# Standard Life European Private Equity Trust PLC

Report and Accounts
for the year ended 30 September 2011

SL Capital Partners

# Contents

# Objective

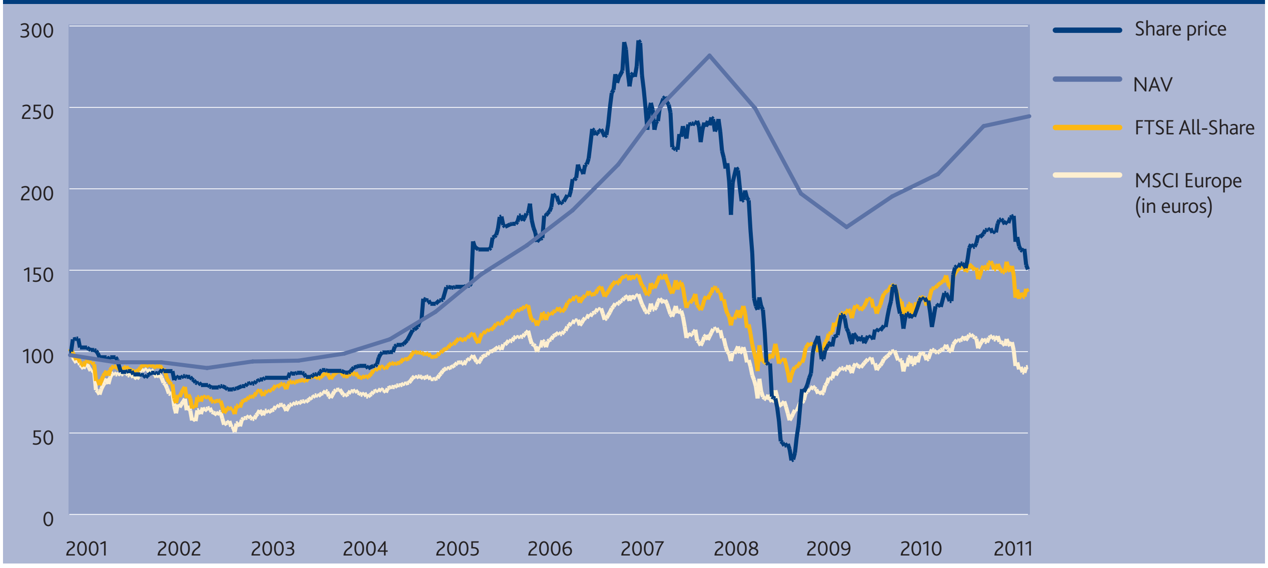
To achieve long-term capital gains through holding a diversified portfolio of private equity funds investing predominantly in Europe.

# Company Summary

| | |
|---|---|
| **Investment policy** | Full details of the Company's investment policy can be found on page 6. |
| **Investment Manager** | SL Capital Partners LLP ("The Manager") |
| **Shareholders' funds** | £369.4 million at 30 September 2011 |
| **Market capitalisation** | £216.4 million at 30 September 2011 |
| **Capital structure** | 161,496,597 ordinary shares of 0.2p each<br>Each ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every ordinary share held.<br><br>16,242,002 founder A shares of 0.2p each and 17,500,000 founder B shares of 0.2p each<br>The founder shares do not carry any right to vote, except in the case of changes to class rights. The founder shares confer rights to convert into a maximum of 10% of the ordinary share capital, subject to certain performance conditions. The first measurement date for conversion was 30 September 2006 and 3,596,981 founder A shares remain convertible into an equivalent number of ordinary shares. The second measurement date for conversion was 30 September 2011. Due to not meeting the performance condition, no founder B shares have a right to convert into ordinary shares. Further details are given on pages 26 and 27. |
| **Management fee** | The base management fee is 0.8% per annum of the net assets of the Company.<br>A new management incentive scheme is proposed, details of which are included in the Chairman's Statement on page 5.<br>The notice period is twelve months. |
| **Company secretarial and administration fee** | £164,017 plus VAT per annum, adjusted in line with the retail prices index on 1 July each year.<br>The notice period is three months. |
| **ISA status** | The Company's ordinary shares are eligible for Individual Savings Accounts (ISAs). |
| **AIC membership** | The Company is a member of The Association of Investment Companies. |

# Financial Summary

Performance (total return) since launch to 30 September 2011




| Performance (capital only) | At 30 September 2011 | At 30 September 2010 | % Change |
|---|---|---|---|
| Net asset value per ordinary share ("NAV") (undiluted) | 228.7p | 195.3p | 17.1 |
| NAV (diluted) | 225.9p | 193.3p | 16.9 |
| Share price | 134.0p | 113.75p | 17.8 |
| FTSE All-Share Index[(i)] | 2,654.4 | 2,867.6 | (7.4) |
| MSCI Europe Index (in euros)[(i)] | 78.4 | 90.0 | (12.9) |
| Discount (difference between share price and diluted net asset value) | 40.7% | 41.2% | |
| Gearing (ratio of borrowing to shareholders' funds) | 8.6% | 19.2% | |

| Performance (total return) | 1 year % | Annualised 5 year % | Annualised Since launch % |
|---|---|---|---|
| Share price | 18.0 | (5.3) | 3.8 |
| NAV (diluted) | 17.0 | 5.5 | 9.2 |
| FTSE All-Share Index[(i)] | (4.4) | 0.8 | 2.8 |
| MSCI Europe Index (in euros)[(i)] | (9.7) | (4.7) | (1.1) |

| Highs/lows for the year ended 30 September 2011 | High | Low |
|---|---|---|
| Share price (mid) | 168.0p | 113.0p |

[(i)] The Company has no defined benchmark; the indices above are solely for comparative purposes.

## Summary financial information

| NAV and share price | Net assets £m | NAV (undiluted) p | NAV (diluted) p | Share price p | Premium/ (discount) to diluted NAV % |
|---|---|---|---|---|---|
| At 30 September 2002 | 143.8 | 90.3 | 90.3 | 82.00 | (9.2) |
| At 30 September 2003 | 148.9 | 93.6 | 93.6 | 82.00 | (12.4) |
| At 30 September 2004 | 168.6 | 105.9 | 105.9 | 94.50 | (10.8) |
| At 30 September 2005 | 228.3 | 143.5 | 143.5 | 156.25 | 8.9 |
| At 30 September 2006 | 289.8 | 182.1 | 179.6 | 183.50 | 2.1 |
| At 30 September 2007 | 385.7 | 241.3 | 237.7 | 226.50 | (4.7) |
| At 30 September 2008 | 375.5 | 234.8 | 231.4 | 161.00 | (30.4) |
| At 30 September 2009 | 265.6 | 164.9 | 163.4 | 112.25 | (31.3) |
| At 30 September 2010 | 315.2 | 195.3 | 193.3 | 113.75 | (41.2) |
| At 30 September 2011 | 369.4 | 228.7 | 225.9 | 134.00 | (40.7) |

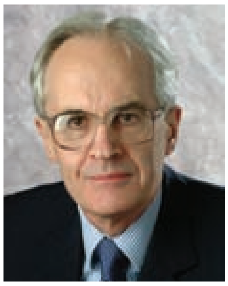
| Performance and dividends | NAV total return % | Share price total return[1] % | Dividend paid[2] £m | Dividend paid per ordinary share p | Expense ratio % |
|---|---|---|---|---|---|
| Year to 30 September 2002 | (3.8) | (14.6) | 0.7 | 0.45 | 0.76[3] |
| Year to 30 September 2003 | 5.0 | 1.6 | 1.9 | 1.20 | 1.07 |
| Year to 30 September 2004 | 13.8 | 16.0 | 0.9 | 0.55 | 1.04 |
| Year to 30 September 2005 | 36.9 | 67.3 | 1.9 | 1.20 | 1.03 |
| Year to 30 September 2006 | 26.6 | 18.7 | 2.9 | 1.80 | 1.01 |
| Year to 30 September 2007 | 35.4 | 24.8 | 3.8 | 2.40 | 0.97 |
| Year to 30 September 2008 | (1.3) | (27.8) | 5.6 | 3.50 | 0.99 |
| Year to 30 September 2009 | (29.2) | (29.5) | 0.6 | 0.70 | 0.87 |
| Year to 30 September 2010 | 18.4 | 1.4 | 0.1 | 0.10 | 1.02 |
| Year to 30 September 2011 | 17.0 | 18.0 | 0.2 | 0.20 | 1.07 |

[1] Data supplied by Fundamental Data.
[2] Represents the cash dividend paid during the year, declared for the previous financial year.
[3] For the period from the Company's listing until 1 July 2002, no management fee was charged on the Company's cash or money market holdings.

| Investment exposure | Fund manager as a % of net assets | | Fund investments as a % of net assets | | |
|---|---|---|---|---|---|
| | Top 5 % | Top 10 % | Top 10 % | Top 20 % | Top 30 % |
| At 30 September 2002 | 36.6 | 51.8 | 42.0 | 55.5 | 60.3 |
| At 30 September 2003 | 49.1 | 72.3 | 61.3 | 81.9 | 85.2 |
| At 30 September 2004 | 48.6 | 76.1 | 64.9 | 86.7 | 89.1 |
| At 30 September 2005 | 44.9 | 75.5 | 60.7 | 78.3 | 81.4 |
| At 30 September 2006 | 40.9 | 67.4 | 50.3 | 74.0 | 81.4 |
| At 30 September 2007 | 41.0 | 66.5 | 42.5 | 64.8 | 80.4 |
| At 30 September 2008 | 54.5 | 84.6 | 55.1 | 84.0 | 102.4 |
| At 30 September 2009 | 55.5 | 87.2 | 61.1 | 93.8 | 109.0 |
| At 30 September 2010 | 62.1 | 96.4 | 67.9 | 101.0 | 116.2 |
| At 30 September 2011 | 57.9 | 89.1 | 69.0 | 95.4 | 106.8 |

# Chairman's Statement

## The year ended 30 September 2011 started positively, however, the final quarter saw macro-economic and political concerns, particularly in Europe, dominate global financial markets.



Scott Dobbie CBE

### Results and performance

World stock markets fell sharply in the final quarter of the financial year ended 30 September 2011 due to concerns about political uncertainty in Europe and signs of macro-economic weakness in all major developed economies. Given the use of listed market comparables in valuing the unrealised portfolio of private equity fund interests, the Company's NAV fell in the final quarter, after three quarters of strong growth. For the year ended 30 September 2011 the Company's NAV increased by 17.1% to 228.7p (diluted NAV – 225.9p), from 195.3p at 30 September 2010 (diluted NAV – 193.3p). At 30 September 2011 the Company's net assets were £369.4 million.

The closing mid-market price of the Company's ordinary shares on 30 September 2011 was 134.0p, compared to 113.75p a year earlier. The share price represented a 40.7% discount to the Company's diluted NAV at the year end. The share price to NAV discount narrowed in the period to summer 2011, before widening as listed market volatility impacted investor sentiment.

The Company's practice remains one of reinvestment and to pay a dividend marginally in excess of the minimum required to maintain investment trust status. Against a background of increased income received during the year, the Board is recommending a final dividend of 1.3p per ordinary share (year ended 30 September 2010 – 0.2p). Subject to shareholder approval at the forthcoming Annual General Meeting, this dividend will be paid on 6 February 2012 to shareholders on the Company's share register at 6 January 2012. Shareholders will have the opportunity to elect to receive the final dividend in the form of ordinary shares. A circular and an election form are enclosed with the Company's annual report and accounts.

It is now just over ten years since the Company was listed on the London Stock Exchange. Private equity is a long-term asset class. For the period from listing on 29 May 2001 to 30 September 2011 the Company's NAV and share price, both on an annualised total return basis, were 9.2% and 3.8% higher respectively, while the FTSE All-Share Index and the MSCI Europe Index (in euros), on a similar total return basis, rose by 2.8% and fell by 1.1% respectively.

### Valuation

At 30 September 2011 the Company's portfolio comprised 36 private equity fund interests. The value of this portfolio was £397.4 million, of which net unrealised gains arising during the year were £25.2 million.

In terms of the breakdown of net unrealised gains, unrealised gains on a constant exchange rate basis were £26.2 million (7.1% of the opening portfolio valuation), while negative exchange rate movements were modest at £1.0 million (0.3% of the opening portfolio valuation). Pleasingly, increasing earnings at the underlying investee companies was the primary driver of the uplift in valuations, supported by the impact of leverage within those companies.

99.2% by value of the private equity funds held by the Company was valued by the relevant fund manager at 30 September 2011. In undertaking the valuations the fund managers have followed the International Private Equity and Venture Capital Valuation Guidelines. In so doing, the principal valuation methodology is to use listed comparable valuation multiples. As reported above, during the final quarter of the year ended 30 September 2011 listed comparable multiples broadly fell.

### Investment activity

The last year again saw a rise in the number and value of new private equity investments and realisations completed in Europe. The value of all new buy-out transactions completed in the European private equity market during the year ended 30 September 2011 was €77.2 billion (year ended 30 September 2010 and 2009 - €52.5 billion and €21.3 billion respectively). Against, however, a more difficult political and macro-economic environment the final quarter of the Company's financial year did see a fall in activity and value.

As a result of the general improvement in the European private equity market, the Company received distributions during the year of £82.6 million and, also reflecting the lower quantum of its outstanding commitments, paid £49.6 million in draw downs (year ended 30 September 2010 – distributions of £23.0 million and draw downs of £48.0 million). After taking account of fees, costs and other movements, the Company was £25.8 million cashflow positive during the year, compared to a £28.1 million cashflow deficit in the previous year. The distributions received by the Company generated net realised gains and income of £35.6 million, equivalent to an average return on the acquisition cost of the realised investments of 1.8 times (year ended 30 September 2010 - 1.8 times).

The Company made one new fund commitment during the year, with a €30 million commitment to Montagu IV, a €2.5 billion mid-market buy-out fund focussed on northern Europe. The Company's aggregate outstanding commitments were £126.4 million at 30 September 2011. Where drawn, such outstanding commitments will be funded from the Company's cash resources, distributions received from the portfolio of fund investments and the use of the Company's borrowing facility. As previously reported, a number of the private equity funds held by the Company have completed their respective investment periods and any future draw downs are likely to be limited. After undertaking a detailed review, the Manager believes that up to £40 million of the Company's existing outstanding commitments are now unlikely to be drawn.

In November 2010 the Company entered into a new £120 million syndicated revolving credit facility, led by The Royal Bank of Scotland plc. This facility expires on 31 December 2013. At 30 September 2011 the Company's net indebtedness was £28.5 million.

During the period from 30 September 2011 to 1 December 2011 the Company funded £1.2 million of draw downs and received £15.8 million of distributions and at 1 December 2011 had net indebtedness of £14.7 million. The Company also made a €35 million commitment to BC Partners IX in October 2011. Accordingly, at 1 December 2011 the Company's total outstanding commitments were £152.3 million.

**Management incentive scheme arrangements**

When the Company was listed in May 2001, an incentive scheme was put in place for the Company's investment management team. This scheme operated over two five year performance periods; the second of these periods expired on 30 September 2011. Following the first performance period, which ended on 30 September 2006, 4,854,979 founder A shares were convertible into ordinary shares upon payment of £1 per founder A share. 3,596,981 founder A shares remain outstanding and may be converted up until 31 December 2013.

Over the five year period from 30 September 2006 to 30 September 2011 the compound annual growth rate in the Company's NAV, including dividends paid, was 5.5%. As a result of this growth rate falling below the minimum threshold required of 10%, no founder B shares have a right to convert into ordinary shares. Accordingly, no value will be derived by the investment management team from the founder B shares.

The Board considers that there should be a continuing incentive arrangement for the Manager for so long as it serves as the Company's investment manager and that the level of base management fee of 0.8% per annum, which was set on the listing of the Company, envisaged a continuing incentive scheme. During 2011, the Board has been discussing an appropriate new incentive scheme and has reached agreement with the Manager on the terms of a scheme. The performance period will run for the five years from 1 October 2011. For an incentive fee to be payable at the end of the five year period, the Company's net asset value total return must grow by more than 8% compound per annum (before any accrual for the incentive fee) over the period to 30 September 2016. Should this hurdle rate be achieved, the Manager will be entitled to an incentive fee of 10% of the growth in NAV (before any accrual for the incentive fee) in excess of the hurdle rate, multiplied by the number of ordinary shares in issue on 1 October 2011 (adjusted in certain circumstances to reflect subsequent share issuance and/or a material reduction in the Company's issued share capital).

Full details of the proposed new incentive scheme are set out in a circular to shareholders enclosed with the Company's annual report and accounts. The incentive scheme will be put to shareholders for approval at the forthcoming Annual General Meeting. Standard Life plc and its associates will not vote on this resolution.

**Corporate governance**

The Directors' Report which follows gives a detailed review of the Company's corporate governance arrangements. The Board gave particular emphasis during the year under review to a number of issues, which included:-

- Cashflow estimates – the Manager uses a sophisticated model to project the Company's future cashflows and hence the capacity for future investment. A wide range of assumptions has been examined and the results prompted the decision to begin to make further new fund commitments, the first step of which is described above;
- Board succession planning and recruitment – recent and prospective Board resignations led to detailed analysis of the skills and competences needed for the Company's long-term needs. Using an outside search consultant, Jo Taylor and Alastair Barbour were recruited to meet the identified job specifications; and
- Management incentive scheme – the arrangements to provide a management incentive which were put in place at the time of the Company's listing expired on 30 September 2011. Considerable effort was made by the Board to agree a scheme which reflected the current business environment, was broadly comparable to the peer group of similar listed companies, and above all was seen to be of overall benefit to the Company and its shareholders.

**The Board**

Hamish Buchan, who has served on the Board since the Company's listing in May 2001, has to the regret of his colleagues intimated that he intends to step down from the Board after the forthcoming Annual General Meeting. Mr Buchan has made a significant contribution to the Company over the past eleven years. His wide knowledge of the investment trust sector and of investment analysis made him a strong Chairman of the Audit Committee and his counsel, both in Board meetings and, less formally, as the Senior Independent Director has been invaluable. He carries the best wishes for the future of his Board colleagues and of the Manager.

Following Mr Buchan's retirement, Edmond Warner will assume the role of the Senior Independent Director and Alastair Barbour that of Chairman of the Audit Committee.

**Outlook**

The European macro-economic and political outlook remains uncertain, with continuing sovereign debt worries and an increasing likelihood that a number of European states will experience negative economic growth. Against this background, the Manager has conducted a detailed review of the Company's portfolio, which at an investee company level has minimal direct exposure to businesses headquartered in southern Europe. Ongoing meetings with key fund managers have highlighted that aggregate corporate earnings continue to grow across respective investment portfolios.

Equity markets currently favour higher yielding instruments perceived to be low risk. The listed private equity sector, in which the Company is included, fulfils neither of these criteria and share prices currently stand at a substantial discount to NAV. Nevertheless, the Board and the Manager continue to believe that the Company is well placed strategically to benefit from any improvement in investor sentiment which follows a positive change in the outlook for European economies.

**Scott Dobbie CBE**
Chairman

2 December 2011

# Investment Policy

## Objective

The objective of the Company is to achieve long-term capital gains through holding a diversified portfolio of private equity funds investing predominantly in Europe.

### Investment strategy

The principal focus of the Company is to invest in the leading European private equity funds investing in mid to large sized buy-outs, which can be categorised as transactions with enterprise values ranging between €200 million and €2.0 billion.

The Company invests in private equity funds which themselves invest principally in countries in Europe, which the Manager defines as EU Member States, EU Associate Member States and other western European countries. However, the Company has the flexibility to invest up to 20% of its gross assets, at the time of purchase, in private equity funds which invest principally outside Europe.

The Company's policy is to maintain a broadly diversified portfolio by country, industry sector, maturity and number of underlying investments. The objective is for the portfolio to comprise around 35 - 40 "active" private equity fund investments; this excludes funds that have recently been raised, but have not yet started investing, and funds that are close to or being wound up.

The Company invests only in private equity funds, but occasionally may hold direct private equity investments or quoted securities as a result of distributions in specie from its portfolio of fund investments. The Company's policy is normally to dispose of such assets where they are held on an unrestricted basis.

To maximise the proportion of invested assets it is the Company's policy to follow an over-commitment strategy by making fund commitments which exceed its uninvested capital. In making such commitments, the Manager, together with the Board, will take into account the uninvested capital, the quantum and timing of expected and projected cashflows to and from the portfolio of fund investments and, from time to time, may use borrowings to meet draw downs.

The Company's non-sterling currency exposure is principally to the euro and US Dollar. The Company does not seek to hedge this exposure into sterling, although any borrowings in euros and other currencies in which the Company is invested would have such a hedging effect.

Cash held pending investment is invested in short dated government bonds, money market instruments, bank deposits or other similar investments. These investments may be in sterling or such other currencies to which the Company has exposure.

### Borrowings

The Company's maximum borrowing capacity is defined in its articles of association, and, unless otherwise sanctioned by an ordinary resolution of the Company, is an amount equal to the aggregate of the amount paid up on the issued share capital of the Company and the amount standing to the credit of the consolidated reserves of the Company, all based on the latest audited consolidated balance sheet. It is expected that bank borrowings would not exceed more than 30% of the Company's net assets.

### Investment trust approval

To comply with one of the conditions for approval as an investment trust, the Company will ensure that when all of its holdings in private equity funds are aggregated, no one underlying investment will represent, at the time of purchase, more than 15% by value of all of the Company's investments. The Company will not invest more than 15% of its total assets in other listed investment companies or listed investment trusts.

### Benchmark

The Board has concluded, after careful consideration, that there is no currently available benchmark which is an appropriate measure of the investment performance of the Company. It has, however, resolved to review this issue at least annually.

Information on how the Company has invested its assets with a view to spreading investment risk in accordance with its investment policy during the year under review is set out in the Portfolio Review section of the Manager's Review.

# SL Capital Partners

The Manager, SL Capital Partners LLP ("SL Capital"), is headquartered in Edinburgh, United Kingdom and comprises a team of 22 investment professionals with over 254 years of combined private equity experience. This team manages approximately £5.5 billion of private equity investments on behalf of over 150 clients worldwide.

SL Capital is a limited liability partnership and is 60% owned by Standard Life plc ("Standard Life") and 40% by its eight Partners. SL Capital has acted as Manager to the Company since its inception in 2001.

With the exception of the Company, all of the Manager's funds under management are held through limited partnership vehicles, which are structured as either pooled or segregated vehicles for clients. SL Capital's clients range from leading institutional investors in the UK, US, Canada and Europe, to family offices and high net worth individuals globally. The largest clients include Standard Life, the California Public Employees' Retirement System, a large number of UK local authorities and some significant North American pension funds. The Manager is also recommended by many institutional investment and pension fund consultants.

In addition to its Edinburgh investment office, the Manager has investment professionals based in Boston, United States. This team selects and oversees private equity investments in North America.

SL Capital is one of the largest investors in private equity funds and co-investments in Europe. One of the key strengths of the investment team is their extensive fund and direct deal experience, which gives the Manager greater insight into the strategies, processes and disciplines of the funds invested in and allows better qualitative judgements to be made.

The Manager has a detailed and rigorous screening and due diligence process to identify and then evaluate the best private equity fund offerings. The Manager concentrates on opportunities in the buy-out segment of the European private equity market, but, where it is relevant to a particular investment mandate, it also considers funds targeted on the secondaries, venture, growth and mezzanine segments, as well as funds focused on particular sectors or geographies.

The private equity asset class has exhibited historically a wide dispersion of returns generated by fund investments and the Manager believes that appropriate portfolio construction and manager selection is vital to optimise investment performance. In that regard, the objective is for the Company's portfolio to comprise around 35 to 40 "active" private equity fund investments at any one time, with portfolio diversification being controlled through percentage concentration limits applied at an individual fund and manager level.

Finally, the Manager believes that as one of the largest and most experienced private equity investors in Europe, it is able to find and invest in Europe's premier private equity funds, where knowledge of and access to these funds are sometimes limited.

# Market Review

## European private equity activity continued to increase in the first half of 2011, however, this reversed in the third quarter.

## As we enter 2012, activity levels and valuations will be driven by macro-economic and political concerns and the resulting impact on listed financial markets.

**European market overview**

The global macro-economic environment continued to improve during the first nine months of the Company's financial year, however, increasing concerns over Euro area sovereign debt, the US fiscal position and slowing economic growth in the major developing and developed economies resulted in a more difficult back drop from summer 2011 onwards. Despite Q3 2011 earnings numbers being better than expected for many US and European corporates, the outlook has become more difficult with European surveys indicating a fall in new orders, production, industrial and consumer sentiment, and economic activity.

All of the above has meant that the listed financial markets have experienced significant volatility and for the year to September 2011 all of the major European indices fell. Further dislocation can be expected over the coming months, as the political crisis in the Euro zone and the consequential impact on European economic sentiment and activity develops.

As reported in the Chairman's Statement, during the year under review European private equity market activity increased, both for the overall market and for buy-outs. Buy-outs comprise around 90% of the European private equity market by value, with the remainder primarily being growth and venture investments. The total enterprise value and volume of buy-out deals reported for the year ended 30 September 2011 was €77.2 billion and 454 respectively, compared to €52.5 billion and 368 respectively in the prior year. From a historic context the annual value and volume of deals is similar to that concluded in 2003. However, activity has dropped since summer 2011, as private equity managers have become worried about the broader political and economic environment, a potential slow down in corporate earnings and managers have faced difficulties in raising debt for potential transactions. This lower level of activity is likely to continue, at least, until the European political and macro-economic environment has stabilised.

Debt markets continued to improve until early summer 2011, whereupon the issues in Europe, combined with the traditionally quieter summer period, resulted in a significant slowdown in the availability of bank debt. Such reduced availability was magnified by difficulties in syndicating certain of the larger bank facilities concluded in early summer. Following a similar trend, the first three quarters of the Company's financial year saw record issuance in the European high yield bond market, with €42.3 billion of new issues, of which 42.0% was for private equity backed companies. However, new issuance became very difficult from July 2011 and while some new issues took place in the autumn this was mainly for non-private equity backed corporates.

Realisation activity for European private equity backed companies was robust in the period to summer 2011, with surveys suggesting that realisation activity had been higher in H1 2011 than in any six month period since H1 2007. Most of the private equity investments sold were originally made in the years 2003-07. Since the summer, realisation activity has slowed as private equity managers have become concerned about the broader economic environment, compounded by a lack of debt to fund secondary purchases. Notwithstanding, in a return to a more traditional pattern the percentage of private equity deals being sold to corporates increased during 2011. This is positive and, against a background of good corporate liquidity, more sales to corporates can be expected, particularly when the European political and macro-economic environment starts to improve.

Finally, a few European private equity managers have raised new funds in the last year, particularly in the mid and large sized buy-out segments. Some of these fund raisings have reached, or exceeded, their targeted amounts. A number of high profile fund raisings are currently in the market and it will be interesting to see how the respective managers progress. With the turmoil in the financial markets, many seasoned private equity investors still find themselves constrained in making sizeable new commitments to the asset class.

## During the year to 30 September 2011 the Company funded £49.6 million of draw downs and received £82.6 million of distributions.

## At 30 September 2011 the Company had £126.4 million of outstanding fund commitments.

### Draw downs

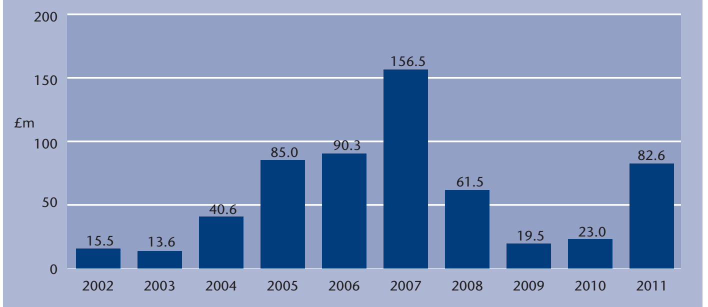
As reported above, the Company funded £49.6 million of draw downs during the financial year. This figure is below the long-term average, as a result of the decline in the Company's outstanding fund commitments and the lower level historically of new investment activity in the European private equity market. The Manager expects the quantum of draw downs to remain modest during the remainder of 2011 and into 2012, due to the Manager's cautious approach to making new fund commitments and as a result of the macro-economic uncertainty impacting activity levels in the European private equity market. The private equity funds to which the Company funded the five largest draw downs during the year are set out in the table below.

| 5 Largest fund draw downs during the year | Type of fund | Aggregate draw downs £m |
|---|---|---|
| Industri Kapital 2007 | Buy-out | 16.0 |
| 3i Eurofund V | Buy-out | 6.8 |
| CVC European Equity Partners V | Buy-out | 6.1 |
| Coller International Partners V | Secondary | 3.0 |
| Candover 2005 Fund | Buy-out | 2.9 |
| **Total of 5 largest drawdowns** | | **34.8** |
| **Total of all drawdowns during the year** | | **49.6** |

### Distributions, gains and income

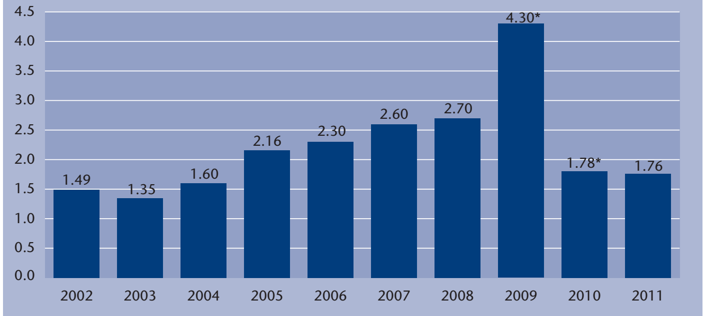
During the year the Company's portfolio of private equity fund interests generated aggregate distributions of £82.6 million, including net realised gains of £31.1 million and income of £4.5 million. The quantum of distributions received reflected an increase in European private equity sales during the year and it is encouraging to note that many of the individual company realisations were at a material premium to their last reported valuation. Despite a slow down in activity since summer 2011, the Manager expects the Company to continue to receive meaningful distributions during the remainder of 2011 and into 2012. This is due to the maturity of the Company's underlying portfolio and the fact that many of the companies have been prepared for exit.

Distribution history (per financial year)




The distributions received by the Company during the year included proceeds from trade sales and secondary buy-outs and, to a lesser extent, refinancings and IPOs. Since the summer, realisation activity has slowed due to concerns about the broader economic environment and a reduced availability of debt to fund secondary purchases. However, as a result of an increase in corporate activity, the percentage of private equity deals sold to corporates has increased and it could increase further if the macro-economic environment starts to improve.

Average multiple on investment (X)




*excluding secondary sales

As shown in the bar chart above, the average return during the year on the Company's acquisition cost of realised investments was 1.76 times. The rise in the average return multiple between 2003 and 2009 can be attributed largely to the previous strength of the European private equity, debt and mergers and acquisitions markets and historic profit growth at underlying investee companies. The recent volatility in listed financial markets and the

# Investment Activity

weaker macro-economic environment are likely to result in a reduction in the average return for realised investments. In particular, investments made during 2006 and 2007, at generally higher prices, will be most affected.

The five largest distributions received during the year, split into gains and income and broken down by fund, are set out in the table below.

| 5 Largest fund distributions during the year | Aggregate distributions £m | Aggregate realised gains £m | Aggregate income received £m |
|---|---|---|---|
| Equistone Partners Europe Fund III | 12.6 | 5.4 | 0.8 |
| HgCapital 5 | 8.1 | 5.1 | — |
| Towerbrook Investors II | 7.4 | 4.2 | — |
| Apax Europe VII | 6.7 | 1.9 | 0.6 |
| Cinven Third Fund | 5.1 | 2.6 | — |
| **Total of 5 largest distributions** | **39.9** | **19.2** | **1.4** |
| **Total of all distributions during the year** | **82.6** | **31.1** | **4.5** |

### Commitments

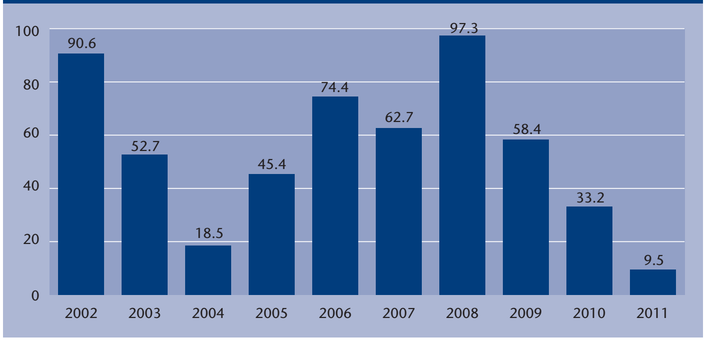
The Company recommenced making new fund commitments during the year with a £26.5 million commitment to Montagu IV in April 2011. The Manager anticipates following a conservative schedule of new fund commitments over the remainder of 2011 and into 2012, subject to the Company's cashflows and the broader market environment.

At 30 September 2011 the Company had £126.4 million of outstanding fund commitments, down from £150.3 million at 30 September 2010. The decline is the net result of the Company having made one new fund commitment of £26.5 million and having funded £49.6 million of draw downs. Since the year end, the Company has also made a £30.2 million commitment to BC European Capital IX.

| | New / (reduced) commitments £m | Draw downs £m | Closing outstanding commitments £m |
|---|---|---|---|
| Year to 30 September 2011 | 26.5 | 49.6 | 126.4 |
| Year to 30 September 2010 | (16.7) | 48.0 | 150.3 |
| Year to 30 September 2009 | (169.7) | 48.3 | 227.8 |
| Year to 30 September 2008 | 138.1 | 155.2 | 389.2 |
| Year to 30 September 2007 | 191.7 | 137.6 | 366.0 |
| Year to 30 September 2006 | 200.5 | 75.3 | 307.7 |
| Year to 30 September 2005 | 148.7 | 59.1 | 184.8 |
| Year to 30 September 2004 | — | 39.9 | 92.1 |
| Year to 30 September 2003 | — | 52.6 | 141.6 |
| Year to 30 September 2002 | 113.3 | 36.0 | 191.0 |

The Company has implemented an over-commitment strategy since late 2001. This is in line with the Manager's objective of maximising the Company's invested assets and the Manager believes that such a strategy should enhance the overall returns generated by the Company.

Outstanding commitments in excess of available liquid resources as a percentage of net asset value at each year end (%)




Over the past five years the Company's outstanding fund commitments less its available liquid resources, expressed as a percentage of the Company's disclosed net asset value, has varied between 97.3% and 9.5%. The bar chart above shows the relevant percentages at each annual reporting date, from 2002 to 30 September 2011. The percentage has varied over time according to the quantum of available liquid resources held by the Company, the rate of draw downs made and distributions received and, importantly, the fund raising cycle of the leading private equity managers in Europe. Given market conditions and the Company's projected cash flows, the Manager will consider carefully the making and timing of any new fund commitments.

## At 30 September 2011 the Company's net assets were £369.4 million. The Company had interests in 36 private equity funds with a value of £397.4 million.

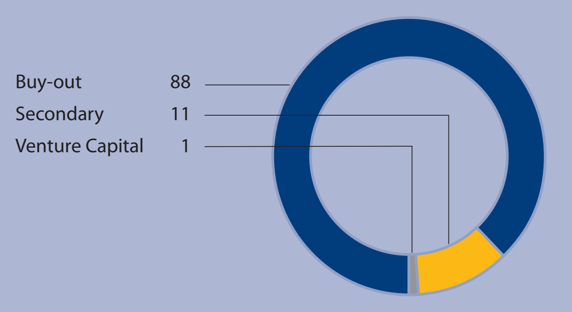
## The effect of drawdowns and distributions over the year was to decrease net indebtedness from £54.2 million at 30 September 2010 to £28.5 million at 30 September 2011.

### Portfolio composition and performance

At 30 September 2011 the Company's portfolio comprised 36 private equity fund interests with a value of £397.4 million which, together with its current assets less liabilities, resulted in the Company having net assets of £369.4 million. This represented an undiluted NAV of 228.7p (diluted NAV – 225.9p). A breakdown of the £27.8 million movement in the Company's portfolio valuation during the year is detailed in the valuation bridge shown opposite.

The split of the Company's portfolio by type of private equity fund is set out in the pie chart below. Details of all of the Company's private equity fund interests, and more detailed information on the ten largest fund investments and thirty largest underlying portfolio companies, can be found on pages 14 to 17.

Type of fund (% of 30 September 2011 valuation)

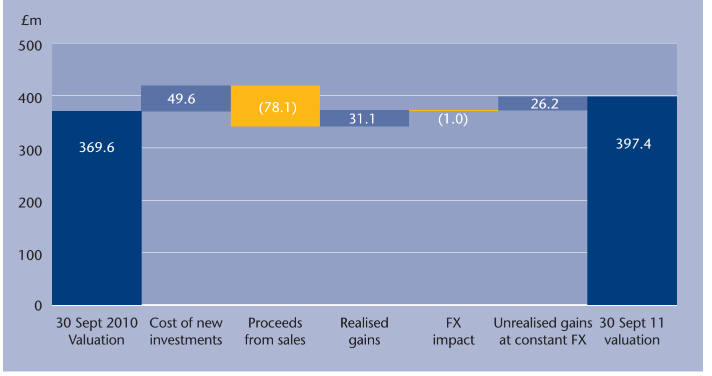



The valuation of the Company's private equity fund interests at the year end was carried out by the Manager and has been approved by the Board in accordance with the accounting policies set out on pages 35 and 36. In undertaking the valuation, the most recent valuation of each fund prepared by the relevant fund manager has been used, adjusted where necessary for subsequent cashflows. The fund valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation guidelines. These guidelines require investments to be valued at "fair value", which is the price at which an orderly transaction would take place between market participants at the reporting date. In addition, through its strong relationships with the fund managers, the Manager is able to consider the appropriateness of the valuation methodologies employed.

### Portfolio review

Of the 36 private equity funds in which the Company is invested, 35 of the funds, or 99.2% of the portfolio by value, were valued by their fund managers at 30 September 2011. The Manager continues to believe that the use of such timely valuation information is important.

Valuation bridge




The value of the Company's portfolio of private equity fund interests increased from £369.6 million at 30 September 2010 to £397.4 million at 30 September 2011. The increase was driven by unrealised gains on the investment portfolio, at constant foreign exchange rates, of £26.2 million, together with £49.6 million of new investments and £31.1 million of net realised gains. These increases were offset by £78.1 million of realisation proceeds and a £1.0 million negative foreign exchange movement.

# Portfolio Review

Information on the valuation movement for the Company's portfolio for each of the last ten financial years is set out below. This table provides a useful summary of the individual changes and the underlying trends in the Company's portfolio over time.

| Valuation movement on unquoted investments<br>Period/ year to | Draw downs £m | Return of cost £m | Unrealised movement £m | Closing valuation £m |
|---|---|---|---|---|
| September 2011 | 49.6 | (47.0) | 25.2 | 397.4 |
| September 2010 | 48.0 | (19.4) | 47.9 | 369.6 |
| September 2009 | 48.3 | (96.5) | (70.8) | 293.1 |
| September 2008 | 155.2 | (22.9) | (42.8) | 412.1 |
| September 2007 | 137.6 | (59.4) | 5.1 | 322.6 |
| September 2006 | 75.3 | (39.2) | 16.6 | 239.3 |
| September 2005 | 59.1 | (39.4) | 16.6 | 186.6 |
| September 2004 | 39.9 | (26.5) | 10.0 | 150.3 |
| September 2003 | 52.6 | (10.2) | (2.2) | 126.9 |
| September 2002 | 36.0 | (10.4) | (10.5) | 86.7 |

During the year, sterling appreciated against the euro by 0.6% and depreciated against the US dollar by 1.1%. This had a modest negative impact on the Company's NAV. The sterling/euro rate at 30 September 2011 was £1/€1.1611 and the sterling/dollar rate was £1/$1.5578. The combined effect of foreign exchange movements on the valuation of the portfolio over the year was a 0.6p decline in NAV.

The Manager and the Board do not believe it is appropriate for the Company to undertake any financial hedging of its foreign exchange exposure, given the irregularity in size and timing of individual cash flows to and from its fund interests. Any cash balances and bank indebtedness are generally held in sterling, euro and US dollars, broadly in proportion to the currency of the Company's outstanding fund commitments.

On 29 November 2010 the Company entered into a new £120 million committed, revolving credit facility, led by the Royal Bank of Scotland plc. This new facility expires on 31 December 2013.

### Valuation and leverage multiple analysis

The bar charts below show the valuation and leverage multiples of the fifty largest underlying portfolio companies held by the Company's private equity fund interests at 30 June 2011, which account for 54.0% of net assets. This analysis is at 30 June 2011 due to the fact that most private equity funds provide detailed information on the underlying portfolio companies twice a year, in June and December, rather than quarterly. The proportion shaded in light blue relates to portfolio companies where sales had been agreed but proceeds had not been received at 30 June 2011.

The valuation multiples of each underlying portfolio company are derived by the fund manager using relevant listed comparable companies, adjusted where appropriate, in line with the International Private Equity and Venture Capital Valuation guidelines.

The median valuation and leverage multiples for the top fifty underlying portfolio companies were 9-10x EV/EBITDA and 3-4x Debt/EBITDA respectively. These compare to median valuation and leverage multiples for the top thirty underlying portfolio companies in June 2010 of 8-9x EV/EBITDA and 4-5x Debt/EBITDA respectively. The Manager believes that these valuation and leverage multiples are in line with the European private equity market for similar sized deals and vintages.

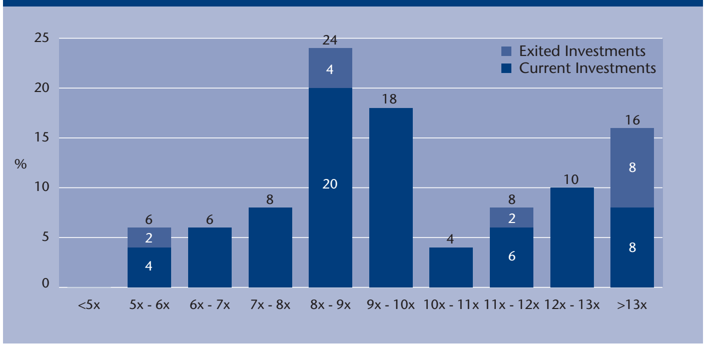
### Diversification

The Board has agreed, and regularly reviews, diversification limits with the Manager regarding the Company's net asset value and commitment exposure to both individual private equity funds and their managers. The Manager also monitors the Company's exposure to the underlying investments held by the different private equity funds in which the Company is invested. At 30 September 2011, the Company was invested in 36 different private equity funds, which collectively had interests in a total of 521 underlying investments.

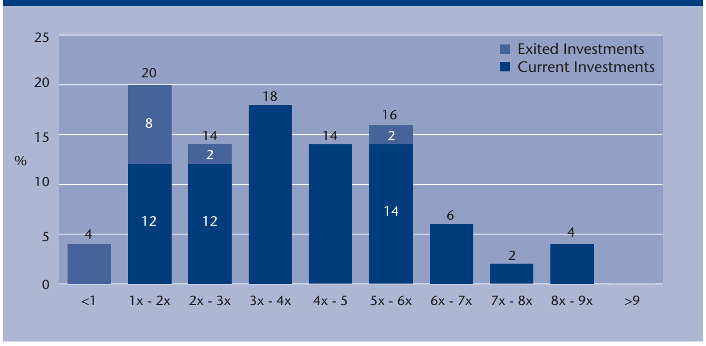
Analysis of the underlying investments held by the different private equity funds allows the Manager to track the Company's exposure by geography, industrial sector, maturity of investment and value relative to original cost. Such information is used by the Manager in reviewing the exposure of the Company's portfolio, in assisting it to make new investment decisions and in having a better understanding of the timing of prospective cashflows.

The diversification of the Company's private equity fund interests, at 30 September 2011 and 2010, is set out in the four bar charts shown opposite.

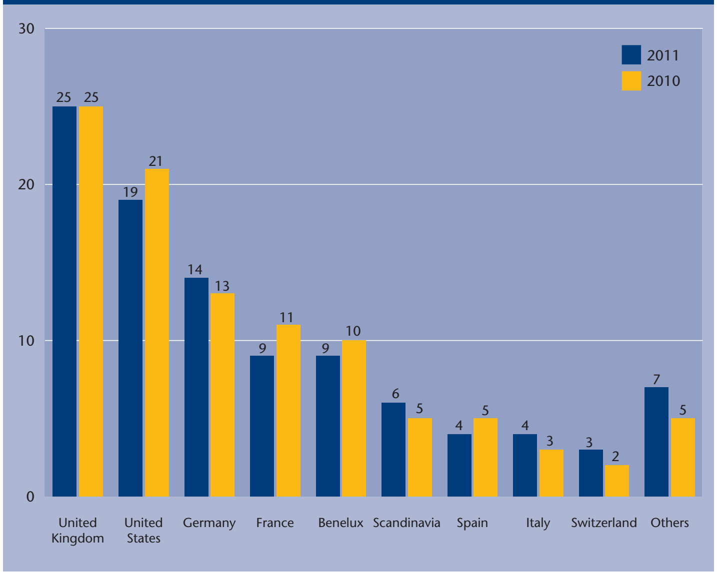
EV/EBITDA multiple



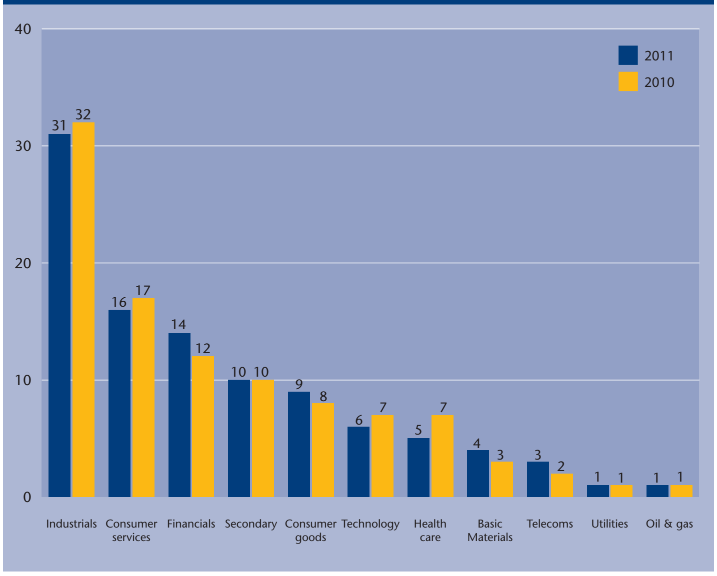

Debt/EBITDA multiple



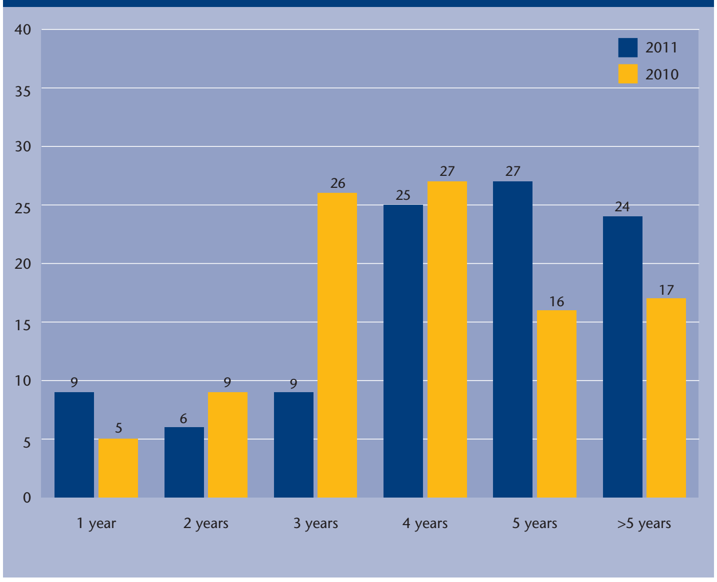
### Geographic exposure (% of 30 September 2011 valuation)



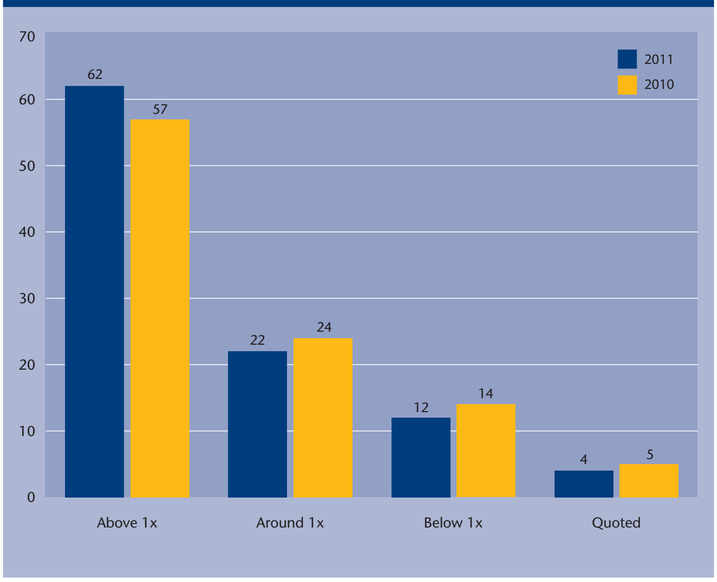

### Sector exposure (% of 30 September 2011 valuation)




### Maturity exposure (% of 30 September 2011 valuation)




### Value relative to original cost (% of 30 September 2011 valuation)




The charts demonstrate the broad diversification that applies by geography and by sector within the Company's underlying portfolio of investments. The UK still remains the single largest geographic exposure, although it has fallen from 64% at the time of the Company's listing to 25% at 30 September 2011, as other European private equity markets continue to develop.

At 30 September 2011, the Company had five fund investments – Pomona Capital V, Pomona Capital VI, Coller International Partners IV, Coller International Partners V and Towerbrook Investors II – which are likely to invest a significant proportion of their capital outside Europe. In total, these funds represent 12.6% of the Company's gross assets. The broad diversification in sectors like industrials, consumer services and financials helps to mitigate the effect of volatility in any individual sector.

The chart showing the maturity exposure of underlying investments highlights the increasing maturity of the portfolio, as a result of the reduced level of private equity activity over the last three years. The chart showing value relative to the original cost of underlying investments illustrates that the portfolio remains healthy, with 84% of the portfolio valued at or above cost.

SL Capital Partners LLP

2 December 2011

# Fund Investments

at 30 September 2011

The private equity funds in which the Company invests usually take the form of limited partnerships. Contractual commitments are made to the funds and these are drawn down by the managers of the funds as required for investment over time. Details of all of the Company's fund investments, by valuation, and a description of the ten largest fund investments follow:

| Year of commitment | Fund | Type | Number of investments | Valuation date* | Outstanding commitments £'000 | Cost £'000 | Valuation £'000 | % of net assets |
|---|---|---|---|---|---|---|---|---|
| 2006 | Charterhouse Capital Partners VIII | Buy-out | 11 | 30.09.11 | 8,261 | 36,192 | 38,880 | 10.5 |
| 2007 | Equistone Partners Europe Fund III (formerly known as Barclays European Fund III) | Buy-out | 30 | 30.09.11 | 6,458 | 36,195 | 38,811 | 10.5 |
| 2007 | Industri Kapital 2007 | Buy-out | 11 | 30.09.11 | 8,020 | 33,639 | 37,207 | 10.1 |
| 2007 | Apax Europe VII | Buy-out | 25 | 30.09.11 | 6,245 | 22,265 | 27,231 | 7.4 |
| 2005 | Candover 2005 Fund | Buy-out | 9 | 30.09.11 | 2,137 | 40,487 | 26,068 | 7.1 |
| 2008 | CVC European Equity Partners V | Buy-out | 15 | 30.09.11 | 13,130 | 16,153 | 18,347 | 5.0 |
| 2006 | Coller International Partners V | Secondary | 52 | 30.09.11 | 6,458 | 12,829 | 18,211 | 4.9 |
| 2006 | 3i Eurofund V | Buy-out | 26 | 30.09.11 | 4,306 | 25,438 | 17,962 | 4.9 |
| 2005 | Advent Global Private Equity V | Buy-out | 14 | 30.09.11 | 1,357 | 7,037 | 17,430 | 4.7 |
| 2006 | HgCapital 5 | Buy-out | 12 | 30.09.11 | 4,271 | 11,682 | 14,376 | 3.9 |
| 2006 | Cinven Fourth Fund | Buy-out | 13 | 30.09.11 | 5,384 | 10,776 | 12,786 | 3.5 |
| 2006 | Permira IV | Buy-out | 14 | 30.09.11 | 1,628 | 15,394 | 12,124 | 3.3 |
| 2005 | Pomona Capital VI Fund | Secondary | 40 | 30.09.11 | 1,752 | 9,954 | 11,815 | 3.2 |
| 2005 | CVC European Equity Partners IV | Buy-out | 15 | 30.09.11 | 1,851 | 6,467 | 10,051 | 2.7 |
| 2001 | CVC European Equity Partners III | Buy-out | 7 | 30.09.11 | 943 | 5,160 | 9,785 | 2.6 |
| 2002 | Coller International Partners IV | Secondary | 37 | 30.09.11 | 2,696 | 2,046 | 9,035 | 2.4 |
| 2006 | Towerbrook Investors II | Buy-out | 7 | 30.09.11 | 3,918 | 6,416 | 8,438 | 2.3 |
| 2006 | Terra Firma Capital Partners III | Buy-out | 4 | 30.09.11 | 7,718 | 18,558 | 8,250 | 2.2 |
| 2004 | Industri Kapital 2004 | Buy-out | 6 | 30.09.11 | 14 | 7,986 | 7,918 | 2.1 |
| 2002 | Charterhouse Capital Partners VII | Buy-out | 6 | 30.09.11 | 2,921 | 7,822 | 7,616 | 2.1 |
| 2005 | Equistone Partners Europe Fund II (formerly known as Barclays European Fund II) | Buy-out | 18 | 30.09.11 | 2,044 | 10,017 | 7,075 | 1.9 |
| 2008 | Advent Global Private Equity VI | Buy-out | 17 | 30.09.11 | 4,549 | 5,911 | 6,506 | 1.8 |
| 2001 | Cinven Third Fund | Buy-out | 6 | 30.09.11 | 999 | 7,199 | 5,421 | 1.5 |
| 2006 | CVC Tandem Fund | Buy-out | 15 | 30.09.11 | 959 | 4,357 | 5,226 | 1.4 |
| 2001 | Alchemy Investment Plan | Buy-out | 3 | 30.09.11 | - | 6,980 | 4,498 | 1.2 |
| 2002 | Pomona Capital V Fund | Secondary | 75 | 30.09.11 | 109 | 6,639 | 3,226 | 0.9 |
| 2001 | Scottish Equity Partners II | Venture capital | 11 | 30.06.11 | - | 3,955 | 3,051 | 0.8 |
| 2002 | Equistone Partners Europe Fund I (formerly known as Barclays European Fund) | Buy-out | 4 | 30.09.11 | 1,442 | 3,150 | 2,766 | 0.7 |
| 2001 | Candover 2001 Fund | Buy-out | 3 | 30.09.11 | - | 7,492 | 2,516 | 0.7 |
| 1998 | CVC European Equity Partners II | Buy-out | 8 | 30.09.11 | 1,109 | 2,725 | 1,759 | 0.5 |
| 2011 | Montagu IV | Buy-out | 1 | 30.09.11 | 23,895 | 2,001 | 1,573 | 0.4 |
| 2001 | MUST 4 | Buy-out | 3 | 30.09.11 | 1,856 | 3,299 | 843 | 0.2 |
| 1999 | Apax Europe IV | Balanced | 2 | 30.09.11 | - | 7,417 | 601 | 0.2 |
| 1995 | Phildrew Fourth | Buy-out | 1 | 30.09.11 | - | 499 | 19 | - |
| 1998 | Phildrew Fifth | Buy-out | – | 30.09.11 | - | 5,864 | 12 | - |
| 1998 | Candover 1997 Fund | Buy-out | – | 30.09.11 | - | 510 | - | - |
| | Total portfolio investments† | | 521 | | 126,430 | 410,511 | 397,433 | 107.6 |
| | Current assets less liabilities | | | | | | (28,069) | (7.6) |
| | Shareholders funds | | | | | | 369,364 | 100.0 |

* valuation date refers to the date of the last valuation prepared by the manager of the relevant fund.
† the 521 underlying investments represent holdings in 495 separate investments.

# Ten Largest Fund Investments

at 30 September 2011

## Charterhouse Capital Partners VIII

Charterhouse Capital Partners VIII is a €4.0 billion private equity fund focused on European buy-outs. The fund is managed by Charterhouse Capital Partners, one of the oldest private equity firms in the UK. The manager operates across western Europe from its London office and has a long track record of delivering superior returns for investors. The investment strategy is to target large corporate buy-outs with an equity requirement of €200 million to €450 million per transaction.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 38,880 | 32,381 |
| Cost (£'000) | 36,192 | 33,783 |
| Commitment (€'000) | 60,000 | 60,000 |
| Amount funded | 84.0% | 79.4% |
| Holding in fund | 1.5% | 1.5% |
| Income (£'000) | – | – |

## Equistone Partners Europe Fund III

Equistone Partners Europe Fund III is a €1.8 billion private equity fund focused on European middle market buy-outs. The fund is managed, alongside €800 million from Barclays Bank, by Equistone Partners Europe, the former private equity arm of Barclays PLC. The manager operates from offices in London, Paris, Munich, Zurich, Milan, Birmingham and Manchester with just under half of the investments sourced in the UK.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 38,811 | 37,076 |
| Cost (£'000) | 36,195 | 40,572 |
| Commitment (€'000) | 60,000 | 60,000 |
| Amount funded | 87.5% | 83.9% |
| Holding in fund | 3.3% | 3.3% |
| Income (£'000) | 797 | – |

## Industri Kapital 2007

Industri Kapital 2007 is a €1.7 billion private equity fund focused on northern European buy-outs. The fund is managed by IK Investment Partners which is headquartered in Stockholm, Sweden with further offices in the UK, Norway, France and Germany. IK targets the buy-out of businesses with enterprise values of between €100 million and €500 million. Since its formation in 1989, IK has consistently generated strong performance across its funds.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 37,207 | 21,154 |
| Cost (£'000) | 33,639 | 17,666 |
| Commitment (€'000) | 50,000 | 50,000 |
| Amount funded | 81.4% | 44.7% |
| Holding in fund | 3.0% | 3.0% |
| Income (£'000) | – | – |

## Apax Europe VII

Apax Europe VII is a €11.1 billion private equity fund predominantly focused on the European market. The fund is managed by Apax Partners, one of the leading and most experienced private equity managers in Europe. Apax operates from offices in London, Munich, Milan, Stockholm and Barcelona in Europe with further offices in New York, Tel Aviv and across Asia. Apax Europe VII focuses on buy-outs and targets Apax Partners' six chosen sectors of information technology, telecommunications, healthcare, media, financial services and retail.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 27,231 | 28,287 |
| Cost (£'000) | 22,265 | 24,412 |
| Commitment (€'000) | 41,385 | 41,385 |
| Amount funded | 82.5% | 76.6% |
| Holding in fund | 0.4% | 0.4% |
| Income (£'000) | 565 | – |

## Candover 2005 Fund

The Candover 2005 Fund is a €3.5 billion private equity fund focused on European buy-outs. The fund is managed by Candover Partners, a subsidiary of ARLE Capital Partners. Historically, Candover concentrated on larger buy-outs in the UK market, however, investments in continental Europe are a significant part of the manager's and this fund's strategy.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 26,068 | 19,978 |
| Cost (£'000) | 40,487 | 37,635 |
| Commitment (€'000) | 60,000 | 60,000 |
| Amount funded | 95.9% | 90.3% |
| Holding in fund | 1.7% | 1.7% |
| Income (£'000) | – | – |

# Ten Largest Fund Investments

at 30 September 2011

## CVC European Equity Partners V

CVC European Equity Partners V is a €10.7 billion private equity fund predominantly focused on European buy-outs. The fund is managed by CVC Capital Partners Europe, one of the leading European private equity managers. CVC has a long track record and operates primarily from offices in London, Paris, Frankfurt, Amsterdam, Brussels, Copenhagen, Madrid, Stockholm, Zurich and Milan in Europe with further offices in New York and across Asia. CVC targets medium and large sized buy-out transactions.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 18,347 | 12,109 |
| Cost (£'000) | 16,153 | 10,530 |
| Commitment (€'000) | 35,000 | 35,000 |
| Amount funded | 56.4% | 36.3% |
| Holding in fund | 0.4% | 0.4% |
| Income (£'000) | 107 | 136 |

## Coller International Partners V

Coller International Partners V is a $4.5 billion private equity fund focused on secondary private equity opportunities. The fund is managed by Coller Capital, one of the most established managers of secondary funds, which was founded in 1990 and is led by Jeremy Coller. The manager operates from offices in London and New York and targets secondary positions in buy-out and venture funds globally.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 18,211 | 14,527 |
| Cost (£'000) | 12,829 | 12,137 |
| Commitment ($'000) | 40,000 | 40,000 |
| Amount funded | 74.9% | 63.0% |
| Holding in fund | 0.8% | 0.8% |
| Income (£'000) | – | – |

## 3i Eurofund V

3i Eurofund V is a €5.0 billion private equity fund, including a commitment of €2.8 billion from 3i Group plc, focused on mid to large sized European buy-outs. The fund is managed by 3i Private Equity, a division of 3i Group plc, an investment company listed on the London Stock Exchange. 3i is one of the oldest and most experienced private equity managers in Europe and operates from a network of offices, including Amsterdam, London, Madrid, Paris and Stockholm. 3i targets buy-out transactions with enterprise values of between €100 million and €1.0 billion, across a wide range of sectors.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 17,962 | 13,809 |
| Cost (£'000) | 25,438 | 18,614 |
| Commitment (€'000) | 40,000 | 40,000 |
| Amount funded | 87.5% | 67.8% |
| Holding in fund | 0.8% | 0.8% |
| Income (£'000) | – | – |

## Advent Global Private Equity V

Advent Global Private Equity V is a €2.5 billion private equity fund focused on global buy-outs. The Company's commitment is to the euro denominated partnership that only invests in European transactions. The fund is managed by Advent International, which has a strong track record in Europe, where it operates from offices in London, Paris, Frankfurt, Milan, Madrid and Amsterdam. Advent targets middle market buy-out transactions across a wide range of sectors.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 17,430 | 18,617 |
| Cost (£'000) | 7,037 | 10,338 |
| Commitment (€'000) | 22,500 | 22,500 |
| Amount funded | 93.0% | 93.0% |
| Holding in fund | 8.0% | 8.0% |
| Income (£'000) | – | – |

## HgCapital 5

HgCapital 5 is a £830 million private equity fund focused on buy-outs of companies with enterprise values of between £50 and £250 million, located mainly in the UK, Germany and the Benelux region. The fund is managed by HgCapital, which has offices in London and Munich. The manager was established in 2000, following a management buy-out from Merrill Lynch.

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Value (£'000) | 14,376 | 15,176 |
| Cost (£'000) | 11,682 | 15,427 |
| Commitment (€'000) | 20,300 | 20,300 |
| Amount funded | 79.0% | 82.7% |
| Holding in fund | 2.4% | 2.4% |
| Income (£'000) | – | – |

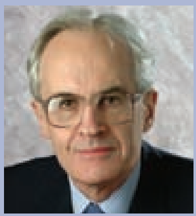
# Top 30 Underlying Investments

at 30 September 2011

The table below summarises the top 30 underlying investments, by value, in the Company's portfolio of private equity funds. The valuations are gross, before any carry provision.

| Entity | Description | Fund | Year of investment | % of net assets |
|---|---|---|---|---|
| Elior | Catering provider | Charterhouse Capital Partners VII & VIII | 2006 | 2.8 |
| Acromas | Travel assistance and financial services | Charterhouse Capital Partners VII & VIII, CVC European Equity Partners IV & CVC Tandem | 2004 | 2.7 |
| Global Refund | Travel related payment services | Equistone Partners Europe Fund III | 2007 | 2.2 |
| Stork | Manufacturing and engineering conglomerate | Candover 2005 Fund | 2008 | 2.1 |
| Vivarte | Footwear and apparel retailer | Charterhouse Capital Partners VIII | 2007 | 1.9 |
| bpost | Belgian postal service | CVC European Equity Partners III, IV & CVC Tandem | 2006 | 1.9 |
| Parques Reunidos | Amusement parks | Candover 2005 Fund | 2007 | 1.9 |
| Evonik Industries | Speciality chemicals, power generation, real estate | CVC European Equity Partners V & CVC Tandem | 2008 | 1.6 |
| Vistra | Trust, fiduciary, corporate and fund services | Industri Kapital 2007 | 2009 | 1.6 |
| ista | Heat and water metering | Charterhouse Capital Partners VIII | 2007 | 1.5 |
| Schenck Process | Provides industrial weighing and measuring systems | Industri Kapital 2007 | 2007 | 1.5 |
| Cengage Learning | Publisher of books for the higher education sector | Apax Europe VII | 2007 | 1.2 |
| Capital Safety | Producer of safety and fall protection equipment | Candover 2005 Fund | 2007 | 1.2 |
| Etanco | Producer of building fastener and fixing systems | Industri Kapital 2007 | 2008 | 1.1 |
| AWAS/Pegasus | Aircraft lessor | Terra Firma Capital Partners III | 2007 | 1.1 |
| Flabeg | Manufacturer of industrial mirror glass components | Industri Kapital 2007 | 2008 | 1.1 |
| Not disclosed | Supplier of oxo chemicals and derivatives | Advent Global Private Equity V | 2007 | 1.1 |
| Numericable/ Completel | French cable operator | Cinven Third Fund | 2005 | 1.0 |
| Minimax | Producer of fire suppression systems | Industri Kapital 2004 & Industri Kapital 2007 | 2006 | 1.0 |
| GHD GesundHeits Deutschland | Home care product sales | Industri Kapital 2007 | 2010 | 1.0 |
| Flint (Xsys/BASF) | Manufacturer of printing inks | CVC European Equity Partners III | 2004 | 1.0 |
| A-Plan Holdings | Retail insurance broking | Equistone Partners Europe Fund III | 2008 | 1.0 |
| PHS | UK business services | Charterhouse Capital Partners VII | 2005 | 0.9 |
| Bankrate | Internet based banking and finance network | Apax Europe VII | 2009 | 0.9 |
| Hugo Boss & Valentino | Fashion group | Permira IV | 2007 | 0.9 |
| SHL | UK market leader in psychometric testing | HgCapital 5 | 2006 | 0.8 |
| Ziggo | Cable operator | Cinven Fourth Fund | 2006 | 0.8 |
| TriZetto Group | Healthcare information technology solutions | Apax Europe VII | 2008 | 0.8 |
| Not disclosed | Provider of extended warranties | Advent Global Private Equity V | 2007 | 0.8 |
| Tnuva | Food manufacturer and distributor | Apax Europe VII | 2008 | 0.8 |
| Total of top 30 underlying investments | | | | 40.4 |

# Board of Directors



**Scott Dobbie CBE**

*Chairman*

Scott Dobbie, Chairman, was appointed on 25 April 2001. He has worked with Wood Mackenzie & Co. and its successor companies since 1972 and remains a senior adviser to Deutsche Bank. He is former Chairman of The Edinburgh Investment Trust plc and The Chartered Institute for Securities and Investment and a director of the Qualifications and Curriculum Authority.

**Alastair Barbour**

*Director*

Alastair Barbour was appointed on 1 April 2011. He is a chartered accountant and was formerly a partner of KPMG and has specialised in financial services with extensive experience in advising on accounting, financial reporting and corporate governance. He is also a director of RSA Insurance Group plc, LionTrust Asset Management plc and of CATCo Reinsurance Opportunities Fund Ltd.

**Hamish Buchan***

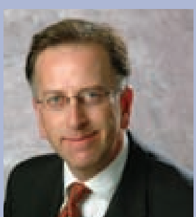
*Director*

Hamish Buchan was appointed on 25 April 2001. He started with Wood Mackenzie & Co. in 1969, where he was appointed a partner in 1979. Following his retirement in 1999, he has worked as a consultant in the investment company sector and is a former Chairman of the Association of Investment Companies. He is also Chairman of JPMorgan American Investment Trust plc and Personal Assets Trust plc and a non-executive director of Aberforth Smaller Companies Trust plc, Templeton Emerging Markets Investment Trust plc and The Scottish Investment Trust plc.

**Jonathan Taylor**

*Director*

Jonathan Taylor was appointed on 2 December 2010. He is a former global head of the Venture Capital Division of 3i Group. He has extensive experience of the private equity sector, having worked at 3i Group from 1984 until 2008. He is Chairman of Tideway Investment Group Limited and a director of Kainos Software Limited. He is a former member of the Council of the British Venture Capital Association and former Chairman of its Venture Capital Committee.



**Edmond Warner**

*Director*

Edmond Warner was appointed on 27 November 2008. He is Chairman of UK Athletics, the sport's national governing body with a mandate to lead it through to London 2012, investment bank Panmure Gordon & Co, and online derivatives exchange LMAX. He has been a top ranked investment strategist in the surveys of institutional investors, and a leading commentator on financial and business matters in both the press and broadcast media. He is also a non-executive director of Clarkson PLC, Grant Thornton UK LLP and The Eastern European Trust.

**David Warnock**

*Director*

David Warnock was appointed on 26 January 2009. He has over 30 years' investment experience in both public and private companies, in both the UK and USA. He co-founded Aberforth Partners LLP and was a partner for 19 years until his retirement from the firm in 2008, prior to which he was with Ivory & Sime plc for four years and before that with 3i Group plc for seven years. He is also a non-executive director of Phoenix IT Group plc, British Polythene Industries PLC, Troy Income & Growth Trust plc and a number of private companies.

**Donald Workman**

*Director*

Donald Workman was appointed on 1 December 2006. He is an employee of The Royal Bank of Scotland plc, currently managing the relationship with the Asset Protection Agency (an Agency of HM Treasury). Previously he was a member of the Managing Board of ABN AMRO responsible for the Global Banking and Markets business and for the separation of the domestic and wholesale activities of ABN AMRO following its acquisition by a consortium led by RBS. Since joining RBS in 1992 his responsibilities have included strategic planning and implementation, head of change management and he was responsible for RBS corporate markets relationship with Bank of China. He is also a non-executive director of Bank of China (UK) Ltd and of Star Capital Partners.

* Hamish Buchan has been nominated as the Senior Independent Director and is also Chairman of the Audit Committee.
All of the directors, except Scott Dobbie, are members of the Audit Committee.
All of the directors are members of the Management Engagement and Nominations Committees.

The directors present their report and the audited financial statements for the year ended 30 September 2011.

## Business Review

### *Business and Status*

The Company carries on business as an investment trust and has been approved as such by HM Revenue & Customs for the year ended 30 September 2010, subject to their rights to further enquiry under the Finance Act 1998. The Company has subsequently conducted its affairs so as to enable it to continue to seek such approval. The Company is an investment company within the terms of section 833 of the Companies Act 2006. The Company's registration number is SC 216638.

The Manager of the Company is SL Capital Partners LLP. The Board is independent of the Manager and Standard Life.

### *Investment Objective*

The investment objective is to achieve long-term capital gains through holding a diversified portfolio of private equity funds investing predominantly in Europe. The full text of the Company's investment policy can be found on page 6 and the Portfolio Review section of the Manager's Review on pages 11 to 13 explains how the Company has invested its assets with a view to spreading investment risk in accordance with the Company's investment policy.

### *Review of Performance*

An outline of the performance, market background, investment activity and portfolio during the year under review and the performance over the period since listing, as well as the investment outlook, are provided in the Chairman's Statement and the Manager's Review.

### *Monitoring Performance – Key Performance Indicators*

At each Board meeting the directors consider a number of performance indicators to assess the Company's success in achieving its objectives, which include both absolute and relative performance compared to market indices and peer group. The key performance indicators ("KPIs") are established industry measures, covering both the Company and its fund investments, which include:

- net asset value capital return
- projected and actual portfolio cashflows
- discount and discount volatility
- share price capital return
- expenses and expense ratio

The net asset value and share price performance for the one year and five years ended 30 September 2011, and since listing, are provided in the Financial Summary on page 2. The Company's expense ratio and discount levels are provided on page 3. An analysis of the portfolio cashflows, including draw downs, distributions and fund commitments, is provided in the Investment Activity section of the Manager's Review.

### *Principal Risks and Uncertainties*

The major focus of the Company is to invest in European private equity funds, which themselves invest in unquoted companies. The Company has the ability to invest up to 20% of its gross assets in funds that operate outside Europe. The aim is to build a portfolio of private equity fund interests diversified by country, industry sector, maturity and number of underlying investments. The financial risk management objectives and policies of the Company are contained in note 19 to the accounts on page 43. The principal risks facing the Company relate to the Company's investment activities and include the following:

- market risk
- currency risk
- over–commitment risk
- liquidity risk
- credit risk
- interest rate risk
- operating and control environment risk

An explanation of these risks and how they are managed is contained in note 19 to the accounts on pages 43 to 46.

### *Social, Community, Employee Responsibilities and Environmental Policy*

As an investment trust, the Company has no direct social, community, employee or environmental responsibilities. Its principal responsibility to shareholders is to ensure that the investment portfolio is properly invested and managed. Further information on the Manager's policy on sustainable and responsible investing is provided on page 23. The Company has no employees and no requirement to report separately on this area, as the management of the portfolio has been delegated to the Manager, SL Capital Partners LLP. Details of the Investment Management Agreement are provided on pages 20 and 21.

## Share capital

At 30 September 2011, the Company's issued and paid up share capital was £357,108 divided into 161,496,597 fully paid up ordinary shares, 13,577,627 founder A shares and 14,835,625 founder B shares partly paid up as to 0.1p per share and 2,664,375 founder A shares and 2,664,375 founder B shares partly paid up as to 0.107p per share. During the year to 30 September 2011 123,804 new ordinary shares were issued as a result of elections received pursuant to the scrip dividend alternative in respect of the 2010 final dividend.

The ordinary shares, founder A shares and founder B shares represent 82.72%, 8.32% and 8.96% respectively of the Company's total issued share capital. The ordinary shares are listed, whereas the founder shares are not. Further information on the rights attaching to the different classes of shares in the Company are set out in the appendix which forms part of the Directors' Report.

# Directors' Report

### Income and final dividend

Income available for dividends was £2,663,000, or 1.65p per ordinary share (30 September 2010 – £543,000, or 0.34p per ordinary share). The directors recommend that a final dividend of 1.3p per ordinary share (30 September 2010 – 0.2p) be paid on 6 February 2012 to shareholders on the Company's share register as at the close of business on 6 January 2012. Shareholders are being offered the right to elect to receive new ordinary shares instead of all or part of the recommended final dividend. Details of the scrip dividend option are provided in the circular accompanying this annual report and accounts.

### Directors

Alastair Barbour was appointed as a non-executive director on 1 April 2011 and, as a result, he is required to stand for election as a director under the terms of the Company's articles of association. In addition, and for the first time this year in accordance with developing practice, each of the Company's other directors will stand for re-election at the forthcoming Annual General Meeting. Mr Buchan, who will retire at the conclusion of the Annual General Meeting in February 2012, will not stand for re-election. The Board supports the candidature of the directors for the reasons described in the Corporate Governance section below. Biographies of the directors can be found on page 18.

The names of the directors and their shareholdings in the Company are shown in the table below. The Company has not been notified of any changes to the directors' shareholdings between 30 September 2011 and 2 December 2011.

| Directors and their shareholdings in the Company | Ordinary shares held as at 30 September 2011 | 2010 |
|---|---|---|
| Scott Dobbie | 150,364 | 150,150 |
| Alastair Barbour (appointed 1 April 2011) | 20,000 | — |
| Hamish Buchan | 25,000 | 25,000 |
| Clive Sherling (resigned 25 January 2011) | n/a | 100,000 |
| Jonathan Taylor (appointed 2 December 2010) | 50,000 | — |
| Edmond Warner | 25,000 | 25,000 |
| David Warnock | — | — |
| Donald Workman | — | — |

All of the above ordinary shares are held benefically by the directors and their families. No director held any founder shares.

No contract or arrangement existed during the period in which any of the directors had a material interest. No director has a service contract with the Company.

### Directors' and Officers' Liability Insurance/Directors' Indemnity

The Company maintains insurance in respect of directors' and officers' liabilities in relation to their acts on behalf of the Company. The Company's articles of association provide that any director or other officer of the Company is to be indemnified out of the assets of the Company against any liability incurred by him as a director or other officer of the Company to the extent permitted by law.

### Investment Management Arrangements

The investment manager to the Company is SL Capital Partners LLP.

Under the terms of the Company's investment management agreement with the Manager (the "Investment Management Agreement"), the Company pays the Manager a quarterly fee, equal to 0.8% per annum of shareholders' funds at the end of the relevant quarter. Undrawn commitments to limited partnerships and other funds are disregarded when calculating shareholders' funds for this purpose. No fee is payable on any investments in any investment trust, collective investment scheme or any other company or fund managed, operated or advised by the Manager or any other subsidiary of Standard Life.

The Manager's appointment may be terminated by either party giving to the other not less than 12 months' written notice. In the event that the Company terminates the Investment Management Agreement on less than 12 months' written notice, the Manager would be entitled to compensation except in the circumstances noted below.

The maximum compensation which the Manager would be entitled to receive for early termination (that is, if no notice of termination were given by the Company) would be an amount equal to 0.8% of the Company's net asset value at termination. If a period of notice were given by the Company (but less than the required 12 months), the Manager would be entitled to receive a proportion of that maximum compensation, the relevant proportion being the number of days by which the notice given falls short of 365 days expressed as a proportion of the required 12 month notice period.

The Manager's appointment under the Investment Management Agreement may be terminated by the Company without compensation for early termination (although all fees and other amounts accrued up to the date of termination will remain payable) in the following circumstances: the Manager being wound up; an insolvency event occurring in respect of the Manager; the Manager being guilty of negligence, wilful default or fraud in the performance of its duties under the Investment Management Agreement; the Manager's material breach of the Investment Management Agreement; the Manager becoming legally prohibited from carrying on investment business; on a change of control of Standard Life Investments (Private Equity) Limited ("SLIPE") where at that time SLIPE controls the Manager; on a change of control of the Manager (except where it has been approved by the Board); on the Company ceasing to satisfy the conditions for approval as an investment trust by reason of the negligence or wilful default of the Manager; or if less than two "key executives" remain engaged by any member of the Manager's group. The key executives are currently David Currie and Peter McKellar, but the directors may from time to time accept as a key executive any other employee or member of any entity in the Manager's group who is a member of the Manager's investment committee and who has been proposed by the Manager to the Company as a key executive.

The Investment Management Agreement contains provisions indemnifying the Manager against any liability not due to its negligence, wilful default or fraud.

The Company announced on 5 October 2011 that it had reached agreement with the Manager, on the key commercial terms of a proposed amendment to the Company's investment management arrangements. Subject to approval of the new arrangements at the forthcoming Annual General Meeting, the investment management agreement between the Company and the Manager will be amended. Details of the proposed amendments are provided in the circular accompanying this annual report and accounts.

## Corporate Governance

### *Compliance*

The Board and the Manager are committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles identified in the 2010 UK Corporate Governance Code ("the Governance Code") which is available on the Financial Reporting Council's website www.frc.org.uk. The Board has established corporate governance procedures, which it believes are appropriate for an investment trust company and which enable the Company to comply with the relevant provisions of the Governance Code and, where appropriate, with the provisions of the AIC Code of Corporate Governance© which can be found on the AIC's website at www.theaic.co.uk.

The Board believes that the Company has complied throughout the year ended 30 September 2011 with the provisions of the Governance Code, except for the provision which relates to the combination of the roles of the Chairman and Chief Executive as this provision does not apply as the Company has no executive directors.

### *Directors*

The Board has overall responsibility for the Company's affairs. It delegates, through the investment management and administration agreements and through specific instructions, the day to day management of the Company to the Manager, SL Capital Partners LLP, and to the Administrator, Aberdeen Asset Managers Limited. The Company has no executives or employees. There are a number of matters reserved for the Board's approval which include strategy, investment policy, borrowings, dividend policy and Board composition.

The Board presently consists of seven non-executive directors, one of whom is Chairman. All of the directors are independent of the Manager and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The terms and conditions of appointment of the directors are available at the Company's registered office and at the places set out in the circular accompanying this annual report and accounts.

The directors have the requisite business and financial experience to enable the Board to provide strategic leadership and proper governance to the Company. The Senior Independent Director ("SID") is Hamish Buchan. Edmond Warner will take over the role of SID following Mr Buchan's retiral from the Board at the conclusion of the Annual General Meeting in February 2012.

The Board meets formally at least five times each year and more frequently where business needs require. There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, borrowings, marketing, forecasts, dividends and communication with shareholders. There is regular contact between the directors and the Manager throughout the year.

The table below sets out the number of formal directors' and committee meetings attended by each director during the year compared with the total number of meetings that each director was entitled to attend.

| Meetings held and attendance | Board | Audit Committee | Management Engagement Committee | Nominations Committee |
|---|---|---|---|---|
| Scott Dobbie[1] | 6/6 | 2/2 | 1/1 | 1/1 |
| Alastair Barbour[2] | 2/2 | 1/1 | 1/1 | 1/1 |
| Hamish Buchan | 6/6 | 2/2 | 1/1 | 1/1 |
| Clive Sherling | 2/3 | 1/1 | n/a | n/a |
| Jonathan Taylor[2] | 5/5 | 1/1 | 1/1 | 1/1 |
| David Warnock | 6/6 | 2/2 | 1/1 | 1/1 |
| Edmond Warner | 5/6 | 2/2 | 1/1 | 1/1 |
| Donald Workman | 6/6 | 2/2 | 1/1 | 1/1 |

[1] Scott Dobbie attended the audit committee as a non-voting observer.
[2] Alastair Barbour and Jonathan Taylor were appointed during the financial year and attended all meetings which they were eligible to attend.

The Board regularly monitors the interests of each director and a register of directors' interests, including potential conflicts of interest, is maintained by the Company. Directors who have potential conflicts of interest will not take part in any discussions which relate to that particular conflict. The Board will continue to monitor and review potential conflicts of interests on a regular basis.

# Directors' Report

Following the implementation of the Bribery Act 2010, the Board has adopted a zero tolerance approach to bribery and corruption and has implemented appropriate procedures designed to prevent bribery.

### *Nominations Committee*

All of the directors are members of the Nominations Committee and Scott Dobbie is the Chairman. The terms of reference, which are available on the Company's website, include review of the Board, identification and nomination of candidates for appointment to the Board, appraisal of the Chairman and the Board, succession planning and training.

Any future appointments of new directors will be considered by the Nominations Committee, taking into account the need to maintain a balanced Board. New directors appointed to the Board will be given an induction meeting with the Manager and will be provided with all relevant information regarding the Company and their duties as a director. Thereafter, regular briefings are provided on changes in regulatory requirements that could affect the Company and the directors. Professional advisers report from time to time and directors will, if necessary, attend seminars covering relevant issues and developments.

The Company's articles of association provide that a director appointed during any period is required to retire and seek election by shareholders at the next Annual General Meeting and that every director submits himself or herself for re-election at least every three years. Directors are appointed to the Board for a specified period, initially three years, and subsequent extensions are, in each case, considered by the Board. In line with developing practice and good corporate governance, the Board has implemented annual re-election of all directors. All directors, with the exception of Mr Buchan, who will retire at the conclusion of the Annual General Meeting in February 2012, will therefore be seeking election or re-election. The Board believes that each director continues to be effective, bringing a wealth of knowledge and experience to the Board and recommends the election or re-election of each director to shareholders.

There is a procedure for directors to take independent professional advice, if necessary, at the Company's expense. This is in addition to the access which every director has to the advice and services of the Company Secretary, Aberdeen Asset Management PLC, which is responsible to the Board for ensuring that Board procedures are followed and that the Company complies with the applicable rules and regulations.

Directors' remuneration is considered by the Board and, therefore, a separate remuneration committee has not been established. Details of remuneration are contained within the Directors' Remuneration Report on page 28.

### *Performance evaluation*

An assessment of the operation of the Board and its Committees and of the contribution of each director, including the Chairman, was undertaken during the year. The process was based upon individual discussions between each director and the Chairman. The Chairman was assessed by his colleagues in discussions with the SID. Overall, the performance of the Board, collectively and individually, continues to be judged as fully satisfactory.

### *Succession Planning*

The Board has agreed a succession planning timetable in order to provide an appropriate balance in future between new blood and continuity, in line with good corporate governance.

Following a review of the Board composition, the Nominations Committee recognised the advantages of having representatives with accounting and auditing expertise, particularly within financial services. An external consultant was used to identify potential candidates. This resulted in the appointment of Alastair Barbour as a non-executive director on 1 April 2011 and he will offer himself for election by shareholders at the forthcoming Annual General Meeting.

### *Communication with shareholders*

The directors place great importance on communication with the Company's shareholders. The Manager carries out a programme of regular dialogue and individual meetings with institutional shareholders. The Chairman and the SID welcome correspondence from shareholders, addressed to the Company's registered office. During the year the Board also met with representatives of major shareholders.

The notice of the Annual General Meeting, set out in the circular accompanying this annual report and accounts, is sent out at least 20 working days in advance of the meeting. Representatives of the Board intend to be available at the Annual General Meeting and shareholders are encouraged to attend and ask questions of the Board. The Board hopes that as many shareholders as possible will be able to attend the meeting. Proxy voting figures for each resolution are announced to the meeting after voting on a show of hands.

### *Accountability and audit*

The Audit Committee is chaired by Hamish Buchan and comprises all of the directors with the exception of Scott Dobbie. At the conclusion of the Annual General Meeting on 2 February 2012, Alastair Barbour will be appointed Chairman of the Audit Committee. Alastair Barbour is a chartered accountant and a former partner of KPMG and the Board is satisfied that the Audit Committee has the necessary skills and experience. The Audit Committee's terms of reference, which are available on the Company's website, are reviewed on an annual basis.

The Audit Committee meets at least twice a year and considers reports from the Independent Auditors, the Manager and the Administrator. In addition, the Audit Committee meets, at least annually, with the Independent Auditors in the absence of the Manager. The main responsibilities of the Audit Committee include:

- monitoring the integrity of the Company's financial statements and appropriateness of its accounting policies;
- reviewing the effectiveness of the Company's system of internal controls (including financial, operational and compliance controls and risk management);

- considering the scope of work undertaken by the Manager's and the Administrator's internal audit and compliance departments including a review of their 'whistle-blowing' policies; and
- making recommendations to the Board regarding the appointment and independence of the Independent Auditors and the objectivity and effectiveness of the audit process, with particular regard to the level of non-audit fees, if any.

Shareholders have the opportunity at each Annual General Meeting to vote on the election of the Independent Auditors for the forthcoming year.

### *Internal controls*

The respective responsibilities of the directors and the Independent Auditors in connection with the financial statements appear on pages 29 and 30.

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance, against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks and that it has been in place for the year ended 30 September 2011 and up to the date of approval of the annual report and accounts. It is regularly reviewed by the Board and accords with the FRC's Internal Control: Revised Guidance.

Under the terms of the investment management and administration agreements, the day to day management and operation of the Company has been delegated to the Manager and the Administrator. Clear lines of accountability have been established between the Board, the Manager and the Administrator and the Board and the Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. The Manager and the Administrator are responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly. The system extends to financial, operational and compliance controls and risk management. The Board reviews financial reports and performance statistics, including projections and management accounts, from the Manager on a regular basis. Twice a year the Audit Committee carries out an assessment of internal risks and controls. In carrying out its review, the Board has regard to the activities of the Manager and the Administrator, including their risk management, internal audit, compliance function and whistle-blowing policies, and the Independent Auditors.

The Board considers that an internal audit function is not required by the Company as the internal control systems operated by the Manager's ultimate parent and the Administrator, both of whom have strong internal audit functions, provide sufficient assurance over the effectiveness of internal controls.

### *Management Engagement Committee*

All of the directors are members of the Management Engagement Committee and Scott Dobbie is the Chairman. The Committee reviews the performance of both the Manager and the Administrator and their compliance with the terms of the investment management and the administration agreements respectively. The terms and conditions of the Manager's appointment, including an evaluation of performance and fees, are reviewed by the Committee on an annual basis. The investment management agreement is terminable on not less than 12 months' written notice. The Manager's appointment may be terminated by a lesser period of notice, with (save in some exceptional circumstances) compensation in lieu of notice payable by the Company to the Manager.

The Committee considers that the Manager, whose team is well qualified and experienced, has met fully the terms of its agreement with the Company. Investments are carefully identified, screened and monitored, risks rigorously controlled and cashflow projections updated regularly. Written and verbal presentations to the Board are made in a highly professional manner, as is communication to shareholders, City commentators and the media. Company secretarial and support services have also performed well. A review of management fees, relative to the peer group, indicates that the fees paid by the Company are competitive. Having regard to the foregoing, the Committee, and hence the Board, believes that the continuing appointment of the Manager on the agreed terms is in the interests of shareholders.

### *Sustainable and Responsible Investing ("SRI")*

Standard Life Investments ("SLI") is a signatory to the United Nations Principles for Responsible Investing. As a subsidiary of SLI, the Manager has embraced the principles of SRI and adopted the following policies:

- SL Capital Partners LLP believes that a company run in the long term interests of its shareholders should manage its relationships with its employees, suppliers and customers, and behave responsibly towards the environment and society as a whole;
- companies that demonstrate a commitment to environmental and social responsibility are likely to enjoy a comparative advantage in the long run;
- companies that fail to maintain adequate processes to manage these issues increasingly risk damage to their reputation, brand and image that can negatively impact their financial performance; and
- SL Capital Partners LLP seeks to encourage its fund managers to adopt best practice standards of environmental and social management with a view to protecting and enhancing the value of the investments made on behalf of its clients.

# Directors' Report

Although the Manager has no direct influence on the policies and behaviour of investee companies, it seeks to encourage general partners to adhere to SRI guidelines and report on any issues that arise in the portfolio.

No material SRI issues have been brought to the Manager's attention from within the Company's portfolio during the year to 30 September 2011.

### Going Concern

The directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

### Significant Shareholdings

The significant holdings in the Company's ordinary share capital which had been notified to the Company as at 2 December 2011 are shown below.

| Substantial share interests | No. of ordinary shares | % |
|---|---|---|
| Standard Life plc | 81,886,825 | 50.8 |
| Foreign & Colonial Asset Management PLC | 11,767,245 | 7.3 |
| Including: Foreign & Colonial Investment Trust | 5,500,000 | 3.4 |
| Quilter & Co. Limited | 8,029,904 | 5.0 |
| Merseyside Pension Fund | 5,000,305 | 3.1 |

### Significant Agreements

The Company considers the following agreements, each of which may be effected, altered or terminated on a change of control of the Company, to be of significance.

#### *Investment Management Agreement*

The principal terms of the Investment Management Agreement are summarised above in the section of the Directors' Report entitled "Investment Management Arrangements".

#### *Relationship Agreement with Standard Life*

By a letter dated 1 October 2007, Standard Life has irrevocably undertaken to the Company that, at any time when Standard Life and its Associates (meaning any company which is a member of the Standard Life group) are entitled to exercise or control 30% or more of the rights to vote at general meetings of the Company, it will not (and will procure that none of its Associates will) seek to nominate directors to the Board of the Company who are not independent of Standard Life or take any action which would be detrimental to the Company's shareholders as a whole (for this purpose, any action which has the support or recommendation of a majority of the directors is deemed not to be detrimental).

These undertakings do not apply where: (i) an offer is made for the Company, or a reconstruction or winding up of the Company is proposed (other than by Standard Life or any of its Associates), or any hostile corporate action has been initiated in relation to the Company; (ii) the Manager has been removed or is proposed to be removed as the discretionary investment manager of the Company (save where the removal or proposed removal is instigated by Standard Life or its Associates or is effected by the Company summarily terminating the Investment Management Agreement), or material changes have been made or are proposed to be made to the Investment Management Agreement; (iii) the Company's investment policy is altered or proposed to be altered with shareholder approval in any material way; or (iv) there has been any failure of generally accepted corporate governance principles or an increase in the remuneration limit for the directors is proposed without Standard Life's previous written approval.

#### *Standard Life Name*

In the event that Standard Life ceases to have control of the Company's investment manager or there is a takeover of the Company, Standard Life is entitled under the Company's articles of association to require that the name of the Company be changed to a name which does not contain the words "Standard Life" or any confusingly similar words.

#### *Facility Agreement*

On 29 November 2010 the previous £100,000,000 facility was cancelled and replaced with a £120,000,000 committed, multi-currency syndicated revolving credit facility led by The Royal Bank of Scotland ("RBS"). The expiry date of this facility is 31 December 2013. Under this facility the Company must repay each loan under the facility on the last day of the specified interest period of the loan, but any such amounts may be reborrowed. If any person or group of persons acting in concert gains control of the Company or Standard Life ceases to be the beneficial owner directly or indirectly through wholly owned subsidiaries of more than 50.01% of the issued share capital of the Company, the Company will be required to notify RBS and the syndicated revolving credit facility may be cancelled. In the event of such cancellation the Company will then have to repay all outstanding loans together with accrued interest. At 30 September 2011, £31,868,000 of the loan facility was drawn down.

### Independent Auditors

The directors confirm that so far as each director is aware there is no relevant audit information of which the Company's auditors are unaware. Each director has also taken all reasonable steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Independent Auditors are aware of that information.

### Payment Policy

The Company's payment policy is to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to business taking place. The Company had no trade creditors at either 30 September 2011 or 30 September 2010.

**Annual General Meeting**

The Company's Annual General Meeting will be held at The Balmoral Hotel, 1 Princes Street, Edinburgh at 12.30 p.m. on 2 February 2012. Notice of the Annual General Meeting and details of the resolutions which will be proposed at the meeting are provided in the circular accompanying this annual report and accounts.

By order of the Board

Aberdeen Asset Management PLC
*Company Secretary*
Edinburgh, 2 December 2011

# Appendix to Directors' Report: Rights attaching to shares in the Company

### General

The Company's issued share capital comprises ordinary shares, which are listed, and founder A and founder B shares, which are not. The ordinary shares, founder A shares and founder B shares represent 82.72%, 8.32% and 8.96% respectively of the Company's total issued share capital.

The rights attaching to the Company's shares are set out in the Company's articles of association and they are also supplemented by (and are subject to) relevant provisions of the Companies Act 2006 and other legislation applying to the Company from time to time (the "Statutes").

### Dividends

The ordinary shares carry a right to receive dividends which are declared from time to time by an ordinary resolution of the Company (up to the amount recommended by the directors) and to receive any interim dividends which the directors may resolve to pay.

The founder shares carry a right to a fixed non-cumulative dividend of 0.05% per annum of the nominal amount paid up on those shares, which accrues daily and is payable annually in arrears on 30 September each year.

The founder A and founder B shares are to be reclassified as deferred shares on the occurrence of certain prescribed events, at which time they would cease to be convertible into ordinary shares (see the section entitled "Conversion of Founder Shares" below for an explanation of the conversion rights attaching to the founder shares). As at 30 September 2011, there were no deferred shares in issue. The deferred shares entitle their holders to a fixed non-cumulative dividend of 1% of their nominal amount but they confer no other right to share in the profits of the Company.

### Voting

Ordinary shareholders are entitled to vote on all resolutions which are proposed at general meetings of the Company.

Subject to suspension of voting rights in the limited circumstances summarised below in the section entitled "Restrictions on the Rights Attaching to Shares", on a show of hands every ordinary shareholder present in person or by proxy has one vote and on a poll every ordinary shareholder present in person has one vote for every share he holds and a proxy has one vote for every share in respect of which he is appointed.

Neither the founder shares nor the deferred shares carry voting rights, except at separate class meetings in the case of changes to class rights. Any alteration to Part 2 of the Company's articles of association is deemed to be a change to the class rights attaching to the founder shares.

### Deadlines for Exercising Voting Rights

If an ordinary shareholder wishes to appoint a proxy to vote at a meeting on his behalf, a valid appointment is made if the form of proxy is received by the Company no later than the time specified in the notice convening the meeting, which: (i) cannot be more than 48 hours (excluding non-working days) before the start of the meeting or adjourned meeting; (ii) in the case of a poll taken more than 48 hours after it is demanded, cannot be more than 24 hours before the time appointed for the taking of the poll; or (iii) in the case of a poll taken not more than 48 hours after it is demanded at a meeting, cannot be more than 48 hours (excluding non-working days) prior to the meeting at which the poll is demanded.

### Rights to the Capital of the Company on Winding Up

If and when the Company is wound up, the capital and assets of the Company will be distributed as follows: (i) if there are deferred shares in issue, in paying to each deferred shareholder 1p in aggregate; then (ii) in paying to the founder shareholders the nominal amount paid up on each founder share which they hold; and then (iii) the remaining capital and assets will be divided among the ordinary shareholders in proportion to their shareholdings.

### Conversion of Founder Shares

Standard Life Investments Limited and individual members of the Manager's investment team were allotted 35,000,000 founder shares on the Company's launch in May 2001. Subject to the performance of the Company measured over two periods from 2001 to 2006 and from 2006 to 2011, the founder shares are convertible into a maximum of 10% of the ordinary share capital of the Company as enlarged by conversion. There are no other convertible classes of shares, convertible instruments, warrants or options to subscribe for equity shares outstanding as at the date of this document.

The first performance period, relating to the conversion of the founder A shares, came to an end on 30 September 2006 and resulted in 4,854,979 founder A shares becoming convertible at any time up to 31 December 2013 into an equal number of ordinary shares. There were no conversions of founder A shares during the year to 30 September 2011. As at 2 December 2011, there were 3,596,981 founder A shares capable of conversion into ordinary shares, representing 2.2% of the Company's fully diluted ordinary share capital.

The conversion price for each convertible founder A share is 100p less the amount already paid up on that founder share, subject to adjustment in certain circumstances.

The second performance period, relating to the conversion of the founder B shares, came to an end on 30 September 2011. The performance condition for the founder B share performance period was that the compound annual growth rate in the Company's NAV, including distributions other than share buy-backs, needed to exceed 10%. As this growth target was not achieved in that period no founder B shares are convertible into ordinary shares.

The detailed provisions regarding the conversion of the founder A and B shares are set out in Part 2 of the Company's articles of association.

# Appendix to Directors' Report: Rights attaching to shares in the Company

### Restrictions on the Rights Attaching to Shares

The Company may, by serving a "restriction notice" on a shareholder, place restrictions on the right of a shareholder to vote, receive dividends and transfer his shares if the shareholder (or any other person appearing to be interested in his shares) has been requested by the Company to provide details of any direct or indirect interests held by any person in his shares and he fails to comply with that request within 14 days of the request being made.

From the date of service of the restriction notice, the shares to which the notice relates will be subject to some or all of the following restrictions. Where the shares represent 0.25% or more in number or nominal value of the shares of the Company then in issue, or of any class of share, (i) the shares cease to confer on the shareholder any rights to attend or vote at general meetings of the Company or at class meetings or to exercise any other right to participate in meetings; (ii) any dividends payable in respect of the shares may be withheld by the Company; and (iii) no transfers of the shares (other than by way of an arm's length sale) will be registered. In any other case, the sole restriction is that the shares cease to confer on the shareholder any rights to attend or vote at general meetings of the Company or at class meetings or to exercise any other right to participate in meetings.

### Other Restrictions on Transfers of Shares

In accordance with the eligibility requirements for listing, the Company's ordinary shares are freely transferable.

However, in addition to the restrictions noted above (see "Restrictions on the Rights Attaching to Shares"), the directors may refuse to register a transfer of shares held in certificated form unless the instrument of transfer is (i) lodged at the Company's registered office, accompanied by the relevant share certificate(s) and such other evidence (if any) as the directors may reasonably require to show the right of the transferor to make the transfer; (ii) stamped or adjudged or certified as not chargeable to stamp duty; (iii) in respect of only one class of share; and (iv) not in favour of more than four persons jointly.

The directors may only decline to register a transfer of an uncertificated share in the circumstances set out in the Statutes and where in the case of a transfer to joint holders the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

If the directors decline to register a transfer, they are required to send notice of the refusal to the transferee within two months, giving reasons for their decision.

### Restrictions on Transfers of Founder Shares

A founder shareholder who is an individual may only transfer founder shares to certain close family relations or to trustees to be held in a family trust. A founder shareholder which is a body corporate may transfer its founder shares to any member of the same group.

Any other proposed transfer of founder shares is subject to the prior approval of the directors in their absolute discretion.

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of section 421 of the Companies Act 2006. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

The law requires the Company's Independent Auditors to audit certain of the disclosures provided herein. Where disclosures have been audited, they are indicated as such. The Independent Auditors' opinion is included in their report on page 30.

### Remuneration committee

The Company has seven non-executive directors. The Board as a whole fulfils the function of a remuneration committee. The Board has instructed the Manager, SL Capital Partners LLP, to provide annually appropriate information to assist the Board in considering the level of directors' fees.

### Policy on directors' fees

The Company's policy is to remunerate directors at a rate which both attracts and retains individuals of the necessary calibre and experience and is comparable to that paid by other companies with similar characteristics. It is intended that this policy will continue for the year ending 30 September 2012 and for subsequent years.

The fees for the non-executive directors are determined within the limits set out in the Company's articles of association and directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The annual limit on directors' fees in the Company's articles of association is £250,000.

At the September 2011 Board meeting, the Board carried out a review of the level of directors' fees and agreed that directors' fees should be maintained at £42,000 per annum for the Chairman, £30,000 per annum for the Senior Independent Director and Chairman of the Audit Committee and £24,000 per annum for each other Director.

### Directors' service contracts

It is the Board's policy that none of the directors has a service contract. The terms of their appointment provide that a director shall retire and be subject to election by shareholders at the first Annual General Meeting after their appointment and stand for re-election every year thereafter. The terms also provide that a director may be removed without notice and that compensation will not be due on leaving office.

### Directors' emoluments for the year (audited)

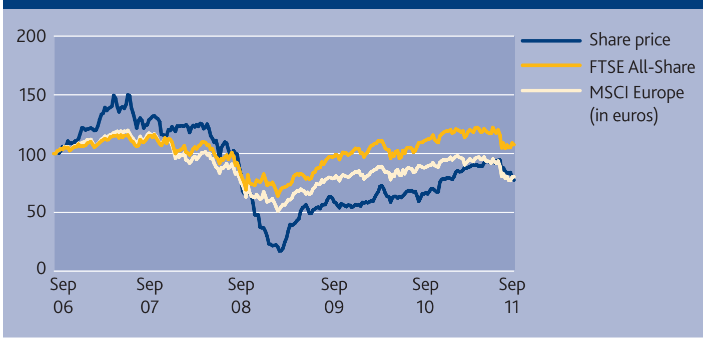
All directors who served during the year ended 30 September 2011 received the emoluments, in the form of fees, as described in the table below.

| Directors' fees excluding VAT and NI (audited) | 2011 £ | 2010 £ |
|---|---|---|
| Scott Dobbie | 42,000 | 38,500 |
| Alastair Barbour (appointed 1 April 2011) | 12,000 | — |
| Hamish Buchan | 30,000 | 27,500 |
| Clive Sherling (retired 25 January 2011) | 7,613 | 22,000 |
| Jonathan Taylor (appointed 2 December 2010) | 19,935 | — |
| Edmond Warner | 24,000 | 22,000 |
| David Warnock | 24,000 | 22,000 |
| Donald Workman | 24,000 | 22,000 |
| **Total** | **183,548** | **154,000** |

### Total shareholder return

The graph below presents, for the period from 30 September 2006 to 30 September 2011, the total shareholder return, assuming all dividends were reinvested, for a holding in the Company's ordinary shares, compared to the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which the FTSE All-share and MSCI Europe (in euros) indices are calculated. These indices, being the two most relevant indices, are chosen for comparative purposes only.

Total cumulative ordinary shareholder return for the five years to 30 September 2011




### Approval

The Directors' Remuneration Report was approved by the Board of directors on 2 December 2011.

By order of the Board

Aberdeen Asset Management PLC
*Company Secretary*
Edinburgh, 2 December 2011

# Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they comply with all the above requirements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

For Standard Life European Private Equity Trust PLC

Scott Dobbie CBE
*Chairman*
Edinburgh, 2 December 2011

# Independent Auditors’ Report to the Members of Standard Life European Private Equity Trust PLC

We have audited the financial statements of Standard Life European Private Equity Trust PLC for the year ended 30 September 2011 which comprise the Income Statement, the Reconciliation of Movement in Shareholders’ Funds, the Balance Sheet, the Cashflow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors’ Responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company’s affairs as at 30 September 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit or
- a corporate governance statement has not been prepared by the company

Under the Listing Rules we are required to review:

- the Directors’ Report , set out on page 24, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company’s compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors’ remuneration

Catrin Thomas (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
*Chartered Accountants and Statutory Auditors*
Edinburgh, 2 December 2011

| | Notes | For the year ended 30 September 2011 Revenue £'000 | Capital £'000 | Total £'000 | For the year ended 30 September 2010 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments | 9 | — | 56,281 | 56,281 | — | 51,693 | 51,693 |
| Currency (losses)/gains | 14 | — | (4) | (4) | — | 944 | 944 |
| Income from investments | 2 | 4,514 | — | 4,514 | 1,713 | — | 1,713 |
| Interest receivable and other income | 2 | 7 | — | 7 | 1 | — | 1 |
| Investment management fee | 3 | (294) | (2,644) | (2,938) | (238) | (2,138) | (2,376) |
| Administrative expenses | 4 | (714) | — | (714) | (581) | — | (581) |
| NET RETURN ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION | | 3,513 | 53,633 | 57,146 | 895 | 50,499 | 51,394 |
| Finance costs | 5 | (285) | (2,565) | (2,850) | (191) | (1,716) | (1,907) |
| NET RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION | | 3,228 | 51,068 | 54,296 | 704 | 48,783 | 49,487 |
| Taxation | 6 | (565) | 547 | (18) | (161) | 141 | (20) |
| NET RETURN ON ORDINARY ACTIVITIES AFTER TAXATION | | 2,663 | 51,615 | 54,278 | 543 | 48,924 | 49,467 |
| NET RETURN PER ORDINARY SHARE | 8 | 1.65p | 31.97p | 33.62p | 0.34p | 30.36p | 30.70p |
| DILUTED NET RETURN PER ORDINARY SHARE | 8 | 1.64p | 31.74p | 33.38p | 0.34p | 30.30p | 30.64p |

The "Total" column of this statement represents the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement.

The dividend which has been recommended based on this Income Statement is 1.3p (2010 - 0.2p) per ordinary share.

# Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 2011

| | Notes | Called up share capital £'000 | Share premium £'000 | Special reserve £'000 | Capital redemption reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 30 September 2010 | | 357 | 79,650 | 79,148 | 3 | 150,422 | 5,662 | 315,242 |
| Total recognised gains | | — | — | — | — | 51,615 | 2,663 | 54,278 |
| Scrip Issue of ordinary shares | | — | 167 | — | — | — | — | 167 |
| Dividends paid | 7 | — | — | — | — | — | (323) | (323) |
| Balance at 30 September 2011 | 13,14 | 357 | 79,817 | 79,148 | 3 | 202,037 | 8,002 | 369,364 |

For the year ended 30 September 2010

| | Notes | Called up share capital £'000 | Share premium £'000 | Special reserve £'000 | Capital redemption reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 30 September 2009 | | 356 | 79,356 | 79,148 | 3 | 101,498 | 5,280 | 265,641 |
| Total recognised gains | | — | — | — | — | 48,924 | 543 | 49,467 |
| Conversion of founder A shares | | — | 217 | — | — | — | — | 217 |
| Scrip issue of ordinary shares | | 1 | 77 | — | — | — | — | 78 |
| Dividends paid | 7 | — | — | — | — | — | (161) | (161) |
| Balance at 30 September 2010 | 13,14 | 357 | 79,650 | 79,148 | 3 | 150,422 | 5,662 | 315,242 |

| | Notes | At 30 September 2011 £'000 | At 30 September 2011 £'000 | At 30 September 2010 £'000 | At 30 September 2010 £'000 |
|---|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | | |
| Investments at fair value through profit or loss | 9 | | 397,433 | | 369,630 |
| CURRENT ASSETS | | | | | |
| Debtors | 10 | 709 | | 108 | |
| Cash and short term deposits | | 3,384 | | 6,403 | |
| | | 4,093 | | 6,511 | |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 11 | (32,162) | | (60,899) | |
| NET CURRENT LIABILITIES | | | (28,069) | | (54,388) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 369,364 | | 315,242 |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 13 | | 357 | | 357 |
| Share premium | 14 | | 79,817 | | 79,650 |
| Special reserve | 14 | | 79,148 | | 79,148 |
| Capital redemption reserve | 14 | | 3 | | 3 |
| Capital reserves | 14 | | 202,037 | | 150,422 |
| Revenue reserve | 14 | | 8,002 | | 5,662 |
| TOTAL SHAREHOLDERS' FUNDS | | | 369,364 | | 315,242 |
| ANALYSIS OF SHAREHOLDERS' FUNDS | | | | | |
| Equity interests (ordinary shares) | | | 369,330 | | 315,208 |
| Non-equity interests (founder shares) | 13 | | 34 | | 34 |
| | | | 369,364 | | 315,242 |
| NET ASSET VALUE PER EQUITY SHARE | 16 | | 228.7p | | 195.3p |

The financial statements on pages 31 to 47 were approved by the board on 2 December 2011 and were signed on its behalf by:

SCOTT DOBBIE CBE, CHAIRMAN

2 December 2011

# Cashflow Statement

| | Notes | For the year ended 30 September 2011 £'000 | For the year ended 30 September 2011 £'000 | For the year ended 30 September 2010 £'000 | For the year ended 30 September 2010 £'000 |
|---|---|---|---|---|---|
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | 15 | | 291 | | (1,252) |
| NET CASH OUTFLOW FROM SERVICING OF FINANCE | | | (2,851) | | (1,921) |
| NET CASH INFLOW FROM TAXATION | | | — | | 8 |
| FINANCIAL INVESTMENT | | | | | |
| Purchase of investments | 9 | (49,604) | | (47,994) | |
| Disposal of underlying investments by funds | 9 | 78,082 | | 21,273 | |
| Disposal of fund investments by way of secondary sales | 9 | — | | 1,890 | |
| NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENTS | | | 28,478 | | (24,831) |
| ORDINARY DIVIDENDS PAID | | | (156) | | (78) |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING | | | 25,762 | | (28,074) |
| Net proceeds on issue of ordinary shares | | — | | 212 | |
| Bank loans (repaid)/drawn down | | (28,777) | | 30,943 | |
| NET CASH (OUTFLOW)/INFLOW FROM FINANCING | | | (28,777) | | 31,155 |
| (DECREASE)/INCREASE IN CASH | | | (3,015) | | 3,081 |
| RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS | | | | | |
| (Decrease)/increase in cash as above | | | (3,015) | | 3,081 |
| Repayment/(drawdown) of loan | | | 28,777 | | (30,943) |
| Currency movements | | | (4) | | 944 |
| MOVEMENT IN NET DEBT IN THE PERIOD | | | 25,758 | | (26,918) |
| Opening net debt | | | (54,242) | | (27,324) |
| CLOSING NET DEBT | | | (28,484) | | (54,242) |
| REPRESENTED BY: | | | | | |
| Cash and short term deposits | | | 3,384 | | 6,403 |
| Loans | | | (31,868) | | (60,645) |
| | | | (28,484) | | (54,242) |

## 1 Accounting Policies

**(a) Basis of preparation and going concern**

The financial statements have been prepared under the historical cost convention, as modified to include the revaluation of investments, and in accordance with applicable UK Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (issued January 2009). They have also been prepared on the assumption that approval as an investment trust will continue to be granted. The financial statements have been prepared on a going concern basis. The financial statements, and the net asset value per equity share figures, have been prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). The directors consider the Company's functional currency to be sterling, as the Company is registered in Scotland, the Company's shareholders are predominantly based in the UK and the Company is subject to the UK's regulatory environment.

**(b) Revenue, expenses and finance costs**

Dividends from quoted investments are included in revenue by reference to the date on which the price is marked ex-dividend. Interest on quoted investments and other interest receivable are dealt with on an effective interest rate basis. Dividends and income from unquoted investments are included when the right to receipt is established. All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account of the Income Statement except as follows:

- transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Income Statement; and
- the Company charges 90% of investment management fees and finance costs to capital, in accordance with the Board's expected long-term split of returns between capital gains and income from the Company's investment portfolio.

**(c) Investments**

Investments have been designated upon initial recognition as fair value through the profit or loss. On the date of making a legal commitment to invest in a fund, such commitment is recorded and disclosed. When funds are drawn in respect of such fund commitment the resulting investment is recognised in the financial statements. The investment is removed when it is realised or the fund is wound up. Subsequent to initial recognition, investments are valued at fair value as detailed below. Gains and losses arising from changes in fair value are included in net profit or loss for the period as a capital item in the Income Statement and are ultimately recognised in the unrealised reserve.

Unquoted investments are stated at the directors' estimate of fair value and follow the recommendations of the EVCA and the BVCA. The estimate of fair value is normally the latest valuation placed on a fund by its manager as at the balance sheet date. The valuation policies used by the manager in undertaking that valuation will generally be in line with the joint publication from the EVCA and the BVCA, 'International Private Equity and Venture Capital Valuation guidelines'. Where formal valuations are not completed as at the balance sheet date the valuation from the fund manager is adjusted for any subsequent cash flows occurring between the valuation date and the balance sheet date. The Company's Manager may further adjust such valuations to reflect any changes in circumstances from the last manager's formal valuation date to arrive at the estimate of fair value.

**(d) Dividends payable** - Interim and final dividends are recognised in the period in which they are paid. Scrip dividends are recognised in the period in which shares are issued.

**(e) Capital reserves** - Gains or losses on investments realised in the year that have been recognised in the Income Statement are transferred to the "capital reserve - gains/(losses) on disposal". In addition, any prior unrealised gains or losses on such investments are transferred from the "capital reserve - revaluation" to the "capital reserve - gains/(losses) on disposal" on the disposal of the investment. Increases and decreases in the fair value of investments are recognised in the Income Statement and are then transferred to the "capital reserve - revaluation".

**(f) Taxation**

i) Current taxation - Provision for corporation tax is made at the current rate on the excess of taxable income net of any allowable deductions.

ii) Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or a right to pay less tax in future have occurred at the balance sheet date, measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying temporary differences can be deducted. Temporary differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

## 1 Accounting Policies (continued)

Due to the Company's status as an investment trust company, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

**(g) Overseas currencies** - Overseas assets and liabilities are translated at the exchange rate prevailing at the Company's balance sheet date. Gains or losses on translation of investments held at the year end are accounted for through the unrealised capital reserve. Gains or losses on the translation of overseas currency balances held at the year end are accounted for through the realised capital reserve.

Rates of exchange to sterling at 30 September were:

| | 2011 | 2010 |
|---|---|---|
| Euro | 1.1611 | 1.1543 |
| US dollar | 1.5578 | 1.5758 |

Transactions in overseas currency are translated at the exchange rate prevailing on the date of transaction.

| 2 Income | Year to 30 September 2011 £'000 | Year to 30 September 2010 £'000 |
|---|---|---|
| Income from unquoted investments | 4,514 | 1,713 |
| Interest receivable on cash | 7 | — |
| Other income | — | 1 |
| Total income | 4,521 | 1,714 |

| | Year to 30 September 2011 | | | Year to 30 September 2010 | | |
|---|---|---|---|---|---|---|
| 3 Investment management fee | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fee | 294 | 2,644 | 2,938 | 238 | 2,138 | 2,376 |

The investment management fee payable to the Manager is 0.8% per annum of the investments and other assets of the Company and any subsidiaries less the aggregate of the liabilities of the Company and any subsidiaries. The investment management fee is allocated 90% to the realised capital reserve and 10% to the revenue account. The management agreement between the Company and the Manager is terminable by either party on twelve months written notice.

| 4 Administrative expenses | | Year to 30 September 2011 £'000 | Year to 30 September 2010 £'000 |
|---|---|---|---|
| Secretarial and administration fee | | 186 | 177 |
| Directors' fees | | 184 | 154 |
| Auditors' remuneration | - statutory audit | 23 | 21 |
| | - interim review | 15 | 14 |
| | - other services | 1 | 1 |
| Legal fees | | 31 | 25 |
| Fees and subscriptions | | 17 | 44 |
| Professional and consultancy fees | | 127 | 52 |
| Other expenses | | 130 | 93 |
| | | 714 | 581 |

Irrecoverable VAT has been shown under the relevant expense line.

**4 Administrative expenses (continued)**

The secretarial and administration fee is payable to Aberdeen Asset Managers PLC and is adjusted in line with the retail prices index on 1 July each year. The secretarial and administration agreement is terminable by either party on three months' notice.

The emoluments of the Chairman, who was the highest paid Director, were £42,000 (2010 - £38,500) per annum. The emoluments of each of the other directors were £24,000 (2010 - £22,000) per annum, except for Hamish Buchan who received an additional £6,000 (2010 - £5,500) as Senior Independent Director and Chairman of the Audit Committee.

| | Year to 30 September 2011 | | | Year to 30 September 2010 | | |
|---|---|---|---|---|---|---|
| **5 Finance costs** | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Bank loans | 285 | 2,565 | 2,850 | 191 | 1,716 | 1,907 |

| | Year to 30 September 2011 | | | Year to 30 September 2010 | | |
|---|---|---|---|---|---|---|
| **6 Taxation** | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| **(a) Factors affecting the current tax charge for the year** | | | | | | |
| Return on ordinary activities before taxation | 3,228 | 51,068 | 54,296 | 704 | 48,783 | 49,487 |

The tax assessed for the year is different from the standard rate of corporation tax in the UK. The differences are explained below:

| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Return on ordinary activities multiplied by the effective rate of corporation tax in the UK - 27% (2010 : 28%) | 872 | 13,788 | 14,660 | 197 | 13,659 | 13,856 |
| Capital gains[1] | — | (13,788) | (13,788) | — | (13,659) | (13,659) |
| Non taxable income | (307) | — | (307) | (28) | — | (28) |
| Overseas withholding tax | 18 | — | 18 | 28 | — | 28 |
| Overprovision from previous period | — | — | — | (8) | — | (8) |
| Double tax relief | (18) | — | — | (28) | — | (28) |
| Tax relief for expenses taken to capital | — | (547) | (547) | — | (141) | (141) |
| Current tax charge/(credit) for the year | 565 | (547) | 18 | 161 | (141) | 20 |

[1] The Company carries on business as an investment trust company with respect to sections 1158-1159 of the Corporation Tax Act 2010. As such any capital gains are exempt from UK taxation.

| | Year to 30 September 2011 £'000 | Year to 30 September 2010 £'000 |
|---|---|---|
| **(b) Analysis of the tax charge throughout the year** | | |
| Current tax | | |
| Overseas withholding tax | 18 | 28 |
| Overprovision from previous period | — | (8) |
| | 18 | 20 |

**(c) Factors that may affect future tax charges**

At the year end there is a potential deferred tax asset of £2,930,605 (2010 : £938,000) in relation to excess management expenses carried forward. The deferred tax asset is unrecognised at the year end in line with the Company's stated accounting policy.

| **7 Dividend on ordinary shares** | Year to 30 September 2011 £'000 | Year to 30 September 2010 £'000 |
|---|---|---|
| Amount recognised as a distribution to equity holders in the year: | | |
| Dividend paid in the year ended 30 September 2011 of 0.20p (2010 - 0.10p) per ordinary share paid on 28 January 2011 (2010 - paid on 29 January 2010) | 156 | 78 |
| Scrip dividend issue of 123,804 shares, in lieu of the cash dividend, in the year ended 30 September 2011 (2010 - 83,755 shares) | 167 | 83 |
| | 323 | 161 |

During the year the Company issued 123,804 ordinary shares as a result of elections received following a scrip dividend offer in respect of the 2010 final dividend. One new ordinary share was issued for every 139.8p otherwise payable as a cash dividend.

Set out below are the total dividend paid and proposed in respect of the financial year, which is the basis on which the requirements of sections 1158-1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of a dividend for the year is £2,663,000 (2010 - £543,000).

| | | |
|---|---|---|
| Proposed final dividend of 1.3p per ordinary share (dividend proposed at 30 September 2010 - 0.2p per ordinary share) due to be paid on 6 February 2012 (paid 28 January 2011). | 2,099 | 323 |

| **8 Net return per ordinary share** | Year to 30 September 2011 p | £'000 | Year to 30 September 2010 p | £'000 |
|---|---|---|---|---|
| The net return per ordinary share is based on the following figures: | | | | |
| Revenue net return | 1.65 | 2,663 | 0.34 | 543 |
| Capital net return | 31.97 | 51,615 | 30.36 | 48,924 |
| Total net return | 33.62 | 54,278 | 30.70 | 49,467 |
| Weighted average number of ordinary shares in issue: | | 161,455,894 | | 161,122,847 |

| | Year to 30 September 2011 p | £'000 | Year to 30 September 2010 p | £'000 |
|---|---|---|---|---|
| The fully diluted net return per ordinary share is based on the following figures: | | | | |
| Revenue net return (fully diluted) | 1.64 | 2,663 | 0.34 | 543 |
| Capital net return (fully diluted) | 31.74 | 51,615 | 30.30 | 48,924 |
| Total net return (fully diluted) | 33.38 | 54,278 | 30.64 | 49,467 |

Fully diluted net returns have been calculated on the basis set out in Financial Reporting Standard 22 'Earnings per share' ('FRS 22'). For the year ended 30 September 2011, this is based on 162,597,933 shares, comprising the weighted average 161,455,894 ordinary shares and 1,142,039 founder A shares capable of conversion. For the year ended 30 September 2010, this is based on 161,434,348 shares, comprising the weighted average 161,122,847 ordinary shares and 311,501 founder A shares capable of conversion.

| 9 **Investments** | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Fair value through profit or loss: | | |
| Opening market value | 369,630 | 293,106 |
| Opening investment holding losses | 38,265 | 86,163 |
| Opening book cost | 407,895 | 379,269 |
| Movements in the year: | | |
| Additions at cost | 49,604 | 47,994 |
| Disposal of underlying investments by funds | (78,082) | (21,273) |
| Disposal of fund investments by way of secondary sales | — | (1,890) |
| | 379,417 | 404,100 |
| Gains on disposal of underlying investments | 35,157 | 8,433 |
| Losses on disposal of fund investments | (4,063) | (4,638) |
| Closing book cost | 410,511 | 407,895 |
| Closing investment holding losses | (13,078) | (38,265) |
| Closing market value | 397,433 | 369,630 |

| | Year to 30 September 2011 £'000 | Year to 30 September 2010 £'000 |
|---|---|---|
| Gains on investments: | | |
| Net gains on disposal of unquoted investments | 31,094 | 3,795 |
| Net revaluation of unquoted investments | 25,187 | 47,898 |
| | 56,281 | 51,693 |

**Transaction costs**

During the year expenses were incurred in acquiring or disposing of investments. These have been expensed through capital and are included within gains on investments in the Income Statement. The total costs were as follows:

| | £'000 | £'000 |
|---|---|---|
| Secondary sales | — | 53 |
| Purchases in respect of new unquoted fund investments | 1 | 4 |
| | 1 | 57 |

| 10 **Debtors** | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Prepayments | 709 | 108 |

| 11 Creditors: amounts falling due within one year | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Bank loans (see note 12) | 31,868 | 60,645 |
| Management fee | 70 | 51 |
| Secretarial fee | 47 | 46 |
| Other accruals | 108 | 87 |
| Loan interest and commitment fee | 69 | 70 |
| | 32,162 | 60,899 |

| 12 Bank loans | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Unsecured bank loans repayable within one year: | | |
| €37,000,000 at 3.857% repayable 31 October 2011 | 31,868 | — |
| €20,000,000 at 3.118% repayable 25 October 2010 | — | 17,327 |
| €50,000,000 at 3.121% repayable 29 October 2010 | — | 43,318 |
| | 31,868 | 60,645 |

At 30 September 2011, the Company had a £120 million (2010: £100 million) committed, multi currency syndicated revolving credit facility led by The Royal Bank of Scotland plc of which £31.9m (2010 - £60.6m) had been drawn down in euros. The facility expires on 31 December 2013. The interest rate on this facility is LIBOR plus 2.5% and the commitment fee payable on non-utilisation is 1.0% per annum.

| 13 Called up share capital | 30 September 2011 £ | 30 September 2010 £ |
|---|---|---|
| Issued: | | |
| 161,496,597 (2010 - 161,372,793) ordinary shares of 0.2p - fully paid | 322,993 | 322,746 |
| 16,242,002 (2010 - 16,242,002) founder A shares of 0.2p - partly paid | 16,426 | 16,426 |
| 17,500,000 (2010 - 17,500,000) founder B shares of 0.2p - partly paid | 17,687 | 17,687 |
| | 357,106 | 356,859 |

On 2 May 2001, 14,835,625 founder A shares and 14,835,625 founder B shares were allotted each partly paid up at 0.1p per share and 2,664,375 founder A shares and 2,664,375 founder B shares were allotted each partly paid up at 0.11p per share. The founder shares are entitled to a fixed non-cumulative dividend of 0.05% per annum on the nominal amount per share paid up. The founder shares do not carry any right to vote, except in the case of changes to class rights.

At 30 September 2011, 3,596,981 (2010 : 3,596,981) founder A shares have a right to convert into an equivalent number of ordinary shares at a conversion price of £1 per ordinary share up to 31 December 2013. During the year, no founder A shares were converted into ordinary shares. The Company also issued 123,804 ordinary shares as a result of elections received following a scrip dividend offer in respect of the 2010 final dividend. One new ordinary share was issued for every 139.8p otherwise payable as a cash dividend.

Following the end of the founder B share performance period on 30 September 2011, no founder B shares have a right to convert into ordinary shares.

| 14 Reserves | Share premium account £'000 | Special reserve £'000 | Capital redemption reserve £'000 | Capital reserves gains/ (losses) on disposal £'000 | Capital reserves - revaluation £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| Opening balances at 1 October 2010 | 79,650 | 79,148 | 3 | 188,687 | (38,265) | 5,662 |
| Gains on disposal of unquoted investments | — | — | — | 31,094 | — | — |
| Management fee charged to capital | — | — | — | (2,644) | — | — |
| Finance costs charged to capital | — | — | — | (2,565) | — | — |
| Tax relief on management fees and finance costs above | — | — | — | 547 | — | — |
| Currency losses | — | — | — | (4) | — | — |
| Revaluation of unquoted investments | — | — | — | — | 25,187 | — |
| Scrip issue of ordinary shares | 173 | — | — | — | — | — |
| Expenses of conversion of scrip issue | (6) | — | — | — | — | — |
| Return on ordinary activities after taxation | — | — | — | — | — | 2,663 |
| Dividends during the period | — | — | — | — | — | (323) |
| Closing balances at 30 September 2011 | 79,817 | 79,148 | 3 | 215,115 | (13,078) | 8,002 |

Court approval was given on 27 September 2001 for 50% of the initial premium arising on the issue of the ordinary share capital to be cancelled and transferred to a special reserve. The reserve is a distributable reserve and may be applied in any manner as a distribution, other than by way of a dividend.

| 15 Reconciliation of net return on ordinary activities before taxation to net cash outflow from operating activities | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Net total return before finance costs and taxation | 57,146 | 51,394 |
| Adjustment for: | | |
| Gains on disposal of unquoted investments | (31,094) | (3,795) |
| Revaluation of unquoted investments | (25,187) | (47,898) |
| Currency losses/(gains) on cash balances | 4 | (944) |
| (Increase)/decrease in debtors | (601) | 53 |
| Increase/(decrease) in creditors | 41 | (34) |
| Tax deducted from non - UK income | (18) | (28) |
| Net cash inflow/(outflow) from operating activities | 291 | (1,252) |

## 16 Net asset value per ordinary share

| | 30 September 2011 | 30 September 2010 |
|---|---|---|
| Basic: | | |
| Ordinary shareholders' funds | £369,330,320 | £315,207,880 |
| Number of ordinary shares in issue | 161,496,597 | 161,372,793 |
| Net asset value per ordinary share | 228.7p | 195.3p |
| Diluted: | | |
| Ordinary shareholders' funds | £372,927,301 | £318,804,861 |
| Number of ordinary shares in issue | 165,093,578 | 164,969,774 |
| Net asset value per ordinary share | 225.9p | 193.3p |

The net asset value per ordinary share and ordinary shareholders' funds are calculated in accordance with the Company's articles of association.

## 17 Commitments and contingent liabilities

| | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Outstanding calls on investments | 126,430 | 150,331 |

This represents commitments made to fund investments remaining undrawn.

## 18 Parent undertaking and related party transactions

The Manager during the year was SL Capital Partners LLP which is 60% owned by Standard Life Investments Limited and 40% by its eight senior private equity managers. Standard Life Investments Limited is a wholly owned subsidiary of Standard Life plc, the ultimate parent undertaking of the Company. The accounts of the ultimate parent undertaking are the only group accounts incorporating the accounts of the Company. Copies of the accounts of the ultimate parent undertaking can be obtained at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

Standard Life plc and the Company have entered into a relationship agreement which provides that, for so long as Standard Life plc and its subsidiaries exercise, or control the exercise, of 30% or more of the voting rights of the Company, Standard Life plc will not seek to nominate directors who are not independent of Standard Life plc and will not take, in its capacity as a beneficial holder of any ordinary shares, any action which would be detrimental to the general body of shareholders. For this purpose any action which has the support or recommendation of a majority of the directors shall be deemed not to be detrimental. A more detailed summary of the terms of the relationship agreement are set out in the Directors' Report on page 24.

During the year ended 30 September 2011 the Manager charged management fees totalling £2,938,000 (2010 - £2,376,000) to the Company in the normal course of business. The balance of management fees outstanding at 30 September 2011 was £70,000 (2010 - £51,000).

At 30 September 2011, the Company had a £120 million committed, multi currency syndicated revolving credit facility led by The Royal Bank of Scotland plc ("RBS"). Standard Life Assurance Limited ("SLAL"), a subsidiary of Standard Life plc, participated in the syndicated facility on an arm's length basis and had a commitment of £40 million. Under the terms of the agreement, SLAL received £1,181,000 during the year ended 30 September 2011 (2010 - £703,000). Within parameters agreed with the Board, it is Standard Life Investment's treasury team which determines the funds in which the Company's surplus cash is invested from time to time.

No other related party transactions were undertaken during the year ended 30 September 2011.

## 19 Risk management, financial assets and liabilities

### Financial assets and liabilities

The Company's financial instruments comprise fund and other investments, cash balances, loans and debtors and creditors that arise from its operations. The assets and liabilities are managed with the overall objective of achieving long-term capital gains for shareholders.

### Summary of financial assets and financial liabilities by category

The carrying amounts of the Company's financial assets and financial liabilities, as recognised at the balance sheet date of the reporting periods under review, are categorised as follows:

| | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss: | | |
| Fixed asset investments – designated as such on initial recognition | 397,433 | 369,630 |
| Loans and receivables: | | |
| Current assets: | | |
| Debtors (accrued income and other debtors) | 709 | 108 |
| Cash and short-term deposits | 3,384 | 6,403 |
| | 401,526 | 376,141 |
| **Financial liabilities** | | |
| Measured at amortised cost: | | |
| Creditors: amounts falling due within one year: | | |
| Bank loans | 31,868 | 60,645 |
| Accruals | 294 | 254 |
| | 32,162 | 60,899 |

### Fair values of financial assets and financial liabilities

The carrying value of the current assets and liabilities is deemed to be fair value due to the short term nature of the instruments and/or the instruments bearing interest at the market rates.

### Risk management

The directors manage investment risk principally through setting an investment policy and by contracting management of the Company's investments to an investment manager under terms which incorporate appropriate duties and restrictions and by monitoring performance in relation to these. The Company's investments are in private equity funds, typically unquoted limited partnerships. These are valued by their managers generally in line with the EVCA and the BVCA guidelines, which provide for a fair value basis of valuation. The funds may hold investments that have become quoted and these will be valued at the appropriate listed price, subject to any discount for marketability restrictions.

As explained in the Company's investment policy, risk is spread by investing across a range of countries and industrial sectors, thereby reducing excessive exposure to particular areas. The Manager's investment review and monitoring process is used to identify and, where possible, reduce risk of loss of value in the Company's investments. Any surplus funds are invested generally in 'AAA' rated money market funds, which generate securities income rather than interest in order to meet the income requirements of investment trust status. The money market fund investments are monitored by the treasury team of Standard Life Investments for credit risk and interest rate risk.

## 19 Risk management, financial assets and liabilities (continued)

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, currency risk, over-commitment risk, liquidity risk, credit risk and interest rate risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below.

**Market risk**

The Company is at risk of the economic cycle impacting the listed financial markets and hence potentially affecting the pricing of new underlying investments, the valuation of existing underlying investments and the price and timing of exits. By having a diversified and rolling portfolio of fund investments the Company is well placed to take advantage of economic cycles.

100% of the Company's investments are in unquoted funds held at fair value. The valuation methodology employed by the managers of these funds may include the application of EBITDA ratios derived from listed companies with similar characteristics. Therefore, the value of the Company's portfolio is indirectly affected by price movements on listed financial exchanges. A 10% increase in the valuation of unquoted investments at 30 September 2011 would have increased the net assets attributable to the Company's shareholders and the total return for the year by £39,743,000 (2010: £36,963,000); a 10% change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total return for the year by an equivalent amount.

**Currency risk**

The Company makes fund commitments in currencies other than sterling and, accordingly, a significant proportion of its investments and cash balances are in currencies other than sterling. In addition, the Company's syndicated revolving credit facility is a multi-currency facility. Therefore, the Company's balance sheet is sensitive to movements in foreign exchange rates. The Manager monitors the Company's exposure to foreign currencies and reports to the Board on a regular basis. It is not the Company's policy to hedge this foreign currency risk. It is expected that the majority of the Company's commitments and investments will be denominated in euros. Accordingly, the majority of the Company's liquidity and any indebtedness is usually held in that currency. No currency swaps or forwards were used during the year.

The table below sets out the Company's currency exposure:

| | 30 September 2011 | | 30 September 2010 | |
|---|---|---|---|---|
| | Local Currency '000 | Sterling Equivalent £'000 | Local Currency '000 | Sterling Equivalent £'000 |
| Fixed asset investments: unquoted | | | | |
| Sterling | 22,798 | 22,798 | 26,488 | 26,488 |
| Euro | 362,688 | 312,366 | 321,703 | 278,700 |
| US Dollar | 97,003 | 62,269 | 101,548 | 64,442 |
| Cash and short term deposits: | | | | |
| Sterling | 68 | 68 | 438 | 438 |
| Euro | 3,678 | 3,168 | 5,866 | 5,082 |
| US Dollar | 230 | 148 | 1,391 | 883 |
| Other debtors and creditors: | | | | |
| Sterling | 416 | 416 | (140) | (140) |
| Euro | (37,003) | (31,869) | (70,009) | (60,651) |
| Total | | 369,364 | | 315,242 |

## 19 Risk management, financial assets and liabilities (continued)

| | 30 September 2011 Local Currency '000 | 30 September 2011 Sterling Equivalent £'000 | 30 September 2010 Local Currency '000 | 30 September 2010 Sterling Equivalent £'000 |
|---|---|---|---|---|
| Outstanding commitments: | | | | |
| Sterling | 6,127 | 6,127 | 5,409 | 5,409 |
| Euro | 119,958 | 103,317 | 144,402 | 125,099 |
| US Dollar | 26,461 | 16,986 | 31,237 | 19,823 |
| Total | | 126,430 | | 150,331 |

The revenue account is subject to currency fluctuations arising on overseas income. The Company does not hedge this currency risk.

**Currency sensitivity**

During the year ended 30 September 2011 sterling appreciated by 0.6% relative to the euro (2010: appreciated 5.5%) and depreciated by 1.1% relative to the US dollar (2010: depreciated 1.5%).

To highlight the sensitivity to currency movements, if the value of sterling had weakened against both of the above currencies by 10% compared to the exchange rates at 30 September 2011, the capital gain would have increased for the year by £31,462,000 (2010: increase of £26,224,000 in capital gain); a 10% change in the opposite direction would have decreased the capital gain for the year by an equivalent amount.

The calculations above are based on the portfolio valuation and cash and loan balances as at the respective balance sheet dates and are not necessarily representative of the year as a whole.

Based on similar assumptions, the amount of outstanding commitments would have increased by £10,937,000 at the year end (2010: £13,175,000), a 10% change in the opposite direction would have decreased the amount of outstanding commitments by an equivalent amount.

**Over-commitment risk**

The Board has taken the decision to make commitments to new fund investments which are greater than the current cash and committed credit facilities. As private equity funds generally call monies over a five year period whilst they are making investments, the draw downs for funds which are investing should be offset by the more mature funds which are realising their investments and distributing cash back to the Company. The Manager monitors the Company's ongoing cash requirements by the use of cash flow modelling and reports to the Board on a regular basis. To minimise the risk of having an obligation to pay out more cash than is in the bank or on short-term deposit on any particular day, a committed, multi-currency revolving credit facility was arranged, led by The Royal Bank of Scotland plc. As at 30 September 2011, £31.9 million of the loan facility had been drawn down (2010: £60.6 million).

**Liquidity risk**

The Company has significant investments in unquoted fund investments which are relatively illiquid. As a result, the Company may not be able to quickly liquidate its investments in these funds at an amount close to their fair value in order to meet its liquidity requirements, including the need to meet outstanding undrawn commitments. The Company manages its liquid investments to ensure sufficient cash is available to meet contractual commitments and also seeks to have cash available to meet other short term financial needs. Short term flexibility is achieved, where necessary, through the use of the syndicated revolving multi-currency loan facility. Liquidity risk is monitored by the Manager on an ongoing basis and by the Board on a regular basis. A maturity analysis of all financial liabilities is included in notes 11 and 12.

**Credit risk**

Credit risk is the exposure to loss from failure of a counterparty to deliver securities or cash for acquisitions or disposals of investments or to repay deposits. The Company places funds with authorised deposit takers from time to time and, therefore, is potentially at risk from the failure of any such institution. At the period end, the Company's financial assets exposed to credit risk amounted to the following:

| | 30 September 2011 £'000 | 30 September 2010 £'000 |
|---|---|---|
| Cash and short term deposits | 3,384 | 6,403 |

## 19 Risk management, financial assets and liabilities (continued)

All of the Company's cash is held by JP Morgan Chase Bank ("JP Morgan"), which is rated 'A+' by Standard and Poors. The Board monitors the risk by reviewing the internal control report of JP Morgan annually. Should the credit quality or the financial position of JP Morgan deteriorate significantly the Manager would move the cash balances to another institution.

**Interest rate risk**

The Company will be affected by interest rate changes as it holds some interest bearing financial assets and liabilities which are shown in the table below, however, the majority of its financial assets are investments in private equity funds which are non-interest bearing. Interest rate movements may affect the level of income receivable on cash deposits and interest payable on the Company's variable rate borrowings. The possible effects on the cashflows that could arise as a result of changes in interest rates are taken into account when making investment and borrowing decisions. Derivative contracts are not used to hedge against any exposure to interest rate risk.

**Interest risk profile**

The interest rate risk profile of the portfolio of financial assets and liabilities at the balance sheet date was as follows:

| | 30 September 2011 | | 30 September 2010 | |
|---|---|---|---|---|
| | Weighted average interest rate % | £'000 | Weighted average interest rate % | £'000 |
| **Floating rate** | | | | |
| Financial assets: Cash and short term deposits | 0.23 | 3,384 | — | 6,403 |
| | 0.23 | 3,384 | — | 6,403 |
| **Fixed rate** | | | | |
| Financial liabilities: Bank loans | 3.86 | (31,868) | 3.12 | (60,645) |
| | 3.86 | (31,868) | 3.12 | (60,645) |

The weighted average interest rate is based on the current yield of each asset, weighted by its market value. The weighted average interest rate on the bank loans is based on the interest rate payable, weighted by the total value of the loans. The weighted average period for which interest rates are fixed on the bank loans is 31.0 days (2010 - 30.5 days). The maturity dates of the bank loans are shown in note 12 to the financial statements.

**Interest rate sensitivity**

An increase of 1% in interest rates would have decreased the net assets attributable to the Company's shareholders and decreased the total gain for the year ended 30 September 2011 by £28,000 (2010: £19,000). A decrease of 1% would have increased the net assets attributable to the Company's shareholders and increased the total gain for the year ended 30 September 2011 by an equivalent amount. The calculations are based on the interest paid and received during the year.

**Operating and control environment risk**

The Board is responsible for the Company's system of internal controls. The Manager and the Administrator have in place control systems which include the custody and safeguarding of the Company's assets, compliance with regulations (mainly sections 1158-1159 of the Corporation Tax Act 2010, Companies Act and Listing Rules) and the provision of accurate financial reporting. There is a risk that the Manager and Administrator fail to ensure that their controls are performed in a satisfactory manner. The Board monitors the services and systems provided by the Manager and Administrator and reviews their internal control reports to ensure that an effective system of internal controls is maintained.

## 20 Fair value hierarchy

The Company adopted the amendments to FRS 29 'Financial Instruments: Disclosures' effective from 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the input:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

The Company's financial assets and liabilities, measured at fair value in the statement of financial position, are grouped into the following fair value hierarchy at 30 September 2011:

| **Financial assets at fair value through profit or loss** | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Unquoted equities | — | — | 397,433 | 397,433 |
| Net fair value | — | — | 397,433 | 397,433 |

As at 30 September 2010:

| **Financial assets at fair value through profit or loss** | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Unquoted equities | — | — | 369,630 | 369,630 |
| Net fair value | — | — | 369,630 | 369,630 |

**Unquoted equities**

The fair value of the Company's investments in unquoted fund interests has been determined by reference to primary valuation techniques described in note 1(c) to these accounts.

A reconciliation of fair value measurements in Level 3 is set out in note 9 to these accounts. There have been no movements between the different levels within the fair value hierarchy.

# Information for Investors

### Registered address

This report has been mailed to shareholders at the address shown on the Company's share register. Any change of address should be advised to the Registrars at the following address under the signature of the shareholder:

Equiniti Limited
34 South Gyle Crescent
South Gyle Business Park
Edinburgh EH12 9EB
United Kingdom

Registrars' shareholder helpline: 0871 384 2618*
Registrars' broker helpline: 0906 559 6025

* Calls to this number are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary.

If your shares are held via nominees you should contact them with any change of address.

### Ordinary share price and net asset value

The Company's ordinary share price is published in the Financial Times.

The Stock Exchange code for the Company's ordinary shares is SEP. The Company's Sedol number is 3047468 and the ISIN number is GB0030474687.

In view of the unlisted nature of the Company's investment portfolio, the NAV is announced to the Stock Exchange quarterly.

### ISA (Individual Savings Accounts)

Lump sum and regular savings ISAs in the Company's ordinary shares are offered by Standard Life Savings Limited. These provide a tax efficient vehicle for investors wishing to invest up to £10,680 in the tax year 2011/2012. There is no initial charge and no annual management charge for the plans. Further details are available from Standard Life Savings Limited, 12 Blenheim Place, Edinburgh EH7 5ZR, or by telephoning 0845 602 4247.

### Investment Manager

SL Capital Partners LLP
1 George Street
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Telephone: 0131 245 0055
Fax: 0131 245 6105

SL Capital Partners LLP is authorised and regulated by the Financial Services Authority and is a subsidiary of Standard Life Investments Limited. Standard Life Investments Limited may record and monitor telephone calls to help improve customer service.

# Financial Calendar

December – Preliminary results for the year announced
December – Annual report and accounts published
February – Annual General Meeting
March – Quarterly trading statement announced
May – Interim results announced
June – Interim report published
September – Quarterly trading statement announced

The Annual General Meeting will be held at
The Balmoral Hotel, 1 Princes Street, Edinburgh EH2 2EQ on 2 February 2012
at 12.30pm.

# Corporate Information

**Registered Office**
1 George Street
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**Investment Manager**
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**Company Secretary and Administrator**
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**Company Broker**
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**Solicitors**
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