

# EVCA Reporting Guidelines



June 2006



European Private Equity &  
Venture Capital  
Association

## **Corporate Governance and Professional Standards for the Private Equity and Venture Capital Industry**

Developed by the European Private Equity and Venture Capital Association

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### **About EVCA**

The European Private Equity and Venture Capital Association (EVCA) was established in 1983 and is based in Brussels. EVCA represents the European private equity sector and promotes the asset class both within Europe and throughout the world. With over 925 members in Europe, EVCA's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics. EVCA's activities cover the whole range of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins.

### **Disclaimer**

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# Introduction

In March 2000, the European Private Equity and Venture Capital Association (EVCA) issued its first Reporting Guidelines. These Guidelines have been widely adopted across the private equity industry. Following the endorsement by EVCA of the International Private Equity and Venture Capital Valuation Guidelines in March 2005, a special task force was set up in September 2005 to update the previous Reporting Guidelines to bring them into line with the new valuation principles and to reflect the evolution of common reporting practices within the industry.

EVCA proposes that these updated Guidelines be adopted by private equity firms in Europe in order to create a presentation standard for the whole of the industry. EVCA recognizes that some firms will wish to disclose additional information to that specified in these Guidelines and it is not EVCA's intention to restrict such disclosure in any way.

The term “private equity” is used in these Guidelines in a broad sense to include investments in early stage ventures, management buyouts, management buy-ins or similar transactions and growth or development capital.

This new edition of the Reporting Guidelines (“the Guidelines”) sets out recommendations intended to represent common practice on the content of reports to investors in private equity funds structured as limited partnership fixed-life funds (currently the most common fund structure within the private equity industry). The Guidelines also serve as a reference for private equity funds that are structured differently. The Guidelines are designed primarily for private equity funds making direct investments. Where there is a conflict between the Guidelines and the requirements of any applicable laws, regulation or contractual agreements, the latter should take precedence.

This document presents two forms of guidance:

- Requirements that must be applied to enable a fund manager to claim compliance with the Guidelines;
- Recommendations whose adoption is left to the discretion of the fund manager. These items are either intended to ease the reporting and monitoring processes of the investors or are considered not to be key in nature.

A significant factor to be considered in the reporting of information to investors is the impact of local laws (such as Freedom of Information Act - FOIA) requests. The issues arising from additional disclosures beyond fund level performance are potentially significant for both private equity firms and investors. As a result, the Guidelines were developed to set forth common practices in reporting, assuming that detailed portfolio company and other similar information would be kept confidential and would not be disclosed beyond the private equity firm and the investor. Within their respective organizations, fund managers and investors should make their own judgements regarding their level of comfort in disclosing/receiving confidential information.

The Guidelines are structured as follows:

- Statutory Accounts
- Reporting
  - A General Considerations
  - B Timing
  - C Fund Reporting
  - D Portfolio Reporting
  - E Capital Account
  - F Fees and Carried Interest
- Template
- Performance Measurement

The Guidelines should be regarded as superseding the previous guidelines issued in March 2000 with effect for reporting periods ending post 30 June 2006.

# Statutory Accounts

Statutory accounts are governed by the law of the jurisdiction in which the fund or investment company is established, together with the investment agreement and/or constitutional document of the fund. The content of statutory accounts is not therefore the subject of this paper. The reporting guidelines are designed to complement and enhance the requirements of European laws regarding the format and content of statutory accounts.

## Reporting

### A General Considerations

#### Requirement

When reporting to investors, the fund manager should consider and observe the following reporting principles:

- **Relevance.** The information provided should allow investors to monitor their individual investment;
- **Transparency.** The information on all relevant topics regarding the evolution of the fund's performance should be communicated to investors in a transparent manner;
- **Consistency.** The information provided to investors should be consistent over time.

All reporting, including underlying calculations, should be presented in the functional currency of the fund.

#### Recommendation

Combined statements of all investment vehicles comprising the fund can be produced when appropriate.

Reporting can be made available in electronic format.

## B Timing

### Requirement

Reporting should be undertaken semi-annually within 60 calendar days (half year) and within 90 calendar days (full year) after the end of the reporting period. The extent to which the information is required to be audited will be determined by the contractual arrangements with the investors.

### Recommendation

Reporting should be produced quarterly with fund level information within 45 calendar days (quarter) and within 60 calendar days (full year). It is left to the discretion of the fund manager to extend its quarterly reporting to portfolio company level information.

## C Fund Reporting

- 1 A fund overview that includes the following:

### Requirements

- 1.1 first closing date and vintage year (i.e. year of first cash flow), total commitment, term and investment period;
- 1.2 fund's domicile, legal form and structure, and investment focus both by stage and geography.

- 2 An executive summary that includes the following information for the current reporting period:

### Requirements

- 2.1 current investments (significant events);
- 2.2 new investments;
- 2.3 realisations;
- 2.4 significant changes to the management company or to the general partner (especially to senior investment personnel);
- 2.5 changes in portfolio or fund strategy;
- 2.6 material risks to the performance of the fund as a whole, not included elsewhere in the report;
- 2.7 events that have had, or might have, an impact on the future performance of the fund;
- 2.8 a notification of the annual meeting;
- 2.9 a statement of compliance with EVCA Reporting Guidelines.



## **Recommendation**

- 2.10 presentation of a value progression chart, showing the change in value of the fund over its life, analysed into total contributed capital, cumulative distributions, and residual fund value net of management fees and carried interest.
- 3 A fund summary presenting a clear statement of the overall position at the reporting date, including prior comparative figures, that includes the following:

## **Requirements**

- 3.1 total commitment;
- 3.2 total drawdowns;
- 3.3 total remaining available for drawdown;
- 3.4 cumulative distributions to the investor(s) and to the fund manager;
- 3.5 recallable distributions;
- 3.6 fair value of portfolio;
- 3.7 total other assets and liabilities;
- 3.8 total net asset value;
- 3.9 gross IRR;
- 3.10 net IRR to investors (optional during the first 2 years of the fund);
- 3.11 multiples to investors (optional during the first 2 years of the fund):
  - distributions to paid-in capital;
  - residual value (net of management fees and carried interest) to paid-in capital;
  - total value to paid-in capital;
  - paid-in capital to committed capital;
- 3.12 total invested in portfolio companies;
- 3.13 total additional committed to portfolio companies and planned for follow-on investments;
- 3.14 note of any leverage of the fund, including debt, guarantees, charges, warranties, indemnities or other contingent liabilities.

## **Recommendation**

- 3.15 potential drawdowns for next reporting period.

- 4 Cash flow schedule and net IRR calculation table, presenting:

**Requirements**

- 4.1 cash flows between fund and investors and their timing;
- 4.2 IRR calculated on at least a monthly cash flow basis on fund performance (net of management fees and carried interest).

## D Portfolio Reporting

- 5 Realisation summary\*

For the current reporting period and since inception until the end of the current reporting period, a clear statement of total and partial realisations, to include the following details for each transaction:

**Requirements**

- 5.1 legal and/or trading name of the portfolio company;
- 5.2 disposal date;
- 5.3 holding period;
- 5.4 percentage of the fund's holding sold;
- 5.5 cost of realised investment;
- 5.6 proceeds of the investment, including interest and dividends;
- 5.7 deferred proceeds, escrow accounts and earn-outs;
- 5.8 realised gains/losses;
- 5.9 multiple to cost;
- 5.10 gross IRR on realised investment;
- 5.11 exit method.

- 6 Current portfolio summary

A summary of current portfolio to include the following details for each holding:

**Requirements**

- 6.1 legal and/or trading name of the portfolio company;
- 6.2 whether the company is quoted or unquoted;

*\* Partial realisations of portfolio holdings should be reported as their separate realised and unrealised constituent parts on a pro-rata basis.*

- 6.3 date of initial investment;
  - 6.4 geography;
  - 6.5 industry;
  - 6.6 stage of initial investment;
  - 6.7 percentage ownership;
  - 6.8 cost of investment;
  - 6.9 fair value of the investment (in accordance with the International Private Equity and Venture Capital Valuation Guidelines);
  - 6.10 interest and dividends since inception;
  - 6.11 multiple (Fair Value/Cost) as at the end of the current reporting period;
  - 6.12 gross IRR on unrealised investment.
- 7 General information on the companies currently in the portfolio to include the following details for each holding:

#### **Requirements**

- 7.1 legal and trading names (including any change) of portfolio company;
- 7.2 location of head of office or management;
- 7.3 total amount invested by the fund;
- 7.4 brief description of the business;
- 7.5 stage of initial investment;
- 7.6 statement of the fund's role in the investment (lead, co-lead, etc) at the time of the first investment;
- 7.7 percentage ownership and board representation (if any) by the fund;
- 7.8 valuation of the company (enterprise value if leveraged) at the time of the initial investment;
- 7.9 valuation of the company (enterprise value if leveraged) at the end of the current reporting period, in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

#### **Recommendation**

- 7.10 budget or forecast for the current year and comparison of historic profit and loss with budgeted numbers.

8 Specific information concerning each investment:

**Requirements**

- 8.1 valuation of each investment, in accordance with the Private Equity and Venture Capital Valuation Guidelines;
- 8.2 specific methodology used in accordance with the International Private Equity and Venture Capital Valuation Guidelines;
- 8.3 for quoted shares, price and any discounts applied;
- 8.4 currency when the investment is denominated in a currency other than the fund's currency;
- 8.5 exchange rate used for the conversion at the reporting date;
- 8.6 interest and dividends since inception;
- 8.7 gross IRR on realised and unrealised investments;
- 8.8 other exposures of the fund to the portfolio company, such as guarantees and contingent liabilities.

**Recommendations**

- 8.9 explanation of any changes in valuation compared to the previous reporting period;
- 8.10 name of significant syndication partners and co-investors;
- 8.11 exit plans, where applicable.

9 Significant events and issues:

**Requirements**

- 9.1 brief analysis of significant events during the reporting period and anticipated events;
- 9.2 disclosure of any significant extraordinary items;
- 9.3 any realisation restrictions over the investment (for example a lock-up period on listed shares).

**Requirement**

- 10 Historic profit and loss – turnover, EBIT and additional key performance indicators as appropriate for the type of company and industry (e.g. gross profit, EBITDA, cash and cash equivalent, net earnings, net debt, etc).

**Requirement**

- 11 An assessment of the company's status compared to the expectation at the time of the investment.

## E Capital Account

Each individual investor should receive a statement of his own capital account together with a statement for the fund as a whole to include the following information:

12 From inception to the end of the current reporting period:

### Requirements

- 12.1 percentage ownership;
- 12.2 total commitment, split between different instruments if appropriate;
- 12.3 total contributions;
- 12.4 cumulative distributions;
- 12.5 sub-total representing the contributions outstanding;
- 12.6 amount of cumulative distributions recallable by the fund manager;
- 12.7 cumulative realised portfolio gains/losses;
- 12.8 cumulative unrealised portfolio gains\*/losses;
- 12.9 allocation to the carried interest partner;
- 12.10 cumulative operating income and expenses (other than portfolio gains/losses);
- 12.11 capital account at fair value at the end of the current reporting period.

13 For the current reporting period:

### Requirements

- 13.1 capital account at fair value at the beginning of the period;
- 13.2 contributions made during the period;
- 13.3 distributions made during the period. If distributions are non-cash instruments, value and the calculation basis for valuation should be disclosed. Where applicable stock markets and tickers of the distributed non-cash instruments and expiration date of any lock-up period should be disclosed;
- 13.4 realised portfolio gains/losses;
- 13.5 unrealised portfolio gains\*/losses;
- 13.6 operating income and expenses (other than portfolio gains/losses);
- 13.7 capital account at fair value at the end of the current reporting period.

*\* If unrealised gains are included in the analysis, the analysis should clearly state that the gains are not due to the investor until realised and that the information is provided on a pro-forma basis for illustrative purposes only.*

## Recommendations

- 13.8 the fund manager may provide details listed in paragraphs 12 and 13 for all investors in the fund in tabular form. The disclosure of the names of investors is left to the discretion of the fund manager;
- 13.9 for each individual investor: her/his own cash flow schedule detailing amounts and dates of draw downs and distributions since inception;
- 13.10 information regarding the origin of the distributions may be provided to investors (e.g. distributions related to capital gains, dividends or interest).

## F Fees and Carried Interest

- 14 The following information regarding fees should be reported for the current reporting period:

### Requirements

- 14.1 clear statement of related party transactions, benefits and fees, broken down into principal categories (e.g. underwriting fees, directors and monitoring fees, deal fees, broken deal fees, etc.). The treatment of such fees and transactions will be specific to each individual fund and the reporting should show clearly the treatments adopted;
- 14.2 net management fees (i.e. gross management fees net of any credit from received fees) and the basis of calculation.

- 15 Statement of carried interest paid to include the following details:

### Requirements

- 15.1 total amount of carried interest paid since inception to the end of the current reporting period;
- 15.2 total amount of carried interest paid during the current reporting period;
- 15.3 total amount of carried interest earned during the current reporting period;
- 15.4 total amount of carried interest accrued during the current reporting period.

### Requirement

- 16 The value of any potential clawbacks of carried interest as at the end of the current reporting period should be reported.

# Template

## Content

- **Fund Reporting**
  - Fund Overview
  - Executive Summary
  - Fund Summary
  - Cash Flow and IRR Calculations
  
- **Portfolio Reporting**
  - Realisation Summary
  - Current Portfolio Summary
  - Portfolio Companies and Investments
  
- **Capital Account**
  
- **Fees and Carried Interest**

## 1 Fund Reporting

### The EVCA Fund 31 December 2005

#### Fund Overview (ref. C 1)

<b>First closing date</b>	30 June 2003
<b>Vintage year</b>	2003
<b>Total commitment</b>	€1 billion
<b>Term</b>	10 + 2 years
<b>Investment period</b>	5 years, i.e. end of June 2008
<b>Fund's domicile</b>	Jersey
<b>Legal form</b>	Series of limited partnerships: - EVCA Fund A €400 million - EVCA Fund B €250 million - EVCA Fund C €350 million
<b>Structure</b>	One General Partner and ten Limited Partners. Management Company: 'The Private Equity Company Ltd'
<b>Investment focus by stage</b>	Generalist fund: - Early stage - Development capital - Buyout investments
<b>Investment focus by geography</b>	Northern Europe including the UK



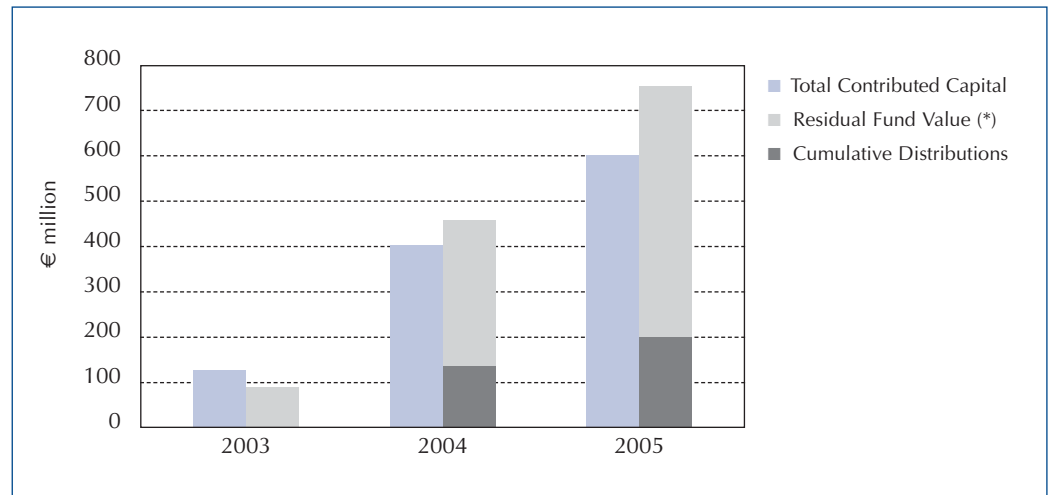
## The EVCA Fund 31 December 2005

### Executive Summary (ref. C 2)

#### ■ Fund Update and Overview

As of 31 December 2005, the Fund had drawn down €600 million or 60% of committed capital and had committed a further €118 million or 11.8% for follow-on financing in those companies where the fund had invested in an early round of finance. The Fund had cumulatively returned €200 million in distribution to Limited Partners (20% of committed capital) and had a remaining value of €590 million. The net IRR to Limited Partners at 31 December 2005 was 19.9%.

#### Value progression chart (Recommendation)



(\*) Net of management fees and carried interest.

### ■ Current and New Investments

The Fund was invested in 17 companies for a total cost of €470 million at the end of the reporting period, including 6 new investments in 2005 for a total cost of €198 million. The new investments were Company J, Company K, Company L, Company M, Company N, and Company T.

### ■ Realisations

One full realisation and one partial realisation were achieved during the reporting period. The first was Company X, which was entirely realised via the sale to a trade buyer of the remainder €10 million investment for proceeds of €20 million representing a gross IRR of 45.9% and a 2 times multiple to cost. The second was the flotation of Company Y on the London Stock Exchange. The Fund sold 17.25% of its holding, representing 7.25% ownership of the company, and realised €25 million. The investment in Company Y yielded a gross IRR of 439.1% and a 6 times multiple to cost. The remaining shares of Company Y valued the Fund's holding at year end at €85 million.

### ■ Significant Developments

- significant changes in the management company or to the general partner
- material risk and performance
- other relevant events

### ■ Annual Meeting

We would like to thank you for your continued support of the EVCA Fund and look forward to seeing you at our Annual Meeting on 20 June 2006 that will be held at our office in Zaventem, Belgium.

The information contained in this report is presented in accordance with the EVCA Reporting Guidelines, edition 2006.

EVCA Management Team

**The EVCA Fund**  
**31 December 2005**

**Fund Summary (ref. C 3)**

	2005	2005	2004	2004
	€ million	% Committed Capital	€ million	% Committed Capital
Total committed	1,000	100%	1,000	100%
Total drawdowns	600	60%	402	40%
Total remaining available for drawdown	400	40%	598	60%
Potential drawdowns for next reporting period (recommendation)	100	10%	200	20%
Cumulative distributions	200	20%	135	14%
Recallable distributions	-		-	
Fair value of portfolio	595		328	
Total other assets and liabilities	(5)		(5)	
Total Net Assets Value	590		323	
Contingent liabilities (including debt, guarantees etc)	-		-	
Gross IRR	23.9%		19.9%	
Net IRR	19.9%		16.6%	
Multiples to investors				
Distributions to paid-in capital (DPI)	0.33 x		0.34 x	
Residual value to paid-in capital (RVPI)	0.98 x		0.80 x	
Total value to paid-in capital (TVPI)	1.32 x		1.14 x	
Paid-in capital to committed capital	0.60 x		0.40 x	
Total invested in portfolio companies	580	58%	383	38%
Total additional committed to portfolio companies	118	12%	79	8%
Total additional planned for follow on investments	100	10%	80	8%
Total allocated to portfolio companies	798	80%	542	54%

**The EVCA Fund**  
**31 December 2005**

**Cash Flow Schedule and Net IRR Calculation Table (ref. C 4)**

<b>INVESTORS COMMITMENT: €1,000,000,000</b>				
Date of Cash Flow	Contributions from Investors	Distributions to Investors	Fund's Net Asset Value (NAV) (*)	Cash Flows and NAV
15/07/2003	(100,000,000)			(100,000,000)
07/09/2003	(27,000,000)			(27,000,000)
15/01/2004	(100,000,000)			(100,000,000)
23/02/2004		50,000,000		50,000,000
31/03/2004	(137,500,000)			(137,500,000)
03/04/2004		45,000,000		45,000,000
07/05/2004		40,000,000		40,000,000
01/10/2004	(37,500,000)			(37,500,000)
15/01/2005	(128,000,000)			(128,000,000)
20/07/2005		40,000,000		40,000,000
01/10/2005	(70,000,000)			(70,000,000)
03/11/2005		25,000,000		25,000,000
30/12/2005			547,000,000	547,000,000
Net IRR				19.9%
Multiples				
Distributions to paid-in capital (DPI)				0.33 x
Residual value to paid-in capital (RVPI)				0.98 x
Total value to paid-in capital (TVPI)				1.32 x

(\*) Net of management fees and carried interest.

## 2 Portfolio Reporting

### The EVCA Fund 31 December 2005

#### Realisation Summary (ref. D 5)

€ million	Disposal Date (*)	Holding Period (months)	% of the Fund's Holding Sold	Cost of Realised Investment	Proceeds (**)	Realised Gains/ Losses	Multiple to Cost	Gross IRR	Exit Method
<b>DURING THE CURRENT REPORTING PERIOD: 1 JANUARY 2005 - 31 DECEMBER 2005</b>									
Company X	15/06/2005	22	83.33%	10.03	20.00	9.97	1.99	45.9%	Trade sale
Company Y	03/10/2005	13	17.25%	4.17	25.00	20.83	6.00	439.1%	IPO
Subtotal Realisations				14.17	45.00	30.83	3.2		
<b>SINCE INCEPTION TO 31 DECEMBER 2005</b>									
Total Realisations									
Company X	15/06/2005	22	100.00%	12.00	25.00	13.00	2.08	49.2%	Trade sale
Company Z	07/04/2004	9	100.00%	19.50	40.00	20.50	2.05	153.4%	Secondary sale
Company W	23/01/2004	6	100.00%	28.00	50.00	22.00	1.79	201.1%	Trade sale
Company S	03/03/2004	4	100.00%	3.00	0.00	-3.00	0.00	N/A	Write-off
Partial Realisations									
Company Y	03/10/2005	13	17.25%	4.17	25.00	20.83	6.00	439.1%	IPO
Company F	11/10/2004	8	40.00%	14.00	15.00	1.00	1.07	10.8%	Trade sale
Company U	03/03/2004	4	42.30%	29.33	45.00	15.67	1.53	223.7%	Trade sale
Subtotal Realisations				110.00	200.00	90.00	1.82	128.2% (***)	

(\*) *Date of the latest disposal.*

(\*\*) *Includes interest and dividends; please specify separately deferred proceeds, escrow accounts and earn-outs.*

(\*\*\*) *Pooled gross IRR.*

**The EVCA Fund**  
**31 December 2005**

**Current Portfolio Summary (ref. D 6)**

€ million	Date of Initial Investment	Geography	Industry	Stage of Initial Investment	% Ownership	Cost of Investment	Fair Value of the Investment as of 31/12/2005	Interest and Dividends since Inception	Fair Value/ Cost as of 31/12/2005	Gross IRR on Unrealised Investments
<b>QUOTED COMPANIES</b>										
Company Y	10/09/2004	UK	Service	Expansion	35.00%	20.00	85.00	-	4.25	202.58%
Company U	22/10/2003	France	Automotive	Expansion	9.40%	40.00	58.00	-	1.45	18.45%
Company S	25/06/2003	Holland	Retail	Expansion/ Later	12.60%	22.00	34.00	2.50	1.55	18.85%
<b>UNQUOTED COMPANIES</b>										
Company T	08/12/2005	Sweden	Healthcare	Early Stage	22.00%	28.00	28.00	-	1.00	N/A
Company N	14/10/2005	France	Retail	Expansion	18.00%	41.00	41.00	-	1.00	N/A
Company M	21/06/2005	Belgium	Service	Expansion	14.00%	33.00	33.00	-	1.00	N/A
Company L	09/03/2005	UK	Automotive	Expansion	12.00%	36.00	36.00	-	1.00	N/A
Company K	26/01/2005	France	Communications	Early Stage	39.00%	29.00	22.00	-	0.76	-25.7%
Company J	07/01/2005	UK	Healthcare	Buyout	90.00%	31.00	23.00	1.00	0.74	-26.2%
Company I	07/10/2004	France	Software	Early Stage	40.90%	12.00	6.00	-	0.50	-43.0%
Company H	11/05/2004	France	Industrial products	Expansion	16.10%	30.00	52.00	3.00	1.73	39.8%
Company F	09/02/2004	Norway	Communications	Early Stage	31.70%	21.00	31.00	-	1.48	22.8%
Company E	06/02/2004	Germany	Communications	Early Stage	28.00%	18.00	40.00	-	2.22	52.2%
Company D	23/01/2004	UK	Healthcare	Expansion	12.20%	22.00	11.00	-	0.50	-30.0%
Company C	10/12/2003	USA	Communications	Expansion	45.00%	27.00	44.00	-	1.63	26.7%
Company B	02/09/2003	France	Service	Buyout	95.00%	37.00	40.00	1.50	1.08	3.4%
Company A	18/07/2003	UK	Retail	Expansion	9.60%	23.00	11.00	0.50	0.48	-25.9%
<b>Total</b>						<b>470.00</b>	<b>595.00</b>	<b>8.50</b>	<b>1.27</b>	<b>17.5% (*)</b>

(\*) Pooled gross IRR.

**The EVCA Fund**  
**31 December 2005**

**Portfolio Companies (ref. D 7, D 8.10 - D 8.11, D 9.1 - D 9.2, D 10, D 11)**

<b>Legal and trading Name (including any changes)</b>	<b>Company C</b>			
Location of head office or management	Mystic Harbor, USA			
Total amount invested by the Fund	€27 million			
Description of the business	Develops wireless communication services			
Stage of initial investment	Expansion			
Fund's role in the initial investment (lead, co-lead)	Lead			
Percentage ownership and board representation by the fund	45% Two board members - Jim Smith and David Jones			
Other significant co-investors (recommendation)	Venture Fund I Scandinavia, European Ventures III and investor no. 10 on same terms as fund			
Company valuation at time of initial investment	€81 million - (enterprise value)			
Company's Fair Value as of 31 December 2005	€133 million (enterprise value - in accordance with the International Private Equity and Venture Capital Valuation Guidelines)			
Trading record - € million	31/12/2003 Actual	31/12/2004 Actual	31/12/2005 Actual	31/12/2006 Budget/Forecast (recommendation)
Sales	82	103	128	179
EBITDA	16	20	23	27
EBIT	8	11	11	13
Net income	4	5	4	5
Net debt	21	39	35	
Significant events	A new generation of software has been introduced which has significantly increased revenues			
Exit plans (recommendation)	Potential public offering on Nasdaq			
Assessment versus Initial Plan	On Plan			
Extraordinary items	-			

**Fund's Investment in Company C (ref. D 8.1 - D 8.9 and D 9.3)**

<b>Unrealised</b>	Book Cost	Fair Value as of 31/12/2005 (*)	Methodology used (**)	Interest/Dividends since Inception	Outstanding Commitment	Liquidity Restrictions	Fund's Holding (%)	Gross IRR	Denomination Currency	Exchange Rate at Reporting Date (***)
Common Shares (****)	27.00	44.00	Earnings Multiple	None	None	None	100.00%	26.7%	USD	1.2
<b>Realised</b>	Book Cost	Realised Value	Type of Realisation			Fund's Holding Sold	Gross IRR	Denomination Currency	Exchange Rate at Reporting Date (***)	
None	N/A	N/A	Income (interest/dividends) Capital (cash/stock)			N/A	N/A	USD		
<b>Total Unrealised and Realised</b>	Book Cost	Valuation and Proceeds				Total Fund's Holding	Gross IRR	Denomination Currency	Exchange Rate at Reporting Date (***)	
	<b>27.00</b>	<b>44.00</b>				<b>100.00%</b>	<b>26.7%</b>	<b>USD</b>	<b>1.2</b>	

(\*) Recommendation: explanation for any change in valuation.

(\*\*) In accordance with the International Private Equity and Venture Capital Valuation Guidelines.

(\*\*\*) Denomination currency of the investment per fund currency.

(\*\*\*\*) For quoted shares, price and discounts applied.



### 3 Capital Account

#### Investor n° 4 in the EVCA Fund (ref. E 12, E 13.1 - E 13.7, E 13.9, E 13.10)

Investor n°4 Commitment: €10,000,000 % Ownership: 1%

CAPITAL ACCOUNT SINCE INCEPTION TO 31 DECEMBER 2005 IN € MILLION									
Date of Cash Flow	Total Commitment (*)	Contributions	Distributions (**)	Cumulative Realised Portfolio Gains/Losses	Cumulative Unrealised Portfolio Gains/Losses	Cumulative Operating Income and Expenses other than Portfolio Gains/Losses	Capital Account at Fair Value as of 31/12/2005	Contributions Outstanding	Recallable Amount of Cumulative Distributions
15/07/2003	-	1.0	-	-	-	-	-	-	-
07/09/2003	-	0.3	-	-	-	-	-	-	-
15/01/2004	-	1.0	-	-	-	-	-	-	-
23/02/2004	-	-	0.5	-	-	-	-	-	-
31/03/2004	-	1.4	-	-	-	-	-	-	-
03/04/2004	-	-	0.5	-	-	-	-	-	-
07/05/2004	-	-	0.4	-	-	-	-	-	-
01/10/2004	-	0.4	-	-	-	-	-	-	-
15/01/2005	-	1.3	-	-	-	-	-	-	-
20/07/2005	-	-	0.4	-	-	-	-	-	-
01/10/2005	-	0.7	-	-	-	-	-	-	-
03/11/2005	-	-	0.3	-	-	-	-	-	-
<b>Total Investor</b>	<b>10.0</b>	<b>6.0</b>	<b>2.0</b>	<b>0.7</b>	<b>1.0</b>	<b>0.3</b>	<b>5.5</b>	<b>4.0</b>	<b>-</b>
<b>Total Fund</b>	<b>1,000.0</b>	<b>600.0</b>	<b>200.0</b>	<b>90.0</b>	<b>125.0</b>	<b>25.0</b>	<b>590.0</b>	<b>400.0</b>	<b>-</b>
CAPITAL ACCOUNT DURING THE CURRENT REPORTING PERIOD 1 JANUARY 2005 - 31 DECEMBER 2005 IN € MILLION									
	Capital Account at Fair Value as of 31/12/2004	Contributions	Distributions (**)	Realised Portfolio Gains/Losses	Unrealised Portfolio Gains/Losses	Operating Income and Expenses other than Portfolio Gains/Losses	Capital Account at Fair Value as of 31/12/2005		
<b>Total Investor</b>	<b>3.2</b>	<b>2.0</b>	<b>0.7</b>	<b>0.3</b>	<b>1.2</b>	<b>0.2</b>	<b>5.9</b>		
<b>Total Fund</b>	<b>323.0</b>	<b>198.0</b>	<b>65.0</b>	<b>30.8</b>	<b>118.2</b>	<b>15.0</b>	<b>590.0</b>		

(\*) Split between different instruments if appropriate.

(\*\*) If distributions are non-cash instruments, value and the calculation basis for valuation should be disclosed. Where applicable stock markets and tickers of the distributed non-cash instruments and expiration date of any lock-up period should be disclosed.

Recommended: information regarding origin of distributions.

### The EVCA Fund (All Investors) (ref. E 13.8)

CAPITAL ACCOUNT SINCE INCEPTION TO 31 DECEMBER 2005 IN € MILLION										
Investor (*)	% Ownership	Total Commitment (**)	Cumulative Contributions	Cumulative Distributions	Cumulative Realised Portfolio Gains/Losses	Cumulative Unrealised Portfolio Gains/Losses (***)	Cumulative Operating Income and Expenses other than Portfolio Gains/Losses (****)	Capital Account at Fair Value as of 31/12/2005	Contributions Outstanding	Recallable Amount of Cumulative Distributions
Investor #1	5.0%	50.0	30.0	10.0	3.6	5.0	1.3	27.4	20.0	-
Investor #2	10.0%	100.0	60.0	20.0	7.2	10.0	2.5	54.7	40.0	-
Investor #3	3.0%	30.0	18.0	6.0	2.2	3.0	0.8	16.4	12.0	-
Investor #4	1.0%	10.0	6.0	2.0	0.7	1.0	0.3	5.5	4.0	-
Investor #5	1.0%	10.0	6.0	2.0	0.7	1.0	0.3	5.5	4.0	-
Investor #6	6.0%	60.0	36.0	12.0	4.3	6.0	1.5	32.8	24.0	-
Investor #7	4.0%	40.0	24.0	8.0	2.9	4.0	1.0	21.9	16.0	-
Investor #8	30.0%	300.0	180.0	60.0	21.6	30.0	7.5	164.1	120.0	-
Investor #9	35.0%	350.0	210.0	70.0	25.2	35.0	8.8	191.5	140.0	-
Investor #10	4.0%	40.0	24.0	8.0	2.9	4.0	1.0	21.9	16.0	-
General Partner	1.0%	10.0	6.0	2.0	0.7	1.0	0.3	5.5	4.0	-
Carried Interest Partner					18.0	25.0		43.0		
<b>Total</b>	<b>100.0%</b>	<b>1,000.0</b>	<b>600.0</b>	<b>200.0</b>	<b>90.0</b>	<b>125.0</b>	<b>25.0</b>	<b>590.0</b>	<b>400.0</b>	<b>-</b>

(\*) Disclosure of the names of the Limited Partners is optional.

(\*\*) Split between different instruments if appropriate.

(\*\*\*) If unrealised gains are included in the analysis, the analysis should clearly state that the gains are not due to the investor until realised and that the information is provided on a pro-forma basis for illustrative purposes only.

(\*\*\*\*) Due to different practices in Europe, the priority profit share/management fees are not included in this template.

### The EVCA Fund (All Investors) (ref. E 13.8)

CAPITAL ACCOUNT DURING THE CURRENT REPORTING PERIOD 1 JANUARY 2005 - 31 DECEMBER 2005 IN € MILLION							
Investor (*)	Capital Account at Fair Value as of 31/12/2004	Contributions	Distributions	Realised Portfolio Gains/Losses	Current Unrealised Portfolio Gains/Losses (***)	Operating Income and Expenses other than Portfolio Gains/Losses (****)	Capital Account at Fair Value as of 31/12/2005
Investor #1	15.5	9.9	3.3	1.2	4.7	0.8	29.5
Investor #2	31.0	19.8	6.5	2.5	9.5	1.5	59.0
Investor #3	9.3	5.9	2.0	0.7	2.8	0.5	17.7
Investor #4	3.1	2.0	0.7	0.2	0.9	0.2	5.9
Investor #5	3.1	2.0	0.7	0.2	0.9	0.2	5.9
Investor #6	18.6	11.9	3.9	1.5	5.7	0.9	35.4
Investor #7	12.4	7.9	2.6	1.0	3.8	0.6	23.6
Investor #8	92.9	59.4	19.5	7.4	28.4	4.5	177.0
Investor #9	108.4	69.3	22.8	8.6	33.1	5.3	206.5
Investor #10	12.4	7.9	2.6	1.0	3.8	0.6	23.6
General Partner	3.1	2.0	0.7	0.2	0.9	0.2	5.9
Carried Interest Partner	13.2			6.2	23.6		43.0
<b>Total</b>	<b>323.0</b>	<b>198.0</b>	<b>65.0</b>	<b>30.8</b>	<b>118.2</b>	<b>15.0</b>	<b>590.0</b>

(\*) *Disclosure of the names of the Limited Partners is optional.*

(\*\*) *Split between different instruments if appropriate.*

(\*\*\*) *If unrealised gains are included in the analysis, the analysis should clearly state that the gains are not due to the investor until realised and that the information is provided on a pro-forma basis for illustrative purposes only.*

(\*\*\*\*) *Due to different practices in Europe, the priority profit share/management fees are not included in this template.*

## 4 Fees and Carried Interest (ref. F 14 - F 16)

### The EVCA Fund 31 December 2005

CURRENT REPORTING PERIOD FEES	€ MILLION
Underwriting fees	5.0
Director/Monitoring fees	0.5
Broken deal fees	0.5
Gross management fees (*)	18.0
Credit from received fees	3.0
Net management fees	15.0
CARRIED INTEREST	€ MILLION
Carried interest paid since inception till 31 December 2005	0.0
Current period carried interest paid	0.0
Current period carried interest earned	0.0
Current period carried interest accrued	29.8
Potential clawback value	0.0

(\*) Provide the basis of calculation of the management fees.

# Performance Measurement

## The Internal Rate of Return

Returns may be measured in a number of ways. One may, for example, measure the payback period, that is to say the number of years required for the expenditure associated with a project to be recouped; or one might measure the book rate of return, this being the average annual profit made by an investment as a proportion of the original outlay. Each of these simple techniques exhibits serious deficiencies however. For example, payback does not consider the total profit which may be earned; neither method accounts for the time value of money or for situations in which more than one investment is made.

The most common measure of performance within the private equity industry is the internal rate of return or IRR. Industry-wide private equity performance studies in the US and Europe use the IRR. Not only does this measure take the time value of money into account, as well as the ability to measure the returns on groups of investments, but it also expresses the return as a simple percentage.

Other frequently used measures of performance within the private equity industry are the multiples to investors of:

- Distributions to paid-in capital
- Residual value to paid-in capital
- Total value to paid-in capital

To build a complete picture of performance, IRRs and multiples should be both reported to, and assessed together by, investors. Thus, EVCA has selected the internal rate of return and the multiples mentioned above as being the most appropriate performance indicators.

Private equity fund managers and/or their investors may additionally require performance to be calculated using other measures. Such arrangements between private equity managers and their investors are, of course, entirely acceptable.

The IRR is that rate of discount which equates the present value of the cash outflows associated with an investment with the sum of the present value of the cash inflows accruing from it and the present value of the valuation of the unrealised portfolio.

## Three Levels of IRR advocated by EVCA

Accurate IRRs can only be computed when all investments have been realised and the cash has been paid back to investors, after the deduction of carried interest, management fees and other applicable professional and ancillary charges. This is the net ('cash-on-cash') return on the wholly realised investment portfolio.

However, users of financial information regarding private equity companies need to be able to assess returns on a regular basis. Such interim returns are no more than indicators of the accurate IRR. The more mature an investment portfolio is, though, the more confidence one may generally ascribe to these interim statistics.

Performance calculations must demonstrate the effectiveness of the private equity managers at two main stages: firstly, on their ability to choose suitable investment opportunities, manage them and divest from them; and secondly, to assess their overall cost effectiveness by computing the return to investors net of the total cost of carrying out these tasks.

The first of these stages, that is the gross return, may be usefully broken down into two levels. This enables the actual return on realised investments only to be identified separately from the gross return on all investments, which by its very nature is estimated; the latter accounts for all wholly and partially realised investments and for the subjective element of valuations on the unrealised portion of the portfolio.

EVCA, therefore advocates that performance be measured at three levels:

### 1 The Gross Return on all Investments

This return takes account of all of the following:

- all the cash outflows (investments) and inflows (divestments, including realisation values, interest and dividends, repayments of principal of loans, etc.) which take place between the fund and all of its investments, independent whether realised or not;
- the valuation of the unrealised portfolio (consisting of wholly unrealised investments and the unrealised portions of partially realised investments). By definition, the unrealised portfolio excludes cash and other assets held by the fund.

This return does not include the impact of carried interest or charges of any kind, such as management fees paid to the private equity firm by the investor, fees paid by a portfolio company either to the fund or the private equity firms, and fees paid or due to lawyers, accountants and other advisers.

## **2 The Gross Return on Realised and Unrealised Investments**

The gross return on all investments is analysed in realised and unrealised return:

- For realised investments, the return takes account of all the cash outflows (investments) and inflows (divestments, including realisation values, interest and dividends, repayments of the principal of loans, etc.) which take place between the fund and its realised investments.

For the purposes of this return all proceeds from a holding in a portfolio company shall be taken into account for this calculation, including proceeds from partially realised companies.

For partially realised investments, cash outflows should be allocated between realised and unrealised on a prorata basis at the dates of each cash outflow.

Partial write-offs or write-downs should not be included at this level, only full write-offs.

- For unrealised investments, the return takes account of all the cash outflows (investments) and inflows (interest and dividends) to the extent they refer to the unrealised portfolio, and the valuation of the unrealised portfolio. Partial write-offs or write-downs should be included at this level.

## **3 The Net Return to the Investor**

This measures the return earned by the investors in the fund, and takes account of:

- the cash flows which take place between the fund and the investors, net, by definition, of all of the following:
  - the fund manager's carried interest;
  - the management fees paid to the fund manager by the investors; and
  - all other applicable professional and ancillary charges which are paid out by the fund manager in the course of investing, managing and divesting from its investment portfolio;

- the valuation of the unrealised portfolio (consisting of the unrealised portions of partially realised investments, wholly unrealised investments and also including cash and other assets), after deducting the implied carried interest. When the portfolio is fully realised/fully distributed, the net return is the 'cash-on-cash' return to the investors.

Should private equity fund managers and/or their investors consider it desirable to do so, the performance calculated for any of the three levels given above, may be broken down to demonstrate the contribution made by the individual elements of which they are made up. For example, the overall measure of the gross return on all investments could be split up so as to separately show the performance of the wholly realised investments, partially realised investments, and the valuation of the unrealised portfolio.

The ability to break down the impact of the valuation of the unrealised portfolio on the performance may be particularly important as valuations can be no more than indicators of the accurate IRR when all investments have been wholly realised.

To enable the returns calculated in accordance with the different levels to be comparable, all relevant parameters must be treated in an identical manner. It is for this reason that the standard principles have been developed, which are set out on the next pages.



## Principles

### 1 Commitments made by a Private Equity Fund to a Portfolio Company

The cash outflows should be taken to be the amount actually invested in a portfolio company at a given point in time. A private equity fund may commit itself to making a series of investments in a portfolio company over an extended period of time. In such circumstances, the timing and amounts of the individual cash flows of the past only should be taken into account.

### 2 Commitments made by an Investor to a Private Equity Fund

The cash outflows should be taken to be the amount actually invested in a private equity fund by an investor at a given point in time. An investor may commit itself to making a series of investments in a fund over an extended period of time.

In such circumstances, the timing and amounts of the individual cash flows only should be taken into account.

### 3 Equity Received in Lieu of Cash

Any equity received by a private equity fund in lieu of cash in respect of services rendered to a portfolio company (for instance, services of directors, provision of guarantees) should be considered as investments of zero cost.

### 4 Net Return to Investors: Carried Interest and the Unrealised Portfolio

When calculating the net return to the investor, as regards the valuation of the unrealised portfolio, appropriate provision should be made for the deduction of carried interest after taking account of any hurdle rates.

### 5 Non-Domestic Currency

Performance must be calculated with reference to the functional currency of the fund. Should the private equity fund's manager or investors so desire, then performance may additionally be calculated with reference to other currencies.

Should, therefore, the value of transactions need to be known in both domestic and non-domestic currencies, the exchange rate which prevailed on the date the transaction took place should be used. Where this is not known, the conversion shall be effected using the monthly average exchange rate for the month and year in question.

## **6 Realisations**

Shares in companies which are floated and distributed in specie should be considered realised upon the earliest date at which such shares may be converted into cash to the benefit of the investor. It is implicitly recognised therefore, that shares cannot be regarded as realised whilst any dealing restrictions are in place.

As regards the calculation of the gross return on realised investments only, a written off investment should be considered as having been realised as soon as the earliest of any of the following or like events takes place: when bankruptcy proceedings are instigated against a portfolio company; when a portfolio company ceases to trade; when a portfolio company enters into arrangements with creditors which result in the investment being written down to zero; when insolvency proceedings are begun.

Investments which have been completely sold, subject to a proportion of deferred consideration/earn out, should be defined as realised investments. The deferred proceeds should not be taken into account, but an estimation of the IRR when taking into account the deferred consideration might be additionally provided.

When reporting performance measurement at any of the three levels, the cumulative cost of the realised investments relative to the cumulative cost of all investments made should be given.

## **7 Share Exchanges**

Private equity firms sometime exchange part or all of their stake in a portfolio company for shares in another company. Where such an exchange takes place, the new shareholding should be treated no differently than if it was part of the shareholding in the original portfolio company.

## **8 Taxation**

Interest payments, dividends and capital gains received from portfolio companies that are paid net should be grossed up so as to be treated as pre-tax cash flows for the two measures of gross return, but not for the net return. Tax distributions and tax credits should be included in the calculation of the gross and net IRR.

## **9 Timing of Cash Flows**

IRRs are recommended to be calculated on the basis of daily cash flows. When calculated on a monthly basis, the date attributed to each cash flow should be the same day of each month (e.g. the last day of the month etc).



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