

INTERNATIONAL PRIVATE EQUITY AND VENTURE CAPITAL VALUATION GUIDELINES

These guidelines have been developed by the Association Française des Investisseurs en Capital (AFIC), the British Venture Capital Association (BVCA) and the European Private Equity and Venture Capital Association (EVCA) with the valuable input and endorsement of the following associations:

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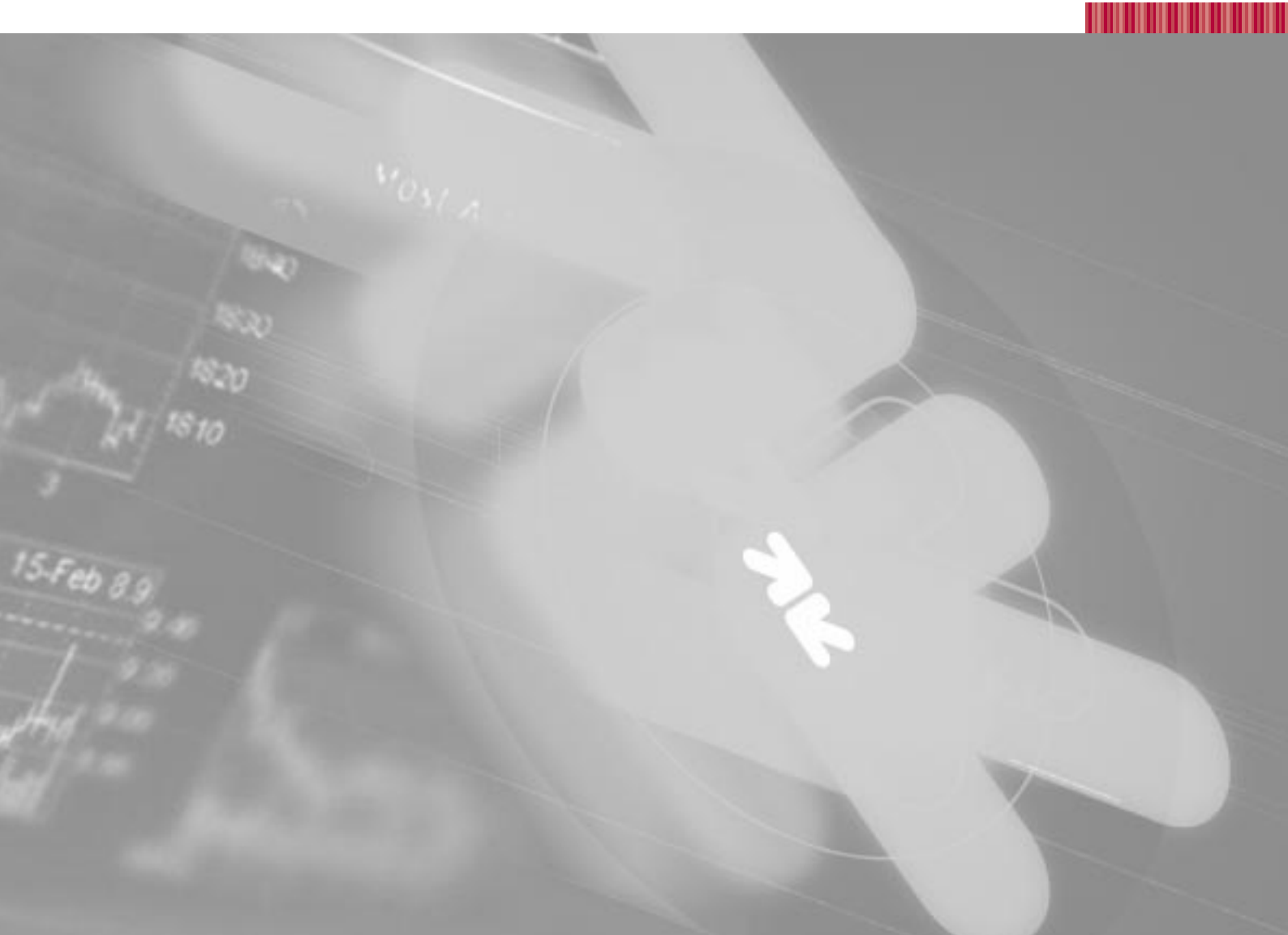
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PREFACE

These Guidelines set out recommendations, intended to represent current best practice, on the valuation of private equity and venture capital investments. The term “private equity” is used in these Guidelines in a broad sense to include investments in early stage ventures, management buyouts, management buy-ins and similar transactions and growth or development capital.

The recommendations are intended to be applicable across the whole range of investment types (seed and start-up venture capital, buy-outs, growth/development capital, etc) and financial instruments commonly held by private equity funds.

The recommendations themselves are set out in bold type, whereas explanations, illustrations, background material, context and supporting commentary, which are provided to assist in the interpretation of the recommendations, are set out in normal type.

Where there is conflict between a recommendation contained in these Guidelines and the requirements of any applicable laws or regulations or accounting standard or generally accepted accounting principle, the latter requirements should take precedence.

Neither the AFIC, BVCA, EVCA nor the endorsing associations nor the members of any committee or working party thereof can accept any responsibility or liability whatsoever (whether in respect of negligence or otherwise) to any party as a result of anything contained in or omitted from the Valuation Guidelines nor for the consequences of reliance or otherwise on the provisions of these Valuation Guidelines.

These Valuation Guidelines should be regarded as superseding previous guidelines issued by the AFIC, BVCA or EVCA with effect for reporting periods post 1 January 2005.



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■ INTRODUCTION

Private Equity Managers may be required to carry out periodic valuations of Investments as part of the reporting process to investors in the Funds they manage. The objective of these Guidelines is to set out best practice where private equity Investments are reported at “Fair Value”, with a view to promoting best practice and hence helping investors in Private Equity Funds make better economic decisions.

The increasing importance placed by international accounting authorities on Fair Value reinforces the need for the consistent use of valuation standards worldwide and these guidelines provide a framework for consistently determining valuations for the type of Investments held by private equity and venture capital entities.

The accounts of Private Equity Funds are governed by legal or regulatory provisions or by contractual terms. It is not the intention of these Guidelines to prescribe or recommend the basis on which Investments are included in the accounts of Funds.

However, the requirements and implications of the Financial Reporting Standards and in particular International Financial Reporting Standards and US GAAP have been considered in the preparation of these guidelines. This has been done, in order to provide a framework for arriving at a Fair Value for private equity and venture capital Investments which is consistent with accounting principles.

These guidelines are intended to represent current best practice and therefore will be revisited and, if necessary, revised to reflect changes in international regulation or accounting standards.

These Guidelines are concerned with valuation from a conceptual standpoint and do not seek to address best practice as it relates to investor reporting, internal processes, controls and procedures, governance aspects, Committee oversights, the experience and capabilities required of the Valuer or the audit or review of valuations.

A distinction is made in these Guidelines between a basis of valuation (such as Fair Value), which defines what the carrying amount purports to represent,

and a valuation methodology (such as the earnings multiple technique), which details the method or technique for deriving a valuation.

■ DEFINITIONS

The following definitions shall apply in these Guidelines.

Enterprise Value

The Enterprise Value is the value of the financial instruments representing ownership interests in an entity plus the net financial debt of the entity.

Fair Value

The Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

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Fund

The Fund, i.e. a private equity or venture capital fund, is the generic term used in these Guidelines to refer to any designated pool of investment capital targeted at private equity Investment, including those held by corporate entities, limited partnerships and other investment vehicles.

Gross Attributable Enterprise Value

The Gross Attributable Enterprise Value is the Enterprise Value attributable to the financial instruments held by the Fund and other financial instruments in the entity that rank alongside or beneath the highest ranking instrument of the Fund.

Investee Company

The term Investee Company refers to a single business or group of businesses in which a Fund is directly invested.

Investment

A Fund's Investment refers to all of the financial instruments in an Investee Company held by the Fund.

Marketability

Marketability is defined as the relative ease and promptness with which an instrument may be sold when desired. Marketability implies the existence of current buying interest as well as selling interest.

Marketability Discount

The Marketability Discount is the consequence of the return Market Participants demand to compensate for the risk arising from the lack of Marketability.

Market Participants

Market Participants are potential or actual willing buyers or willing sellers when neither is under any compulsion to buy or sell, both parties having reasonable knowledge of relevant facts and who have the ability to perform sufficient due diligence in order to be able to make investment decisions related to the enterprise.

Net Attributable Enterprise Value

The Net Attributable Enterprise Value is the Gross Attributable Enterprise Value less a Marketability Discount.

Quoted Instrument

A Quoted Instrument is any financial instrument for which quoted prices reflecting normal market transactions are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

Realisation

Realisation is the sale, redemption or repayment of an Investment, in whole or in part; or the insolvency of an Investee Company, where no significant return to the Fund is envisaged.

Unquoted Instrument

An Unquoted Instrument is any financial instrument other than a Quoted Instrument.

Underlying Business

The Underlying Business is the operating entities in which the Fund has invested, either directly or through a number of dedicated holding companies.

Valuer

The Valuer is the person with direct responsibility for valuing one or more of the Investments of the Fund.



1 THE CONCEPT OF FAIR VALUE

Fair Value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

The estimation of Fair Value does not assume either that the Underlying Business is saleable at the reporting date or that its current shareholders have an intention to sell their holdings in the near future.

The objective is to estimate the exchange price at which hypothetical Market Participants would agree to transact.

Fair Value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

Although transfers of shares in private businesses are often subject to restrictions, rights of pre-emption and other barriers, it should still be possible to estimate what amount a willing buyer would pay to take ownership of the Investment.

2 PRINCIPLES OF VALUATION

Investments should be reported at Fair Value at the reporting date.

In the absence of an active market for a financial instrument, the Valuer must estimate Fair Value utilising one of the valuation methodologies.

In estimating Fair Value for an Investment, the Valuer should apply a methodology that is appropriate in light of the nature, facts and circumstances of the Investment and its materiality in the context of the total Investment portfolio and should use reasonable assumptions and estimates.

In private equity, value is generally crystallised through a sale or flotation of the entire business, rather than a sale of an individual stake. Accordingly the Value of the business as a whole (Enterprise Value) will provide a base for estimating the Fair Value of an Investment in that business.

The Fair Value is estimated by the Valuer, whichever valuation methodologies are used, from the Enterprise Value, as follows:

- (i) Determine the Enterprise Value of the Investee Company using the valuation methodologies;
- (ii) Adjust the Enterprise Value for surplus assets, or excess/unrecorded liabilities and other relevant factors;

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- (iii) Deduct from this amount any financial instruments ranking ahead of the highest ranking instrument of the Fund in a liquidation scenario and taking into account the effect of any instrument that may dilute the Fund's Investment to derive the Gross Attributable Enterprise Value;**
- (iv) Apply an appropriate Marketability Discount to the Gross Attributable Enterprise Value to derive the Net Attributable Enterprise Value;**
- (v) Apportion the Net Attributable Enterprise Value between the company's relevant financial instruments according to their ranking;**
- (vi) Allocate the amounts derived according to the Fund's holding in each financial instrument, representing their Fair Value.**

It is important to recognise the subjective nature of private equity Investment valuation. It is inherently based on forward-looking estimates and judgments about the Underlying Business itself, its market and the environment in which it operates, the state of the mergers and acquisitions market, stock market conditions and other factors.

Due to the complex interaction of these factors and often the lack of directly comparable market transactions, care should be applied when using publicly available information in deriving a valuation. In order to determine the Fair Value of an Investment, the Valuer will have to exercise judgement and make necessary estimates to adjust the market data to reflect the potential impact of other factors such as geography, credit risk, foreign currency and exchange price, equity prices and volatility.

As such, it must be recognised that, whilst valuations do provide useful interim indications of the progress of a particular Investment or portfolio of Investments, ultimately it is not until Realisation that true performance is firmly apparent.

Fair Value should reflect reasonable estimates and assumptions for all significant factors that parties to an arm's length transaction would be expected to consider, including those which impact upon the expected cash flows from the Investment and upon the degree of risk associated with those cash flows.

In assessing the reasonableness of assumptions and estimates, the Valuer should:

- note that the objective is to replicate those that the parties in an arm's-length transaction would make;
- take account of events taking place subsequent to the reporting date where they provide additional evidence of conditions that existed at the reporting date; and
- take account of materiality considerations.

Because of the uncertainties inherent in estimating Fair Value for private equity Investments, a degree of caution should be applied in exercising judgment and making the necessary estimates. However, the Valuer should be wary of applying excessive caution.

Private Equity Funds often undertake an Investment with a view to effecting substantial changes in the Underlying Business, whether it be to its strategy, operations, management, or whatever. Sometimes these situations involve rescue refinancing or a turnaround of the business in question.



Whilst it might be difficult in these situations to determine Fair Value based on a transaction involving a trade purchaser, it should in most cases be possible to estimate the amount a Private Equity Fund would pay for the Investment in question.

The Valuer will need to assess whether, in the particular circumstances of a specific Investment, he is able reliably to measure Fair Value by applying generally accepted methodologies in a consistent manner based on reasonable assumptions.

There may be situations where:

- the range of reasonable Fair Value estimates is significant
- the probabilities of the various estimates within the range cannot be reasonably assessed
- the probability and financial impact of achieving a key milestone cannot be reasonably predicted
- there has been no recent Investment into the business.

In these situations, the Valuer should conclude that Fair Value cannot be reliably measured.

In situations where Fair Value cannot be reliably measured the Investment should be reported at the carrying value at the previous reporting date as the best estimate of Fair Value, unless there is evidence that the Investment has since then been impaired. In such a case the carrying value should be reduced to reflect the estimated extent of impairment.

In respect of Investments for which Fair Value cannot be reliably measured, the Valuer is required to consider whether events or changes in circumstances indicate that an impairment may have occurred.

Where an impairment has occurred, the Valuer should reduce the carrying value of the Investment to reflect the estimated extent of impairment. Since the Fair Value of such Investments cannot be reliably measured, estimating the extent of impairment in such cases will generally be an intuitive (rather than analytical) process and may involve reference to broad indicators of value change (such as relevant stock market indices).

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3 VALUATION METHODOLOGIES

3.1 General

A number of valuation methodologies that may be considered for use in estimating the Fair Value of Unquoted Instruments are described in sections 3.3 to 3.9 below.

These methodologies should be amended as necessary to incorporate case-specific factors affecting Fair Value.

For example, if the Underlying Business is holding surplus cash or other assets, the value of the business should reflect that fact.

Because, in the private equity arena, value is generally crystallised through a sale or flotation of the entire Underlying Business, rather than through a transfer of individual shareholder stakes, the value of the business as a whole at the reporting date will often provide a key insight into the value of investment stakes in that business. For this reason, a number of the methodologies described below involve estimating the Enterprise Value as an initial step.

There will be some situations where the Fund has little ability to influence the timing of a Realisation and a Realisation is not likely in the foreseeable future, perhaps because the majority shareholders are strongly opposed to it. In these circumstances (which are expected to be rare in private equity), Fair Value will derive mainly from the expected cash flows and risk of the relevant financial instruments rather than from the Enterprise Value.

The valuation methodology used in these circumstances should therefore reflect this fact.

In determining the Fair Value of an Investment, the Valuer should use judgement. This includes a detailed consideration of those specific terms of the Investment which may impact its Fair Value. In this regard, the Valuer should consider the substance of the Investment, which takes preference over the strict legal form.

It is important conceptually to distinguish the value that may be ascribed to an Investment from the value that may be ascribed to the Underlying Business. For example, in valuing the Underlying Business one may seek to estimate the amount a buyer would pay for the business at the reporting date. In valuing an Investment stake in that business, one would not merely take the relevant share of the business's value, since that would fail to recognise the uncertainty and risk involved in actually selling the business and crystallising the Investment value, and particularly the risk that value may be eroded before a sale can be achieved under the current market conditions.

The estimation of Fair Value should be undertaken on the assumption that options and warrants are exercised, where the Fair Value is in excess of the exercise price. The exercise price of these may result in surplus cash arising in the Underlying Business if the exercise price is significant.

Other rights such as conversion options and ratchets, which may impact the Fair Value of the Fund's Investment, should be reviewed on a regular basis to assess whether these are likely to be exercised and the extent of any impact on value of the Fund's Investment.



Differential allocation of proceeds may have an impact on the value of an Investment. If liquidation preferences exist, these need to be reviewed to assess whether they will give rise to a benefit to the Fund, or a benefit to a third party to the detriment of the Fund.

Further examples of specific matters for consideration that may impact valuations are set out in section II, 3.

Movements in rates of exchange may impact the value of the Fund's Investments and these should be taken in account.

Where the reporting currency of the Fund is different from the currency in which the Investment is denominated, translation into the reporting currency for reporting purposes should be done using the bid spot exchange rate prevailing at the reporting date.

3.2 Selecting the Appropriate Methodology

The Valuer should exercise her or his judgement to select the valuation methodology that is the most appropriate for a particular Investment.

The key criterion in selecting a methodology is that it should be appropriate in light of the nature, facts and circumstances of the Investment and its materiality in the context of the total Investment portfolio.

An appropriate methodology will incorporate available information about all factors that are likely materially to affect the Fair Value of the Investment. In this context,

it is also important to consider the stage of development of an enterprise and/or its ability to generate maintainable profits or positive cashflow.

The Valuer will select the valuation methodology that is the most appropriate and consequently make valuation adjustments on the basis of their informed and experienced judgment. This will include consideration of factors such as:

- the relative applicability of the methodologies used given the nature of the industry and current market conditions;
- the quality, and reliability of the data used in each methodology;
- the comparability of enterprise or transaction data;
- the stage of development of the enterprise; and
- any additional considerations unique to the subject enterprise.

Where the Valuer considers that several methodologies are appropriate to value a specific Investment, the Valuer may consider the outcome of these different valuation methodologies so that the results of one particular method may be used as a cross-check of values or to corroborate or otherwise be used in conjunction with one or more other methodologies in order to determine the Fair Value of the Investment.

Methodologies should be applied consistently from period to period, except where a change would result in better estimates of Fair Value.

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This may occur for example in the case of a company becoming profitable and cash flow becoming positive on a maintainable basis a few years after the start-up phase. Any changes in valuation methodologies should be clearly stated. It is expected that there would not be frequent changes in valuation methodologies.

The table below identifies a number of the most widely used methodologies. In assessing whether a methodology is appropriate, the Valuer should be predisposed towards those methodologies that are generally accepted and those that draw on market-based measures of risk and return, since both these qualities would serve to enhance the reliability of the Fair Value estimates.

Methodologies utilising discounted cashflows and industry benchmarks should rarely be used in isolation of the market-based measures and then only with extreme caution. These methodologies may be useful as a cross-check of values estimated using the market-based methodologies.

METHODOLOGY

Price of Recent Investment

Earnings multiple

Net assets

Discounted cash flows or earnings
(of Underlying Business)

Discounted cash flows (from the Investment)

Industry valuation benchmarks

3.3 Price of Recent Investment

Where the Investment being valued was itself made recently, its cost will generally provide a good indication of Fair Value. Where there has been any recent Investment in the Investee Company, the price of that Investment will provide a basis of the valuation.

The validity of a valuation obtained in this way is inevitably eroded over time, since the price at which an Investment was made reflects the effects of conditions that existed when the transaction took place. In a dynamic environment, changes in market conditions, the passage of time itself and other factors will act to diminish the appropriateness of this methodology as a means of estimating value at subsequent dates.

In addition, where the price at which a third party has invested is being considered as the basis of valuation, the background to the transaction must be taken in to account. In particular, the following factors may indicate that the price was not wholly representative of the Fair Value at the time:

- a further Investment by the existing stakeholders with little new Investment;
- different rights attach to the new and existing Investments;
- a new investor motivated by strategic considerations;
- the Investment may be considered to be a forced sale or 'rescue package'; or
- the absolute amount of the new Investment is relatively insignificant.



This methodology is likely to be appropriate for all private equity Investments, but only for a limited period after the date of the relevant transaction. Because of the frequency with which funding rounds are often undertaken for seed and start-up situations, or in respect of businesses engaged in technological or scientific innovation and discovery, the methodology will often be appropriate for valuing Investments in such circumstances.

The length of period for which it would remain appropriate to use this methodology for a particular Investment will depend on the specific circumstances of the case, but a period of one year is often applied in practice.

In applying the Price of Recent Investment methodology, the Valuer should use the cost of the Investment itself or the price at which a significant amount of new Investment into the company was made to estimate the Fair Value of the Investment, but only for a limited period following the date of the relevant transaction. During the limited period following the date of the relevant transaction, the Valuer should in any case assess whether changes or events subsequent to the relevant transaction would imply a change in the Investment's Fair Value.

For example, a reduction in the Investment's Fair Value may have occurred for a number of reasons, including the following:

- the performance and/or prospects of the Underlying Business are significantly below the expectations on which the Investment was based. Prima facie indicators of this include a failure to meet significant milestones or to

service financial instruments, breaches of covenants and a deterioration in the level of budgeted or forecast performance;

- there has been a significant adverse change either in the company's business or in the technological, market, economic, legal or regulatory environment in which the business operates;
- market conditions have deteriorated. This may be indicated by a fall in the share prices of quoted businesses operating in the same or related sectors; or
- the Underlying Business is raising money and there is evidence that the financing will be made under significantly different terms and conditions from the original Investment.

3.4 Earnings Multiple

This methodology involves the application of an earnings multiple to the earnings of the business being valued in order to derive a value for the business.

This methodology is likely to be appropriate for an Investment in an established business with an identifiable stream of continuing earnings that can be considered to be maintainable.

This methodology may be applicable to companies with negative earnings, if the losses are considered to be temporary and one can identify a level of "normalised" maintainable earnings.

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This may involve the use of averaging of earnings figures for a number of periods, using a forecast level of earnings or applying a “sustainable” profit margin to current or forecast revenues.

In using the Earnings Multiple methodology to estimate the Fair Value of an Investment, the Valuer should:

- i. apply a multiple that is appropriate and reasonable (given the risk profile and earnings growth prospects of the underlying company) to the maintainable earnings of the company;
- ii. adjust the amount derived in (i) above for surplus assets or excess liabilities and other relevant factors to derive an Enterprise Value for the company;
- iii. deduct from the Enterprise Value all amounts relating to financial instruments ranking ahead of the highest ranking instrument of the Fund in a liquidation and taking into account the effect of any instrument that may dilute the Fund’s Investment in order to derive the Gross Attributable Enterprise Value;
- iv. apply an appropriate Marketability Discount to the Gross Attributable Enterprise Value derived in (iii) above in order to derive the Net Attributable Enterprise Value; and
- v. apportion the Net Attributable Enterprise Value appropriately between the relevant financial instruments.

Guidance on the interpretation of underlined terms is given below.

Appropriate Multiple

A number of earnings multiples are commonly used, including price/earnings (P/E), Enterprise Value/earnings before interest and tax (EV/EBIT) and depreciation and amortisation (EV/EBITDA). The particular multiple used should be appropriate for the business being valued. (N.B: The multiples of revenues and their use are presented in 3.8. Industry Valuation Benchmarks)

In general, because of the key role of financial structuring in private equity, multiples should be used to derive an Enterprise Value for the Underlying Business. Therefore, where a P/E multiple is used, it should generally be applied to a taxed EBIT figure (after deducting finance costs relating to working capital or to assets acquired or leased using asset finance) rather than to actual after-tax profits, since the latter figure will generally have been significantly reduced by finance costs.

By definition, earnings multiples have as their numerator a value and as their denominator an earnings figure. The denominator can be the earnings figure for any specified period of time and multiples are often defined as “historical”, “current” or “forecast” to indicate the earnings used. It is important that the multiple used correlates to the period and concept of earnings of the company being valued.



Reasonable Multiple

The Valuer would usually derive a multiple by reference to market-based multiples, reflected in the market valuations of quoted companies or the price at which companies have changed ownership. This market-based approach presumes that the comparator companies are correctly valued by the market. Whilst there is an argument that the market capitalisation of a quoted company reflects not the value of the company but merely the price at which “small parcels” of shares are exchanged, the presumption in these Guidelines is that market based multiples do correctly reflect the value of the company as a whole.

Where market-based multiples are used, the aim is to identify companies that are similar, in terms of risk attributes and earnings growth prospects, to the company being valued. This is more likely to be the case where the companies are similar in terms of business activities, markets served, size, geography and applicable tax rate.

In using P/E multiples, the Valuer should note that the P/E ratios of comparator companies will be affected by the level of financial gearing and applicable tax rate of those companies.

In using EV/EBITDA multiples, the Valuer should note that such multiples, by definition, remove the impact on value of depreciation of fixed assets and amortisation of goodwill and other intangibles. If such multiples are used without sufficient care, the Valuer may fail to recognise that business decisions to spend heavily on fixed assets or to grow by acquisition rather than organically do have real

costs associated with them which should be reflected in the value attributed to the business in question.

It is important that the earnings multiple of each comparator is adjusted for points of difference between the comparator and the company being valued. These points of difference should be considered and assessed by reference to the two key variables of risk and earnings growth prospects which underpin the earnings multiple. In assessing the risk profile of the company being valued, the Valuer should recognise that risk arises from a range of aspects, including the nature of the company’s operations, the markets in which it operates and its competitive position in those markets, the quality of its management and employees and, importantly in the case of private equity, its capital structure and the ability of the Fund holding the Investment to effect change in the company. For example, the value of the company may be reduced if it:

- is smaller and less diverse than the comparator(s) and, therefore, less able generally to withstand adverse economic conditions;
- is reliant on a small number of key employees;
- is dependent on one product or one customer;
- has high gearing; or
- for any other reason has poor quality earnings.

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(Endorsement as of 20th of June 2006)

Recent transactions involving the sale of similar companies are sometimes used as a frame of reference in seeking to derive a reasonable multiple. It is sometimes argued, since such transactions involve the transfer of whole companies whereas quoted multiples relate to the price for “small parcels” of shares, that they provide a more relevant source of multiples. However, their appropriateness in this respect is often undermined by the following:

- the lack of forward-looking financial data and other information to allow points of difference to be identified and adjusted for;
- the generally lower reliability and transparency of reported earnings figures of private companies; and
- the lack of reliable pricing information for the transaction itself.

It is a matter of judgment for the Valuer as to whether, in deriving a reasonable multiple, he refers to a single comparator company or a number of companies or the earnings multiple of a quoted stock market sector or sub-sector. It may be acceptable, in particular circumstances, for the Valuer to conclude that the use of quoted sector or sub-sector multiples or an average of multiples from a “basket” of comparator companies may be used without adjusting for points of difference between the comparator(s) and the company being valued.

Maintainable Earnings

In applying a multiple to maintainable earnings, it is important that the Valuer is satisfied that the earnings figure can be relied upon. Whilst this might tend to favour the use of audited historical figures rather than unaudited or forecast figures, it should be recognised that value is by definition a forward-looking concept, and quoted markets more often think of value in terms of “current” and “forecast” multiples, rather than “historical” ones. In addition, there is the argument that the valuation should, in a dynamic environment, reflect the most recent available information. There is therefore a trade-off between the reliability and relevance of the earnings figures available to the Valuer. On balance, whilst it remains a matter of judgment for the Valuer, he should be predisposed towards using historical (though not necessarily audited) earnings figures or, if he believes them to be reliable, forecast earnings figures for the current year.

Whichever period's earnings are used, the Valuer should satisfy himself that they represent a reasonable estimate of maintainable earnings, which implies the need to adjust for exceptional or non-recurring items, the impact of discontinued activities and acquisitions and forecast downturns in profits.



Appropriate Marketability Discount

The notion of a Marketability Discount relates to an Investment rather than to the Underlying Business. Paragraph (iv) above therefore requires the discount to be considered and applied at the level at which the Fund begins to participate in the Enterprise Value.

Marketability will vary from situation to situation and is a question of judgment. It should be noted that the Fair Value concept requires that the Marketability Discount is to be determined not from the perspective of the current holder of the Investment, but from the perspective of Market Participants.

Some of the factors the Valuer should consider in this respect are as follows:

- the closer and more certain is a Realisation event for the Investment in question, the lower would be the Marketability Discount;
- the greater the influence of the Fund over the timing of Realisation, nature of Realisation and Realisation process, the lower would be the Marketability Discount;
- if the underlying company were not considered saleable or floatable at the reporting date, the questions arise of what has to be done to make it saleable or floatable, how difficult and risky that course of action is to implement and how long it is expected to take; and
- the impact of stock market conditions and mergers and acquisitions activity levels on the ability to achieve a flotation or sale of the Underlying Business.

In assessing the influence of the Fund over the timing of Realisation, nature of Realisation and Realisation process, some of the factors the Valuer should consider are as follows:

- are there other like-minded shareholders with regard to Realisation and what is the combined degree of influence?
- is there an agreed exit strategy or exit plan?
- do legal rights exist which allow the Fund together with like-minded shareholders to require the other shareholders to agree to and enable a proposed Realisation to proceed?
- does the management team of the Underlying Business have the ability in practice to reduce the prospects of a successful Realisation? This may be the case where the team is perceived by possible buyers to be critical to the ongoing success of the business. If this is the case, what is the attitude of the management team to Realisation?

The Valuer might consider that under specific circumstances the Marketability Discount is not appropriate and should not be applied. When a discount is applied, the Valuer should consider all the relevant factors in determining the appropriate Marketability Discount in each particular situation. A discount in the range of 10% to 30% (in steps of 5%) is generally used in practice, depending upon the particular circumstances.

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By way of illustration:

- Where the Fund (together with like-minded shareholders with regard to Realisation) has legal rights and the ability in practice to initiate a Realisation process and require other shareholders to co-operate, or there is in place an agreed Realisation strategy, a discount rate of 10% may be appropriate.
- Where the Fund (together with like-minded shareholders with regard to Realisation) does not have such a degree of influence over Realisation, possibly by virtue of holding a minority of the equity, but the other shareholders are not strongly opposed to a Realisation, a discount rate of 30% may be appropriate (NB. where a Realisation event is not foreseeable at all, perhaps because the Fund holds a minority equity stake and the majority shareholders are totally opposed to a Realisation, methodologies which involve an assessment of the value of the business as a whole may not be appropriate).
- Where the Fund (together with like-minded shareholders with regard to Realisation) does not have the ability to require other shareholders to co-operate regarding Realisation, but there is regular discussion about Realisation prospects and timing by the board and/or shareholders, a discount rate of 20% may be appropriate.

Apportion the Net Attributable Enterprise Value appropriately

The apportionment should reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date. Where there are ratchets or share options or other mechanisms (such as “liquidation preferences”, in the case of Investments in early-stage businesses) in place which would be triggered in the event of a sale of the company at the given Enterprise Value at that date, these should be reflected in the apportionment.

Where, in respect of financial instruments other than equity instruments, the apportionment results in a shortfall when compared with the amounts accruing up to the reporting date under their contractual terms, the Valuer should consider whether, in estimating Fair Value, the shortfall should be applied and, if so, to what extent. If the circumstances are such that it is reasonably certain, taking account of the risks attaching, that the Fund will be able to collect all amounts due according to the relevant contractual terms, then the shortfall should not be applied.

3.5 Net Assets

This methodology involves deriving the value of a business by reference to the value of its net assets.

This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses.



This methodology may also be appropriate for a business that is not making an adequate return on assets and for which a greater value can be realised by liquidating the business and selling its assets. In the context of private equity, it may therefore be appropriate, in certain circumstances, for valuing Investments in loss-making companies and companies making only marginal levels of profits.

In using the Net Assets methodology to estimate the Fair Value of an Investment, the Valuer should:

- i. derive an Enterprise Value for the company using appropriate measures to value its assets and liabilities (including, if appropriate, contingent assets and liabilities);**
- ii. deduct from the Enterprise Value all amounts relating to financial instruments ranking ahead of the highest ranking instrument of the Fund in a liquidation in order to derive the Gross Attributable Enterprise Value;**
- iii. apply an appropriate Marketability Discount to the Gross Attributable Enterprise Value to derive the Net Attributable Enterprise Value; and**
- iv. apportion the Net Attributable Enterprise Value appropriately between the relevant financial instruments.**

Guidance on the interpretation of underlined terms is given in the “Earnings multiple” section above.

3.6 Discounted Cash Flows or Earnings (of Underlying Business)

This methodology involves deriving the value of a business by calculating the present value of expected future cash flows (or the present value of expected future earnings, as a surrogate for expected future cash flows). The cash flows and “terminal value” are those of the Underlying Business, not those from the Investment itself.

The Discounted Cash Flows (DCF) technique is flexible in the sense that it can be applied to any stream of cash flows (or earnings). In the context of private equity valuation, this flexibility enables the methodology to be applied in situations that other methodologies may be incapable of addressing. While this methodology may be applied to businesses going through a period of great change, such as a rescue refinancing, turnaround, strategic repositioning, loss making or is in its start-up phase, there is a significant risk is utilising this methodology.

The disadvantages of the DCF methodology centre around its requirement for detailed cash flow forecasts and the need to estimate the “terminal value” and an appropriate risk-adjusted discount rate. All of these inputs require substantial subjective judgments to be made, and the derived present value amount is often sensitive to small changes in these inputs.

Due to the high level of subjectivity in selecting inputs for this technique, DCF based valuations are useful as a cross-check of values estimated under market-based methodologies and should only be used in isolation of other methodologies under extreme caution.

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In assessing the appropriateness of this methodology, the Valuer should consider whether its disadvantages and sensitivities are such, in the particular circumstances, as to render the resulting Fair Value insufficiently reliable.

In using the Discounted Cash Flows or Earnings (of Underlying Business) methodology to estimate the Fair Value of an Investment, the Valuer should:

- i. **derive the Enterprise Value of the company, using reasonable assumptions and estimations of expected future cash flows (or expected future earnings) and the terminal value, and discounting to the present by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company;**
- ii. **deduct from the Enterprise Value all amounts relating to financial instruments ranking ahead of the highest ranking instrument of the Fund in a liquidation in order to derive the Gross Attributable Enterprise Value;**
- iii. **apply an appropriate Marketability Discount to the Gross Attributable Enterprise Value derived in ii above in order to derive the Net Attributable Enterprise Value; and**
- iv. **apportion the Net Attributable Enterprise Value appropriately between the relevant financial instruments.**

Guidance on the interpretation of underlined terms is given in the “Earnings multiple” section above.

3.7 Discounted Cash Flows (from the Investment)

This methodology applies the DCF concept and technique to the expected cash flows from the Investment itself.

Where Realisation of an Investment or a flotation of the Underlying Business is imminent and the pricing of the relevant transaction has been substantially agreed, the Discounted Cash Flows (from the Investment) methodology (or, as a surrogate, the use of a simple discount to the expected Realisation proceeds or flotation value) is likely to be the most appropriate methodology.

This methodology, because of its flexibility, is capable of being applied to all private equity Investment situations. It is particularly suitable for valuing non-equity Investments in instruments such as debt or mezzanine debt, since the value of such instruments derives mainly from instrument-specific cash flows and risks rather than from the value of the Underlying Business as a whole.

Because of its inherent reliance on substantial subjective judgments, the Valuer should be extremely cautious of using this methodology as the main basis of estimating Fair Value for Investments which include an equity element. The methodology will often be useful as a sense-check of values produced using other methodologies.

Private equity risk and the rates of return necessary to compensate for different risk levels are central commercial variables in the making of all private equity Investments. Accordingly there exists a frame of reference against which to make discount rate assumptions.



However the need to make detailed cash flow forecasts over the Investment life may reduce the reliability and crucially for equity Investments, there remains a need to estimate the “terminal value”.

Where the Investment comprises equity or a combination of equity and other financial instruments, the terminal value would usually be derived from the anticipated value of the Underlying Business at Realisation. This will usually necessitate making assumptions about future business performance and developments and stock market and other valuation ratios at the assumed Realisation date. In the case of equity Investments, small changes in these assumptions can materially impact the valuation. In the case of non-equity instruments, the terminal value will usually be a pre-defined amount, which greatly enhances the reliability of the valuation.

In circumstances where a Realisation is not foreseeable, the terminal value may be based upon assumptions of the perpetuity cash flows accruing to the holder of the Investment. These circumstances (which are expected to be rare in private equity) may arise where the Fund has little ability to influence the timing of a Realisation and/or those shareholders that can influence the timing do not seek a Realisation.

In using the Discounted Cash Flows (from the Investment) methodology to estimate the Fair Value of an Investment, the Valuer should derive the present value of the Investment, using reasonable assumptions and estimations of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted rate that quantifies the risk inherent to the Investment.

3.8 Industry Valuation Benchmarks

A number of industries have industry-specific valuation benchmarks, such as “price per bed” (for nursing-home operators) and “price per subscriber” (for cable television companies). Other industries, including certain financial services and information technology sectors and some services sectors where long-term contracts are a key feature, use multiples of revenues as a valuation benchmark. These industry norms are often based on the assumption that investors are willing to pay for turnover or market share, and that the normal profitability of businesses in the industry does not vary much.

The use of such industry benchmarks is only likely to be reliable and therefore appropriate as the main basis of estimating Fair Value in limited situations, and is more likely to be useful as a sense-check of values produced using other methodologies.

3.9 Available Market Prices

Private Equity Funds may be holding Quoted Instruments, for which there is an available market price.

Instruments quoted on a stock market should be valued at their bid prices on the Reporting Date.

For certain Quoted Instruments there is only one market price quoted, representing, for example, the value at which the most recent trade in the instrument was transacted.

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For other Quoted Instruments there are two market prices at any one time: the lower “bid” price quoted by a market maker, which he will pay an investor for a holding (i.e. the investor’s disposal price), and the higher “offer” price, which an investor can expect to pay to acquire a holding. A third price basis for valuation purposes, as an alternative to either bid or offer, is the mid-market price (i.e. the average of the bid and offer prices). Where a bid and offer price exists, the bid price should be used, although the use of the mid-market price will not usually result in a material overstatement of value.

This methodology should apply when the bid prices are set on an active market. An instrument is regarded as quoted on an active market if quoted prices are readily and regularly available from an exchange, broker, dealer, industry group, pricing services or regulatory agency, and those prices represent actual and regularly occurring market transaction on arm’s length basis.

The Valuer should consider whether any legal or other regulations apply to the context in which the valuation will be used. International Financial Reporting Standards (‘IFRS’) presume that the available price for a security may be applied to a holding of any size. Accordingly to remain compliant with IFRS, Marketability Discounts should generally not be applied to prices quoted on an active market. If compliance with accounting principles that discourage the use of a discount under specific circumstances is not sought, the Valuer can elect to apply a discount to the market price.

If compliance with specific accounting principles that discourage the use of a discount under specific circumstances is sought, the Valuer should not apply a discount to the market price.

Outside of accounting principles compliance, the Valuer should consider whether factors exist which inhibit the Realisation of the asset and that it would be appropriate to apply a discount to the market price.

Factors which indicate that the valuation based on the available market price should be reduced by a Marketability Discount would include situations where:

- i. **there is a formal restriction on trading in the relevant securities; or**
- ii. **there is a risk that the holding may not be able to be sold immediately.**

In determining the level of Marketability Discount to apply, the method generally used in practice is for the Valuer to consider the length of the period over which trading restrictions apply, or the size of the holding in relation to normal trading volumes in that security. In this context, the following levels of discount are generally used:

NUMBER OF DAYS TRADING VOLUME	DISCOUNTS %
Up to 20	0
20 to 49	10
50 to 100	20
100+	25



Occasionally, it may be inappropriate to consider Marketability by reference to trading volumes. For example, in the case of a particular security, a number of parties may have little interest in buying on the market, because of the “small” quantities available, but may be interested in buying more substantial stakes off-market. In this situation, the estimated price and size of such off-market transactions should be taken account of in considering Marketability. By way of further example, where the quoted entity has a stated intention of seeking a buyer and there is a reasonable expectation of a sale of the entity in the six months following the reporting date at a price representing a bid premium, it may be appropriate in the particular circumstances for the Valuer to conclude that the positive bid premium effect offsets the negative trading volume effect, such that the undiscounted market price is on balance a reasonable estimate of Fair Value.

In determining the level of Marketability Discount to apply under paragraph (iv) above, the Valuer should consider the extent of compensation a holder would require when comparing the Investment in question with an identical but unrestricted holding. In the case of a six-month lock-up period, in practice a discount of 20% to the market price is often used at the beginning of the period, reducing to zero at the end of the period.

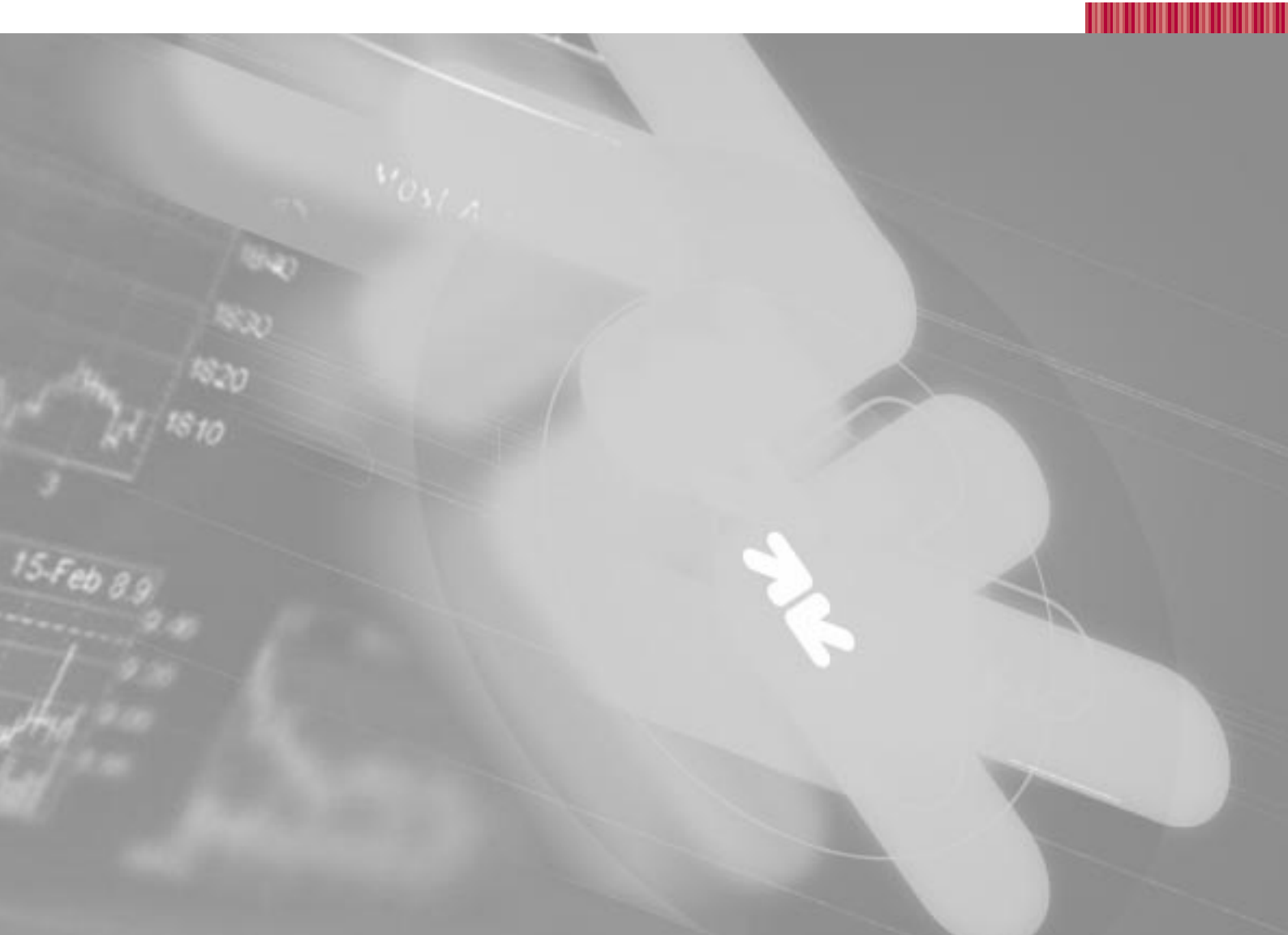
Whilst it is a matter of judgment for the Valuer, where a holding is, at the reporting date, both subject to a formal restriction on trading and also significant in relation to normal trading volumes in that security, the discount applied to the holding should be the higher of the two that would be considered appropriate in each of the circumstances in isolation.

If a different level of discount is appropriate in light of the particular circumstances of an Investment, the Valuer should use that rate and should disclose the fact that he has done so together with the rationale for so doing.

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■ INTRODUCTION

Section I sets out the guidelines and principles which represent best practice for the valuation of private equity and venture capital Investments. This section sets out further practical guidance to the application of those principles and methodologies to specific cases.

■ 1 SELECTING THE APPROPRIATE METHODOLOGY

In estimating Fair Value for an Investment, the Valuer should apply a methodology that is appropriate in light of the nature, facts and circumstances of the Investment and should use reasonable assumptions and estimates.

When selecting the appropriate methodology each Investment should be considered individually. Where an immaterial group of Investments in a portfolio are similar in terms of risk profile and industry, it is acceptable to apply the same methodology across all Investments in that immaterial group. The methodology applied should be the same as that used for material investments with a similar risk profile in that industry.

When selecting the appropriate methodology, it is important to consider the stage of development of an enterprise and/or its ability to produce maintainable profits or maintainable positive cash.

Set out below are the most commonly used valuation methodologies based on the ability of the Underlying Business to generate revenues and profits. The Valuer would be expected to use these methodologies unless there is compelling evidence that another methodology would provide a more reliable Fair Value.

Methodologies should be applied consistently from one reporting period to the next, unless there is a change in circumstances of the enterprise, for example the enterprise generating sustainable profits.

Early stage enterprises or enterprises without or with insignificant revenues, and without either profits or positive cash flows

For these enterprises, typically in a seed, start-up or an early-stage situation, there are usually no current and no short-term future earnings or positive cash flows. It is difficult to gauge the probability and financial impact of the success or failure of development or research activities and to make reliable cash flow forecasts.

Consequently, the most appropriate approach to determine Fair Value is a methodology that is based on market data, that being the Price of a Recent Investment.

This methodology is likely to be appropriate for a limited period after the date of the relevant transaction.

The length of period for which it would remain appropriate to use this methodology for a particular Investment will depend on the specific circumstances of the case, but a period of one year is often applied in practice.

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After the appropriate limited period, the Valuer should consider whether either the circumstances of the Investment have changed, such that one of the other methodologies would be more appropriate, whether there is any evidence of deterioration or strong defensible evidence of an increase in value. In the absence of these indicators the Valuer will typically revert to the value reported at the previous reporting date.

In the absence of significant revenues, profits or positive cash flows, other methodologies such as the earnings multiple are generally inappropriate. The DCF methodologies may be utilised, however the disadvantages inherent in these, arising from the high levels of subjective judgement, may render the methodology inappropriate.

Enterprises with revenues, but without either significant profits or significant positive cash flows

For these enterprises it is often difficult to gauge the probability and financial impact of the success of development activities or to make reliable future earnings or cash flow forecasts. This is seen typically in early stage enterprises, development, turnaround or recovery situations.

The most appropriate methodology is expected to be the price of a recent investment. The continuing validity of this basis as a reflection of Fair Value needs to be considered and as a part of this consideration, industry benchmarks may provide appropriate support.

In the event that the enterprise is generating a return on its net assets below expectations and that greater value may be realised by the sale of the assets, a valuation based on the net assets methodology may be appropriate.

Other methodologies such as the earnings multiple are generally inappropriate. The DCF methodologies may be utilised, however the disadvantages inherent in these, arising from the high levels of subjective judgement, may render the methodology inappropriate.

Enterprises with revenues, maintainable profits and/or maintainable positive cash flows

For some period of time after the initial Investment, the Price of Recent Investment methodology, is likely to be the most appropriate indication of Fair Value.

This period of time will depend on the specific circumstances of the case, but should not generally exceed a period of one year.

Thereafter it is likely to be most appropriate to estimate Fair Value by reference to the quoted market and to use the Earnings Multiple methodology.



2 SPECIFIC CONSIDERATIONS

2.1 Internal Funding Rounds

The price at which a funding round takes place is a clear indicator of Fair Value at that date. When using the Price of Recent Investment methodology, the Valuer should consider whether there are specific circumstances surrounding that round of Investment which may reduce the reliability of the price as an indicator of Fair Value.

A round of financing that involves only existing investors of the Underlying Business in the same proportion to their existing Investments (internal round), is unlikely to be an appropriate basis for a change in valuation as the transaction may not have been undertaken at arm's length.

Nevertheless, a financing with existing investors that is priced at a valuation that is lower than the valuation reported at the previous Reporting Date (internal down round) may indicate a decrease in value and should therefore be taken into consideration.

Internal down rounds may take various forms, including a corporate reorganisation, i.e. a significant change in the equity base of a company such as converting all outstanding shares into equity, combining outstanding shares into a smaller number of shares (share consolidation) or even cancelling all outstanding shares before a capital increase.

The objectives of the existing investors in making an internal down round may vary. Although a down round evidences the fact that the company was unable to raise

funds from investors at a higher valuation, the purpose of the down round may be, among others, the dilution of the founders or the dilution of investors not participating in the round of financing.

Similarly when a financing is made at a higher valuation (internal up round), in the absence of new investors or other significant factors which indicate that value has been enhanced, the transaction alone is unlikely to be a reliable indicator of Fair Value.

2.2 Bridge Financing

Funds, or related vehicles, may grant loans to an Underlying Business pending a new round of financing (Bridge loans). This may be provided in anticipation of an initial Investment by the Fund, or ahead of a proposed follow on Investment.

In the case of an initial Investment, where the Fund holds no other investments in the Underlying Business, the Bridge loan should be valued in isolation. In these situations and if it is expected that the financing will occur in due course and that the Bridge loan is merely ensuring that funds are made available early, the Valuer should value these loans at cost.

If it is anticipated that the company may have difficulty arranging the financing, and that its viability is in doubt, the Valuer should consider making a provision against the cost of that loan.

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If the bridge finance is provided to an existing Investment in anticipation of a follow on Investment, the bridge finance should be included, together with the original Investment, as a part of the overall package of investment being valued.

2.3 Mezzanine Loans

Mezzanine loans are one of the commonly used sources of debt finance for Investments. Typically these will rank below the senior debt, but above shareholder loans or equity, bear an interest rate appropriate to the level of risk being assumed by the loan provider and may have additional potentially value enhancing aspects such as warrants. Often these are provided by a party other than the equity provider and as such may be the only instrument held by the Fund in the Underlying Business. In these situations, the Mezzanine loan should be valued on a stand alone basis. The price at which the Mezzanine loan was granted is a reliable indicator of Fair Value at that date. The Valuer should consider whether any indications of deterioration in the value of the Underlying Business exist, which suggest that the loan will not be fully recovered. In the event of deterioration, this should be reflected in the Fair Value of the Mezzanine loan.

Warrants attached to Mezzanine loans should be considered separately from the loan. The Valuer should select a methodology appropriate to valuing the Underlying Business and apply the percentage ownership that the exercised warrants will confer to that valuation. It is expected that in most cases, the percentage ownership will be small

and that the warrant holder will be unable to significantly influence the Realisation process. In these situations, a large Marketability Discount will be appropriate.

In the event that the Mezzanine loan is one of a number of instruments held by the Fund in the Underlying Business, then the Mezzanine loan and any attached warrants should be included as a part of the overall package of investment being valued.

2.4 Rolled up Loan Interest

Many financial instruments commonly used in private equity Investments accumulate interest which is only realised in cash on redemption of the instrument (e.g. deep discount debentures or Payment-in-Kind Notes).

In valuing these instruments, the Valuer should assess the expected amount to be recovered from these instruments. If deterioration indicators exist, a provision against the cost of the loan should be made to reflect the deterioration in value. The consideration of recoverable amount will also include the existence of any reasonably anticipated enhancements such as interest rate step increases. The difference between the estimated recoverable amount (if in excess of the original cost) should be spread over the anticipated life of the note so as to give a constant rate of return on the instrument.



2.5 Indicative Offers

Indicative offers received from a third party for the Underlying Business may provide a good indication of Fair Value. This will apply to offers for a part or the whole Underlying Business as well as other situations such as price indications for debt or equity refinancing.

However, before using the offer as evidence of Fair Value, the Valuer should consider the motivation of the party in making the offer. Indicative offers may be made deliberately high for such reasons as; to open negotiations; gain access to the company or made subject to stringent conditions or future events. Similarly they may be deliberately low if the offeror believes that the vendor may be in a forced sale position, or to take an opportunity to increase their equity stake at the expense of other less liquid stakeholders. In addition indicative offers may be made on the basis of insufficient detailed information to be properly valid.

These motivations should be considered by the Valuer, however it is unlikely that a firm conclusion can be drawn.

Accordingly, typically indicative offers will provide useful additional support for a valuation estimated by one of the valuation methodologies, but are insufficiently robust to be used in isolation.

3 EVENTS TO CONSIDER FOR THEIR IMPACT ON VALUE

When performing the valuation, at each Reporting Date, the Valuer should consider all factors that will contribute to a material creation or diminution in value of the Investment.

In the absence of reliable value indicators, such as recent Investments or the generation of profits, there are many subtle factors which should be considered by the Valuer as these may indicate a material change in value.

Examples of events or changes in circumstances which may indicate that a decrease or an increase in value has occurred include, but are not limited to:

- the performance or prospects of the Underlying Business being significantly below or above the expectations on which the Investment was based
- the Underlying Business is performing substantially and consistently behind or ahead of plan
- the Underlying Business met or missed its milestones such as clinical trials, technical developments, divisions becoming cash positive, restructurings being completed
- there is a deterioration or improvement in the level of budgeted performance
- whether the Underlying Business has breached any banking covenants, defaulted on any obligations

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(Endorsement as of 20th of June 2006)

- the existence of off-balance sheet items, contingent liabilities and guarantees
- the existence of a major lawsuit
- disputes over commercial matters such as intellectual property rights
- the existence of fraud within the company
- a change of management or strategic direction of the Underlying Business
- whether there has been a significant adverse or favourable change either in the company's business or in the technological, market, economic, legal or regulatory environment in which the business operates;
- significant changes in market conditions. This may be indicated by a movement in the share prices of quoted businesses operating in the same or related sectors;
- the Underlying Business is raising money and there is evidence that the financing will be made under conditions different from those prevailing at the time of the previous round of financing.

The Valuer will assess the impact of all positive and negative events and adjust the carrying value accordingly in order to reflect the Fair Value of the Investment at the Reporting Date.

Where deterioration in value has occurred, the Valuer should reduce the carrying value of the Investment reported at the previous Reporting Date to reflect the estimated decrease.

If there is insufficient information to accurately assess the adjusted Fair Value, decreases in value are usually in practice assessed in tranches of 25%. If however the Valuer believes that they have sufficient information to more accurately assess fair value (this may occur when 25% or less of the original value remains), then smaller tranches of 5% may be applied.

If there is evidence of value creation, such as those listed above, the Valuer may consider increasing the carrying value of the Investment. Caution must be applied so that positive developments are not being valued before they actually contribute to an increase in value of the Underlying Business. In practice, in the absence of additional financing rounds or profit generation, these more subtle indicators of value enhancement are generally only used to support the reversal of a previously recognised deterioration in value.



4 IMPACTS FROM STRUCTURING

Frequently the structuring of a private equity Investment is complex with groups of stakeholders holding different rights which either enhance or diminish the value of their interests, depending on the success or otherwise of the Underlying Business.

Valuations must take account the impact of future changes in the structure of the Investment which may materially impact the Fair Value. These potential impacts may take several different legal forms and may be initiated at the Fund's option, automatically on certain events taking place, or at the option of another investor. Common clauses include, but are not limited to:

- Stock options and warrants
- Anti-dilution clauses
- Ratchet clauses
- Convertible debt instruments
- Liquidation preferences
- Commitments to take up follow-on capital Investments;

These rights should be reviewed on a regular basis to assess whether these are likely to be exercised and the extent of any impact on value of the Fund's Investment. At each Reporting Date, the Valuer should determine whether these rights are likely to be exercised.

In assessing whether rights are likely to be taken up by stakeholders, the Valuer should limit their consideration to a comparison of the value received by the exerciser against the cost of exercising. If the exerciser will receive an enhancement in value by exercising, the Valuer should assume that they will do so.

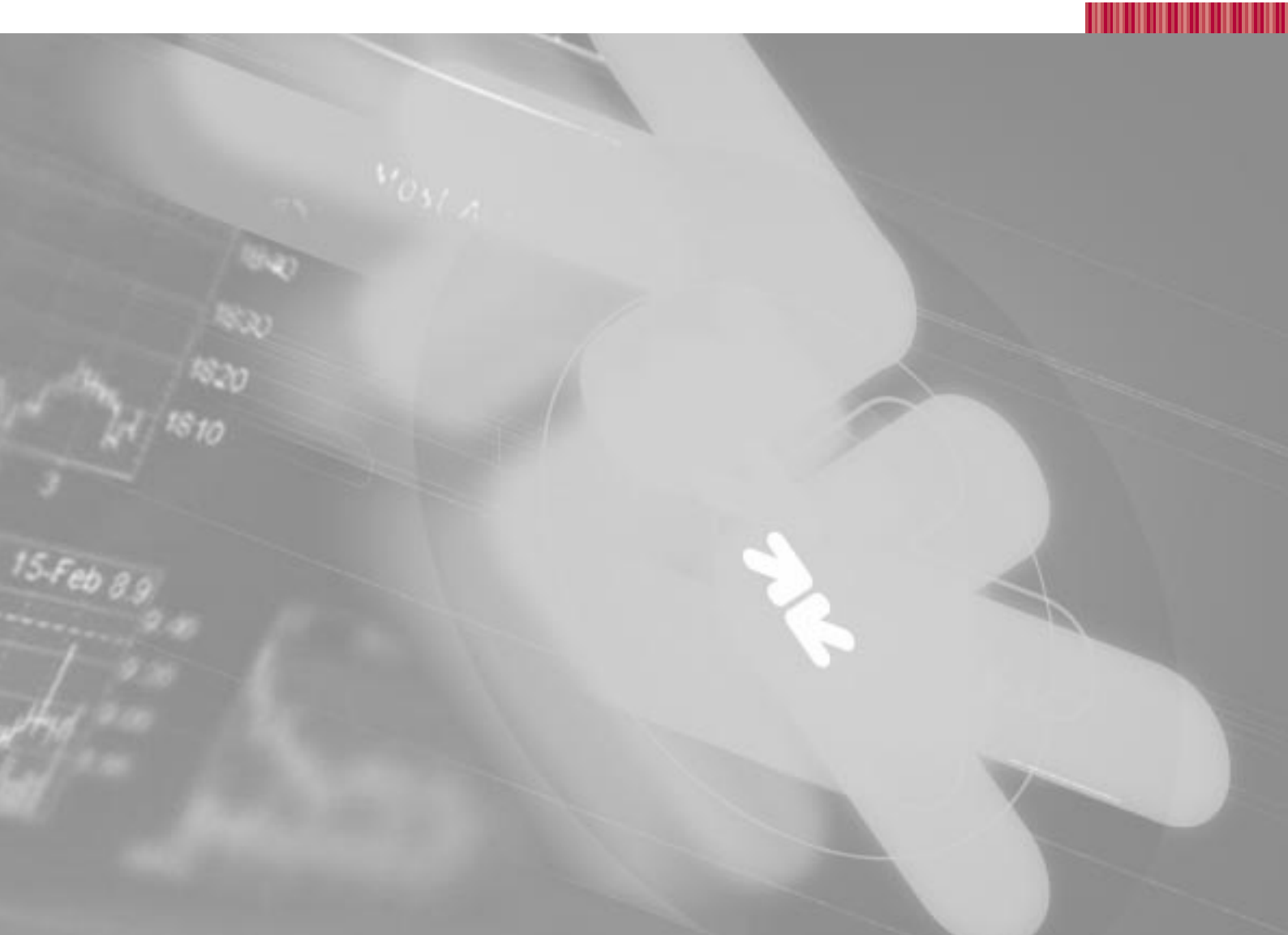
The estimation of Fair Value should be undertaken on the basis that all rights that are currently exercisable and are likely to be exercised (such as options), or those that occur automatically on certain events taking place (such as liquidation preferences on Realisation, or ratchets based on value), have taken place.

Consideration should be given to whether the exercise price will result in surplus cash arising in the Investee Company.

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(Endorsement as of 20th of June 2006)





WORKGROUP

- Marie-Fleur Bonte, Manager, PricewaterhouseCoopers
- Angela Crawford-Ingle, Partner, PricewaterhouseCoopers
- Herman Daems, Chairman, GIMV
- Jean-Yves Demeunynk, Managing Director, AFIC
- Javier Echarri, Secretary General, EVCA
- Pierre Esmein, Partner, Deloitte & Touche
- Ann Glover, CEO, Amadeus Capital
- Richard Green, Managing Director, Kleinwort Capital Limited
- Didier Guennoc, Chief Economist, EVCA
- John Mackie, Chief Executive, BVCA
- Sylvain Quagliaroli, Partner, Grant Thornton
- Monique Saulnier, Managing Partner, Sofinnova Partners
- Jean-Bernard Schmidt, Chairman, Sofinnova Partners
- Writer: Anthony Cecil, Partner, KPMG

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■ AFIC

(The Association Française des Investisseurs en Capital)

AFIC is an independent organization. With 210 active members, AFIC brings together almost all of the private equity institutions in France. In addition, AFIC has 110 associate members.

In order to create a clear set of standards for the private equity business, AFIC drafted a "Code of Ethics", to which all members must adhere to.

AFIC regularly publishes reference documents, which include the "Private Equity Best Practices Guidelines". Lastly, AFIC issues recommendations on corporate governance which are designed to promote transparency and responsibility.

■ AIFI

(The Italian Private Equity and Venture Capital Association)

AIFI was founded in May 1986 in order to promote, develop and institutionally represent the private equity and venture capital activity in Italy. The Association is a non-profit organisation whose main activities are: to create a favourable legal environment for the private equity and venture capital investment activity, to analyse the Italian private equity market collecting statistical data, to organize business seminars and specialized courses addressed to institutional investors and to people interested in operating within the industry, to publish research papers regarding specific topics about the private equity market, to build up stable and solid relationships with other National Venture Capital Associations and key players in the international private equity market. In order to carry out the above-mentioned activities, AIFI can rely both on its permanent staff and on different Technical Committees established with the task to carry out activities of study on specific matters and projects.

■ APCRI

(The Portuguese Private Equity and Venture Capital Association)

APCRI was established in 1989 and is based in Lisbon. APCRI represents the Portuguese private equity and venture capital sector and promotes the asset class.

APCRI's role includes representing the interests of the industry to regulators and standard setters; developing professional standards; providing industry research; professional development and forums, facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics.

APCRI's activities cover the whole range of private equity: venture capital (from seed and start-up to development capital), buyouts and buyins.

APCRI represents the vast majority of private equity and venture capital in Portugal. APCRI has 16 full members and 5 associate members. Full members are active in making equity investments primarily in unquoted companies.



The associate membership can include those firms who invest directly in private equity but for whom this is not their principal activity, advisory firms experienced in dealing with private equity and educational or research based institutions closely associated with the industry.

■ APEA

(The Arab Private Equity Association)

APEA is the only pan-Arab industry association sponsored by the Economic Unity Council of the Arab League, the APEA was formed to address the challenges faced by private equity firms as well as venture capitalists in the Arab world. APEA believes that private equity and venture capitalism can be important catalysts for the provision of economic opportunities, increased investment flows, and superior business performance for Arab industries. APEA's core mission is to increase the role of this young but rapidly growing industry in the Arab world, and strengthen the performance of private equity investment in the emerging Arab market.

■ ASCRI

(The Spanish Private Equity and Venture Capital Association)

ASCRI is a non-profit making association that was set up in 1986, to promote and develop the venture capital and private equity activity in Spain and represent, manage and defend its members' professional interests.

The Association stimulates the promotion and information analysis in the venture capital/private equity sector in Spain, and provides the contact between Official Organisations, investors, professional advisers, business schools and other relevant institutions. At the end of May 2005, ASCRI had 84 full members and 28 associate members.

The ASCRI's main activities are: Research activity, Organisation of different events such as: Annual General Assembly, ASCRI Congress, Training Seminars and Conferences/Workshops, Communication of investment opportunities between ASCRI members, and Institutional and lobbying activity.

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(Endorsement as of 20th of June 2006)

|| ATIC

(The Tunisian Venture Capital Association)

ATIC (Association Tunisienne des Investisseurs en Capital) is a professional association founded in April 2004, by more than 30 companies operating in the field of Private Equity and Venture Capital in Tunisia. Its main goal is to play the vis-a-vis with the Tunisian authorities to introduce the appropriate legal and fiscal measures to ease the development, and solve the problems of the private equity and venture capital industry in Tunisia.

ATIC second objective is to offer its members the appropriate space for networking, information exchange and business development to upgrade the Tunisian industry by targeting higher value added technology projects, and stronger alliances with its North African and European Partners.

ATIC's third objective no less important is to inculcate the right private equity and venture capital culture to local professionals, to enhance the creation of a new generation of Funds managers and to reach strategic alliances with their European or US counterparts. ATIC aims to reach that by enforcing the best practices of the profession according to international standards, through its planned training programs.

|| AVCA

(The African Venture Capital Association)

AVCA represents the private equity and venture capital industry in Africa. AVCA was established in 2002 and its head office is in Yaoundé, Cameroon. AVCA's membership is drawn from across Africa and internationally. AVCA's objectives are to represent the industry within Africa and internationally, stimulate the growth and expansion of the industry throughout Africa, stimulate professional relationships and co-operation, provide opportunities for professional development of industry practitioners, research, publish and circulate industry information and insights, provide policymakers with proposals to improve the corporate, fiscal and legal environment for the industry, maintain high ethical and professional standards and contribute to the management development of investors, investees and other stakeholders. AVCA's activities include an annual industry conference, a quarterly newsletter, research, training and advocacy programs. For more information visit the AVCA website www.avcanet.com.



■ AVCAL

(The Australian Venture Capital Association)

AVCAL represents the interests of Australia's venture capital & private equity industry.

AVCAL's 50 investor members have A\$10 billion under management.

AVCAL's roles include: promotion of the industry, education of practitioners, public policy development, staging networking events, application of valuation & disclosure guidelines, benchmarking IRRs, development of industry standard Limited Partnership agreement.

AVCAL conducts about 40 networking events annually across Australia, and leverages its online presence at www.avcal.com.au for maximum efficiency.

■ AVCO

(The Austrian Private Equity and Venture Capital Organisation)

AVCO is the National Association of Austria's Private Equity and Venture Capital industry, which covers more than 90% of the Austrian Private Equity market with its members.

- It works as a knowledgeable partner and independent information point for journalists, entrepreneurs, potential investors, private and public institutions as well as international bodies that are interested in Austria's Private Equity industry, its development and structure as well as its activities and performance.
- It acts as the official representative of the industry actively engaged in improving the tax-related, legal and economic policy environments in close connection with respective policy makers.
- As a proactive networking institution it promotes co-operation inside the industry as well as interaction with complementary players from other fields in order to intensify information flows and create learning loops.

- In addition it takes the role of an interface to international organisations exchanging experience, information and knowledge with other Private Equity and Venture Capital Associations in Europe, with the European Commission and further relevant institutions in order to put international best practice at work for Austria.

Currently AVCO is engaged to initiate internationally favourable private equity fund structures for Austria and recently AVCO has published Investor Relations Guidelines – behavioural standards for its members vis-à-vis their fund investors – in order to raise transparency and faith in Private Equity as a professional asset class in Austria. In line with these efforts AVCO welcomes the International Private Equity and Venture Capital Guidelines and will be eager to support their introduction and accurate application by its members.

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(Endorsement as of 20th of June 2006)

■ BVA

(The Belgian Venturing Association)

BVA was founded in 1986 as a professional association.

Its mission is to:

1. Animate the Belgian private equity and venture capital industry by deploying a series of activities for its members and for other stakeholders in the prosperity of the VC/PE sector in Belgium. The objectives of the main animation activities are: to foster active networking amongst members of the BVA and between members of the BVA and other third parties, to provide extensive information to its members on all topics relevant to the VC/PE industry, to improve the quality of the operation of the sector.

2. Promote the well being of the Belgian private equity and venture capital industry towards all relevant third parties. The objectives of the promotional activities are: to proactively represent the Belgian VC/PE industry to third parties as the industry's recognized spokesperson, to conduct active lobbying for (i) improvements to or (ii) the removal of obstacles from the structural context in which the Belgian VC/PE industry operates, to contribute to the continuous development of business in our industry.

■ BVCA

(The British Venture Capital Association)

The BVCA represents around 170 UK-based private equity and venture capital firms, the vast majority of all such firms in the UK. The BVCA is the public face of the industry providing services to its members, investors and entrepreneurs as well as the Government and media.



■ BVK

(Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – German Private Equity and Venture Capital Association e. V.)

BVK was founded in 1989.

BVK represents most of the German private equity and venture capital firms as well as the German branches of foreign private equity and venture capital firms. As per March 31, 2005, BVK represented more than 180 private equity and venture capital firms.

Apart from full membership BVK offers associate membership to companies and organizations working in this particular business sector, i. e. accountants, lawyers, consultants etc.

BVK serves as a link between government and business and represents its members' views, needs and problems while supplying information and discussing any particular political and economic subject with the relevant governmental institutions.

Science and research are becoming more and more interested in private equity and venture capital issues. BVK supports universities, colleges and their students with their research activities and problem solving.

On the international level BVK exchanges information with other national organizations in the economic sector and other international private equity and venture capital associations.

■ CVCA

(Canada's Venture Capital & Private Equity Association)

The CVCA - Canada's Venture Capital & Private Equity Association, was founded in 1974 and is the association that represents Canada's venture capital and private equity industry.

Its over 1100 members are firms and organizations which manage the majority of Canada's pools of capital designated to be committed to venture capital and private equity investments.

The CVCA fosters professional development, networking, communication, research and education within the venture capital and private equity sector and represents the industry in tax and regulatory matters.

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(Endorsement as of 20th of June 2006)

■ CVCA

(Czech Venture Capital and Private Equity Association)

CVCA is an association representing companies active in the private equity and venture capital industry in the Czech Republic. CVCA has full members (private equity and venture capital fund managers) and associated members (companies providing advisory services to the private equity and venture capital industry). CVCA has 14 full members and 16 associated members as of May 2005.

CVCA's priorities are: increasing the awareness about private equity/venture capital among entrepreneurs, state administration and general public, promoting interests of CVCA members in contact with the government and other state authorities, providing information on the private equity/venture capital industry in the Czech Republic, providing platform for discussion among members of CVCA.

■ DVCA

(The Danish Venture Capital Association)

DVCA is an association with the goal of strengthening its member's business, network, and competences.

DVCA includes a broad range of high tech investors in Denmark.

Furthermore the organisation covers the whole investment chain from individual business angels over venture capital companies to private equity and institutional investors.

DVCA was founded in 2000 and was in 2004 merged with the formerly known Danish Business Angel Network.

The association is situated in the Old Stock Exchange, Slotsholmsgade, Copenhagen. For more information please visit www.dvca.dk

■ EMPEA

(Emerging Markets Private Equity Association)

EMPEA is a broad-based membership organization formed to serve private equity and venture capital firms operating in the emerging markets of Asia, Eastern Europe, Africa, Latin America and the Middle East.

EMPEA believes private equity investing can generate strong returns for investors while also serving as a critical driver of economic growth and opportunity in these markets.

Despite significant differences across emerging market regions, private equity firms face important common challenges and opportunities. EMPEA's programs include conferences, networking opportunities, research, a quarterly publication and advocacy.

EMPEA works closely with national and regional venture capital associations to achieve its mission.



■ EVCA

(European Private Equity and Venture Capital Association)

EVCA was established in 1983 and is based in Brussels. EVCA represents the European private equity sector and promotes the asset class both within Europe and throughout the world. With well over 900 members in Europe, EVCA's role includes representing the interests of the industry to regulators and standard setters, developing professional standards, providing industry research, professional development and forums facilitating interaction between its members and key industry participants including institutional investors, entrepreneurs, policymakers and academics.

■ FVCA

(The Finnish Venture Capital Association)

In 2005 the Finnish Venture Capital Association (FVCA) celebrates its 15th year anniversary. The FVCA is a non-profit organisation representing the Finnish venture capital and private equity industry. The FVCA's main mission is to promote and develop the venture capital and private equity industry in Finland. The main tasks are public affairs, lobbying, networking and research. The FVCA has 43 full members. This represents the vast majority of the Finnish venture capital and private equity companies. Full membership has been approved for equity investors and risk financiers representing private and public investment capital, captive funds and corporate ventures. In addition, the FVCA has 68 associate members. Associate membership can be given to organisations and individuals with an interest in the venture capital and private equity industry.

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(Endorsement as of 20th of June 2006)

■ HKVCA

(Hong Kong Venture Capital Association)

Hong Kong Venture Capital Association was established on November 12, 1987 with the objectives of promoting and protecting the interests of the venture capital and private equity industry, networking and cooperation on regional and international front, and in raising the professional standards of the market.

Its 120 members are engaged in all levels of venture capital, expansion capital and buyout activities in China, Japan, Korea, Australia, Taiwan, Thailand, Singapore, and other markets in Asia.

It is committed to the promotion of the venture capital industry as a financial and business partner to businesses and the creation of an environment that creates sound partnerships. It is dedicated to developing a high standard of professionalism in the market to ensure investor confidence in the asset class.

The Association provides an effective channel of communication for members to share information on developments within the industry in Hong Kong/PRC as well as on a regional and international level. It also works closely with the government and various trade bodies to further the interests of the industry.

■ HVCA

(The Hungarian Venture Capital and Private Equity Association)

HVCA represents virtually every major source of funds and expertise of private equity in Hungary. HVCA aims to promote the development of the industry, and to create and follow the highest possible professional and ethical standards.

HCVA was set up in 1991 and has developed considerably since then: the original five members have grown to 26 full members, 29 associate members and 9 individual members.

The Association provides a regular forum for the exchange of ideas among members, high-level discussions on the topical issues of the venture capital and private equity industry and the future trends. As the official representative of the industry it is in constant discussion with the financial and legislator institutions of the Hungarian State and with other professional organisations.



■ ILPA

(The Institutional Limited Partners Association)

The ILPA is a non-profit organization committed to serving limited partner investors in the global private equity industry by providing a forum for: facilitating value-added communication, enhancing education in the asset class, and promoting research and standards in the private equity industry

Initially founded as an informal networking group, the ILPA is a voluntary association funded by its members. The ILPA membership has grown to include more than 138 member organizations from 10 countries, who in total have assets under management in excess of two trillion U.S. dollars. Members of the ILPA manage more than US\$300 billion of private equity capital.

The ILPA membership comprises corporate and public pension plans, endowments and foundations, insurance companies and other institutional investors in private equity.

The ILPA holds semi-annual meetings for members.

■ IVCA

(The Irish Venture Capital Association)

The IVCA is the representative body of the venture capital industry in Ireland. The association was established in 1985 to represent the views of its members and to promote the Irish venture capital industry. We seek to encourage co-operation and best practices within the industry and to facilitate those seeking venture capital. The IVCA also continuously works with those individuals and organisations committed to fostering an economic and regulatory climate conducive to the growth and development of an enterprising economy

■ LAVCA

(The Latin American Venture Capital Association)

The Latin American Venture Capital Association (LAVCA) is a not-for-profit membership organization dedicated to promoting the growth of the private equity and venture capital industry in Latin America and the Caribbean.

LAVCA's core membership consists of fund managers, institutional investors and corporate investors active in the region. Select service providers, development finance organizations, trade associations and educational institutions also participate as associate members of LAVCA.

LAVCA's mission – to spur regional economic growth through the promotion of venture capital and private equity investment – is accomplished through programs of research, networking, education, the promotion of best investment practices, and the advocacy of sound public policy.

For more information about LAVCA, its members, products and activities, please visit our website at www.lavca.org.

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(Endorsement as of 20th of June 2006)

■ LVCA

(The Latvian Venture Capital Association)

To promote the development of venture capital sector in Latvia, the six biggest companies that operate in the venture capital sector in Latvia have founded a public organization: the Latvian Venture Capital Association. The founders of the association are fund management companies that manage investment funds of different value and function profile.

LVCA has the following missions: to inform businessmen and society about venture capital financing possibilities, to promote the exchange of opinions and experience of the members of the association, to represent opinions and interests of the members in negotiations with public authorities, to organize and to ensure cooperation with international or other countries' venture capital associations.

■ NVCA

(The Norwegian Venture Capital & Private Equity Association)

NVCA is a non-profit association supporting the interests of the companies active in the Norwegian industry. NVCA was established in 2001 by the leading players, and represents today around 40 Norway-based private equity and venture capital firms, the vast majority of such firms in Norway. The 20 associated members are service providers to the industry such as lawyers, advisors, investors and corporate finance companies.

The purpose of the association is to promote an efficient private equity market, to improve the regulations of the industry, to promote entrepreneurship and to ensure political focus on Norway's position as a strong and attractive country for international investments.

NVCA provides knowledge, analysis and general information to the Government and media to communicate the importance of the industry and its role in the national innovation system and the general industrial development in Norway.

NVCA is in this way the public face of the industry providing services to its members, investors and entrepreneurs as well as the Government and media.



■ NVP

(Nederlandse Vereniging van Participatiemaatschappijen)

The Dutch Private Equity & Venture Capital Association acts in the interests of private equity companies in the Netherlands. The aims of the NVP are: in cooperation with the government, work on an adequate regulatory framework for the private equity sector and its clients; inform entrepreneurs and businesses about the financing possibilities of private equity; inform investors about the characteristics of private equity as an asset class; raise awareness and improve the image of private equity to achieve aforementioned goals; contribute to further raising the level of professionalism of the private equity sector.

The NVP has about 50 members and 50 associated members. Members of the NVP represent 95% of the number of private equity investments and about 85% of the total invested capital in the Netherlands.

More information about the activities of the NVP and its members can be found on www.nvp.nl.

■ PPEA

(Polish Private Equity Association)

PPEA gathers private equity/venture capital funds active in Poland. The mission of PPEA, established in January 2002, is to promote and develop the private equity and venture capital (pe/vc) industry in Poland and to represent the interests of the Polish pe/vc community in Poland and abroad. PPEA comprises 51 institutions: 29 full members, representing most of the private equity firms active in Poland and 22 Associate Members that are law and consulting companies working for pe/vc industry. The full members manage more than EUR 4.5bn and have currently nearly 300 Polish companies and over 50 companies in other CEE countries on their portfolios.

PPEA has established a number of committees to work on PPEA policy and actions. The committees bring together full and associate members who represent their areas of expertise. To date, PPEA has established committees to work on the following areas: corporate governance, legal and lobbying, pension funds and other domestic investors, SME financing and innovations, and statistics.

■ RÉSEAU CAPITAL

(The Québec Venture Capital and Private Equity Association)

The Québec Venture Capital and Private Equity Association has more than 500 members who represent public and private venture capital companies as well as firms of professionals serving the industry.

Mission and Organizational Structure

Réseau Capital is an association of key players in the private equity and venture capital industry. Its mission is to foster the growth of the industry and the professional development of its members through a range of services and activities, such as training, information, networking and promotion of their interests.

Principal Objectives

To further the development of a business environment favourable to the venture capital community, notably, through training activities; To establish an efficient network of relations and communications between the industry's stakeholders; To promote venture capital as an efficient tool for the development of Québec businesses, and to promote other organizations tied into the industry.

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(Endorsement as of 20th of June 2006)

■ RVCA

(The Russian Private Equity and Venture Capital Association)

RVCA was set up in 1997. The central office of RVCA is situated in St. Petersburg. By today RVCA unites about 40 members more than half of them are private equity and venture capital funds.

RVCA's mission is to contribute to establishment and development of venture industry in Russia.

RVCA's goals are: to create a political and entrepreneurial environment favorable for investment activity in Russia, to represent RVCA's interests in political and administrative agencies, in mass media, in financial and industrial circles in Russia and abroad, to provide informational support and create communicative forums for Russian venture market players, to create the stratum of experts qualified to work in venture business companies. RVCA is the unique professional organization in Russia unites the progressive financial institutions investing in private Russian companies. RVCA is generally accepted in the business community and by the Russian Government.

■ SAVCA

(The Southern African Venture Capital and Private Equity Association)

SAVCA is a non-profit Section 21 Company based in South Africa that represents the interests of the participants of the Private Equity and Venture Capital industry in Southern Africa. All the key participants in the industry are members of the Association. Full membership of SAVCA provides a high level of endorsement and denotes a high level of professionalism and integrity for the member firm.

SAVCA plays a meaningful role in the Southern African Venture Capital and Private Equity industry by promoting the industry and its members, promoting self-regulation, setting professional standards, lobbying, disseminating information on the industry, arranging training for the staff of its members and researching the industry in South Africa.

The main objectives of SAVCA are to: promote the venture capital and private equity profession in Southern Africa; represent the profession at the national and international level; develop and stimulate professional and transactional venture capital and private equity investments; stimulate the expansion of venture capital and private equity; collect information from markets and from members; circulate information; stimulate and maintain contacts within the membership; contribute to the management development of investors and investees; provide the relevant authorities with proposals for improvement in the corporate, fiscal and legal environment for venture capital and private equity in Southern Africa; and maintain ethical and professional standards.



■ SECA

(The Swiss Private Equity and Corporate Finance Association)

SECA is the representative body for Switzerland's private equity, venture capital and corporate finance industries. SECA has the objective to promote private equity and corporate finance activities in Switzerland.

Members of the SECA include equity investment companies, Banks, Corporate Finance Advisors, Auditing Companies, Management Consultants and Private Investors.

The association is a non-profit organization and has the following purposes: to promote corporate finance and private equity activities in the public and the relevant target groups, to promote the exchange of ideas and the cooperation between members, to contribute to the professional education and development of the members and their clients, to represent the members views and interests in discussion with government and other bodies, to establish and maintain ethical and professional standards.

In addition to promoting corporate finance in the public, SECA provides a platform to its members to exchange information and experiences. The main activities of SECA are: seminars and events about relevant topics, publication of statistics about private equity investment and management buyout activities in Switzerland, quarterly edition of a newsletter SECA News (for members only), contacts of other associations and state bodies.

■ SLOVCA

(The Slovak Venture Capital Association)

SLOVCA was created in 1995 with primary purpose to increase the awareness of private equity and venture capital to the public, such as the entrepreneurs, investment and banking institutions and the economic, political and regulatory bodies in Slovakia.

The mission of SLOVCA includes five key objectives: to provide information to those seeking capital for new and existing enterprises, to represent the interests of members before the government and other related institutions/agencies, to provide a forum for networking for members to exchange views and practices, to provide education and training for members of SLOVCA and others, to encourage the highest standards of business practices.

These guidelines have been developed by AFIC, BVCA and EVCA with the valuable input and endorsement of the following associations:

AIFI, APCRI, APEA, ASCRI, ATIC, AVCA, AVCAL, AVCO, BVA, BVK, CVCA, DVCA, EMPEA, FVCA, HKVCA, HVCA, ILPA, IVCA, LAVCA, LVCA, NVCA, NVP, PPEA, RÉSEAU CAPITAL, RVCA, SAVCA, SECA, SLOVCA, SVCA

(Endorsement as of 20th of June 2006)

■ SVCA

(The Swedish Private Equity and Venture Capital Association)

The SVCA represents around 110 private equity firms as well as business angels and service providers. Sweden is one of the leading private equity markets with annual private equity investments over 1% of the national GDP.

The Association was established 1985 and its objective is to work towards a well-functioning private equity industry in Sweden. This is done by supplying information and working for the professional development of the industry. We aim to inform about how the industry functions and what frameworks are needed to facilitate entrepreneurs and investors so that together they can help the development of the Swedish economy and industry that is necessary for the country's future prosperity. We also inform about how investments in private equity funds have yielded a good profit over the long term for pension funds and other institutional investors.

We work for the professional development of players active in the industry through education, ethical guidelines, transparency and valuation principles, networking and seminars with the participation of international colleagues, amongst many other things.

See www.svca.se for more information.





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