	80	320	99	394	0.2	1.7
Claimar Care	167	183	174	190	0.4	0.8
Adventis Group	281	–	355	–	0.8	–
Autoclenz Holdings	180	220	157	192	0.3	0.8
Sanderson Group	102	285	84	234	0.2	1.0
Prologic	310	–	310	–	0.7	–
IDOX	600	–	307	–	0.7	–
Appian Technology	111	139	135	169	0.3	0.7
Real Good Food Company	620	–	289	–	0.6	–
Quadnetics	296	–	280	–	0.6	–
Conder Environmental	607	–	255	–	0.5	–
Air Music & Media Group	575	–	245	–	0.5	–
ATA Group	355	–	236	–	0.5	–
Ovum	116	134	107	124	0.2	0.5
Medal Entertainment & Media	227	–	216	–	0.5	–
Blooms of Bressingham	320	–	212	–	0.5	–
VI Group	500	–	209	–	0.5	–
Fishworks	35	93	45	121	0.1	0.5
WIN	263	–	163	–	0.3	–
Polaron	296	–	158	–	0.3	–
Sirius Financial Solutions	150	–	150	–	0.3	–
Stagecoach Theatre Arts	419	–	149	–	0.3	–
Cardpoint	109	–	131	–	0.3	–
Cobra Biomanufacturing	210	–	131	–	0.3	–
Hamsard Group	110	265	38	91	0.1	0.4
Business Direct Group	304	–	88	–	0.2	–
Universe Group	195	–	82	–	0.2	–
Landround	467	–	58	–	0.1	–
AorTech International	285	–	56	–	0.1	–
Xpertise Group	296	–	51	–	0.1	–
MKM Group	284	–	45	–	0.1	–
Tasty placing (commenced trading 09/10/06)	4	36	4	36	–	0.2
Zoo Digital	438	–	31	–	0.1	–
Charterhouse Communications	355	–	19	–	–	–
Micap	375	–	14	–	–	–
Highams Systems Services	197	–	12	–	–	–
Capcon Holdings	137	–	4	–	–	–
Total AiM	15,136	3,372	14,973	4,967	32.1	20.7
OFEX						
Chemistry Communications	500	–	125	–	0.3	–
Total OFEX	500	–	125	–	0.3	–
Interest bearing securities						
UK Treasury 4.5% 07/03/07	5,592	8,822	5,586	8,777	12.0	36.6
UK Treasury 5% 07/03/08	1,501	–	1,501	–	3.2	–
Money Market OEIC	4,628	1,417	4,628	1,417	10.0	5.9
Total Interest bearing securities	11,721	10,239	11,715	10,194	25.2	42.5
Total Investments	38,406	19,845	45,275	22,982	97.2	95.9
Net current assets			1,303	989	2.8	4.1
Total assets less current liabilities			46,578	23,971	100.0	100.0

Independent Review Report by KPMG Audit Plc to Baronsmead VCT 2 plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 September 2006 which comprises the unaudited Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet and Statement of Cash Flows. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

KPMG Audit Plc
Chartered Accountants
Edinburgh

7 November 2006

Unaudited Income Statement

for the six months to 30 September 2006

	Ordinary Shares			C Shares			Total		
	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Unrealised gains on investments	–	–	–	–	1,229	1,229	–	1,229	1,229
Realised gains on investments	–	413	413	–	42	42	–	455	455
Income	621	–	621	433	–	433	1,054	–	1,054
Investment management fee	(138)	(413)	(551)	(70)	(211)	(281)	(208)	(624)	(832)
Other expenses	(106)	–	(106)	(127)	–	(127)	(233)	–	(233)
Profit on ordinary activities before taxation	377	–	377	236	1,060	1,296	613	1,060	1,673
Taxation on ordinary activities	(66)	66	–	(54)	54	–	(120)	120	–
Profit on ordinary activities after taxation	311	66	377	182	1,114	1,296	493	1,180	1,673
Return per ordinary share/C share:	0.77p	0.16p	0.93p	0.81p	5.01p	5.82p	0.78p	1.88p	2.66p

Unaudited Reconciliation of Movements in Shareholders' Funds

for the six months to 30 September 2006

	2006 Ordinary Shares £'000	2006 C Shares £'000	2006 Total £'000
Opening shareholders' funds	46,897	22,677	69,574
Profit for the period	377	1,296	1,673
Decrease in share capital in issue	(696)	(2)	(698)
Closing shareholders' funds	46,578	23,971	70,549

Notes

- The unaudited interim results which cover the six months to 30 September 2006 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the year ended 31 March 2006.
- Return per ordinary share is based on a weighted average of 40,627,493 ordinary shares in issue (31 March 2006 – 41,108,544, 30 September 2005 – 41,266,797). Return per C share is based on a weighted average of 22,247,650 C shares in issue (31 March 2006 – 22,080,010, 30 September 2005 – 22,035,653).
- Earnings for the first six months to 30 September 2006 should not be taken as a guide to the results of the full year.
- During the six months ended 30 September 2006 the Company purchased 675,000 ordinary shares to be held in Treasury at a cost of £694,000. There were 40,241,427 ordinary shares in issue at 30 September 2006 (31 March 2006 – 40,916,427, 30 September 2005 – 41,038,015). There were 22,247,650 C shares in issue at 30 September 2006 (31 March 2006 – 22,247,650, 30 September 2005 – 22,074,995).

Unaudited Income Statement

for the six months to 30 September 2005

	Ordinary Shares			C Shares			Total		
	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000	2005 Revenue £'000	2005 Capital £'000	2005 Total £'000
Unrealised gains on investments	–	1,258	1,258	–	408	408	–	1,666	1,666
Realised gains/(losses) on investments	–	920	920	–	(2)	(2)	–	918	918
Income	1,011	–	1,011	625	–	625	1,636	–	1,636
Investment management fee	(137)	(412)	(549)	(63)	(190)	(253)	(200)	(602)	(802)
Other expenses	(109)	–	(109)	(74)	–	(74)	(183)	–	(183)
Profit on ordinary activities before taxation	765	1,766	2,531	488	216	704	1,253	1,982	3,235
Taxation on ordinary activities	(175)	250	75	(138)	63	(75)	(313)	313	–
Profit on ordinary activities after taxation	590	2,016	2,606	350	279	629	940	2,295	3,235
Return per ordinary share/C share:	1.43p	4.89p	6.32p	1.59p	1.26p	2.85p	1.48p	3.63p	5.11p

Unaudited Reconciliation of Movements in Shareholders' Funds

for the six months to 30 September 2005

	2005 Ordinary Shares £'000	2005 C Shares £'000	2005 Total £'000
Opening shareholders' funds	48,469	21,129	69,598
Profit for the period	2,606	629	3,235
Deferred consideration	12	–	12
(Decrease)/increase in share capital in issue	(389)	69	(320)
Dividends paid	(3,192)	(220)	(3,412)
Closing shareholders' funds	47,506	21,607	69,113

Notes

- An interim dividend comprising 0.7p (revenue) and 4.3p (capital) will be paid on 20 December 2006 to ordinary shareholders on the register on 17 November 2006. An interim dividend comprising 0.8p (revenue) and 0.8p (capital) will also be paid on 20 December 2006 to C shareholders on the register on 17 November 2006.
- These are not statutory accounts in terms of Section 240 of the Companies Act 1985 and are unaudited. Statutory accounts for the year to 31 March 2006, which were unqualified, have been lodged with the Registrar of Companies. No statutory accounts in respect of any period after 31 March 2006 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- Copies of the Interim Report have been mailed to shareholders and are available from the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

Audited Income Statement

for the year ended 31 March 2006

	Ordinary shares			C shares			Total		
	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Unrealised gains on investments	–	3,997	3,997	–	1,838	1,838	–	5,835	5,835
Realised gains/(losses) on investments	–	1,590	1,590	–	(60)	(60)	–	1,530	1,530
Income	1,903	–	1,903	1,091	–	1,091	2,994	–	2,994
Investment management fee	(278)	(1,517)	(1,795)	(129)	(485)	(614)	(407)	(2,002)	(2,409)
Other expenses	(241)	–	(241)	(127)	–	(127)	(368)	–	(368)
Profit on ordinary activities before taxation	1,384	4,070	5,454	835	1,293	2,128	2,219	5,363	7,582
Tax on ordinary activities	(284)	375	91	(247)	156	(91)	(531)	531	–
Profit on ordinary activities after taxation	1,100	4,445	5,545	588	1,449	2,037	1,688	5,894	7,582
Return per ordinary share/C share	2.68p	10.81p	13.49p	2.66p	6.56p	9.22p	2.67p	9.33p	12.00p

Audited Reconciliation of Movements in Shareholders' Funds

for the year ended 31 March 2006

	2006 Ordinary shares £'000	2006 C shares £'000	2006 Total £'000
Opening shareholders' funds	48,469	21,129	69,598
Profit for the year	5,545	2,037	7,582
Deferred consideration	12	–	12
(Decrease)/increase in share capital in issue	(459)	239	(220)
Dividends paid	(6,670)	(728)	(7,398)
Closing shareholders' funds	46,897	22,677	69,574

Unaudited Balance Sheet

	As at 30 September 2006			As at 30 September 2005			As at 31 March 2006‡		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Fixed assets									
Investments									
Unquoted investments	17,949	7,821	25,770	17,417	1,700	19,117	16,230	4,110	20,340
Traded on AiM	14,973	4,967	19,940	14,985	2,536	17,521	16,404	3,909	20,313
Quoted on OFEX	125	–	125	98	–	98	119	–	119
Listed investments	513	–	513	471	–	471	530	–	530
Listed interest bearing securities	11,715	10,194	21,909	12,759	15,358	28,117	11,229	13,302	24,531
	45,275	22,982	68,257	45,730	19,594	65,324	44,512	21,321	65,833
Current assets									
Debtors	411	131	542	474	349	823	230	72	302
Cash at bank and on deposit	1,225	1,240	2,465	1,629	1,955	3,584	3,290	1,672	4,962
	1,636	1,371	3,007	2,103	2,304	4,407	3,520	1,744	5,264
Creditors: amounts falling due within one year	(333)	(382)	(715)	(327)	(291)	(618)	(1,135)	(388)	(1,523)
Net current assets	1,303	989	2,292	1,776	2,013	3,789	2,385	1,356	3,741
Net assets	46,578	23,971	70,549	47,506	21,607	69,113	46,897	22,677	69,574
Capital and reserves									
Called-up share capital	4,201	11,124	15,325	4,103	11,037	15,140	4,201	11,124	15,325
Share premium account	3,572	10,031	13,603	3,023	9,950	12,973	3,574	10,033	13,607
Capital redemption reserve	279	–	279	322	–	322	279	–	279
Revaluation reserve	6,869	3,137	10,006	6,174	515	6,689	5,807	2,040	7,847
Profit and loss account	31,657	(321)	31,336	33,884	105	33,989	33,036	(520)	32,516
Equity shareholders' funds	46,578	23,971	70,549	47,506	21,607	69,113	46,897	22,677	69,574

‡These figures are audited

	As at 30 September 2006		As at 30 September 2005		As at 31 March 2006‡	
	Ordinary Shares £'000	C Shares £'000	Ordinary Shares £'000	C Shares £'000	Ordinary Shares £'000	C Shares £'000
Net asset value per share	115.74p	107.75p	115.76p	97.88p	114.62p	101.93p
Number of shares in issue at balance sheet date	40,241,427	22,247,650	41,038,015	22,074,995	40,916,427	22,247,650
Treasury net asset value per share†	115.17p		115.76p		114.62p	
Number of ordinary shares in issue	40,241,427		41,038,015		40,916,427	
Number of ordinary shares held in Treasury	1,770,000		425,000		1,095,000	
Number of listed ordinary shares	42,011,427		41,463,015		42,011,427	

†At an EGM held on 2 November 2006, shareholders renewed the existing authority to disapply pre-emption rights in relation to the allotment or sale from Treasury of up to 10 per cent of the listed share capital. The Board is now mandated to sell Treasury shares at a discount to the prevailing NAV. Accordingly, the shares held in Treasury at 30 September 2006 have been valued at middle market price (102p).

Summarised Unaudited Statement of Cash Flows

	Six months to 30 September 2006			Six months to 30 September 2005			Year to 31 March 2006‡		
	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000	Ordinary Shares £'000	C Shares £'000	Total £'000
Net cash (outflow)/inflow from operating activities	(927)	(48)	(975)	(1,369)	285	(1,084)	(974)	697	(277)
Tax received/(paid)	29	(29)	–	–	–	–	–	–	–
Capital expenditure and financial investment	(345)	(355)	(700)	2,479	(418)	2,061	7,319	(773)	6,546
Equity dividends paid	–	–	–	(3,192)	(220)	(3,412)	(6,670)	(728)	(7,398)
Net cash outflow before financing	(1,243)	(432)	(1,675)	(2,082)	(353)	(2,435)	(325)	(804)	(1,129)
Financing	(822)	–	(822)	(389)	(281)	(670)	(485)	(113)	(598)
Decrease in cash	(2,065)	(432)	(2,497)	(2,471)	(634)	(3,105)	(810)	(917)	(1,727)
Reconciliation of net cash flow to movement in net cash									
Decrease in cash	(2,065)	(432)	(2,497)	(2,471)	(634)	(3,105)	(810)	(917)	(1,727)
Net cash at beginning of period	3,290	1,672	4,962	4,100	2,589	6,689	4,100	2,589	6,689
Net cash at end of period	1,225	1,240	2,465	1,629	1,955	3,584	3,290	1,672	4,962
Reconciliation of operating profit before taxation to net cash flow from operating activities									
Profit on operating activities before taxation	377	1,296	1,673	2,531	704	3,235	5,454	2,128	7,582
Realised (gains)/losses on investments	(413)	(42)	(455)	(920)	2	(918)	(1,590)	60	(1,530)
Unrealised gains on investments	–	(1,229)	(1,229)	(1,258)	(408)	(1,666)	(3,997)	(1,838)	(5,835)
(Increase)/decrease in debtors	(211)	(59)	(270)	(8)	(6)	(14)	155	230	385
(Decrease)/increase in creditors	(680)	(14)	(694)	(1,714)	(7)	(1,721)	(996)	117	(879)
Net cash (outflow)/inflow from operating activities	(927)	(48)	(975)	(1,369)	285	(1,084)	(974)	697	(277)

‡ These figures are audited

Shareholder Information

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, queries re: share and tax certificates and bank mandate forms:

Computershare (Company Registrar)

www.computershare.com/investor

Shareholders self service tool to help track and manage personal holdings free, i.e.

– View your share portfolio, prices, historicals.

– Make secure updates to your portfolio, i.e. change of address.

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

Tel: 0870 703 0137 (Calls charged at national rate).



Information on DRIP mechanism, share price movements, the share price discount and selling shares:

F&C Asset Management plc (Company Secretary)

www.baronsmeadvct2.co.uk

e-mail: rhonda.nicoll@fandc.com

Tel: 0131 465 1074. Fax: 0131 225 2375.



Any other points:

ISIS EP LLP (Investment Manager)

www.isisep.com

Contains details of the team and some case studies of historical investments.

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Shareholder Information

Share Price

The Company's ordinary shares and C shares are listed on the London Stock Exchange. The mid-price of the Company's 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 many financial websites.

The middle market share price of the Company was as follows:

	Share Price		(Discount)/Premium	
	30 September 2006	31 March 2006	30 September 2006	31 March 2006
Ordinary	102.00p	100.50p	(11.88%)	(12.32%)
C shares	92.50p	92.50p	(14.15%)	(9.25%)

Trading Shares

The Company's ordinary shares and C shares can be bought and sold in the same way as any other quoted company on the London Stock Exchange via a stockbroker. The market makers for Baronsmead VCT2 plc are:

- Teather & Greenwood (020 7426 9000)
- UBS Warburg (020 7567 8000)
- Winterfloods (020 7621 0004)

Please call the Company Secretary, whose details are printed on page 11, if you or your adviser have any questions about this process.

Financial Calendar

December 2006	Interim dividend paid
February 2007	Quarterly fact sheet to 31 December 2006
May 2007	Results for year to 31 March 2007 announced and annual report and accounts sent to shareholders
June 2007	Annual General Meeting

Additional Information

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

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

Corporate Information

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Clive Anthony Parritt (Chairman)*
Godfrey Frank Jillings
Gillian Nott OBE
Nicholas George Lawrence Timpson†

Secretary

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†Senior Independent Director