

BARONSMEAD

Baronsmead VCT 2 plc

Quarterly update

For the period from 1 October 2010 to 31 December 2010.



Headlines

4.5%	4.1p per share increase in underlying Net Asset Value (NAV)
3 realisations	In Credit Solutions (1.8x cost), Mount Engineering (1.2x cost) and Advanced Computer Software (2.0x cost)

Investment Objective and Dividend Policy

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.

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 it cannot be guaranteed. There will be variations in the amount of dividends paid year on year.

Performance Summary

Capital return	As at 31 December 2010	As at 30 September 2010	Movement
Total net assets	£66.41m	£63.67m	
Net asset value per share	95.91p	91.79p*	4.5%
Share price	85.75p	81.25p	5.5%
Discount to NAV	(10.6%)	(11.5%)	

* Adjusted for 3.0p final dividend for comparative purposes.

Total return	3 Month (%)	3 Year (%)	10 Year (%)	Since launch (%)
Net asset value ¹	4.4	6.2	59.6	117.3
Share price ²	9.2	6.6	74.3	115.6
FTSE All-share ³	7.4	4.4	43.3	63.0

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

These total returns are stated before the inclusion of VCT tax reliefs which are designed to mitigate the higher risks and costs associated with investing in smaller companies and the other constraints of the VCT legislation. The tax reliefs given at the time of subscription have been 20%, 40% and latterly 30%, so any adjusted performance measure including this relief will vary depending on the date of subscription. Additionally shareholders benefit from receiving VCT dividends tax free.

Investment Performance

The direction of travel of the 67 investee companies was consistent with 87% (Q3 2010: 91%) of companies now being classified as steady or up as performance stabilises. This is reflected in value increases in both the unquoted and AIM-traded portfolios. The unquoted portfolio increased by 3%, whilst the AIM-traded portfolio increased by 9% in the quarter including a significant increase in the value of Staffline Recruitment Group plc.

Top Ten Investment Holdings

Position as at 31 December 2010	Position as at 30 September 2010	Company	Percentage of NAV as at 31 December 2010
1	1	Reed & Mackay Limited	7.2
2	2	Nexus Vehicle Holdings Limited	6.3
3	3	Crew Clothing Company Limited	3.9
4	4	Cablecom Networking Holdings Limited	3.7
5	10	Staffline Group Plc	3.1
6	6	Kafevend Holdings Limited	3.1
7	5	Quantix Limited	3.0
8	8	Independent Living Services Limited	2.8
9	7	Fisher Outdoor Leisure Holdings Limited	2.7
10	9	CSC (World) Limited	2.5
Total			38.3

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Analysis of Total Assets

	Percentage of total assets 31 December 2010	Percentage of total assets 30 September 2010
Unquoted investments	46	49
AIM, Listed & Collective Investments	28	25
Interest Bearing Securities	20	23
Cash	6	3
Total Cash Portfolio	26	26
Total Assets	100	100

Analysis of Investment Portfolio by Sector

(excluding cash and interest bearing securities)

	Percentage of total investments 31 December 2010	Percentage of total investments 30 September 2010
Business Services	39	39
Consumer Markets	17	18
Financial Services	3	5
Healthcare & Education	11	9
IT & Media	30	29
Total	100	100

Investment Activity

During the quarter nine AIM traded investments, totalling £1.8m, were completed in five existing portfolio companies and four new companies as shown below. A further investment of £0.3m was made into the existing collective investment vehicle, Wood Street Microcap Investment Fund.

Following the period end an unquoted investment of £6.5m (across the four Baronsmead generalist VCTs) was completed in Valldata, a leading provider of outsourced donation processing and fulfilment services for the UK not-for-profit market.

Investments made

Company	Date	Cost (£'000)
Accumuli plc	Nov 2010	333
Brady plc	Dec 2010	176
Electric Word plc*	Nov 2010	237
Green Compliance plc*	Nov 2010	375
Hangar 8 plc	Nov 2010	44
IS Pharma plc*	Nov 2010	278
Netcall plc*	Oct 2010	76
Tangent Communications plc*	Dec 2010	88
Tristel plc	Nov 2010	217
Total Investments		1,824

* Follow on investments

Baronsmead VCT 2 plc is managed by ISIS EP LLP (ISIS Equity Partners), which is Authorised and regulated by the Financial Services Authority (FSA). ISIS EP LLP manages five Baronsmead VCTs.

All information sources are provided by ISIS EP LLP and all figures are as at 31 December 2010 unless otherwise stated. ISIS EP LLP does not give investment advice. 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 or smaller companies, their potential volatility may increase the risk to the value of, and income from, the investment. Investors should take their own financial and tax advice before investing, based on their own individual circumstances. VCTs should be regarded as a long term investment and are 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.

Realisations

During the quarter 2 AIM traded investments, Advanced Computer Software and Mount Engineering, were realised in full. Also 1 unquoted investment, Credit Solutions, was realised in full.

Company	Date	Cost (£'000)	Proceeds (£'000)	Multiple of cost [†]
Advanced Computer Software plc	Nov/Dec 2010	262	525	2.0X
Credit Solutions	Nov 2010	1,032	1,294	1.8X
Mount Engineering	Nov 2010	385	451	1.2X
Total Realisations		1,679	2,270	

[†] includes interest and dividends received in prior periods.

Fundraising

An Offer for Subscription to raise the sterling equivalent of €2.5m was made available to the Company's existing Shareholders toward the end of November 2010. The Offer was fully subscribed and shares were allotted on 16 December 2010 at a price of 102.50p per share. The Directors would like to thank all those who subscribed to the Offer.

Annual General Meeting on 11 January 2011

The AGM was attended by over 40 Shareholders and included a number of presentations and a shareholder workshop. The Chairman gave his view on the current economic situation followed by comments on the investment environment from the Manager. John Smith, Managing Director of Getting Personal presented the growth story of that business.

Net Asset Value

The NAV per share at 31 January 2011 was 97.20p representing an increase of 1.3% since the quarter end driven largely by an increase in the value of the AIM-traded portfolio.

Further information

Further information regarding the Company, including net asset values published since the end of the period and quarterly factsheets, can be found at the Company's website www.baronsmeadvct2.co.uk

Future Contact

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