SPARK VCT 2 plc
Introduction

7 May 2009

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VCT 2 PLC

Introduction

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SPARK VCT 2 PLC

Fund overview & update

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Agenda

- The effects of the recession
- The managers response to the recession
- Portfolio progress in 2008
- Valuation principles
- Financial results
- Looking ahead

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The effects of the recession

How is a venture capital portfolio affected in a recession?

- Early stage, Venture-backed companies generally never had much access to debt finance, so the effects of the credit crunch were muted.

BUT the wider recession has had the following consequences:

- Key customer contracts have been delayed, reduced or shelved altogether;
- The Mergers & Acquisitions market has effectively closed, so selling assets has not been possible, unless at distressed valuations;
- The raising of equity capital has become much more difficult.

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Decline in Venture Capital investment

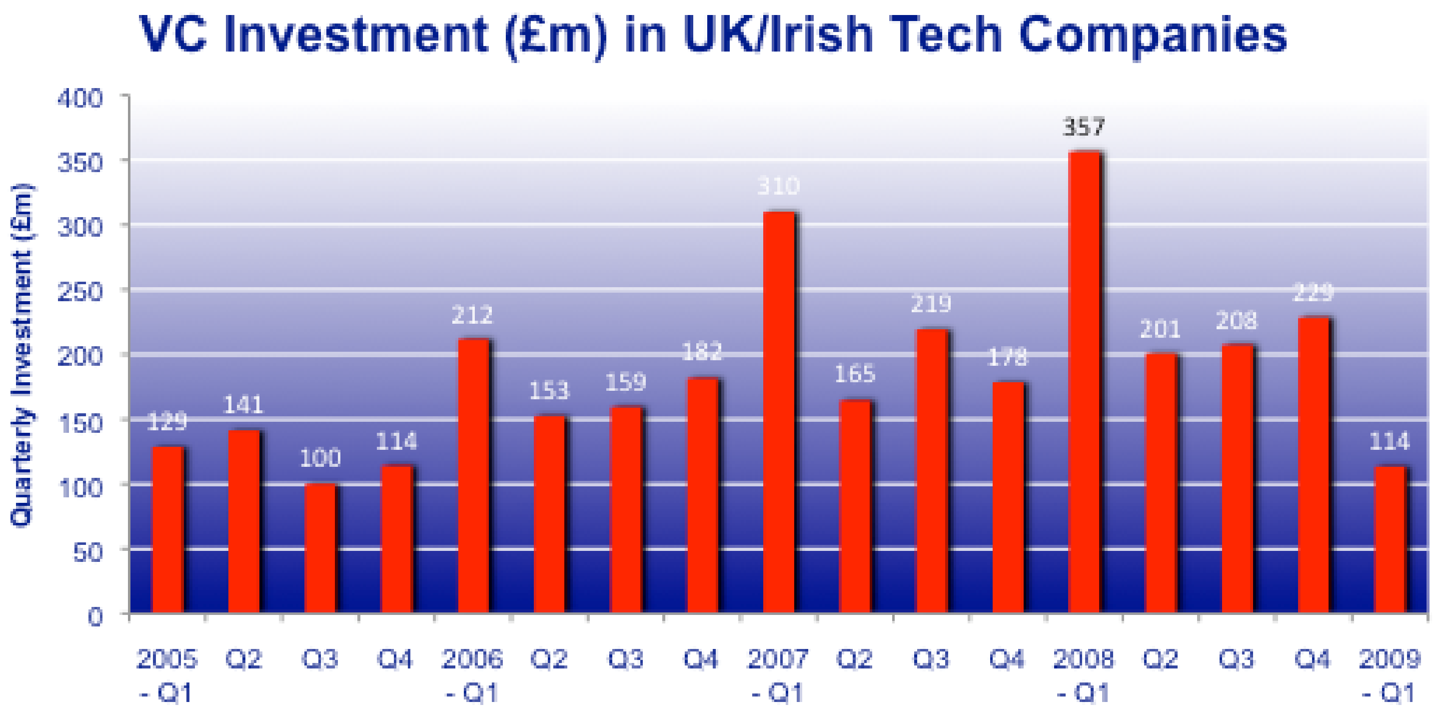

Chart © Ascendant 2009

Funding for tech companies has dropped 68% from Q1 last year

The number of active investors has dropped 40% from Q1 last year

PRESERVATION OF CASH IS CRITICAL

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How should a venture capital manager respond to the recession?

1. In the portfolio:

- Control costs, reduce the rate of cash burn to extend resources (9 co’s.)
- Strategic reviews and challenge growth assumptions (all co’s.)
- Follow-on investment where good companies take sufficient remedial steps (8 co’s)
- Change the management where there are failures to adapt (9 co’s)
- Close down companies where necessary (2 co’s)

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How should a venture capital manager respond to the recession?

2. In the fund:

- Plan the resources of the fund to deal with recession
  - Sale in July 2008 of portfolio of listed equities

    (value lost in the period to December 08: £437,000; value saved if the fund were to be holding the same portfolio now £1.5m)

- Merge with SPARK VCT 3
  - cost savings
  - some broadening of the portfolio

- Reduce the number of new investments
  - Only 3 new investments in the last 18 months

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Revenue growth continues

Development stage companies	Revenue growth	
Workshare	+ 13%	
Elateral	+ 40%	
Sift	+ 20%	
Xtera Communications	+ 115%	**(inc. acquisitions)**
Early stage companies		
Antenova	+ 85%	
Celona Technologies	+ 500%	
Uniservity	+ 62%	
Life sciences		
Celldex Therapeutics	+ 173%	
Medigene	+ 37%	
Oxford Immunotec	+ 73%	

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But Valuations are falling

The Fund valuation is based on International Private Equity and Venture Capital Valuation Guidelines, which have been consistently applied:

- Prices of recent financing rounds;
- Earnings multiples (for more mature companies);
- Industry valuation bench-marks

BUT

- All of these metrics have declined over the last year, leading to downward pressure on valuations, even for good companies
- Inevitably, there have also been some disappointments, and decisions not to provide further support

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Generating the following financial results

	£'000	Pence per share
Net asset value at 31 December 2007	**21,745**	**46.5**
Income	635	1.1
Operating expenses	(1,258)	(2.3)
Net loss on disposal – listed equity portfolio	(437)	(0.9)
Net loss on disposal – venture capital investments	(89)	-
Net loss on revaluation – venture capital investments	(4,084)	(7.3)
Assets acquired on merger with SPARK VCT 3 plc	12,945	-
Net assets before dividends and share buy-backs	**29,457**	**37.1**
Dividend paid	(467)	(1.0)
Share buy-backs	(395)	0.3
Net asset value at 31 December 2008	**28,595**	**36.4**

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Looking ahead

Manage the Fund to deliver value to shareholders

- Caution over the deployment of cash
- Use reserves to build value in the better portfolio companies
- Be prepared to wait until the M&A market recovers

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Annual General Meeting

7 May 2009

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