QUILVEST

# Annual Report 2010

# Directors' Report

## General Section — Part One



## Financial Section — Part Two

QUILVEST

**QUILVEST** is a public financial holding company whose activities are in the wealth management and private equity business.

**QUILVEST** was incorporated in Paris on September 20, 1888. Since the spin-off of the industrial activities in 1991, it has solely focused on managing financial assets with a Swiss wealth management institution established in 1932 and a private bank in France established in 1917.
QUILVEST's global Private Equity activities date back to 1972.

**QUILVEST** consists of almost 300 professionals with offices in Luxembourg, New York, Zurich, Paris, Dubai, London, Montevideo and Hong Kong.

# List of Directors and Managers

| | |
|---|---|
| Honorary Chairman | Julio E. Nuñez |

## Board of Directors

| | |
|---|---|
| Chairman | Peter Bemberg |
| Vice-Chairman | F. Michel Abouchalache<br>Christian Baillet |
| Directors | François de Carbonnel<br>Serge de Ganay<br>André Elvinger<br>François Manset<br>Stanislas Poniatowski<br>Alvaro Sainz de Vicuña<br>International Advisory Services |

## Audit Committee

Peter Bemberg
François Manset
Christian Baillet

## Remuneration Committee

Serge de Ganay
Alvaro Sainz de Vicuña
Christian Baillet

## Group Management

Chief Executive Officer
F. Michel Abouchalache

CEO Quilvest Switzerland
Philippe Monti

CEO Quilvest Banque Privée
Guillaume Dozinel

Secretary General and Group Controller
Jean-Benoît Lachaise

## Statutory and Group Auditors

KPMG Audit S.àr.l.

QUILVEST

# Group Highlights

| In $ million | 2010 | 2009 |
|---|---|---|
| Total assets (IFRS) | 1,367.7 | 1,329.6 |
| Total liabilities (IFRS) | 606.5 | 558.3 |
| | | |
| Group equity - shareholders of the parent (IFRS) | 728.4 | 746.9 |
| Restatement of goodwill Wealth Management | 72.8 | 72.5 |
| Restatement of goodwill Private Equity | 32.0 | 28.0 |
| Accounting policy differences | 33.9 | 22.3 |
| Net asset value (Management valuation) | 867.1 | 869.7 |
| | | |
| Group net result (IFRS) | 12.8 | 18.5 |

| In $ | 2010 | 2009 |
|---|---|---|
| Group net basic earnings per share (IFRS) | 1.9 | 2.8 |
| Group net asset value per share (IFRS) | 109.4 | 112.2 |
| Net asset value per share (Management valuation) | 130.3 | 130.7 |
| Total shares issued as of reporting date | 6,656,000 | 6,656,000 |

“Net asset value (Management valuation)” differs from “Group equity (IFRS)” on the following points mainly: Management valuation includes a restatement of goodwill arising on Quilvest Switzerland, Quilvest Banque Privée and Quilvest Private Equity, based on the volume and nature of third party assets under management. The accounting policy differences relate mainly to the Fair Value valuation of the controlled Private Equity investments, which are fully consolidated in the IFRS consolidated financial statements, the de-recognition of deferred tax liability arising from the revaluation of land and buildings in Quilvest France and the revaluation of treasury shares presented in equity under IFRS accounting policies.

# Chairman's Statement

2010 was a year during which we continued to invest significantly in our two core businesses. We have a pending merger of our two banking units with a private bank in Luxembourg. This will translate into an enhanced value proposition to our shareholders and to our clients. On the private equity side, we continued to hire investment professionals and we opened a new office in Hong Kong. With now a global footprint, Quilvest is uniquely positioned to take advantage of the recovering markets in private equity and real estate. Including Compagnie de Banque Privée, with now 11 offices worldwide, approximately 400 professionals and close to $16 billion in assets under management, the Group is committed to continue to best serve its shareholders and clients. Our capabilities to best build and preserve wealth have been further enhanced. We are foreseeing the future with a fair and realistic degree of optimism.

Peter Bemberg
Chairman of the Board

QUILVEST

# Management Responsibility Statement

I, F. Michel Abouchalache, Chief Executive Officer confirm, to the best of my knowledge, that the consolidated financial statements which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the QUILVEST Group and the undertakings included in the consolidation taken as a whole and that the Directors' report includes a fair review of the development and performance of the business and the position of the QUILVEST Group and the undertakings included in the consolidation taken as a whole.

Luxembourg, April 18, 2011

# Chief Executive Officer's Statement

Dear Shareholder,

Quilvest Net Asset Value grew by only 2% over the year. This is well below the 12% objective set by our shareholders. Nonetheless, 2010 was in many respects a successful year for Quilvest. We continued to strengthen our two core businesses, wealth management and private equity. Including a pending merger, we increased our total assets under management to approximately $15.5 billion. This represents close to tripling our AUMs over a seven years period. Our cashflow over the year was better than projected, mainly driven by a better than forecast number of private equity exits. The Group ended the year with less leverage than originally projected.

On the wealth management side, Quilvest agreed to merge its two banking platforms with Compagnie de Banque Privée (CBP) in Luxembourg, a young and fast growth private bank. This merger is an important strategic step for the Group and a reminder of our shareholders commitment to this business. For that, I want to thank our Shareholders and our Board of Directors for providing all the support and approvals this merger required. With such an important investment, the Group has gained scale, beefed up its management and professional ranks, expanded its geographic presence to Singapore and reinforced its presence in Luxembourg and better prepared itself to face new regulatory requirements. Back, middle and front office synergies are forecast to be significant and can be achieved over the next three years.
We welcome the CBP team on board and are all looking forward to build together a world class wealth management platform.

On the private equity front, activity picked up though the year. We had several successful exits and recapitalizations including QS Hosting, IDI, Faceo, SKS, All System and QS Concrete. Our funds and direct investment pace picked up as of the second half of the year and continued to be strong over the first quarter of 2011. Our investment pipeline has seldom looked as attractive. We are therefore hopeful to deploy monies in promising opportunities in the years to come.

Fund raising in private equity and real estate continued to trend well with our second strongest year ever. We have set ourselves an ambitious fund raising objective for 2011. However we are determined to maintain our focus on our historical sweet spot, that of the small and mid cap. We have also continued to increase our allocation to emerging markets with emphasis on Asia and Latin America. As a matter of fact, we have tripled our commitment to QS GEO, our emerging markets fund of funds. Our QS REP projected allocation continues to be 50% to emerging markets. To support this increasing activity in this area of the world, we have 're'-opened our Hong Kong office with a dedicated team of professionals.

With our strengthened capabilities and better market prospects, I believe we can all look forward in the coming years to an above objective performance for the Group. We expect our total assets under management to continue to grow at an attractive pace. Our private equity and real estate portfolios are performing well and should continue to deliver double digit returns. Driven by cost and revenue synergies and increasing scale, our wealth management platform profitability is forecast to grow.

Based on our current performance and our outlook, our Board of Directors has recommended an increase in our dividend to $3.15 per share.

F. Michel Abouchalache
Chief Executive Officer

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# Private Equity

## List of Largest Direct Investments

In $ million

| | Region | Investment date | Management valuation |
|---|---|---|---|
| Paprec | France | 2008 | 30.7 |
| Farley & Sathers | USA | 2002 | 27.0 |
| Command Alkon | USA | 2005 | 16.2 |
| Algeco/Scotsman | Benelux | 2005 | 16.1 |
| Radiation Therapy Services | USA | 2008 | 10.5 |
| Multiplan | USA | 2010 | 9.6 |
| Kismet (SKS) | Asia | 2007 | 9.2 |
| IGPS | USA | 2007 | 8.4 |
| Pay-o-Matic | USA | 2008 | 7.4 |
| SRAM | USA | 2008 | 6.7 |
| E-Pak | Asia | 2001 | 5.9 |
| Intarcia | USA | 2007 | 5.8 |
| Comess | Spain | 2000 | 5.3 |
| 5 à Sec | France | 2008 | 4.8 |
| MACS | USA | 2010 | 4.3 |
| Grupo Segur | Spain | 2004 | 4.0 |
| Altea | USA | 2005 | 3.7 |
| Marco Aldany | Spain | 2007 | 3.4 |
| OSI | USA | 2007 | 3.1 |
| Frontier Silicon | USA | 2005 | 3.0 |
| Myriad Group (previously Esmertec) | Switzerland | 2003 | 2.5 |
| Tiway | Ukraine | 2010 | 2.4 |
| Irestal (Aceros Bergara) | Spain | 2000 | 2.1 |
| Pomme de Pain | France | 2008 | 2.1 |
| Neotract | USA | 2009 | 2.0 |
| Net4_Pipetel | Asia | 2010 | 1.9 |
| Intrinsic Therapeutics | France | 2007 | 1.8 |
| Performance Food Group | USA | 2008 | 1.8 |
| Azulev | Spain | 1999 | 1.7 |
| Pasha's Restaurant | USA | 2001 | 1.7 |
| Viawest | USA | 2008 | 1.7 |
| Laney Directional Drilling | USA | 2008 | 1.6 |
| Chop't Salad | USA | 2007 | 1.4 |
| Nocibé | France | 2006 | 1.2 |
| China Education | Asia | 2007 | 1.1 |
| Seguriber-Alartec | Spain | 2001 | 1.1 |
| Management fair value of controlled Private Equity investments, fully consolidated under IFRS accounting policies: | | | |
| YO! Sushi Group | UK | 2008 | 41.1 |
| JDI Fashion Group ("Swoon") | France | 2007 | 10.4 |
| Hill and Valley Group | USA | 2005 | 4.9 |
| All other direct investments | | | 2.6 |
| Total Direct Private Equity Investments | | | 272.2 |

# Private Equity (continued)

## List of Largest Third Party Funds

In $ million

| | Region | Investment date | Management valuation |
|---|---|---|---|
| MCH Iberian Capital Fund II | Spain | 2005 | 20.5 |
| Synergia | Italy | 2005 | 10.1 |
| Navis Asia Fund III | Asia | 2003 | 6.2 |
| Acto FCPR (ex Finama) | France | 2002 | 4.9 |
| Vencap 6 (MC Partners III) | UK | 1999 | 4.5 |
| Actoline 2 FCPR | France | 2007 | 4.2 |
| MCH Iberian Capital Fund III | Spain | 2005 | 3.3 |
| Advent Atlantic & Pacific IV | USA | 1999 | 3.1 |
| Pacven Walden Ventures V LP | Asia | 2001 | 2.5 |
| GS PEP 2000 Offshore | USA | 2000 | 2.2 |
| Advanced Technology Venture VII | USA | 2001 | 2.2 |
| Abingworth Bioventures III | UK | 2001 | 2.0 |
| Développement et Partenariat IV | France | 2006 | 1.9 |
| Catterton Partners V | USA | 2004 | 1.8 |
| Vencap 9 (PEI II) | UK | 2000 | 1.7 |
| Bain Capital Europe Fund III | USA/Europe | 2002 | 1.4 |
| Bain Capital Fund VII | UK | 2002 | 1.4 |
| Bain Capital Fund X | USA/Asia | 2002 | 1.2 |
| H.I.G. Investment Group II LP | Asia | 2002 | 1.2 |
| GS Capital Partners 2000 Offshore | USA | 2000 | 1.2 |
| Chase Capital Partners II | USA | 2000 | 1.1 |
| Navis Asia Fund IV | Asia | 2004 | 1.0 |
| Sterling Capital Partners (SCP) | USA | 2003 | 1.0 |
| All other third party funds | | | 5.8 |
| Total Third Party Funds invested directly | | | 86.4 |
| QS PEP 2002 | | 2002 | 23.0 |
| QOL PEP 2003 | | 2003 | 26.8 |
| QOL PEP 2004 | | 2004 | 32.6 |
| QOL PEP 2005 | | 2005 | 45.5 |
| QPE PEP 2006 | | 2006 | 42.8 |
| QPE PEP 2007 | | 2007 | 40.8 |
| QPE PEP 2008 | | 2008 | 28.2 |
| QPE PEP 2009 | | 2009 | 22.1 |
| QPE PEP 2010 | | 2010 | 4.6 |
| Quilvest Ventures II FCPR | | 2007 | 7.9 |
| Quilvest Energies | | 2010 | 1.4 |
| QS GEO PEP | | 2007 | 10.9 |
| QS REP SIF | | 2009 | 6.6 |
| Total Fund of Funds structures | | | 293.2 |
| Total Private Equity Funds | | | 379.6 |

| | |
|---|---|
| Goodwill Private Equity | 32.0 |

Compared with the consolidated financial statements, third party funds of USD 96.3 million were included in the Treasury portfolio (net of other liabilities) of the corporate activity (see Strategic & Treasury Portfolio).

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# Wealth Management and Corporate

## Strategic & Treasury Portfolio

in $ million

| | Management valuation |
|---|---|
| Quilvest Wealth Management | 149.4 |
| Quilvest SA (Autocontrol) | 3.2 |
| Real Estate | 32.6 |
| Treasury Portfolio (net of other liabilities) | 197.6 |
| Interest-bearing liabilities | (199.5) |
| Total Strategic & Treasury Portfolio | 183.3 |

## Capital & Net Debt management

Quilvest Switzerland (QVS) and Quilvest Banque Privée (QBP), the two Wealth Management structures of the Group, are subject to capital adequacy requirements by their respective supervisory authorities. In 2010, both entities had to apply the Basel requirements.

in $ million

| | QVS | QBP |
|---|---|---|
| Total regulatory capital | 36.0 | 18.5 |
| Capital required for credit risks | 9.9 | 4.9 |
| Capital required for market risks | 8.1 | - |
| Capital required for operational risks | 6.4 | 3.5 |
| Total capital required | 24.4 | 8.4 |
| Capital adequacy ratio 2010 | 10.50% | 17.44% |

According to the applicable legal requirements, capital has to be at least equal to 8% of risk weighted assets. This requirement is met for both Wealth Management structures at reporting date.

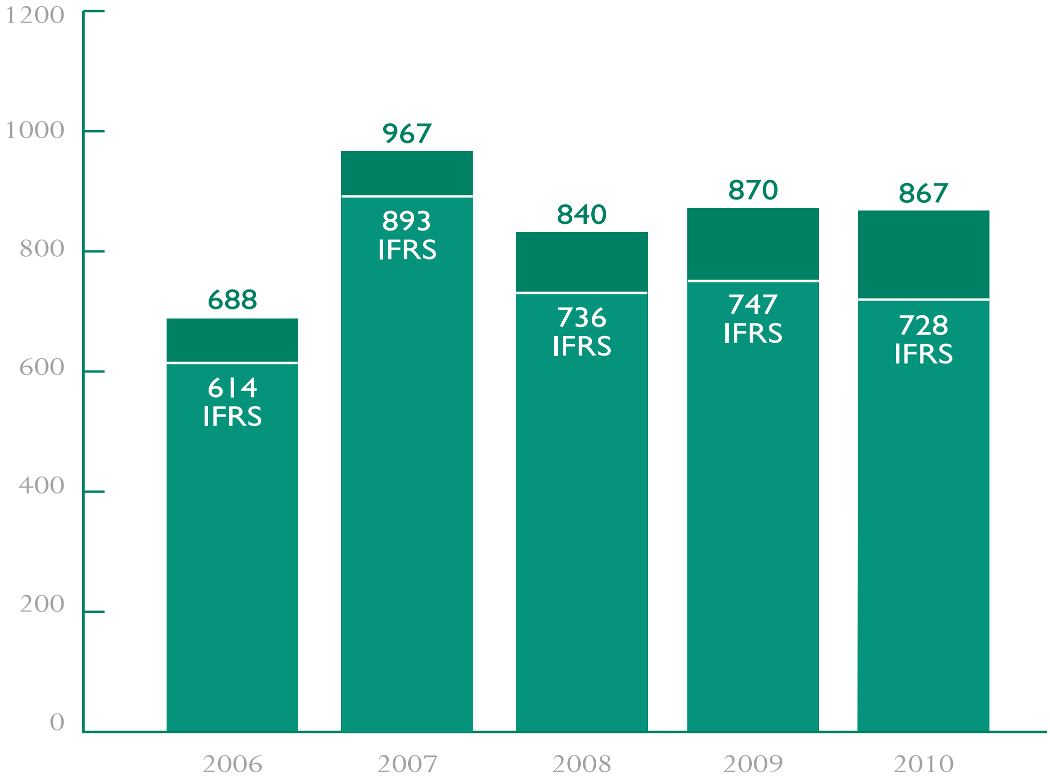
As at December 31, 2010, the Group is complying with the Net Debt Covenant as defined in the Terms and Conditions of the Bonds, section 3 - Negative Pledge and other Covenants, of the Senior Bond issue prospectus closed on December 7, 2009. The Net debt as at December 31, 2010 is USD 59.5 million, with the following components:

- Cash and cash equivalents (IFRS): USD 140 million;
- Consolidated indebtness (IFRS): USD 253.7 million;
  of which:
- Limited recourse Private Equity Acquisition indebtness (IFRS): USD 54.2 million.

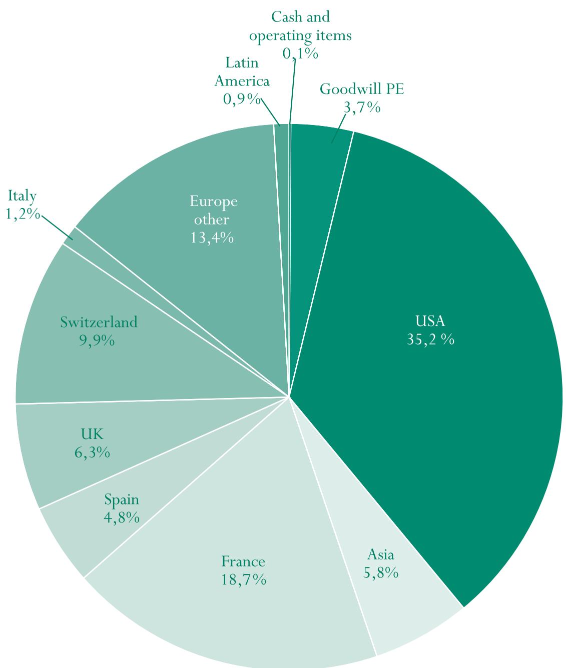
## Key figures

### Group Net Asset Value (based on management valuation)

in$ million

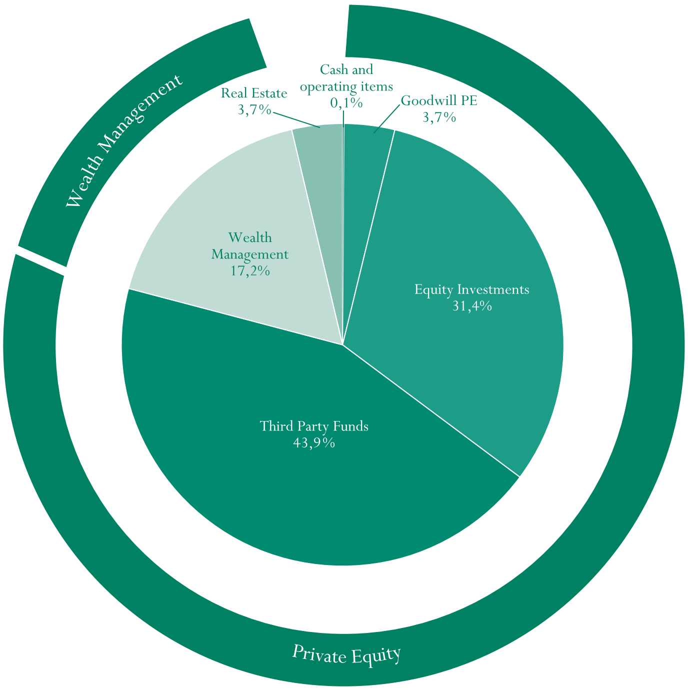



### Geographical distribution of Net Asset Value (based on management valuation)

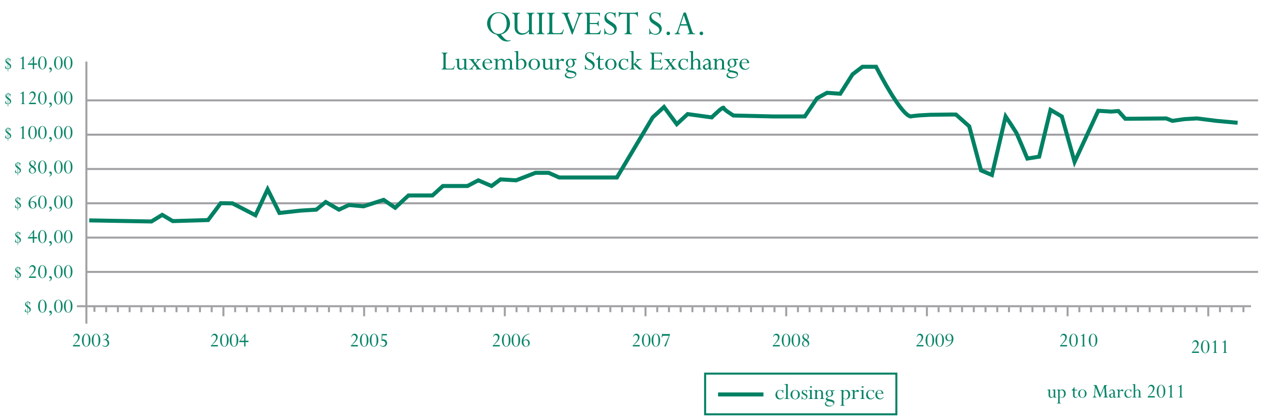


# Key figures (continued)

## Distribution by business segment of Net Asset Value (based on management valuation)




## Stock price evolution




During the year 2010, the Group acquired 13,404 shares of Quilvest S.A. for a total amount of USD 1.3 million (see note 20). This represents an average of 1,117 shares bought per month (approximately 10 transactions per month on average), with a maximum of 4,283 shares bought in January and a minimum of 90 shares bought in April. The Group sold 15,622 shares in 2010 in two transactions for an amount of USD 1.9 million ( 7,922 shares sold in January 2010 and 7,700 shares sold in April 2010).

# Corporate Governance

Quilvest adopted its Corporate Governance Charter on June 4, 2007. The Charter has been updated on April 18, 2011. An exhaustive version is available on the website of the company.

Quilvest follows the Ten Principles of Corporate Governance. The principle related to the evaluation of the performance of the board of Directors has been implemented in 2008. The process included the Audit Committee and the Remuneration Committee as from 2009.

Quilvest is a Luxemburg limited holding company managed by a Board of Directors. The functions of Chairman of the Board and Chief Executive Officer are separated.

Two Committees assist the Board of Directors in the decision-making process, the Audit Committee created in 2002 and the Remuneration Committee created in 2005.
No Nomination Committee has been created as relevant decisions are prepared directly by the Board.

The Board of Directors held 6 meetings during the financial year 2010. The attendance rate at the meetings was very high in 2010, with full or nearly full (80%) participation at all meetings.

### Members of the Board of Directors are the following:

- Peter Bemberg, Chairman of the Board of Directors
- Christian Baillet, Vice-Chairman of the Board of Directors
- F. Michel Abouchalache, Vice-Chairman and Chief Executive Officer
- François de Carbonnel (Independent Director)
- Serge de Ganay
- André Elvinger (Independent Director)
- François Manset
- Stanislas Poniatowski
- Alvaro Sainz de Vicuña
- International Advisory Services, represented by Christian Baillet

Directors' CVs as well as their positions in other listed and non listed companies are available on the website

Jean-Benoît Lachaise acts as Secretary.

The Board of Directors is supported in its work by two special-focus Committees of which it appoints the members and the Chairman.
The Company is administered and managed by a Board of Directors (the "Board of Directors") consisting of a minimum of three and a maximum of fifteen members appointed by the general meeting. The terms of their office shall not exceed six years; they may be reappointed and dismissed at any time.

The Board of Directors shall elect a chairman from among its members and, if considered appropriate, one or several vice-chairmen and shall determine the period of their office, not exceeding their appointment as director. The chairman has a casting vote in case of a tie and presides at all meetings of the Board of Directors and general meetings of shareholders.

The Board of Directors is invested with the broadest powers to act on behalf of the Company and accomplish or

# Corporate Governance (continued)

authorize all acts and transactions of management and disposal which are within its corporate purpose and which are not specifically reserved to the general meeting.

The auditors' statements follow the International Standards on Auditing (ISA) prepared by the International Federation of Accountants. The statements and opinions therein regarding the responsibilities of the Board of Directors are those of the auditors only.

The responsibilities of the Board of Directors are determined by law. In this respect the Board is in charge of preparing the annual accounts and the fair representation thereof in accordance with EU directives as transposed into Luxembourg law as well as the consolidated accounts in accordance with International Financial Reporting Standards (IFRS), as set forth by EU Regulations.

The Board of Directors considers that it has fully complied with these obligations.

The Board of Directors may delegate to one or several directors the powers necessary to carry out its decisions and day-to-day management, and to one or several persons, directors or not, powers deemed to be appropriate for the general technical, administrative and commercial management of the Company, and constitute any committee and determine their functions and authority.
Any director who may, with respect to a transaction submitted to the approval of the Board of Directors, have an interest adverse to that of the Company, shall so notify the Board of Directors and cause such notification to be reflected in the minutes of that meeting. He shall not deliberate on any such transaction. Specially reported at the next succeeding general meeting, prior to any other agenda, shall be those transactions in which a director may have had an interest adverse to that of the Company.

## The main duties of the Audit Committee are the following:

Its mandate is principally to assist the Board of Directors in continually supervising the internal control and risk environment of Quilvest (including the role of external auditors), its compliance with regulatory and accounting requirements and the quality of financial reporting. The Audit Committee is responsible for alerting the Board to any irregularities it may detect in the Group's financial statements and internal control procedures.

In relation to its responsibility to ensure the relevance and consistency of the accounting methods used to prepare the financial statements and its role of overseeing the relations with the external auditors, the Audit Committee:

- Performs a quality review of the annual and interim consolidated financial statements and the annual accounts of the company submitted by the Executive Management, prior to their examination by the Board of Directors;
- Reviews and challenges the critical and significant accounting policies and disclosure of any unusual transactions;
- Reviews the findings and financial adjustments, and appraises the management letter of the external auditors;
- Conducts the process for the selection of the Group external auditors in charge of the audit of the consolidated financial statements, forms an opinion on the amount of fees charged for the performance of audits and submits the results of the selection process to the Board of Directors.

In order to ensure the external auditors' independence and objectivity, it also examines the advisory and other services directly provided by the auditors and their network.

In relation to its responsibility to optimize the internal control system within the Group, the Audit Committee gives its opinion on the organization of the internal audit function, reviews the group internal audit planning and receives a summary of internal audit reports on a regular basis.

## Audit Committee 2010 activity report

The Audit Committee met four times in 2010. The attendance rate was 100%. Group auditors were present except once. Its work was particularly concerned with the following points:

- Group internal audit;
- Group internal control system;
- IFRS consolidated financial statements;
- Group internal and external auditors' recommendations;
- Group external auditors' fees.

## The Remuneration Committee

The Remuneration Committee met once in 2010. The attendance rate was 100%. The Remuneration Committee implements the compensation policies which have been discussed and determined by the Board. In particular, it negotiates and finalizes the packages granted to executive management and the compensation schemes of each business unit. On these issues it reports regularly to the Board of Directors.

## Share Capital

As of December 31, 2010, the Company has an authorized share capital of USD 100,000,000, consisting of a single class represented by 14,794,520 shares without par value, such number including the 6,656,000 shares without par value of the subscribed share capital of USD 44,989,630. All of the issued shares are paid up in full. The shares are registered or bearer, at the option of the shareholder.

## Variation of Rights Amendments of the Company's Articles of Incorporation

All or any of the rights attached to the Shares may from time to time (whether or not the Company is being wound up) be amended by decision of the extraordinary general shareholders' meeting in the manner required for the amendment of the Company's articles of incorporation except that the nationality of the Company may be changed and the commitments of its shareholders may be increased only with the unanimous consent of the shareholders. Any provisions of the Company's articles of incorporation may be amended by resolution of the shareholders at an extraordinary general shareholders' meeting.

## Changes in Share Capital

The subscribed and the authorized capital of the Company may be increased or reduced by decision of the shareholders in general meeting whose resolutions shall be taken as for the amendment of the Articles.

# Corporate Governance (continued)

## Ownership threshold

The Board of Directors may restrict or prevent the ownership of shares in the Company by any person if it appears to the Company that such ownership results in a breach of law in Luxembourg or abroad, may make the Company subject to tax in a country other than the Grand Duchy of Luxembourg or may otherwise be detrimental to the Company. For the purpose of this Article, the term "person" includes any physical person, firm or corporate body.

In addition, no person may, without the prior approval of the Board of Directors, directly or indirectly, alone or in connection with his spouse or descendants in direct line, hold on record or as beneficial owner more than 15% of the shares of the Company.

For such purpose the Board of Directors may:

1. decline to issue any share and decline to register any transfer of a share, where it appears that such issue or transfer would or might result in record or beneficial ownership of such share by a person who, by infringement of the provisions set forth above, would hold more than 15% of the shares of the Company;
2. at any time require any person whose name is entered in, or any person seeking to register the transfer of shares on the register of shareholders to furnish the Company with any information which it may consider necessary for the purpose of determining whether or not record or beneficial ownership of more than 15% of the shares of the Company rests or will rest on such person;
3. decline to pay dividends or other distributions to and refuse the admission and the vote at general meetings of shareholders of any person to the extent that such person holds more than 15% of the shares of the Company.

## Major Shareholders

A number of individual shareholders are descendants of the Bemberg family, the Company's founders. However, there is no natural or legal person who, to the knowledge of the Company, directly or indirectly, severally or jointly, has exercised or is exercising control of the Company. There is no agreement, known to the Company, binding its shareholders. As at December 31, 2010, two companies declared, pursuant to the Luxembourg transparency law of January 11, 2008, to hold more than 5% of the voting rights of the Company. Arconas International Limited declared holding 15.86% of the voting rights and Lagel Limited declared holding 5.67%.

There are no different voting rights for the major shareholders.

## Insider Dealing

Any director and/or employee of the Group who wishes to deal in Quilvest securities must obtain prior written permission from the Group Controller acting as Group Compliance Officer.

As an exception to the rule, the first four months of the first semester and the first two months of the second semester of each year are defined as closed periods where no director or employee is allowed to carry out transactions in Quilvest securities.

## Notes

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