

26 MARCH 2010

**GRAPHITE ENTERPRISE TRUST PLC**  
**UNAUDITED FINAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**SUMMARY OF THE YEAR**

<b>Share price</b> .....	+63.1%
The discount of the share price to the net asset value per share narrowed from 58.4% to 34.3%	
<b>Net asset value per share</b> .....	+3.4%
Over two years, the net asset value per share has outperformed the FTSE All-Share Index	
<b>Outstanding commitments</b> .....	£243.2m
Outstanding commitments fell by 20.9% from £307.3 million in the year	
<b>Overcommitment</b> .....	37.7%
Outstanding commitments less cash and near cash fell from 50.6% of net assets to 37.7%	
<b>Cash</b> .....	£114.0m
At the year end cash balances represented 33.1% of net assets	

**FINANCIAL SUMMARY**

	31 Dec 2009	31 Dec 2008	Change
Net asset value per share	<b>464.1p</b>	449.0p	3.4%
Share price	<b>305.0p</b>	187.0p	63.1%
Dividend per share	<b>2.25p</b>	4.50p	-50.0%
FTSE All-Share Index	<b>2,761</b>	2,209	25.0%

## **CHAIRMAN'S STATEMENT**

After the turbulence of 2008, the year to December 2009 was one of consolidation for Graphite Enterprise Trust. Against a background of continued economic uncertainty but rising stock markets, the net asset value of Graphite Enterprise rose by 3.4% and the share price by 63.1%. By comparison the FTSE All-Share index rose by 25.0%.

The strong share price performance reflected a narrowing of the discount from 58.4% to 34.3% during the year. Although still relatively high, the closing discount remained lower than that of the private equity sector as a whole. Discounts in the sector also narrowed materially in 2009 suggesting that the market's concerns over valuations of underlying portfolio companies and high levels of gearing had receded but the absolute discounts remained high.

Over the two years to December 2009, which cover the period since the start of the downturn, the net asset value has outperformed the FTSE All-Share Index while the share price has underperformed. The net asset value has fallen by 10.7%, the share price by 35.7% and the Index by 16.0%. The share price underperformed the net asset value because the discount widened, closing at above the long term average having started at a long term low.

At December 2008, there was a general concern that many listed private equity funds might have difficulty in meeting their outstanding commitments. As we had taken early action to strengthen the Company's balance sheet, we started the year in a relatively secure financial position. In the event, our financial position improved further as the fall in commitments was considerably greater than the fall in the Company's cash balances during the year, with the result that our level of overcommitment fell from 50.6% to 37.7%.

Graphite Enterprise continues to have one of the strongest balance sheets in the sector and closed the year with shareholders' funds of £338.4 million of which more than 30% was in cash. Since the start of the economic downturn our primary focus has been on conserving cash and on managing the balance sheet. Over the next twelve months this focus is likely to change and we will look to deploy this cash at what should be an attractive point in the economic cycle.

## **ENVIRONMENT**

At the end of the year almost 90% of the Company's portfolio was invested in Europe with 49.0% in the UK and 20.0% combined in France and Germany. The performance of these three economies therefore has much the greatest impact on the Company's overall performance.

Although all three economies contracted sharply in 2009 with GDP in the UK, Germany and France falling by 4.7%, 5.1% and 2.0% respectively, the impact on the private equity sector was not as extreme as might have been expected. At the start of the year concerns remained that the weakness of the banking system would make an already severe recession even deeper and more prolonged and that highly geared private equity backed companies would be particularly vulnerable. In the event the performance of the banking sector in 2009 was better than feared and the private equity sector remained reasonably resilient. The relatively high prices that have been paid recently for new investments suggest that confidence is returning within the private equity industry.

During the course of 2009 markets became more optimistic about the prospects for economic recovery as reflected in the strong rally in equity prices. However, doubts remain over the strength and durability of the recovery with the UK seen as the most vulnerable of these three economies. Although the most recent figures show that the UK emerged from recession in the fourth quarter of 2009 the outlook remains uncertain with recovery likely to be held back by high levels of government and consumer debt. Current forecasts suggest that the UK economy will grow by 1.3% in 2010.

Despite concerns over future consumer spending, Germany's GDP is forecast to grow by 1.6% in 2010 driven by the strength of its manufacturing sector with exports benefiting from improving global demand. Although of the three countries France was the least affected by the downturn as it has a lower level of consumer debt, it is emerging slowly with growth in 2010 forecast at 1.5%

## **PERFORMANCE**

### **Overview**

The growth in the investment portfolio was considerably greater than that of the net asset value in 2009. As more than 40% of the Company's assets were held in cash at the beginning of the year, the rise in the value of the portfolio of 14.6% led to an increase in the net asset value per share of 8.6%. Adverse movements in exchange rates on cash held in foreign currencies, the costs of running the Company and the payment of the dividend reduced the overall increase to 3.4%.

### **The Portfolio**

The investment portfolio performed well during the year, rising in value by 20.7% in local currency. However the appreciation of sterling discussed earlier also had a negative impact on the value of the portfolio generating an offsetting currency loss. After adjusting for this, the portfolio generated a net increase of 14.6% in the year. The performance of the underlying companies in the portfolio was resilient despite a challenging economic environment. The profits of the largest investments grew materially in the year.

In last year's accounts we made a general provision against the valuation of the third party fund portfolio. This was because the managers' valuations of a number of the underlying portfolio companies appeared aggressive, levels of gearing across the portfolio were high and the economic outlook was extremely uncertain. We kept this provision in place for the first three quarters of 2009 but after considering the performance of the underlying companies we decided that it should be released in the December valuation. We also took into account the rise in stock market valuations, the fact that the banking market had not deteriorated further and the improvement in the economic outlook.

As a result of the release of the provision, the rise in the valuation of the underlying portfolio was 20.7% rather than 12.1%. A more detailed analysis of the performance of the investment portfolio is given in the Manager's Review.

### **Discount**

Discounts in the listed private equity sector reached extremely high levels at the end of 2008 and the beginning of 2009. They were driven by fears that listed vehicles might not be able to fund their outstanding commitments and concerns that private equity backed companies were overvalued and had high levels of borrowing. The risk was that listed vehicles might need to sell assets at a discount or raise new equity on dilutive terms and the equity value of private equity backed companies could be disproportionately affected by a prolonged economic downturn.

The discount of Graphite Enterprise's share price to its net asset value per share stood at 58.4% at 31 December 2008. It increased still further to 61.2% at 31 March 2009, the highest level in its 28 year history. Although extraordinarily high, these levels were in line with those for the sector as a whole and indeed some companies were at even higher discounts.

Sentiment appears to have changed since then as fears over liquidity started to recede, asset values in the sector began to stabilise and there were signs of a return to normality. In line with the wider market, share prices began to rise and discounts to narrow and this continued, albeit not uniformly, for the remainder of 2009.

The Company's discount at 31 December 2009 was 34.3%. This is a relatively high figure compared with the average discount over the preceding ten years of 18.7%. However as market estimates of the net asset value at 31 December were materially below the figure announced today the discount may be overstated.

At the end of the year, our peer group of eight listed private equity companies investing in third party funds was valued at an average discount of 38.7%. The Company was therefore trading at a premium to the sector.

### **Long term performance**

We have always measured long term performance against the benchmark of the FTSE All-Share Index, as we believe that this is the most relevant comparison for the great majority of shareholders. While there is no reason for the performance of Graphite Enterprise to move closely with the Index over shorter periods, we aim to outperform over the long term.

Over the ten years to December 2009 the net asset value has materially outperformed and the share price has more marginally outperformed a weak Index. Over this period, the net asset value has risen by 44.0%, the share price has fallen by 5.6% and the Index has fallen by 14.8%.

It is disappointing that the share price performance has not reflected the growth in the net asset value. This is because the discount has widened materially over the ten year period.

## **BALANCE SHEET AND COMMITMENTS**

At 31 December 2009 the Company had total assets of £344.6 million of which the investment portfolio accounted for 67.1% (£231.2 million) and cash and near cash accounted for the balance of £113.4 million.

In 2008 we took a number of defensive actions to strengthen the balance sheet. This was to ensure that the Company would not need to sell assets or raise additional finance. In the event, reflecting the low activity levels in the private equity market, both drawdowns and realisations remained at depressed levels throughout the year and the net amount invested was only £10.9 million.

Although only £20.8 million was drawn down during the year the level of outstanding commitments fell by £64.1 million as exchange rate movements reduced the value of commitments denominated in foreign currencies and £26.8 million of commitments were released. At the year end outstanding commitments totalled £243.2 million. After deducting the cash balance, the Company was £129.8 million overcommitted compared with £167.8 million at the start of the year. This reduced the percentage level of overcommitment from 50.6% of net assets to 37.7%.

The Company's relatively high level of cash puts it in a strong position to take advantage of any attractive investment opportunities which may arise in the later stages of the economic downturn. Even if the rate of drawdowns accelerates significantly and no cash proceeds are received from the portfolio, the current level of cash should be sufficient to meet all commitments for approximately two years. As we will almost certainly receive at least a modest level of realisations during this period we believe that the Company has the capacity to make new commitments and secondary purchases over the next 12 to 18 months without putting undue pressure on its balance sheet.

A more detailed discussion of commitments and future cash flows is given in the Manager's Review.

## **INCOME STATEMENT & DIVIDEND**

The total gain after tax attributable to shareholders was £14.3 million or 19.6p per share in the year to 31 December 2009. This comprised a capital gain of £14.4 million, or 19.7p per share, and a revenue loss of £0.1 million or 0.1p per share.

As we anticipated in the 2008 annual report, the revenue return, from which dividend payments are made, has fallen substantially from its level of 5.1p per share in the year to 31 December 2008. This decline was principally the result of interest on cash deposits being considerably lower and, to a lesser extent, of lower income being received from the portfolio.

The Company had accumulated revenue reserves totalling £11.6 million equivalent to 15.9p per share at 31 December 2009 and these reserves can be used to make dividend payments. In deciding on the level of dividend to recommend for 2009 the Board has looked at the likely level of future income. This is likely to be driven by the level of cash on the balance sheet, the level of interest rates and the amount of income received from the portfolio. None are easy to predict but income from the portfolio is particularly difficult as it is normally rolled up and paid when the relevant portfolio company is sold. In years when we have few realisations such as 2009 levels of income are likely to be low, while in years when many investments are realised the level of income could be quite high.

As we believe that income in the future is likely to be lower than the long term average but may be higher than in 2009, we have decided to make a transfer from reserves of £1.7 million to ensure that a dividend can be paid. The Board is proposing that the dividend should be reduced by half the previous year's level to 2.25p per share.

## **BOARD**

Shareholders will be aware that John Sclater retired as Chairman of the Company in May 2009 and I was delighted to take over at last year's Annual General Meeting. John was Chairman of the Company for 23 years during which time the net asset value per share increased 14 times. I would like to thank John for his enormous contribution over such a long period. His commercial and financial experience, his enthusiasm and his friendship will be greatly missed.

## **OUTLOOK**

In last year's report we highlighted the risk that private equity backed companies could be particularly vulnerable if the economic downturn became more pronounced and the crisis in the banking sector continued. A year later the economic outlook appears less uncertain and the banking sector considerably more stable. Although concerns remain, particularly over the UK economy, most analysts are predicting a slow recovery rather than a further decline.

A year ago, we predicted that 2009 would be difficult for the great majority of portfolio companies. In the event the performance of the portfolio during the year was better than we could reasonably have expected. This resilient performance combined with a rise in valuation multiples which reflected the rebound in European stock markets generated a material uplift in the valuation of the underlying portfolio. Looking forward we would expect earnings growth rather than further increases in valuation multiples to drive future performance.

In the first three months of the current financial year there have been signs that activity levels in the private equity sector are starting to recover. Although the number of transactions is too small to be able to draw any firm conclusions, early indications suggest that the prices paid for new investments have been relatively full even when only limited amounts of debt finance have been available. The fact that confidence levels are returning would suggest that, in the absence of a further economic shock, the rate of new investment will be materially higher in 2010 than it was in 2009.

It is too early to know whether pricing will remain at current levels or whether it has been driven by a combination of a shortage of attractive opportunities and a surplus of cash available for investment. If pricing remains at these levels we would expect to see an increase in the level of realisations in the second half of 2010 as, after two years of inactivity, private equity groups look to realise some of their better performing investments.

Much of our focus over the past 18 months has been on managing the balance sheet to ensure that the Company could meet future commitments without the need to raise additional finance. As a result we entered 2010 with 33% of net assets in cash. We would expect this cash balance to fall over the next twelve months as commitments are drawn down to fund new investment. However, as the level of realisations may also start to increase, we are starting to look at ways of increasing the level of investment at what should be an attractive point in the cycle.

Mark Fane

March 2010

## **MANAGER'S REVIEW**

Reflecting the strong rise in European stock markets during the year, the valuation of the investment portfolio increased substantially in 2009. In last year's review we described how the Company's high cash balances and the decline in sterling had done much to reduce the decline in net assets in 2008. This was reversed in 2009 when similarly high levels of cash and the rise in sterling held back performance with the result that the increase in net asset value was limited to 3.4%.

<b>2009 £m</b>	<b>Opening value</b>	<b>Invested</b>	<b>Proceeds</b>	<b>Net valuation increase</b>	<b>Closing value</b>
Investment portfolio	192.2	24.0	(13.1)	28.1	231.2

## **MARKET ENVIRONMENT**

The combination of the sharp economic downturn and of the crisis in the banking sector had a severe impact on activity levels in the private equity market in the second half of 2008. This slowdown continued into 2009 with both the number and value of European buy-outs reaching a twelve-year low.

A total of 253 buy-outs were completed in Europe in 2009 with a total value of €23 billion. This represented a volume decline of 57% and a value decline of 68% from the levels in 2008.

Activity levels in all sectors of the market declined sharply in 2009 with the value of investments over €1 billion falling by 49% to €7.1 billion and that of investments between €100 million and €1 billion falling by 72% to €1.0 billion. The volume declines were less marked but still substantial with the former falling by 45% and the latter by 52%.

There is evidence of a recovery in activity levels in the second half of the year. No investments of over €1 billion were completed in the first half while four were completed in the second half. Similarly two thirds of the investments of between €100 million and €1 billion were completed in the second half. It should be stressed that any recovery was from a very low level as activity levels fell very sharply in the second half of 2008 and fell even further in the first half of 2009.

The total amount of capital raised for European focused private equity funds fell sharply in 2009, in line with the general decline in activity across the entire private equity sector. This primarily reflected reduced investor appetite for new fundraisings at a time when many had high levels of commitments to the sector but were receiving low levels of cash distributions. It also reflected a reduced requirement for new funds, as most private equity groups had dramatically scaled back new investment. Although the amount raised was the lowest since 2004 and was over 50% below the level in 2008, it was still substantial at \$74 billion.

Debt financing for leveraged buy-outs has been severely constrained since the start of the economic downturn with banks reluctant to underwrite or commit substantial sums to individual transactions. When available, bank debt has been considerably more expensive than in the past and has represented a lower percentage of the total transaction value.

## **PORTFOLIO PERFORMANCE**

The value of the portfolio increased by £22.0 million before currency movements or by 12.1% during the year based on the valuations provided by the managers of the underlying funds. In the year end valuation we released the 10% provision against the third party fund portfolio. The effect of this release was to increase the valuation gain by £15.7 million to £37.7 million and the percentage gain before currency movements from 12.1% to 20.7%.

The provision was originally put in place in December 2008 because many of the underlying companies had been acquired with relatively high levels of debt and we were concerned that the value of the equity in those companies would be particularly sensitive to changes in profitability or in valuation multiples. At 30 June 2009 we felt it appropriate to leave the provision in place. Against the background of rising stock markets and growing confidence in the sector, we have concluded that the provision should be released in the closing valuation.

The increase in the value of the portfolio was partially offset by £9.6 million of adverse currency movements in investments denominated in foreign currencies. This reduced the overall increase to £28.1 million or 14.6% of the opening valuation.

<b>Summary of portfolio performance</b>	£m	%
Unadjusted movement in portfolio before currency	22.0	12.1
Release of provision	15.7	
Total movement in portfolio before currency	<u>37.7</u>	20.7
Currency	<u>(9.6)</u>	
Total movement in portfolio	28.1	14.6

## INVESTMENT ACTIVITY

### New investments by type and geography

2009 £m	UK	Continental Europe	Rest of world	Total
Mid-market buy-outs	5.5	7.5	-	13.0
Large buy-outs	0.1	5.5	3.6	9.2
Quoted	0.6	-	-	0.6
Small buy-outs	0.5	-	-	0.5
Mezzanine	-	0.4	-	0.4
Infrastructure	0.3	-	-	0.3
Totals	7.0	13.4	3.6	24.0

### Realisations by type and geography

2009 £m	UK	Continental Europe	Rest of World	Total
Mid-market buy-outs	0.8	10.4	0.2	11.4
Mezzanine	-	0.7	-	0.7
Quoted	0.6	-	-	0.6
Infrastructure	0.3	-	-	0.3
Small buy-outs	0.1	-	-	0.1
Large buy-outs	-	-	-	-
Totals	1.8	11.1	0.2	13.1

The volume decline in the private equity market as a whole in 2009 was reflected in the Company's own investment activity. New investments and realisations fell to £24.0 million and £13.1 million respectively, both of which represented the lowest levels experienced by the Company for many years. This was the second successive year in which investment activity fell. To put the 2009 figures into perspective, in 2007 new investments totalled £103.1 million and realisations £106.8 million.

### Investment in the portfolio

The Company invested a total of £24.0 million in 2009. This was the lowest absolute level since 1997 and was 69% below the level in 2008 which was itself lower than the long term average. Thirteen new investments were completed in the year compared with 56 in 2008 and 120 in 2007. Of these, five were large and eight were mid-market buy-outs.

Only 6.8% of outstanding commitments were drawn down during the year compared with 22.3% in 2008. The figure in 2009 was exceptionally low but even the 2008 figure was materially below the average for the previous eight years of 36.1%. We had anticipated that drawdowns would rise over the year, as we expected that managers would be able to acquire companies which had been adversely affected by the economic downturn at attractive prices. In the event, the flow of counter-cyclical opportunities appears to have remained relatively low.

### Realisations

For the second consecutive year the portfolio generated low levels of proceeds compared with historical levels. At £13.1 million, realisations in 2009 were at their lowest absolute level since 1992 and when added to the £24.5 million received in 2008 represented the lowest two year total since 1993-4. This sharp reduction reflected the reluctance of private equity groups to sell their better performing investments at depressed valuations or to sell underperforming investments at the bottom of the economic cycle.

Realisation proceeds in 2009 represented only 6.8% of the opening portfolio value. It is difficult to state precisely what realisations might be under more normal market conditions as they are inherently unpredictable. However, as an indication, in the ten years to the end of 2007 the average level of realisations was 39.2% of the opening portfolio value, or more than four times the average rate of the last two years.

## CLOSING PORTFOLIO

At 31 December 2009, Graphite Enterprise had holdings in 41 funds and in 19 direct investments. Third party private equity firms selected by the Manager were responsible for managing 36 of these funds and these 26 firms collectively managed 75.9% of the portfolio by value. Graphite Capital directly managed the remaining 24.1% of the portfolio. In total the Company had holdings in 255 underlying companies.

The composition of the portfolio did not change materially in the year and remains well diversified by type, sector, geography and vintage, while also being sufficiently concentrated for individual investments to impact future performance positively. The top ten underlying companies represent 25.8% of the total value of the portfolio while the top 30 account for 48.1%. The performance of these investments will therefore, to a great extent, determine the overall performance of the Company. Despite the hostile economic environment the EBITDA of these companies increased materially in 2009.

Small and mid-market buy-outs remain the largest category of investment and increased slightly from 40.9% to 44.0% of the portfolio. This reflects the Company's focus on mid-market funds, both within the third party fund programme and more significantly through the relatively large commitments made to funds managed by Graphite Capital which invest primarily in the UK mid-market. Large buy-outs remained unchanged at 35.8% of the portfolio.

### Portfolio - Investment type

	% of total investment portfolio
Mid-market and small buy-outs	44.0%
Large buy-outs	35.8%
Mezzanine	15.9%
Infrastructure	3.2%
Quoted	1.1%
Totals	100.0%

Mid-market and large buy-outs are likely to remain the dominant part of the portfolio in the future. If all commitments outstanding at 31 December 2009 were drawn down, small and mid-market buy-outs would increase to half of the portfolio whilst large buy-outs would stay at their current level.

By geography, the portfolio shifted slightly in 2009 with UK exposure increasing from 41.2% to 49.0% and investments in continental Europe falling from 46.7% to 40.3%. This primarily reflected the rise in the value of sterling against the euro in the year.

It is not easy to forecast how the drawdown of outstanding commitments will change the future balance of the portfolio, as a material proportion of these commitments are to pan-European funds which invest in the UK as well as in continental Europe. However, if all outstanding commitments were drawn down and the future geographic allocation of pan-European funds was in line with the past, the UK and continental European portfolios would be broadly similar in size, with each accounting for approximately half of the portfolio each.

**Portfolio - Geographic distribution**

	% of total investment portfolio
UK	49.0%
France	13.4%
North America	8.6%
Benelux	8.1%
Germany	6.6%
Other Europe	5.2%
Spain	4.4%
Scandinavia	2.7%
Rest of world	2.0%
Total	100.0%

The age profile of the investment portfolio is shown in the table below. The portfolio continues to mature with the proportion of investments over three years old increasing from 16.6% in 2008 to 42.2% in 2009.

**Portfolio - Year of investment**

	% of total investment portfolio
2009	4.0%
2008	18.6%
2007	35.2%
2006	20.7%
2005	3.1%
2004	6.6%
2003	1.6%
2002	0.7%
2001	3.0%
2000 and before	6.5%
Total	100.0%

The 255 underlying companies in the portfolio operate across a broad range of sectors, the most important of which is business services. The largest four sectors account for 68.2% of the portfolio.

## Portfolio - Sector analysis

	% of total investment portfolio
Business services	23.9%
Consumer goods and services	17.3%
Manufacturing and engineering	14.8%
Leisure	12.2%
Healthcare and pharmaceuticals	8.6%
Media	5.0%
Retailing	4.8%
Financial services	3.6%
Infrastructure	3.2%
Other	6.6%
Total	100.0%

The closing buy-out portfolio is valued on a weighted average multiple of 8.9 times 2009 EBITDA. The weighted average level of debt within these companies was equivalent to 4.4 times 2009 EBITDA and the average level of gearing was therefore 49%. At 31 December 2008 the buy-out portfolio was valued on a lower multiple of 7.9 times 2008 EBITDA. The rise in the multiple in 2009 reflects the release of the provision and takes account of the sharp rise in the stock market in the year.

## COMMITMENTS

### Movements in commitments

	<b>£m</b>
Opening at 1 January 2009	307.3
New commitments	3.0
Drawdowns	(20.8)
Commitments released	(26.8)
Currency movements	(19.5)
Closing at 31 December 2009	<u>243.2</u>

At the year end, undrawn commitments totalled £243.2 million and were £64.1 million or 20.9% lower than at the end of 2008. The fall was primarily because the Company was released from £26.8 million of commitments and because the rise in sterling reduced the value of euro denominated commitments by a further £19.5 million. The release of commitments had no impact on net asset value during the year. Drawdowns net of new commitments accounted for the remaining £17.8 million of the reduction.

Only one commitment was made during the year, reflecting both our cautious approach to liquidity management and the low level of new fund offerings in the market. The new commitment was of £3.0 million to Graphite Capital Partners VII Top Up Fund Plus, a new £27 million co-investment fund raised by the Manager. It will invest in selected larger transactions alongside Graphite Capital Partners VII, to which the Company committed in 2007.

Commitments to small and mid-market buy-out funds accounted for 55.5% of commitments at the year end, while those to large buy-out funds accounted for 37.4%.

Fund portfolio commitments	Original commitment*	Outstanding commitment	Average drawn down percentage	Percentage of commitments
	£m	£m		
Funds in investment period	346.4	225.7	34.8%	92.8%
Funds post-investment period	209.7	17.5	91.7%	7.2%
Total	<u>556.1</u>	<u>243.2</u>	56.3%	100.0%

\*Original commitments are at 31/12/09 exchange rates

As the table above shows, over 90% of commitments are to funds that are still within their investment periods. These funds have on average 2.7 years in which to complete their investment programmes, compared with 3.9 years at the end of 2008. Given the extremely low drawdown rate discussed earlier, we expect a number of the underlying fund managers to seek to extend their investment periods.

<b>Outstanding commitments - percentage drawn down</b>	<b>Percentage of commitments</b>
0-20%	34.2%
21-40%	28.8%
41-60%	24.1%
61-80%	5.7%
81-90%	6.7%
90%+	0.5%
	100.0%

<b>Outstanding commitments - remaining investment period</b>	<b>Percentage of commitments</b>
4-5 years	23.5%
3-4 years	20.4%
2-3 years	25.9%
1-2 years	20.1%
<1 year	2.9%
Investment period complete	7.2%
	100.0%

## **CASH AND LIQUIDITY**

At 31 December the Company had cash and near cash of £113.4 million and outstanding commitments of £243.2 million. The level of overcommitment, defined as the amount by which commitments exceed cash balances, was therefore £129.8 million. A standard measure of liquidity in the private equity industry is the overcommitment percentage which expresses overcommitment as a percentage of net asset value. At the year end Graphite Enterprise was 37.7% overcommitted, down from 50.6% at the end of 2008. In comparison with most other listed private equity funds of funds, many of which had net debt at the end of the year, the Company had materially higher levels of cash and a materially lower percentage level of overcommitment.

As discussed earlier, the Company's outstanding commitments are relatively long-dated and most are therefore highly unlikely to be fully drawn down within the next two years. Most funds typically draw down cash for new investment over a period of up to five years and normally retain approximately 20% of commitments at the end of this investment period to fund follow-on investments and expenses. We estimate that if funds were to make drawdowns at a constant rate such that they had drawn down 80% of commitments at the end of their investment periods, the Company would have sufficient cash reserves to meet all drawdown requirements for approximately two years even if no cash inflows were received from the portfolio.

We would expect to receive a material level of realisation proceeds during this period and to be able to negotiate some form of debt financing if required. The Company should therefore be in a position to make selective new commitments and secondary investments over the next 12 to 18 months.

## **CURRENCY**

The Company's foreign currency exposure has a number of effects. When the euro rises against sterling, the sterling value of euro denominated investments rises and the Company benefits as the net asset value also rises. However, offsetting this, the sterling cost of funding euro denominated commitments also increases. Both effects are reversed when the euro falls, as this reduces the net asset value but also reduces the sterling cost of funding euro denominated commitments.

At the end of 2008, 67.5% of the Company's net asset value was denominated in foreign currencies, with 59.9% in euros and 7.4% in US dollars. Over 78.2% of undrawn commitments were also in foreign currencies with 73.1% being denominated in euros and 4.0% in dollars. At the end of 2008, sterling was at near to an all time low against the euro and was also weak against the dollar.

In 2009 sterling rose by 8.8% against the euro and by 12.3% against the dollar. These movements reduced the net asset value by £18.7 million but also reduced undrawn commitments by £19.5 million. These falls partly reversed the gains in the previous year when the fall in sterling generated a net asset value gain of £74.7 million but also increased commitments by £64.9 million.

In the second half of 2008, substantial cash balances were transferred into euros to ensure that cash balances more closely matched the currency denomination of outstanding commitments. This partially hedged the risk that a further rise in the euro might increase the sterling value of euro denominated commitments to very high levels. As a result of this transfer, the Company had high euro cash balances at the end of 2008.

As discussed earlier, the level of outstanding commitments fell significantly during 2009 and we therefore transferred most of our euro cash balances back into sterling during the year. This transfer makes the net asset value less susceptible to future movements in exchange rates.

As a result of these changes, at the year end £158.7 million or 46.1% of the Company's net asset value was denominated in foreign currencies of which £140.9 million was in euros and £17.0 million in dollars. In comparison £177.3 million or 72.9% of undrawn commitments were in foreign currencies of which £164.2 million was in euros and £10.3 million in dollars.

## **PROSPECTS FOR 2010**

Since the year end one fund has been sold generating £1.0 million of cash and releasing the Company from £9.4 million of commitments with no impact on the net asset value. This reduced the Company's pro forma overcommitment percentage to 34.6%

In the early part of 2010 we have started to see signs of an increase in new investment activity. Nine new investments have been made in the first three months compared with 13 in the whole of 2009. The investments have been broadly spread across all of the fund portfolio with no particular geographic or size focus. Reflecting this increased level of investment, £9.7 million of commitments have been drawn down to date, equivalent to 46.4% of the full year total in 2009. Based on discussions with the managers of our underlying funds we would expect the level of activity to continue to increase as the year progresses.

The level of realisations has remained depressed in the early part of 2010 with only one sale completed. To date we have received £2.1 million of distributions from the fund portfolio, excluding the sale of the fund noted above. However, as pricing of new investments has been relatively high we would expect the managers of our funds to be reviewing realisation plans if market conditions remain favourable. At this stage we do not expect to see a material increase in realisation activity until the second half.

The investment portfolio proved to be resilient in 2009 with a number of the larger investments continuing to make good progress. At the end of the year the value of the portfolio increased materially as most managers increased the valuations of the underlying companies to reflect the rise in quoted markets and the provision against the third party portfolio was released. Looking forward we would expect the profitability of many of the underlying companies to increase as the economic environment becomes less difficult. As the portfolio is on average 49% geared any such increase should have a material impact on the net asset value.

## THE 30 LARGEST UNDERLYING INVESTMENTS

The tables below and on the following page present the 30 companies in which Graphite Enterprise had the largest investments by value at 31 December 2009. These investments may be held directly, through funds, or in some cases both. Values are gross and are shown as a percentage of these gross figures.

<b>Entity</b>	<b>Year of investment</b>	<b>Country</b>	<b>Value as a % of investment portfolio</b>
1 <b>Micheldever Tyre Services</b> Distributor and retailer of tyres	2006	UK	5.3%
2 <b>Wagamama</b> Operator of Japanese noodle restaurants	1996	UK	4.3%
3 <b>Park Holidays UK</b> Operator of caravan parks	2006	UK	2.6%
4 <b>Kurt Geiger</b> Retailer and distributor of luxury footwear	2008	UK	2.5%
5 <b>Standard Brands</b> Manufacturer of domestic fire products	2001	UK	2.1%
6 <b>NES Group</b> Provider of recruitment services	2006	UK	2.1%
7 <b>Ceridian</b> Provider of human resources services and payment processing services	2007	USA	1.9%
8 <b>Norit</b> Supplier of water purification technologies	2007	Netherlands	1.8%
9 <b>Weetabix</b> Manufacturer of breakfast cereals	2004	UK	1.8%
10 <b>Alexander Mann Solutions</b> Provider of recruitment process outsourcing	2007	UK	1.4%
11 <b>Data Explorers Group</b> Provider of information to the global securities lending industry	2007	UK	1.3%
12 <b>Evonik Industries</b> Diversified industrial group	2008	Germany	1.3%
13 <b>Hellerman Tyton</b> Manufacturer of high performance cable management products	2006	UK	1.3%
14 <b>Dominion Gases</b> Supplier of specialist gases to the oil and gas industries	2007	UK	1.2%
15 <b>Ziggo</b> Operator of cable TV networks	2006	Netherlands	1.2%
<b>Total of the 15 largest underlying investments</b>			<b>32.1%</b>

<b>Entity</b>	<b>Year of investment</b>	<b>Country</b>	<b>Value as a % of investment portfolio</b>
16 <b>Segur Iberica</b> Provider of security services and products	2004	Spain	1.2%
17 <b>Algeco Scotsman</b> Supplier and operator of modular buildings	2007	UK	1.2%
18 <b>TMF</b> Provider of management and accounting outsourcing services	2008	Netherlands	1.2%
19 <b>Balta</b> Manufacturer of carpets and floor coverings	2004	Belgium	1.1%
20 <b>Intermediate Capital*</b> Provider of mezzanine finance	1989	UK	1.1%
21 <b>Phadia</b> Manufacturer of medical testing equipment	2007	Sweden	1.1%
22 <b>Avanza Group</b> Operator of buses	2007	Spain	1.1%
23 <b>Stork</b> Diversified engineering group	2008	Netherlands	1.1%
24 <b>OPD Group**</b> Provider of recruitment services	2009	UK	1.1%
25 <b>Clyde Bergemann</b> Supplier of components for the power generation industry	2005	Germany	1.0%
26 <b>CEVA</b> Manufacturer and distributor of animal health products	2007	France	1.0%
27 <b>Alma Consulting</b> Provider of cost reduction and tax recovery services	2007	France	1.0%
28 <b>Avio</b> Manufacturer of aerospace engine components	2007	Italy	1.0%
29 <b>InnBrighton</b> Operator of nightclubs, bars and pubs	2007	UK	0.9%
30 <b>West Corporation</b> Provider of outsourced communication services	2006	USA	0.9%
<b>Total of the 30 largest underlying investments</b>			<b>48.1%</b>

\* Quoted

\*\* The investment in this quoted company is held indirectly through an unquoted company

**PERFORMANCE OF LARGEST UNDERLYING INVESTMENTS IN 2009**

	<b>Enterprise value/ EBITDA</b>	<b>Net debt/ EBITDA</b>	<b>Leverage</b>	<b>2009 EBITDA growth</b>	<b>Proportion of portfolio</b>
Top 10 Holdings	8.9x	4.7x	52.8%	20.9%	25.8%
Top 20 Holdings	9.0x	4.4x	48.9%	14.8%	37.8%
Top 30 Holdings	9.0x	4.5x	50.0%	13.0%	48.1%

**PERFORMANCE OF THE FUND PORTFOLIO IN 2009**

<b>Percentage change in value</b>	<b>Number of funds</b>	<b>Value at 31 December 2009 £m</b>	<b>Percentage of total fund portfolio</b>
Decrease of more than 20%	6	9.8	5.3%
Decrease of 10% - 20%	4	19.0	10.3%
Decrease of 0% - 10%	6	17.9	9.7%
Increase of 0 - 10%	5	59.7	32.5%
Increase of 10% - 20%	2	16.3	8.9%
Increase of more than 20%	13	61.2	33.3%
Total	36	183.9	100.0%

(Note: this analysis excludes five funds valued at less than £0.5 million at 31 December 2009.)

## THE 15 LARGEST FUND INVESTMENTS

The largest funds by value at 31 December 2009 are set out below.

<b>Fund</b>	<b>Outstanding commitment £m</b>	<b>Year of investment</b>	<b>Country/ Region</b>	<b>Value £m</b>
1 <b>Graphite Capital Partners VI</b> Mid-market buy-outs	6.1	2003	UK	22.7
2 <b>ICG European Fund 2006</b> Mezzanine loans to buy-outs	13.6	2007	Europe	14.7
3 <b>Fourth Cinven Fund</b> Large buy-outs	10.3	2006	Europe	14.3
4 <b>Doughty Hanson &amp; Co V</b> Mid-market and large buy-outs	11.8	2006	Europe	12.1
5 <b>Doughty Hanson &amp; Co IV</b> Mid-market and large buy-outs	0.1	2005	Europe	11.2
6 <b>Apax Europe VII</b> Large buy-outs	9.9	2007	Global	10.5
7 <b>Thomas H Lee Equity Fund VI</b> Large buy-outs	10.3	2007	USA	10.1
8 <b>Candover 2005 Fund</b> Large buy-outs	4.7	2005	Europe	8.7
9 <b>Graphite Capital Partners VII</b> Mid-market buy-outs	30.6	2007	UK	7.6
10 <b>Deutsche Beteiligungs AG Fund IV</b> Mid-market buy-outs	-	2002	Germany	6.4
11 <b>Euromezzanine 5</b> Mezzanine loans to mid-market buy-outs	2.2	2006	France	5.5
12 <b>CVC European Equity Partners Tandem Fund</b> Large buy-outs	3.5	2006	Global	5.2
13 <b>Euromezzanine 4</b> Mezzanine loans to mid-market buy-outs	0.5	2002	France	4.9
14 <b>TDR Capital Fund II</b> Mid-market and large buy-outs	12.0	2006	Europe	4.8
15 <b>CVC European Equity Partners Fund V</b> Large buy-outs	19.4	2008	Global	4.8
<b>Total of the 15 largest fund investments</b>	<b>135.0</b>			<b>143.5</b>
<b>Percentage of total investment portfolio</b>				<b>62.0%</b>

## CONSOLIDATED INCOME STATEMENT

	Year to 31 December 2009			Year to 31 December 2008		
	Revenue return £'000s	Capital return £'000s	Total £'000s	Revenue return £'000s	Capital return £'000s	Total £'000s
<b>Investment returns</b>						
Gains on investments held at fair value	892	28,166	29,058	1,326	(63,443)	(62,117)
Income from cash and cash equivalents	1,020	-	1,020	5,001	-	5,001
Other income	117	-	117	298	-	298
Foreign exchange gains and losses	-	(9,143)	(9,143)	-	12,516	12,516
	2,029	19,023	21,052	6,625	(50,927)	(44,302)
<b>Expenses</b>						
Investment management charges	(887)	(2,662)	(3,549)	(1,110)	(3,330)	(4,440)
VAT reclaim	-	-	-	647	1,942	2,589
Other expenses	(1,170)	(68)	(1,238)	(1,090)	(81)	(1,171)
	(2,057)	(2,730)	(4,787)	(1,553)	(1,469)	(3,022)
(Loss)/profit before taxation	(28)	16,293	16,265	5,072	(52,396)	(47,324)
Taxation	(54)	-	(54)	(1,337)	396	(941)
(Loss)/profit for the period	(82)	16,293	16,211	3,735	(52,000)	(48,265)
Attributable to:						
Equity shareholders	(82)	14,382	14,300	3,735	(50,527)	(46,792)
Non-controlling interest	-	1,911	1,911	-	(1,473)	(1,473)
Basic and diluted earnings per share			19.61p			(64.09p)

The columns headed 'Total' represent the income statement for the relevant years and the columns headed 'Revenue return' and 'Capital return' are supplementary information. There is no other comprehensive income.

## CONSOLIDATED BALANCE SHEET

		At 31 December 2009	At 31 December 2008
	Notes	£'000s	£'000s
<b>Non-current assets</b>			
Investments held at fair value			
- Unquoted investments		228,464	188,137
- Quoted investments		2,757	4,041
		<u>231,221</u>	<u>192,178</u>
<b>Current assets</b>			
Trade and other receivables		690	2,750
Cash and cash equivalents		113,970	138,963
		<u>114,660</u>	<u>141,713</u>
<b>Current liabilities</b>			
Trade and other payables		1,284	2,152
		<u>1,284</u>	<u>2,152</u>
Net current assets		<u>113,376</u>	<u>139,561</u>
<b>Total assets less current liabilities</b>		<u>344,597</u>	<u>331,739</u>
<b>Capital and reserves</b>			
Called up share capital	6	7,292	7,292
Capital redemption reserve	6	2,112	2,112
Share premium	6	12,936	12,936
Capital reserve	6	304,448	290,066
Revenue reserve	6	11,576	14,939
		<u>338,364</u>	<u>327,345</u>
<b>Equity attributable to equity shareholders</b>	6	<u>338,364</u>	<u>327,345</u>
Non-controlling interest	6	6,233	4,394
<b>Net assets</b>		<u>344,597</u>	<u>331,739</u>
Net asset value per share (basic and diluted)		464.1p	449.0p

## CONSOLIDATED CASH FLOW STATEMENT

	Year to 31 December 2009	Year to 31 December 2008
	£'000s	£'000s
<b>Operating activities</b>		
Sale of portfolio investments	13,074	24,454
Sale of portfolio of fund interests	-	54,949
Purchase of portfolio investments	(23,950)	(77,869)
Sale of FTSE 100 Call Option	-	7,693
Income received from investments	842	1,791
Other income received	1,137	5,299
Investment management charges paid	(4,398)	(3,204)
VAT reclaimed on investment management charges	2,271	-
Other expenses paid	(756)	(1,412)
Taxation paid	(789)	(1,731)
Net cash (outflow)/inflow from operating activities	(12,569)	9,970
<b>Financing activities</b>		
Investments by non-controlling interests	-	580
Distributions to non-controlling interests	-	(1,899)
Purchase of ordinary shares	-	(11,070)
Equity dividends paid	(3,281)	(5,833)
Net cash outflow from financing activities	(3,281)	(18,222)
<b>Net decrease in cash and cash equivalents</b>	<b>(15,850)</b>	<b>(8,252)</b>
Cash and cash equivalents at beginning of year	138,963	134,699
Net decrease in cash and cash equivalents	(15,850)	(8,252)
Effect of changes in foreign exchange rates	(9,143)	12,516
Cash and cash equivalents at end of year	113,970	138,963

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Year to 31 December 2009	Year to 31 December 2008
	£'000s	£'000s
Total equity at the beginning of the year	331,739	398,277
Profit/(loss) attributable to equity shareholders	14,300	(46,792)
Profit/(loss) attributable to non-controlling interests	<u>1,911</u>	<u>(1,473)</u>
Total profit/(loss) for the period and total recognised income and expenses	16,211	(48,265)
Dividends to equity shareholders	(3,281)	(5,833)
Purchase of ordinary shares	-	(11,070)
Net distribution to non-controlling interests*	<u>(72)</u>	<u>(1,370)</u>
Total equity at end the of the year	<u>344,597</u>	<u>331,739</u>

\*No cash was distributed to non-controlling interests during 2009, however £72,000 was reclassified as a creditor at the end of the year.

## **NOTES**

### **1 GENERAL INFORMATION**

Graphite Enterprise Trust PLC (the “Company”) and its subsidiaries (together “Graphite Enterprise” or the “Group”) are registered in England and Wales and domiciled in England. The registered office is at Berkeley Square House, Berkeley Square, London, W1J 6BQ. The Company’s objective is to provide shareholders with long term capital growth through investment in unquoted companies, mostly through specialist funds but also directly.

### **2 UNAUDITED ANNUAL FINANCIAL REPORT**

The condensed consolidated financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and has not been audited.

Statutory accounts for the year ended 31 December 2008 were approved by the Board of directors on 8 April 2009 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statements under section 498 of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2009 will be delivered to the Registrar following the Company’s Annual General Meeting which will be held at the Grosvenor House Marriott Hotel, Park Lane, London, W1K 7TN, on 19 May 2010 at 11.30 a.m. We expect that an unqualified audit opinion will be issued in respect of those accounts.

### **3 BASIS OF PREPARATION**

This preliminary results announcement was approved by the Board on 25 March 2010. The condensed consolidated financial information has been prepared in accordance with applicable accounting standards and with Listing Rule 9.7A ‘Preliminary statement of annual results’. The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described therein.

### **4 DIVIDENDS**

	Year to 31 December 2009 £’000s	Year to 31 December 2008 £’000s
Dividends paid in the period		
Final paid: 4.5p (2008: 8.0p) per share	3,281	5,833

The Board has proposed a final dividend of 2.25p per share in respect of the year ended 31 December 2009 which, if approved by shareholders, will be paid on 26 May 2010, to shareholders on the register of members at the close of business on 7 May 2010.

### **5 EARNINGS PER SHARE**

	Year to 31 December 2009	Year to 31 December 2008
Revenue (loss)/ return per ordinary share	(0.11p)	5.12p
Capital return/(loss) per ordinary share	19.72p	(69.21p)
Earnings per ordinary share (basic and diluted)	19.61p	(64.09p)
Weighted average number of shares	72,913,300	73,012,852

The earnings per share figures are based on the weighted average numbers of shares set out above.

## 6 CHANGES IN EQUITY

Year ended 31 December 2009	Share capital £'000s	Capital redemption reserve £'000s	Share premium £'000s	Capital reserve £'000s	Revenue reserve £'000s	Total shareholders' equity £'000s	Non- controlling interest £'000s	Total equity £'000s
Opening balance at 1 January 2009	7,292	2,112	12,936	290,066	14,939	327,345	4,394	331,739
Profit/(loss) for the period attributable to recognised income and expense	-	-	-	14,382	(82)	14,300	1,911	16,211
Dividends paid or approved	-	-	-	-	(3,281)	(3,281)	-	(3,281)
Purchase of own shares	-	-	-	-	-	-	-	-
Net distribution to non-controlling interests	-	-	-	-	-	-	(72)	(72)
Closing balance	7,292	2,112	12,936	304,448	11,576	338,364	6,233	344,597

Year ended 31 December 2008	Share capital £'000s	Capital redemption reserve £'000s	Share premium £'000s	Capital reserve £'000s	Revenue reserve £'000s	Total shareholders' equity £'000s	Non- controlling interest £'000s	Total equity £'000s
Opening balance at 1 January 2008	7,529	1,875	12,936	351,663	17,037	391,040	7,237	398,277
(Loss)/profit for the period attributable to recognised income and expense	-	-	-	(50,527)	3,735	(46,792)	(1,473)	(48,265)
Dividends paid or approved	-	-	-	-	(5,833)	(5,833)	-	(5,833)
Purchase of own shares	(237)	237	-	(11,070)	-	(11,070)	-	(11,070)
Net distribution to non-controlling interests	-	-	-	-	-	-	(1,370)	(1,370)
Closing balance	7,292	2,112	12,936	290,066	14,939	327,345	4,394	331,739

## 7 RELATED PARTY TRANSACTIONS

### Investment management charges

The investment management charges and irrecoverable VAT thereon set out in the table below were paid to the Manager, Graphite Capital Management LLP, in the period. The Manager is a related party of the Company.

	Year to 31 December 2009 £'000s	Year to 31 December 2008 £'000s
Investment management fee	3,489	4,440
Irrecoverable VAT/ (VAT reclaim)	60	(2,589)
	<u>3,549</u>	<u>1,851</u>

The allocation of the total investment management charges was unchanged in 2009 with 75% of the total allocated to capital and 25% allocated to income.

The Company has borne a management charge of £438,000 (2008: £764,000) in respect of Graphite Capital Partners VI and £795,000 (2008: £784,000) in respect of Graphite Capital Partners VII and Graphite Capital Partners Top Up Fund. These charges are at the same level as those paid by third party investors. The Company does not pay any additional fees to the Manager on these investments. The total investment management charges payable by the Group to the Manager (excluding VAT), including the amounts set out in the table above, were therefore £4,782,000 (2008: £5,988,000).

Graphite Capital Management LLP was a related party of Graphite Enterprise Trust PLC during the year. The amounts payable during the year are set out above. There was an amount outstanding of £151,000 (excluding VAT) as at 31 December 2009 (2008: £908,000).

### Other related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Significant transactions between the parent company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	Year to 31 December 2009 £'000s	Year to 31 December 2008 £'000s
Graphite Enterprise Trust LP	(Decrease)/Increase in loan balance	(11,385)	5,579
	Income allocated	335	335
Graphite Enterprise Trust (2) LP	Increase in loan balance	226	3,850
	Income allocated	10	10

Subsidiary	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
	2009 £'000s	2008 £'000s	2009 £'000s	2008 £'000s
Graphite Enterprise Trust LP	2,660	14,045	-	-
Graphite Enterprise Trust (2) LP	4,075	3,850	-	-

## **8 VAT ON MANAGEMENT FEES**

Graphite Enterprise Trust PLC may be entitled to repayments of VAT previously paid to Graphite Capital Management LLP. HM Revenue & Customs ("HMRC") confirmed in October 2007 that fund management services to investment trusts are exempt from VAT. The Manager charged VAT on its invoices to the Company for management fees up to and including the third quarter of 2007.

The Manager has received repayment for the period from 2002-2007 and at the period end had lodged claims with HMRC relating to the period 1990-1996. The Company and the Manager have agreed that the net amount reclaimed by the Manager as a result of these two changes (that is, the overpaid output VAT less the resulting reduction in input VAT recovered) will be passed to the Company.

For the year ended 31 December 2008 the Company received £258,000 and recognised a receivable of £2,331,000 and accrued interest thereon of £277,000 in respect of the claim relating to the period from 2002 onwards. The VAT was allocated to income and capital in the ratio 25:75 and the interest was allocated to income. A further £2,271,000 was received during the year ended 31 December 2009 bringing the total repayment for the claim for the period from 2002 onwards to £2,529,000. The over accrual of £60,000 at 31 December 2008 was charged back to income and capital in the same proportion as originally allocated.

Until all remaining uncertainties surrounding the reclaim process have been resolved, it is not practicable to quantify the amount of VAT relating to 1990-1996 with sufficient certainty and accordingly no asset has been recognised in these accounts. The total amount recovered is likely to be less than 0.3% of the Company's net asset value at 31 December 2009. Any recovery will be credited to the income reserve and realised capital reserve in the same proportion as originally charged.

## **9 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company is an investment company as defined by section 833 of the Companies Act 2006 and conducts its affairs so as to qualify as an investment trust under the provisions of section 842 of the Income and Corporation Taxes Act 1988 ("Section 842"). The Group's objective is to provide shareholders with long term capital growth through investment in unquoted companies, mostly through specialist funds but also directly.

Investments in funds have anticipated lives of approximately ten years. Direct investments are made with an anticipated holding period of between three and five years. Investment agreements will, however, usually provide that any loans advanced to investee companies are for a longer period than this. The agreements will usually provide for repayments to be made by instalments with provision for full repayment on sale or flotation.

### **Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (comprising currency risk, interest rate risk and price risk), investment risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Manager has overall responsibility for managing the risks and the framework for monitoring and coordinating these risks. This is monitored by the Board. The Group's financial risk management objectives and processes used to manage these risks have not changed from the previous period and the policies are set out below:

#### **Market risk**

##### **(i) Currency**

The Group's investments are principally in the UK and continental Europe and are primarily denominated in sterling and in euros. There are also smaller amounts denominated in US dollars and in other European currencies. The Group is exposed to currency risk in that movements in the value of sterling against these foreign currencies will have an impact on net asset value and on the cash required to fund undrawn commitments. The Board regularly reviews the level of foreign currency denominated assets and outstanding commitments in the context of current market conditions and may decide to buy or sell currency or put into place currency hedging arrangements.

##### **(ii) Interest rate risk**

The fair value of the Group's investments, money market funds and cash balances are not directly affected by changes in interest rates. The Group has no borrowings and its liabilities are therefore not affected by changes in

interest rates. However, changes in interest rates do affect interest income from money market funds and cash balances.

#### (iii) Price Risk

The risk that the value of a financial instrument will change as a result of changes to market prices is one that is fundamental to the Group's objective, which is to provide long term capital growth through investment in unquoted companies. The investment portfolio is continually monitored to ensure an appropriate balance of risk and reward in order to achieve the Group's objective. No hedging of this risk is undertaken.

The Group is exposed to the risk of changes in value of its fund investments, direct unquoted investments and quoted investments. For quoted investments and fund investments, the market risk variable is deemed to be the price itself. For unquoted direct investments, the market variable is deemed to be the price/earnings ratio.

### **Credit and investment risk**

#### (i) Investment risk

Investment risk is the risk that the financial performance of the companies in which Graphite Enterprise invests either improves or deteriorates, thereby affecting the value of that investment. Investments in unquoted companies whether held indirectly or directly are by their nature subject to potential investment losses. The investment portfolio is highly diversified and the Group complies with the Section 842 requirement for investment trusts not to invest more than 15% of their portfolio in the securities of any one company at the time of initial or subsequent purchase.

#### (ii) Credit risk

The Group's exposure to credit risk arises principally from its investment in money market funds and its cash deposits. This risk is managed through diversification across a number of separate funds which have strong credit ratings. The Group's policy is to limit exposure to any one fund to 15% of gross assets. This is regularly monitored by the Manager as a part of its cash management processes.

Each of the money market funds in which the Company invests has a credit rating of AAAm from Standard & Poor's. As at 31 December 2009 the total invested in money market funds was £104,400,000 (2008: £111,800,000). Cash is held on deposit principally with two UK banks and totalled £9,600,000 (2008: £27,200,000). Together, these represent the maximum exposure to credit risk at the balance sheet date. No collateral is held by the Group in respect of these amounts. None of the Group's institutional liquidity funds or cash deposits were past due or impaired at 31 December 2009 (2008: nil). The Company does not expect any losses from non-performance by these counterparties.

### **Liquidity risk**

The Group has significant investments in unquoted companies which are inherently illiquid. The Group also has substantial undrawn commitments to funds, the great majority of which are likely to be called over the next five years. The Group aims to manage its affairs to ensure sufficient cash will be available to meet contractual commitments when they are called and also seeks to have cash generally available to meet other short term financial needs. All cash and cash equivalents are available on demand. The Group's liquidity management policy involves projecting cashflows and considering the level of liquid assets necessary to meet these.

The Group has the power to enter into borrowing arrangements, both short and long term. The Group currently has no borrowing facilities in place.

### **Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders (whilst remaining within the restrictions imposed by its investment trust status), return capital to shareholders or issue new shares. The Group currently has no debt.

For further information, please contact:

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Graphite Capital