

BARONSMEAD

Baronsmead VCT 2 plc

2010

Half-yearly report
for the six months ended
31 March 2010



Investment Objective

Baronsmead VCT 2 plc 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 5.5p per Ordinary Share, mindful of the need to maintain net asset value. The ability to meet these twin objectives depends significantly on the level and timing of profitable realisations and it 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 ordinary shareholders has been 6.3p per share (equivalent to a pre-tax return of 9.4p per share for a higher rate taxpayer). For shareholders who claimed tax reliefs on initial subscription of 20 per cent, 30 per cent or 40 per cent, their returns would have been higher.

Secondary market in the shares of Baronsmead VCT 2

Shares can be bought and sold using a stockbroker, just like shares in any other listed company. 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.

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. 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 Capital Gains Tax in respect of new shares acquired prior to 6 April 2004.

www.baronsmeadvct2.co.uk

Financial Headlines

2.5p

Interim dividend of 2.5p per share payable on 7 June 2010 to shareholders on the register as at 21 May 2010, for the six month period to 31 March 2010.

+ 3.7%

NAV per ordinary share increased by 3.7 per cent over the six month period to 31 March 2010 from 86.06p to 89.23p before payment of a 2.5p interim dividend.

75.9p

Cumulative dividends total 75.9p per share for founder shareholders since 1998, equivalent to an average annual tax free dividend of 6.3p equal to 9.4p for higher rate taxpayers.

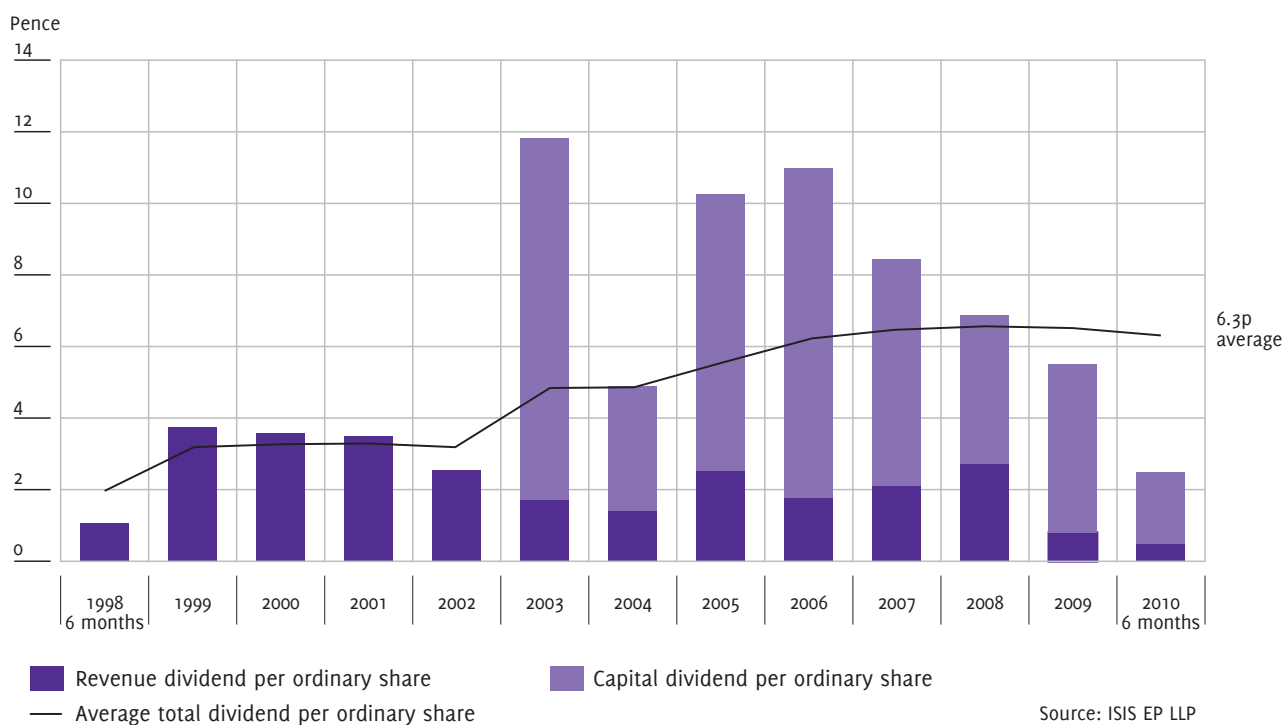
+ 90.6%

NAV total return to shareholders since inception, equivalent to an annualised total return of 5.5 per cent before 20 per cent income tax relief (on subscription, at launch) and 6.9 per cent afterwards.

+ 85.5%

Share Price total return since launch in 1998, compared to the increase in the FTSE All-Share return of 51.5% over the same period. When taking the VCT tax reliefs into account, the positive differential is higher still.

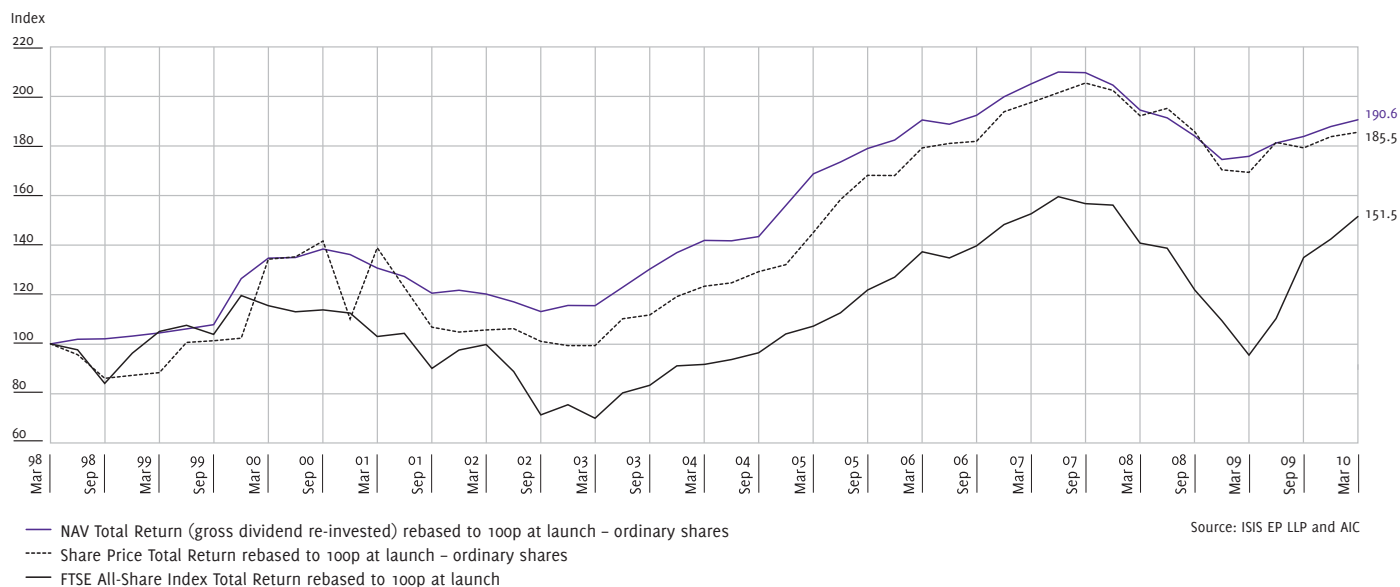
Dividend history since launch



Summary Since Launch

Baronsmead VCT 2 plc

Net asset value total return and share price total return since launch against the FTSE All-share Index total return



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

Performance Summary to 31 March 2010

Total return*	6 month %	1 year %	3 years %	5 years %	10 years %	Since launch %
Net Asset Value [†]	3.7	8.4	(7.1)	13.0	41.6	90.6
Share Price [†]	3.5	9.6	(6.1)	15.6	23.8	85.5
FTSE All-Share	12.2	52.3	(0.7)	41.3	29.7	51.5

* Source: ISIS EP LLP and AIC.

† These returns for Baronsmead VCT 2 ignore upfront tax relief and the impact of receiving dividends tax free.

Cash Returned to Shareholders

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

Year subscribed	Subscription price p	Income tax reclaim p	Net cash invested p	Cumulative dividends paid* p	Net annual yield [±] %	Gross yield [†] %
1998 (April) – Ordinary	100.0	20.0	80.0	75.9	7.9	11.7
1999 (May) – Ordinary	102.0	20.4	81.6	72.4	8.1	12.0
2000 (February) – Ordinary	137.0	27.4	109.6	69.2	6.2	9.1
2000 (March) – Ordinary	130.0	26.0	104.0	69.2	6.6	9.8
2004 (October) – C	100.0	40.0	60.0	27.6	8.4	12.4
2009 (April)	91.6	27.5	64.1	8.0	12.5	18.5

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

* Includes proposed interim dividend of 2.5p to be paid 7 June 2010.

± Represents the cumulative dividends paid expressed as an annualised percentage of the net cash invested.

† The gross equivalent yield had the dividends been subject to higher rate tax (32.5 per cent. on dividend income at 31 March 2010).

Chairman's Statement

The 3.7 per cent growth in Net Asset Value per share continues the positive trend since the October 2008 low point and is supported by increasing operating profits from many of our portfolio companies. The 2.5p interim dividend is well covered by two excellent realisations from unquoted investments held for less than three years.

Results

In the six months to 31 March 2010, the Net Asset Value (NAV) per share increased by 3.7 per cent from 86.06p to 89.23p before payment of a 2.5p per share interim dividend. This dividend is being paid largely from the capital profits realised from the sale of ScriptSwitch and Active Assistance. The increase in NAV per share is due primarily to the 9 per cent increase in the value of the unquoted portfolio. The FTSE All-Share Index increased 12.2 per cent over the same period.

At the period end, over 70 per cent of the ordinary capital raised (net of launch costs) prior to 30 September 2007 was invested in VCT qualifying investments and all of the 5 other VCT qualifying tests had also been met.

Long term performance

The interim dividend will take the cumulative tax free dividends paid to founder shareholders to 75.9p per share. For an investment of £1 (80p after initial tax relief) this is encouraging and represents an average annual tax free dividend of 6.3p (equivalent to 9.4p for higher rate taxpayers).

Importantly shareholders who have invested in any of the six prospectus fund raisings by Baronsmead VCT 2 have to date achieved positive absolute total returns. The comparable returns for the FTSE All-Share Index over differing time periods are set out on page 2 of this interim report and show that Baronsmead VCT 2 NAV total returns have exceeded this index over 10 years and since launch. In addition comparisons with returns achieved by other VCTs can be seen on the website of the Association of Investment Companies (AIC) who publish monthly data, www.theaic.co.uk.

The returns to shareholders are enhanced by the tax benefits available for VCT investors. At a time of lower investment returns and interest rates, the proportional benefit from these reliefs is greater. The benefit of VCT tax reliefs on dividends, in terms of annual net and gross yields, is shown in the table on page 2 titled 'Cash Returned to Shareholders'. Over the long term, the benefit of the tax free dividends can be very significant. Had this tax relief not been available since launch an individual, who had been a higher rate tax

payer throughout the period, would have needed another 37p per share in dividends to have received the same after tax income from Baronsmead VCT 2. Receipt of tax free VCT dividends will be of significantly increased value in 2010/2011 to those shareholders whose annual income exceeds £150,000 as there is a new dividend tax rate of 42.5%.

Portfolio review

Following the sale of six AIM investments and the write down of three, the total portfolio now comprises 66 companies. 41 per cent of the portfolio by value was invested in unquoted companies, 21 per cent in AIM companies, 2 per cent in Wood Street Microcap Investment Fund and the balance of 36 per cent remained in cash or government securities.

Ahead of the downturn the Manager targeted investments with reduced exposure to cyclical factors and with distinctive growth strategies less reliant on general economic conditions. This has been justified with relatively robust unquoted valuations throughout the recessionary period and two recent profitable exits. The Manager is also aware of the expected public sector spending cuts and is endeavouring to manage this risk. Some of the portfolio companies do have exposure to the public sector, although the portfolio as a whole is not overly exposed to discretionary public spending which may be cut suddenly.

Unquoted portfolio

Overall the current portfolio of unquoted investments is valued 26% higher than original cost. Thirteen companies are valued at or higher than cost while five are valued below cost.

These period end figures exclude two unquoted company realisations. The sale of ScriptSwitch in October 2009 for 3.7 times cost was covered in the last annual report. Active Assistance was sold in March 2010 for 2.8 times cost, an excellent result over the two years since March 2008 when the investment was made. Based in Sevenoaks, the business provides a national live-in care service for adults and children with spinal cord injuries and neurological conditions. The sale involved a merger with another health

Chairman's Statement

care business, First Call Care Services Limited, to create a national provider of both live-in and live-out care to individuals with complex long term conditions.

Throughout the recent recession, the focus has been on helping each investee company to manage with relatively low levels of external debt. Within the unquoted portfolio there have been financial restructurings of two companies which converted some of their shareholder loan notes into equity to strengthen the balance sheets and both of these companies continue to trade profitably. Pleasingly profits are also growing in the majority of the remaining unquoted portfolio, which augurs well for the development of future shareholder value. The Manager, ISIS EP LLP, continues to be very actively involved in the strategic development of the Company's investments.

AIM-traded portfolio

The value of the AIM share portfolio stayed relatively flat over the six months under review following the recovery in share prices in the six months to September 2009. Interest from trade buyers highlighted value in the portfolio and supported ratings. There were two bids during the period and third parties acquired strategic minority stakes in Ffastfill and IDOX which triggered share price gains.

Over the six month period new qualifying and non-qualifying investments totalled £620,000 and £614,000 respectively. The holding in the Wood Street Microcap Investment Fund is now valued at £1.03m across 17 non-qualifying investments following a further £500,000 of investment.

New investment

The market for investing in unquoted transactions is improving slowly as confidence in the achievability of business plans has returned. The first new unquoted investment for some time was completed just after the period end on 7 April 2010. This was in Surgi C, the UK's leading independent distributor of spinal implants. Based in Birmingham, the business has grown strongly, as a result of a growing product portfolio and the high levels of education and support offered to spinal surgeons.

The Manager has an active programme for directly approaching prospective investee companies in selected sectors and this is building a strong pipeline of entrepreneurs

who would like to work with the Manager when the timing is right. This continued investment in future dealflow should deliver excellent opportunities in the future.

The volume of qualifying AIM opportunities has increased from the depressed levels of 2009. However, conversion rates have so far remained relatively low as the Manager seeks to maintain a high quality threshold for new investments. With capital still scarce for smaller AIM companies and support from the recent recovery in equity markets, prospects for new AIM investment during the remainder of the year are improving. The Manager's intention is to take more influential stakes in a smaller number of AIM investments, where a likely exit strategy to a trade buyer can be envisaged.

Investment and tax planning

In the 2008/09 tax year Baronsmead VCT and Baronsmead VCT 2 raised approximately £17.5m in aggregate through a Joint Offer. Having raised these funds, Baronsmead VCT 2 did not raise further new funds in the 2009/10 tax year although in the period between mid January to mid March 2010, Baronsmead VCT 3 and Baronsmead VCT 4 similarly raised £16 million in aggregate through a joint offer for subscription. The Board is aware that a number of shareholders would welcome the opportunity to make further tax effective investments in the Company. However, while no plans have yet been considered for fundraising in the 2010/2011 tax year, the Board will advise shareholders as early as possible whether or not raising extra funds for the Company is appropriate. This will enable shareholders to make fully informed personal investment and tax planning decisions as early as possible.

In December 2009 participants in the Dividend Reinvestment Plan collectively acquired 308,193 shares. In addition, approximately 43,000 existing shares were bought by other purchasers through the market. 1,060,000 shares were bought back by the Company during the six months to 31 March 2010.

The new arrangements applicable to taxpayers with incomes over £100,000 make VCT investments attractive, whether the shares are bought on issue or as a purchase in the market, as dividends will not form part of the taxable income for a qualifying investor. Hopefully this will encourage more activity in the secondary market and thus provide improved opportunities for investors.

Chairman's Statement

Company secretary

With effect from 1 March 2010 ISIS EP LLP has engaged Capita Sinclair Henderson to provide the Company Secretarial service on its behalf, although ISIS continues to remain responsible and is the named Company Secretary.

Recent HM Revenue & Customs / HM Treasury announcements

The Manager, in conjunction with our trade association, the AIC, and other VCT Managers has worked hard over many years to inform HMRC and HM Treasury of the positive economic impact from unquoted private equity backed companies.

The resulting AIC report "Supporting enterprise and growth: the role of Venture Capital Trusts" published in March 2010 is based on evidence submitted by 15 VCT Managers and has helped the Government understand the economic return to the State which is generated as a result of encouraging investment in VCTs by providing tax relief. Most notably "of the 303 investee companies who provided data, the net employment impact since VCT investment, has been a 48% increase in the total workforce to over 25,402 employees." The percentage increase in employment was slightly higher for the 24 companies from within the Baronsmead portfolios that were used in the survey.

Importantly the size restrictions applying to investee companies are going to be re-examined. A number of new rules introduced since 2006 mean that fewer companies are able to receive newly raised VCT funds. The Government was obliged to introduce these measures at the behest of the European authorities. However in the March 2010 Budget, HM Treasury announced its intention to seek evidence to support the case for revisiting these issues with the European Commission. Specifically, the Government is interested in examining whether there is a case for:

- increasing the employee limit to fewer than 100 or 250 full-time employees (from the current limit of 50);
- increasing the gross assets limit to £15 million before investment and £16 million after;
- increasing the annual investment limit to £5 million per target company;
- considering the effectiveness of 'gross assets' as a proxy for company size.

HM Treasury's action is very welcome and the AIC anticipates working closely with them on these issues. However it is important to note that any changes to the VCT regime would need to be approved by the European Commission.

Outlook

These recent announcements by the Government and the rhetoric across all the political parties in the 2010 General Election recognises that entrepreneurial companies such as those backed by Baronsmead VCT 2 are believed to be important participants in helping to create UK growth and jobs. We have the funds to invest into such situations. There is also a solid platform within our portfolio companies for further growth and we believe there may be more grounds for optimism than for a few years.

Clearly the economic situation necessitates a Government austerity plan, but we believe that it is the growth of smaller companies which will enable the UK to develop in the future. An increasing drive for efficiency in Government spending will provide opportunities for innovation. Many of our investees are showing the resilience and entrepreneurial flair which will enable them to survive and grow in such an environment. The Manager is confident that suitable companies will continue to need finance and, with the continuing famine in cost effective bank finance, Baronsmead VCT 2 is well placed to help and benefit from the future success of such companies.

Clive Parritt

Chairman

12 May 2010

Table of Investments and Realisations

Investments in the six months to 31 March 2010

Number	Company	Location	Sector	Activity	Investment cost (£'000)
Unquoted investments					
<i>Follow on</i>					
1	Crew Clothing Company Ltd [±]	London	Consumer Markets	Branded clothing retailer	51
Total Unquoted investments					51
AIM-traded and listed investments					
<i>New investments</i>					
1	Green Compliance plc	Cirencester	Business Services	Small business compliance	250
2	Marwyn Value Investors plc	London	Financial Services	Investment fund	64
<i>Follow on</i>					
1	Electric Word plc	London	IT & Media	Business to business publisher	41
2	Adventis Group plc	London	IT & Media	Marketing services agency	81
3	Proactis Holdings plc	York	IT & Media	Procurement software	219
4	Jelf Group plc	Bristol	Business Services	Financial solutions consultancy	210
<i>Paper consideration</i>					
1	Chime Communications Group plc*	London	IT & Media	Marketing services agency	369
Total AIM-traded and listed investments					1,234
Collective investment vehicle					
<i>Follow on</i>					
1	Wood Street Microcap Investment Fund				500
Total Collective investment vehicle					500
Total investment in the period					1,785

± Loan stock received in consideration for accrued interest.

* Paper consideration from sale of Essentially Ltd

Realisations in the six months to 31 March 2010

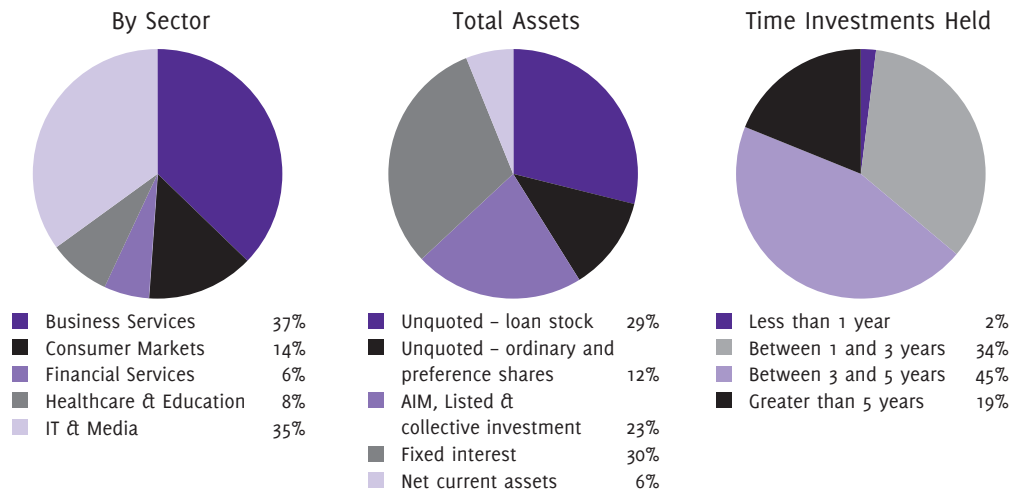
Number	Company		First investment date	Value at 30 September 2009 (£'000)	Realised profit/(loss) this period† (£'000)	Overall multiple return*
AIM-traded realisations						
1	Essentially Group Ltd	Trade sale	Jun 07	283	86	0.7
2	Silverdell plc	Market sale	May 08	1	-	0.1
3	Ffastfill plc	Part sale	Jun 07	226	133	1.6
4	Research Now plc	Market sale	Dec 07	306	70	1.4
5	Character Group plc	Market sale	Feb 08	86	46	0.9
6	Cobra Biomanufacturing plc	Trade sale	May 03	7	(1)	-
7	INVU plc	Market sale	May 07	4	(3)	-
				913	331	
Written off						
1	MKM Group plc		May 04	6	(6)	-
2	Optimisa plc		Oct 07	-	-	-
3	Relax Group plc		Feb 08	70	(70)	-
				76	(76)	
Total AIM-traded realisations				989	255	
Unquoted realisations						
1	Scriptswitch	Trade Sale	May 07	2,959	189	3.7
2	Active Assistance	Trade Sale	Mar-08	1,044	525	2.8
Total Unquoted realisations				4,003	714	
Total realisations				4,992	969	

† Proceeds of £6,000 were also received in respect of an investment, Interactive Prospect Targeting plc, written off in a prior period. A loss of £15,000 was realised during the period on the redemption on 7 December 2009 of a UK Treasury Gilt which had paid a rate of interest of 5.75%.

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

Investment Portfolio

Investment Classification at 31 March 2010



Company	Nature of business	Book cost £'000	30 September 2009 valuation± £'000	31 March 2010 valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds*
Unquoted							
Reed & Mackay	Business Services	1,211	2,984	3,320	5.5	9.5	40.0
Nexus Vehicle Holdings	Business Services	1,868	2,528	2,677	4.4	12.6	57.4
Carnell Contractors	Business Services	1,499	2,468	1,988	3.3	8.3	37.5
CableCom Networking Holdings	IT & Media	1,381	1,846	1,858	3.1	10.6	48.0
Quantix	IT & Media	1,194	1,801	1,823	3.0	11.4	48.0
Fisher Outdoor Leisure Holdings	Consumer Markets	1,423	1,433	1,777	2.9	10.5	44.0
CSC (World)	IT & Media	1,606	1,250	1,666	2.8	8.8	40.0
Independent Living Services	Healthcare & Education	801	1,568	1,621	2.7	14.4	60.5
Kafevend Holdings	Consumer Markets	1,252	1,346	1,583	2.6	15.8	66.5
Crew Clothing Company	Consumer Markets	983	1,286	1,309	2.2	5.9	24.0
Credit Solutions	Financial Services	1,032	1,126	1,128	1.9	8.6	35.0
Playforce Holdings	Business Services	1,033	1,096	1,113	1.8	9.7	44.0
MLS	IT & Media	781	1,132	1,098	1.8	5.3	22.5
Empire World Trade	Business Services	1,297	765	698	1.2	†	†
TVC Group	IT & Media	1,233	293	452	0.7	6.4	59.3
Occam DM	IT & Media	517	121	362	0.6	5.8	55.2
Kidsunlimited Group	Business Services	113	113	113	0.2	0.0	0.0
Xention Discovery	Healthcare & Education	316	63	63	0.1	1.2	5.6
Total Unquoted		19,540	23,219	24,649	40.8		
AIM							
IDOX plc	IT & Media	1,038	1,081	1,276	2.1	3.2	9.6
Advanced Computer Software plc	IT & Media	525	1,158	1,204	2.0	0.9	4.5
Staffline Recruitment Group plc	Business Services	249	499	738	1.2	4.5	9.0
Brulines Holdings plc	Business Services	646	595	647	1.1	1.9	9.6
Murgitroyd Group plc	Business Services	319	711	632	1.0	3.1	6.2
Green Compliance plc	Business Services	250	-	500	0.8	2.4	14.6
Jelf Group plc	Financial Services	761	381	475	0.8	1.6	6.9
WIN plc	IT & Media	413	315	459	0.8	4.3	19.0
Begbies Traynor Group plc	Financial Services	231	625	440	0.7	0.7	2.5
Proactis Holdings plc	IT & Media	619	326	426	0.7	5.5	27.0
Mount Engineering plc	Business Services	385	319	330	0.5	2.3	13.4
Ffastfill plc	IT & Media	251	475	325	0.5	0.9	6.6
Kiotech International plc	Healthcare & Education	275	342	298	0.5	2.2	15.8
Huveaux plc	IT & Media	666	201	291	0.5	1.7	4.4
Vero Software plc	IT & Media	500	390	279	0.5	6.2	14.3
Adventis Group plc	IT & Media	361	197	275	0.5	3.1	20.8
InterQuest Group plc	Business Services	310	270	270	0.4	1.8	7.4
Electric Word plc	IT & Media	241	207	267	0.4	2.8	21.0
EG Solutions plc	IT & Media	375	110	216	0.4	3.1	14.2
Driver Group plc	Business Services	438	372	216	0.4	2.3	10.4
Craneware plc	IT & Media	71	180	216	0.4	0.2	1.1
Praesepe plc	Consumer Markets	525	179	197	0.3	1.1	6.2

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

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

† Following a restructuring the effective ownership % is dependent on final exit proceeds.

Investment Portfolio

Company	Nature of business	Book cost £'000	30 September 2009 valuation± £'000	31 March 2010 valuation £'000	% of Net assets	% of Equity held by Baronsmead VCT 2 plc	% of Equity held by all funds*
AIM (continued)							
Sanderson Group plc	IT & Media	387	102	194	0.3	1.8	6.9
Stagecoach Theatre Arts plc	Consumer Markets	419	248	189	0.3	4.5	9.1
IS Pharma plc	Healthcare & Education	246	268	179	0.3	1.0	5.9
Quadnetics Group plc	Business Services	296	176	173	0.3	0.6	2.2
Autoclenz Holdings plc	Business Services	400	134	150	0.2	3.1	12.3
Plastics Capital plc	Business Services	473	151	132	0.2	1.8	10.0
Tasty plc	Consumer Markets	356	226	116	0.2	1.7	13.0
Cohort plc	Business Services	179	189	107	0.2	0.3	1.4
Prologic plc	IT & Media	310	132	103	0.2	4.1	15.0
Colliers CRE plc	Financial Services	470	158	90	0.2	0.3	0.8
Brainjuicer Group plc	IT & Media	50	65	69	0.1	0.4	1.8
Marwyn Value Investors plc	Financial Services	64	-	62	0.1	1.3	6.0
STM Group plc	Financial Services	140	72	56	0.1	0.5	3.8
Tangent Communications plc	Business Services	180	90	55	0.1	0.8	4.7
Real Good Food Company (The) plc	Consumer Markets	620	31	51	0.1	0.7	2.3
Clarity Commerce Solutions plc	IT & Media	50	50	50	0.1	0.3	6.4
Mission Marketing Group (The) plc	IT & Media	247	60	30	0.1	0.5	1.3
RTC Group plc	Business Services	355	37	30	0.0	4.2	8.5
AorTech International plc	Healthcare & Education	285	28	23	0.0	0.3	0.6
Zoo Digital Group plc	IT & Media	438	12	14	0.0	0.3	1.0
Higham Systems Services Group plc	Business Services	197	3	6	0.0	0.3	1.0
Payzone plc	Consumer Markets	109	2	-	0.0	0.1	0.1
Total AIM		15,720	11,167	11,856	19.6		
Listed							
Vectura Group plc	Healthcare & Education	578	1,019	561	0.9	0.4	1.3
Chime Communications plc	IT & Media	369	-	301	0.5	0.2	1.5
Total Listed		947	1,019	862	1.4		
PLUS							
Chemistry Communications Group plc	Business Services	500	109	130	0.2	3.1	6.3
Total PLUS		500	109	130	0.2		
New York Stock Exchange							
Inverness Medical Inc.	Healthcare & Education	180	212	225	0.4	0.0	0.1
Total New York Stock Exchange		180	212	225	0.4		
Interest bearing securities							
UK T-Bill 12/04/10		5,998	-	5,998	9.9		
BlackRock Cash Market OEIC		7,000	7,000	7,000	11.6		
JP Morgan Cash Market OEIC		4,800	-	4,800	8.0		
Total interest bearing securities		17,798	7,000	17,798	29.5		
Collective investment vehicles							
Wood Street Microcap Investment Fund		1,025	525	1,034	1.7		
Total Collective Investment Vehicles		1,025	525	1,034	1.7		
Total investments		55,710		56,554	93.6		
Net current assets				3,836	6.4		
Net assets				60,390	100		

Investment ranking by valuation	Book cost £'000	Valuation £'000	% of Quoted Portfolio
Top Ten	5,012	6,932	53.0
11-20	3,975	3,063	23.4
21-30	3,338	1,955	15.0
30+	5,022	1,123	8.6
Total	17,347	13,073	100.0

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

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

Independent Review Report to Baronsmead VCT 2 plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2010 which comprises the Income Statement, Reconciliation of Movement in Shareholders' Funds, Balance Sheet and Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). 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 half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2010 is not prepared, in all material respects, in accordance with the Statement Half-Yearly Financial Reports as issued by the UK Accounting Standards Board and the DTR of the UK FSA.

Simon Pashby
for and on behalf of
KPMG Audit Plc
Chartered Accountants
Edinburgh
12 May 2010

Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with the Statement 'Half-yearly financial reports' issued by the UK Accounting Standards Board;
- the Chairman's Statement (constituting the interim management report) includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements;
- the Statement of Principal Risks and Uncertainties on page 12 is a fair review of the information required by DTR 4.2.7R; and
- the financial statements include a fair review of the information required by DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board,
Clive Parritt
Chairman
12 May 2010

Unaudited Income Statement

For the six months to 31 March 2010

	Six months to 31 March 2010			Six months to 31 March 2009			Year to 30 September 2009*		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Unrealised gains/(losses) on investments	-	944	944	-	(2,581)	(2,581)	-	343	343
Realised gains/(losses) on investments	-	960	960	-	(283)	(283)	-	(154)	(154)
Income	932	-	932	715	-	715	1,297	-	1,297
Recoverable VAT	-	-	-	101	303	404	68	299	367
Investment management fee	(151)	(454)	(605)	(138)	(414)	(552)	(291)	(872)	(1,163)
Other expenses	(161)	-	(161)	(155)	-	(155)	(405)	-	(405)
Profit/(loss) on ordinary activities before taxation	620	1,450	2,070	523	(2,975)	(2,452)	669	(384)	285
Taxation on ordinary activities	(98)	98	-	(80)	80	-	(120)	120	-
Profit/(loss) on ordinary activities after taxation	522	1,548	2,070	443	(2,895)	(2,452)	549	(264)	285
Return per share:									
Basic	0.76p	2.27p	3.03p	0.71p	(4.66p)	(3.95p)	0.83p	(0.40p)	0.43p

* These figures are audited

Unaudited Reconciliation of Movement in Shareholders' Funds

For the six months to 31 March 2010

	Six months to 31 March 2010 £'000	Six months to 31 March 2009 £'000	Year to 30 September 2009 £'000*
Opening shareholders' funds	61,215	54,822	54,822
Profit/(loss) for the period	2,070	(2,452)	285
Purchase of shares for treasury	(830)	(582)	(582)
Increase of shares	-	7,188	8,881
Expenses of share issues and buybacks	(3)	(398)	(477)
Dividends paid	(2,062)	4	(1,714)
Closing shareholders' funds	60,390	58,582	61,215

* These figures are audited

Notes

- The unaudited interim results which cover the six months to 31 March 2010 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 period ended 30 September 2009.
- Return per share is based on a weighted average of 68,375,739 ordinary shares in issue (30 September 2009 – 65,802,901 ordinary shares, 31 March 2009 – 62,168,370 ordinary shares).
- Earnings for the six months to 31 March 2010 should not be taken as a guide to the results of the full financial year to 30 September 2010.
- During the six months ended 31 March 2010 the Company purchased 1,060,000 ordinary shares to be held in Treasury at a cost of £829,902. At 31 March 2010 the Company holds 7,053,906 ordinary shares in Treasury. These shares may be re-issued below Net Asset Value as long as the discount at issue is narrower than the average discount at which the shares were bought back.
Excluding treasury shares, there were 67,676,288 ordinary shares in issue at 31 March 2010 (30 September 2009 68,736,288 ordinary shares, 31 March 2009 66,896,301 ordinary shares).
- The interim dividend of 2.5p per share (0.5p revenue and 2.0p capital) will be paid on 7 June 2010 to shareholders on the register on 21 May 2010. The ex-dividend date is 19 May 2010.
- The financial information contained in this half year report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The information for the year ended 30 September 2009 has been extracted from the latest published audited financial statements. The audited financial statements for the year to 30 September 2009, which were unqualified, have been filed with the Registrar of Companies. No statutory accounts in respect of any period after 30 September 2009 have been reported on by the Company's auditors or delivered to the Registrar of Companies.
- Copies of the Half-yearly Report have been made available to shareholders and are available from the Registered Office of the Company at 100 Wood Street, London EC2V 7AN.

Unaudited Balance Sheet

For the six months to 31 March 2010

	Six months to 31 March 2010 Total £'000	Six months to 31 March 2009 Total £'000	Year to 30 September 2009 Total £'000*
Fixed assets			
Unquoted investments	24,649	27,765	27,222
Traded on AIM	11,856	9,670	11,930
Traded on PLUS	130	82	109
Listed Investments	862	651	1,019
Traded on NYSE	225	-	212
Collective investment vehicle	1,034	-	525
Interest bearing securities	17,798	15,567	18,512
	56,554	53,735	59,529
Current assets			
Debtors	207	4,146	554
Cash at bank and on deposit	3,990	1,526	1,684
	4,197	5,672	2,238
Creditors (amounts falling due within one year)	(361)	(825)	(552)
Net current assets	3,836	4,847	1,686
Total assets less current liabilities	60,390	58,582	61,215
Net assets	60,390	58,582	61,215
Capital and reserves			
Called-up share capital	7,473	7,289	7,473
Share premium account	12,573	11,143	12,573
Capital redemption reserve	9,254	9,254	9,254
Revaluation reserve	844	(3,108)	1,569
Capital reserve	29,180	33,085	29,665
Revenue reserve	1,066	919	681
Equity shareholders' funds	60,390	58,582	61,215

	Six months to 31 March 2010 Total	Six months to 31 March 2009 Total	Year to 30 September 2009* Total
Net asset value per share	89.23p	87.57p	89.06p
Number of shares in issue at balance sheet date	67,676,288	66,896,301	68,736,288
Treasury net asset value per share	88.24p	86.70p	88.13p
Number of ordinary shares in issue	67,676,288	66,896,301	68,736,288
Number of ordinary shares held in Treasury	7,053,906	5,993,906	5,993,906
Number of listed ordinary shares	74,730,194	72,890,207	74,730,194

* These figures are audited

Unaudited Statement of Cash Flows

	Six months to 31 March 2010 Total £'000	Six months to 31 March 2009 Total £'000	Year to 30 September 2009 Total £'000*
Net cash inflow from operating activities	136	227	964
Capital expenditure and financial investment	5,078	(6,301)	(9,190)
Equity dividends recovered/(paid)	(2,062)	4	(1,714)
Net cash inflow/(outflow) before financing	3,152	(6,070)	(9,940)
Issue of shares less buybacks	(846)	3,473	7,501
Increase/(decrease) in cash	2,306	(2,597)	(2,439)
Reconciliation of net cash flow to movement in net cash			
Increase/(decrease) in cash	2,306	(2,597)	(2,439)
Net cash at beginning of period	1,684	4,123	4,123
Net cash at end of period	3,990	1,526	1,684
Reconciliation of operating profit/(loss) before taxation to net cash flow from operating activities			
Profit/(loss) on operating activities before taxation	2,070	(2,452)	285
Realised (gains)/losses on investments	(960)	283	154
Unrealised (losses)/gains on investments	(944)	2,581	(343)
Changes in working capital and other non-cash items	(30)	(185)	868
Net cash inflow from operating activities	136	227	964

* These figures are audited.

Principal Risks and Uncertainties

The Company's assets consist of equity and fixed interest investments, cash and liquid resources. Its principal risks are therefore market risk, credit risk and liquidity risk. Other risks faced by the Company include economic, loss of approval as a Venture Capital Trust, investment and strategic, regulatory, reputational, operational and financial risks. These risks, and the way in which they are managed, are described in more detail under the heading Principal risks, risk management and regulatory environment within the Business Review in the Company's Annual Report and Accounts for the year ended 30 September 2009. The Company's principal risks and uncertainties have not changed materially since the date of that report.

Related Parties

ISIS EP LLP ('the Manager') manages the investments of the Company. The Manager also provides opportunities or procures the provision of secretarial, administrative and custodian services to the Company. Under the management agreement, the Manager receives a fee of 2.0 per cent per annum of the net assets of the Company. This is described in more detail under the heading Management within the Report of the Directors in the Company's Annual Report and Accounts for the year ended 30 September 2009. During the period the Company has incurred management fees of £605,000 and secretarial fees of £54,000 payable to the Manager.

Going Concern

The Directors are of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the Half-yearly report, as after making enquiries and bearing in mind the nature of the Company's business, assets and cash flow forecasts and due consideration, the Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future.

Shareholder Information and Contact Details

Enquiries

Shareholders should contact the following regarding queries:

Basic contact details, ie change of address, joining the DRIP queries re: share and tax certificates and bank mandate forms: Computershare (Company Registrar)

www-uk.computershare.com/investor

Investors who hold ordinary shares in their own name can check their holdings on our Registrar's website www-uk.computershare.com. Please note that to access this facility investors will need to quote the reference number shown on their share certificate.

Alternatively, by registering for the Investors' Centre facility on Computershare's website, investors can view details of all their holdings for which Computershare is Registrar, as well as access additional facilities and documentation. Please see www.investorcentre.co.uk for further information.

Shareholder Helpline

BARONSMEAD

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

The Shareholder Helpline is available on UK business days between Monday and Friday, 8.30 am to 5 pm. The helpline contains automated self-service functionality which is available 24 hours a day, 7 days a week. Using your Shareholder Reference Number which is available on your share certificate or dividend tax voucher, our self-service functionality will enable you achieve the following things:

Automated Functions

- confirm the latest share price
- confirm your current share holding balance
- confirm payment history
- order a Change of Address, Dividend Bank Mandate or Stock Transfer Form

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



For information on asset allocations, dividend policies, investment process, DRIP mechanism, share price movements, the share price discount and selling shares:

ISIS EP LLP (the Investment Manager) at www.isisep.com

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

Tel: Michael Probin 020 7506 5796; Margaret Barff 020 7506 5630.



The Baronsmead website (www.baronsmeadvcts.co.uk) links to helpful sites, contains details of the team and some case studies of investments.

Share Price

The Company's 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 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 via a stockbroker.

The market makers in the shares of Baronsmead VCT 2 plc are:

Matrix Corporate Capital LLP (the Company's Brokers)	020 3206 7000
Singer Capital Markets	020 3205 7500
Winterflood	020 3100 0251

Financial Calendar

August 2010	Quarterly fact sheet to 30 June 2010
November 2010	Results for year to 30 September 2010 announced and annual report and accounts sent to shareholders
December 2010	Thirteenth Annual General Meeting

Corporate Information

Directors

Clive Parritt (Chairman)*
Howard Goldring
Godfrey Jillings†
Gillian Nott OBE‡^

Secretary

ISIS EP LLP

Registered Office

100 Wood Street
London EC2V 7AN

Investment Manager

ISIS EP LLP
100 Wood Street
London EC2V 7AN

Investor Relations

Michael Probin
020 7506 5796

Registered Number

03504214

*Chairman of the Audit Committee

†Chairman of Nomination Committee

‡Chairman of Management Engagement and Remuneration Committee

^Senior Independent Director

Registrars and Transfer Office

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Brokers

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Auditors

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Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Solicitors

Martineau
No 1 Colmore Square
Birmingham B4 6AA

VCT Status Adviser

PricewaterhouseCoopers LLP
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London WC2N 6RH

Website

www.baronsmeadvct2.co.uk

Additional Information

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

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