

BARONSMEAD

Baronsmead VCT 2 plc

Quarterly update

For the three month period to 31 December 2008



Financial Headlines

4.7p (5.1%)	decrease in Net Asset Value (NAV) per share (FTSE All-Share Index fell 11.1%) including: • 5.6p (6.1%) fall in AiM investments; and • 0.3p (0.4%) gain in unquoted investments
£4.5m	gross proceeds raised by Baronsmead VCT 2 as at 6th February 2009 • Existing shareholders of Baronsmead VCT and Baronsmead VCT 2 subscribed 56% of these funds.

Investment Objective and Dividend Policy

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

The Board 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 cannot be guaranteed. There will be variations in the amounts of dividends paid year on year. In the current economic environment realisations may be difficult to achieve but there are expected to be good opportunities to invest advantageously.

Dividends are normally declared on the publication of the Interim and Annual Results unless circumstances dictate otherwise. Dividends are paid from net revenues and from distributable reserves earned on the profitable realisation of investments, with the amount declared being dependent on the circumstances of the Company at the time.

Performance Summary for the quarter to 31 December 2008

Capital Return Ordinary Shares	As at 31 Dec 2008	As at 30 Sep 2008	Movement %
Total net assets	£55.2m	£54.8m	
Net asset value per share	86.96p	91.68p	(5.1%)
Share price	77.50p	84.50p	(8.3%)
Premium/(Discount) to NAV	(10.88%)	(7.83%)	

Investment Performance

The period under review was one of severe stress in global financial markets and considerable volatility in the value of quoted shares. As a result, over the quarter to 31 December 2008, the FTSE All-Share index and the FTSE AiM index (without resource companies) fell 11.1% and 30.8% respectively.

In contrast, the NAV of the Company fell 5.1% over the quarter primarily due to a fall in the value of the AiM-traded portion of the portfolio. In general, companies in the unquoted portion of the portfolio reported solid trading performance resulting in an increase in the value of these investments by 0.8% over the quarter despite lower price earnings ratios being used in most of the valuations.

In view of the fact that the Company was issuing shares during the period under review, the monthly valuations are shown below.

Date	Baronsmead VCT 2 plc NAV pence per share
30 September 2008	91.68
31 October 2008	86.17
30 November 2008	85.56
31 December 2008	86.96
% Change of the quarter	-5.1%

Performance Summary to 31 December 2008

Total Return Ordinary Shares	3 months to 31 Dec 2008	1 year to 31 Dec 2008	5 years to 31 Dec 2008	10 years to 31 Dec 2008
Net asset value ¹	(5.2%)	(14.7%)	27.5%	69.2%
Share price ²	(8.3%)	(15.8%)	29.3%	73.3%
FTSE All-share ³	(10.2%)	(29.9%)	18.7%	12.4%

¹ NAV Total return = NAV + reinvested dividends; Source: ISIS EP LLP

² Share price Total return = Mid to mid share price + reinvested dividends; Source: AIC

³ FTSE All-Share = FTSE All-Share Index + reinvested dividends; Source: AIC

Investment Activity

Company	Date	Cost (£'000)	VCT status
<i>Follow on Investments</i>			
Brulines Holdings plc*	December 08	299	Qualifying
Ffastfill plc*	November 08	120	Qualifying
Kafèvend Holdings Ltd	November 08	6	Non qualifying
Nexus	October 08	499	Qualifying
Occam	December 08	44	Qualifying
Total Q4, 2008		968	

*AiM Traded Investments

Joint Fund Raising with Baronsmead VCT plc

In September 2008, the Company issued a Joint Offer to raise £16m in aggregate. In January, the Joint Offer was increased to raise, in aggregate, up to approximately £22.5 million and also extended to 3 April 2009 unless fully subscribed earlier. By 6 February 2009, the Joint Offer had raised £8.951m in aggregate, raising £4.2m (net of issue costs of 5.5%) for the Company and there has been strong support from the existing shareholders of Baronsmead VCT and Baronsmead VCT 2 who collectively invested £5.0m. The Joint Offer is open to existing shareholders and new investors. In the context of a low interest rate environment, the Company's dividend policy has proved particularly attractive to those investors who anticipate being able to receive tax free dividends.

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Top Ten Investment Holdings

Position as at 31 December 2008	Position as at 30 September 2008	Company	Percentage of net assets as at 31 December 2008
1	1	Scripswitch	5.08%
2	2	Reed and Mackay	5.01%
3	3	Carnell Contractors	4.30%
4	4	Independent Living Services	3.68%
5	11	Nexus	3.38%
6	7	Cablecom	3.00%
7	6	Kafèvend	2.78%
8	9	Quantix	2.71%
9	8	Fisher Outdoor Leisure	2.60%
10	10	Crew Clothing	2.46%
Total			35.00%

Sector breakdown

(excluding cash and interest bearing securities)

	Percentage of total investments at 31 Dec 2008	Percentage of total investments at 30 Sep 2008
Business Services	41	39
Consumer Markets	14	14
IT Support Services	28	29
Healthcare	12	11
Media	5	7
Total	100	100

Net Asset Value as at 31 January 2009

Baronsmead VCT 2 made an allotment of shares under the Joint Offer for Subscription with Baronsmead VCT on 13 February 2009 based on the NAV as at 31 January 2009. As a result, the Board has undertaken an additional review of the unquoted portfolio valuations at 31 January 2009. Taking account of changes in the values of both the AiM and unquoted portions of the portfolio, the NAV per share at 31 January 2009 fell by 1.0p resulting in a NAV of 85.96 per share.

Investment Activity

Further qualifying investments totalling £0.97m were completed in four companies while gross proceeds from realisations amounted to £0.57m. Five AiM investments were written off during the quarter with a combined value of £0.17m as at 30 September 2008. The portfolio decreased in number from 87 to 81 companies.

Daily and key information

Further information regarding the Company, including latest financial statements or quarterly factsheets, can be found at the Company's website www.baronsmeadvct2.co.uk

Other than as disclosed in this statement the Board is not aware of any significant events or transactions which have occurred between 31 December 2008 and the date of publication of this statement which would have a material impact on the financial position of the Company.

Future Contact

For further information please contact:

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All figures as at 31 December unless otherwise stated. All sources ISIS EP LLP (ISIS Equity Partners) unless otherwise stated. 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 the amount they originally invested. Where investments are made in unquoted securities or smaller companies, their potential volatility may increase the risk to the value of, and income from, the investment. Tax rates and reliefs depend on the circumstances of the individual investors and may be subject to change. Investors should take their own financial and tax advice before investing, based on their own individual circumstances. VCTs should be regarded as long term in nature. An investment is only suitable for private investors who are capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which might result. ISIS Equity Partners does not give investment advice.

Baronsmead VCT 2 plc is managed by ISIS EP LLP, which is Authorised and regulated by the Financial Services Authority (FSA). For more information about Baronsmead VCT 2 please visit www.baronsmeadvct2.co.uk

ISIS Equity Partners manages the five Baronsmead VCTs.

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