

Baronsmead VCT 2 plc



- For the quarter the Net Asset Value (NAV) per Ordinary share increased by 3.9% to 120.24p before payment of a 5.0p interim dividend. The resulting NAV per Ordinary share is 115.24p. The NAV per C share increased by 4.8% to 112.9p before payment of a 1.6p interim dividend. The resulting NAV per C share is 111.3p.
- The total return since launch in 1998 on the Ordinary shares is 100% and the total return since launch in October 2004 for the C shares is 23%
- £2.2m was invested in new investments taking the portfolio to 80 companies net of the sale of Ovum (AiM-traded) to a trade purchaser
- The C shares converted into Ordinary shares on 23 January 2007

Performance review

The quarterly increase in the NAV across both the Ordinary and C shares resulted from a revaluation of several unquoted investments and aggregate advances in the share price across a number of AiM shareholdings. There was a full provision made against Country Artists which was more than offset by a write back of a partial provision against the investment in Hawksmere.

The sale of Domantis, which completed in 2007, within the Ordinary shares resulted in this investment being sold for 3.7 times the cost of the original investment, first made in 2004, resulting in a profit of £1.08m. The sale of Ovum completed in December 2006 and the announced bid for Talarius is already anticipated in its share price on AiM and could become fully realised in Q1 2007.

The inhouse indicator of portfolio health - 'direction of travel' - showed 83% of investees meeting or exceeding their business plan.

Investment activity

Company	Amount invested £ ('000's)	Activity	Web Address	Location
Brainjuicer	50	Marketing research	www.brainjuicer.com	London
Brulines	290	Pub management systems	www.brulines.com	Stockton-on-Tees
Business Direct†	139	Intelligent locker systems	www.bdpx.com	Rugby
Concateno	326	Drugs testing	www.concateno.com	London
Crew*	932	Branded clothes retailer	www.crewclothing.co.uk	London
Independent Living Services†	177	Domiciliary care	www.ilsscotland.com	Alloa
Kiotech	200	Animal feed additives	www.kiotech.com	Surrey
Xention**	116	Drug discovery	www.xention.com	Cambridge
Total	2,230			

*unquoted †follow-on investment

Statistics

Ordinary Shareholder	1 year %	3 years %	5 years %	Since launch %*
Baronsmead VCT 2 Total Return ¹	+9.6	+46.0	+64.2	+99.9
FTSE All-Share Total Return ²	+16.8	+60.8	+50.2	+46.6

*2 April 1998

¹Total return = NAV + Reinvested Dividends.

²Source: Datastream

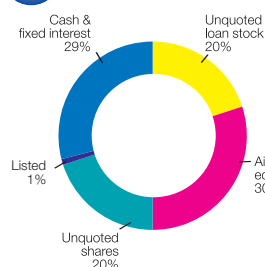
Past performance is not a guide to future performance.

Top Ten investments - Combined ordinary & C share

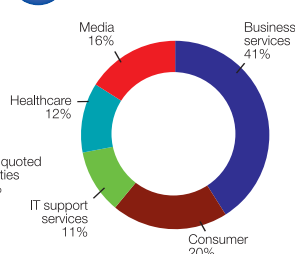
Activity	% of total investments excluding cash and fixed interest ^{††}	
Martin Audio	Professional sound systems	6.0
The Art Group	Artistic IPR Management and supply	5.0
RLA Group	Media Agency	4.7
Kafevend	Drinks vending machine service provider	3.7
Reed & Mackay	Business travel management services	3.6
Fisher Outdoor	Accessories to UK cycle market	3.6
Americana	Designer and retailer of clothing	3.4
Independent Living Services	Domiciliary care	3.0
Domantis	Drug discovery	2.9
Jelf Group	Corporate financial services	2.8
Total		38.7

^{††}Numbers are colour coded to reflect sector breakdown.

Total assets



Sector breakdown



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Calendar for Baronsmead VCT 2 in 2007

January 2007	Conversion of C shares into Ordinary Shares.
May 2007	Announcement of annual results for year to 31 March 2007.
June 2007	Ninth AGM to be held at the London Stock Exchange.
August 2007	Publication of fact sheet for the quarter to 30 June 2007.
November 2007	Interim results published

Conversion of the C shares into Ordinary shares

The calculation date for the conversion of the 'C' shares into Ordinary shares was close of business on 31st December 2006. The conversion ratio was 0.96576068 which results in 9,657 new Ordinary shares being allotted for every 10,000 'C' shares held or pro rata thereto. Accordingly the Board has allotted and issued 21,485,211 new Ordinary shares, which rank pari passu with the existing Ordinary shares. This brings the total number of ordinary shares with voting rights in issue to 61.7m.

Secondary market activity in the shares of Baronsmead VCT 2

During the quarter 255,000 Ordinary shares were purchased. The share price increased from 102p to 103.5p and during the quarter the share price of the C shares increased from 92.5p to 97p. For the first time in several years, no shares were bought back by the company in the quarter as there was sufficient demand by purchasers, including the shares bought under the DRIP in lieu of cash dividends.

The Dividend Reinvestment Plan (DRIP) scheme is only open to Ordinary shareholders as existing shares are purchased in the market every time a dividend is declared. Over 290 Ordinary shareholders have so far elected to join the DRIP and as a consequence they were issued with 182,271 Ordinary shares at 104p per share on 20 December 2006.

C shareholders need to hold their shares for the minimum holding period of 3 years to retain their original income tax relief and so few, if any shares, are available for such a plan for C shareholders. They will therefore be unable to join the DRIP until after their C shares convert to Ordinary shares on 23 January 2007. Terms and Conditions of the DRIP are being sent to all C shareholders who should complete the election mandate if they wish to join the plan after the conversion to Ordinary shares. This documentation stresses both the advantages and risk aspects of the DRIP.

Feedback

If shareholders have any questions or comments about their investment, please contact:

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Up-date for the quarter ended 31 December 2006