LMS Capital plc

Annual Report & Accounts 2013

LMS
CAPITAL

LMS Capital is an investment company which, following a general meeting on 30 November 2011, is undertaking a realisation strategy with the aim of achieving a balance between an efficient return of cash to shareholders and optimising the value of the Company's investments. Its investment portfolio consists of small to medium sized companies across a range of sectors.

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Highlights for the year

- The Net Asset Value at 31 December 2013 was £165.3 million, 88p per share (31 December 2012: £192.1 million, 85p per share).
- In July £35 million was returned to shareholders by way of a tender offer; this brought to £75 million the total returned to shareholders since the commencement of the realisation strategy.
- The proceeds received from the investment portfolio during the year were £44.4 million (2012: £43.2 million).
- Gains on the investment portfolio were £16.5 million (2012: losses of £4.1 million) before charges for incentive plans.
- Overheads were £3.8 million, reduced from £5.3 million in 2012.
- The profit for the year was £9.0 million (2012: loss of £12.2 million).
- Outstanding fund commitments reduced from £10.4 million to £8.1 million over the year.

The Company's ten largest investments by valuation at 31 December 2013 were as follows:

Name	Geography	Type	Sector	Date of initial investment	Book value £'000
Updata Infrastructure UK	UK	Unquoted	Technology	2009	21,500
Weatherford International	US	Quoted	Energy	1984	19,147
Brockton Capital	UK	Fund	Property	2006	15,168
HealthTech Holdings	US	Unquoted	Technology	2007	12,602
Nationwide Energy Partners	US	Unquoted	Energy	2010	9,835
Yes To, Inc*	US	Unquoted	Consumer	2008	9,398
BV Investment Partners	US	Funds	Buyouts	1996	6,036
Entuity	UK	Unquoted	Technology	2000	5,500
Penguin Computing*	US	Unquoted	Technology	2004	5,354
ICU Eyewear*	US	Unquoted	Consumer	2010	4,703

*San Francisco Equity Partners manages these investments.

The above represent 69% of the investment portfolio.

Chairman's statement

In 2013 your Board has continued to progress the realisation strategy approved by shareholders at the general meeting on 30 November 2011.

Following a change in the accounting rules for investment entities, which was adopted by the European Union in November 2013, the Group's financial statements no longer consolidate investments which are majority owned; these are included at fair value. Your Board welcomes this change (the impact of which is set out in Note 2 to the financial statements) and believes the new basis provides greater clarity on the results and financial position of its operations.

Realisation proceeds to date

This year, realisations from the portfolio were £44.4 million including £3.3 million of realised gains. In July 2013, £35.0 million was returned to shareholders by way of a tender offer.

At 1 January 2012, the commencement of the realisation strategy, the Net Asset Value of the Company was £245.0 million. Since that date, a total of £75.0 million has been returned to shareholders by way of tender offers; the Net Asset Value of the Company at 31 December 2013 was £165.3 million.

The capital returned equates to around 31% of the Net Asset Value at the end of 2011 and approximately 50% of the Company's market capitalisation at the time of the November 2011 general meeting.

At the year end the Company had cash of £17.8 million; the Board will consider a further return of capital in the light of realisations in the coming year. The Board is not recommending payment of a dividend for the year ended 31 December 2013 (2012: £nil).

Portfolio performance

Investments in the portfolio generally performed well with net gains for the year of £16.5 million. Favourable movements in prices of our quoted investments of £7.6 million were the largest factor in this; our unquoted and fund interests contributed £4.0 million and £4.9 million respectively. Net Asset Value per share at the end of 2013 was 88p, an increase of 3.5% from 85p a year ago.

Future realisations

The Company's ability to exert control or influence over the realisation process for individual assets depends on its rights as an investor in each case. For some direct investments it has control rights; for funds and other minority investments, the Company may have a degree of influence, but no control. In all cases the Company monitors the performance of its investments both through the receipt of regular information and through its relationships with the fund manager, and in the case of direct investments with the investee management, and by actively exercising its investor rights.

Where underlying financial performance is satisfactory, individual asset disposals are currently favoured over discounted transactions in the secondary markets. However, all options are kept under review.

Managing the portfolio

As the asset base of the business reduces, continued steps are being taken to reduce overheads and further changes in our management structure were implemented in the first half of 2013.

Given the reducing size of the Company, Mark Sebba and Richard Christou decided not to stand for re-election at the 2013 Annual General Meeting. I took over as Chairman at the conclusion of that meeting.

As a result of these and earlier changes, overhead costs have been reduced by approximately 50% compared to two years ago.

Conclusion and outlook

The change in strategy has placed special demands on a smaller management team and your Board would like to extend its appreciation to all the Company's employees for their contribution in 2013. I would also like to record the Company's appreciation to Richard Christou and Mark Sebba for their contribution to the Board.

Your Board believes that the investment portfolio will continue to release cash to shareholders in the medium term. The economic background has improved in recent months and on the basis that this trend continues, and market conditions remain favourable for asset divestments, your Board expects to progress the orderly wind-down of the business in the coming year and will focus on optimising value and cash flow for the benefit of shareholders.

Martin Knight
Chairman
4 March 2014

Strategic report

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. At the general meeting on 30 November 2011 shareholders approved proposals to modify the Company's objectives and its investment policy. The revised investment policy is to conduct an orderly realisation of the assets of the Company, to be effected in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments.

This report is in three parts:

1. A summary of the Company's objectives and strategy, including a description of its business model;
2. A review of the Company's performance in 2013 against the background of these strategic objectives; and
3. A statement of the principal risks and uncertainties faced by the Company in its operations and strategy.

1 Objectives and strategy

The focus of the Company's Directors is to optimise realisations from the investment portfolio and return the proceeds to shareholders on a timely basis. The investment portfolio comprises publicly quoted and private company investments in the UK and the US held directly and through funds. To date returns to shareholders have taken the form of tender offers and the Directors expect the use of tender offers to continue as the realisation strategy progresses.

No investments will be made in new opportunities. Follow-on investments will be made in existing assets to honour commitments made at the time of the initial investment and/or to which the Company is legally obligated, or where the investment is made to protect or enhance the value of an existing asset or to facilitate its orderly realisation.

The Company's investment portfolio is managed by appropriately qualified and experienced investment professionals. Since the change in strategy at the end of 2011, the Company has sought to reduce its overall costs and this process has included headcount reductions. As the asset base decreases the Board will continue to seek to reduce the Company's operating costs.

Overall management of the business is the responsibility of the two Executive Directors. Mr Friedlos has responsibility for overseeing the orderly realisation of the assets of the Company and financial matters are the responsibility of Mr Sweet; both act within delegated authority limits and in accordance with clearly defined systems of control.

The Board regularly reviews reports prepared by the Executive Directors on the realisation prospects for each portfolio holding in the context of the Company's overall objectives, including the factors affecting the likely amount and timing of the realisations. These factors include:

- The performance of each underlying investment which is monitored regularly with commentary on trends and risks at each investee company.
- The level of confidence in the economy in which both the investee company and a potential acquirer operate. This includes prospects for the investee company in its chosen markets as well as the likely availability of finance generally for investment, including the degree of liquidity in capital markets.
- The likely value of any realisation based on comparable trading multiples for quoted companies in the same sector as well as the price of other purchase transactions.
- Recent prices within secondary markets.

The Directors' current expectation is that the realisation of the portfolio is likely to be substantially completed over the next three years, in line with previously disclosed estimates. Shareholders should note that whilst these are the best estimates of the Board as at the date of this report, they are subject to a number of uncertainties including general market conditions, the future performance of investee companies, the behaviour of other shareholders in investee companies (in particular where the Company is a minority investor) and the level of activity in the mergers and acquisitions market across the geographies of the Company's assets. The Board will keep shareholders informed on progress through the Company's half-yearly and annual reports, and significant individual realisations will be announced as appropriate.

2 Review of performance in 2013

Key performance indicators

The following are the key performance indicators for 2013:

		2013	2012
Cash realisations from the investment portfolio – gross	£'million	**44.4**	43.2
Cash realisations from the investment portfolio – net	£'million	**38.1**	35.9
Cash returned to shareholders – year	£'million	**35.0**	40.0
Cash returned to shareholders – cumulative	£'million	**75.0**	40.0
Net Asset Value	£'million	**165.3**	192.1
Net Asset Value per share	pence	**88**	85
Cumulative amounts returned to shareholders compared to opening market capitalisation	%	**48%**	26%
Cumulative amounts returned to shareholders compared to opening Net Asset Value	%	**31%**	16%

Cash realisations from the portfolio in the year came from a number of sources:

	2013 £'000	2012 £'000
Sales of investments	**21,142**	10,167
Capital restructurings and loan repayments	**7,677**	732
Distributions from funds	**15,531**	32,247
Total – gross	**44,350**	43,146
Fund calls	**(3,274)**	(5,259)
Other follow-on investments	**(2,970)**	(2,005)
Total – net	**38,106**	35,882

The follow-on investments during 2013 were:

- £1.5 million to provide working capital for ICU Eyewear (a portfolio investment of San Francisco Equity Partners, "SFEP");
- £0.6 million to acquire shares in Yes To (also a portfolio investment of SFEP) at below market; and
- £0.9 million to provide working capital for two of our smaller direct investments.

In July 2013 the Directors made the second return of cash to shareholders under the realisation strategy by way of a tender offer.

Strategic report continued

2 Review of performance in 2013 continued

Key performance indicators continued

Net Asset Value per share increased over the year by 3p – the profit for the year was £9.0 million (2012: loss of £12.2 million). The principal factor in the results is the return on the investment portfolio which was as follows:

	Year ended 31 December	
Gains/(losses)	**2013 £'000**	**2012 £'000**
Quoted securities	**7,588**	(6,317)
Direct investments	**4,054**	3,517
Funds	**4,886**	(1,295)
	16,528	(4,095)
Realised gains/(losses), net	**3,270**	(1,034)
Unrealised gains/(losses), net	**13,258**	(3,061)
Portfolio return above	**16,528**	(4,095)
Less: charges for incentive plans	**(4,030)**	(3,126)
Total gains/(losses), net	**12,498**	(7,221)

Charges for incentive plans include £2.5 million (2012: £nil) in respect of the Executive Directors' incentive plan and £1.5 million (2012: £3.1 million) for carried interest. Details of these incentive arrangements are set out in the Remuneration Committee report on pages 24 to 33.

Approximately 59% of the portfolio at 31 December 2013 is denominated in US dollars (31 December 2012: 56%) and the above table includes the impact of currency movements. In the year ended 31 December 2013, the weakening of the US dollar against pound sterling (year on year) resulted in an unrealised foreign currency loss of £2.2 million (2012: unrealised loss of £5.6 million). As is common practice in private equity investment, it is the Board's current policy not to hedge the Company's underlying non-sterling investments.

Quoted investments

The gain on the quoted portfolio reflects the net impact of the changes in the capital markets during the year. Of the total gain of £7.6 million (2012: loss of £6.3 million), £0.2 million (2012: £nil) was realised on sales; of the unrealised element of £7.4 million (2012: loss of £6.3 million), £5.0 million (2012: loss of £5.3 million) is attributable to our holding in Weatherford International.

At the end of 2013 our quoted holdings were valued at £24.0 million (2012: £17.1 million), of which our interest in Weatherford International, at £19.1 million, continues to be the principal element. The Weatherford International share price performed well in 2013 – our carrying value at the end of December 2013 was 36% higher than at 31 December 2012.

Direct investments

The net gain on our direct investments includes £0.8 million realised on sales (principally in respect of Apogee less other small net items) and unrealised net valuation increases on our remaining holdings of £3.2 million as follows:

Name	Unrealised gain/(loss) 2013 £'000		Book value 2013 £'000	Book value 2012 £'000
Updata (UK technology)	7,000	Continued to expand its operations during the year and gained a significant number of contract wins.	**21,500**	14,500
HealthTech Holdings (US technology)	(3,960)	Grew revenues and profits during the year but valuation multiples of comparable quoted companies declined during the year. The company was recapitalised in the fourth quarter as a result of which we received a cash return of $10.1 million (£6.2 million) which has been deducted from our carrying value.	**12,602**	22,262
Entuity (UK technology)	2,665	Continued to perform well in 2013; strong cash generation during the year meant it was able to repay $2.0 million (£1.2 million) of our loans.	**5,500**	4,000
Nationwide Energy Partners (US energy)	(190)	Results in 2013 benefitted from recent new contract wins but uncertainty over possible regulatory changes affecting the company resulted in us leaving our US$ carrying value unchanged (at $16.3 million).	**9,835**	10,025
These four investments represent 77% of the direct portfolio at the end of 2013.				
Others (net)	**(2,300)**		**15,102**	34,867
Total	**3,215**		**64,539**	85,654

Changes in valuations reflect a combination of two factors:

- changes in the revenue and profitability multiples and transaction prices of comparable businesses, which are used in the underlying calculations; and
- the operating performance of the individual businesses within the portfolio.

In most cases the multiples we used this year are similar to those prevailing at the end of 2012 (except as set out above for HealthTech) and therefore the unrealised gains or losses set out in the table above arise principally as a result of the companies' performance.

Strategic report continued

2 Review of performance in 2013 continued

Fund interests

The maturity of our funds portfolio is reflected in the related cash flows during 2013. Distributions from funds were £15.5 million (2012: £32.2 million, including £18.1 million from SFEP following its sale of Method) and calls paid were £3.3 million (2012: £5.3 million).

We are the majority investor in SFEP (as opposed to our other fund interests where we have only a minority stake) and at the end of 2013 the carrying value of our interest was £17.5 million (2012: £20.2 million) and the principal investments in its portfolio are Yes To (£8.5 million (2012: £8.3 million) – consumer sector), Penguin Computing (£4.3 million (2012: £4.2 million) – technology sector) and Luxury Link (£4.0 million (2012: £4.2 million) – consumer sector).

Our other fund holdings at the end of 2013 (excluding SFEP) had a book value of £51.6 million (2012: £56.3 million) and include the following principal interests:

		31 December	
General partner		**2013 £ million**	**2012 £ million**
Brockton Capital	UK property	**15.2**	13.0
BV Investments	US buyouts	**6.0**	8.1
Primus Capital	US buyouts	**4.3**	5.1
Opus Capital Venture Partners	US venture capital	**3.9**	3.7
Amadeus Capital Partners	UK venture capital	**3.3**	3.2
Eden Ventures	UK venture capital	**2.6**	1.9
Inflexion Private Equity Partners	UK buyouts	**2.2**	1.9

The above holdings represent 73% of the funds portfolio (excluding SFEP).

For the valuation of our fund interests we utilise reports from the general partners of our funds as at the end of the third quarter in establishing our year end carrying value, with adjustments made for calls, distributions and foreign currency movements since that date. We also carry out our own review of individual funds and their portfolios to satisfy ourselves that the underlying valuation bases are consistent with our basis of valuation and knowledge of the investments and the sectors in which they operate.

Other income statement items

As well as the investment portfolio return, the profit for the year of £9.0 million (2012: loss of £12.2 million) includes the items discussed below.

Income from investments in the year was £0.8 million (2012: £1.2 million) and comprises interest and dividends from portfolio companies, dividends on quoted securities and directors' fees from portfolio companies.

Overhead costs in 2013 were £3.8 million (2012: £5.3 million), the reduction by 28% compared to last year reflecting cost cutting measures instituted by the Board as the Company's operations reduce in scale.

Interest income for the year was £0.1 million (2012: £0.1 million) and there was a tax charge for the year of £0.5 million (2012: £1.0 million), being principally withholding tax on distributions from US funds.

Financial resources and commitments

Cash holdings were £17.8 million (31 December 2012: £20.1 million) with no debt. At 31 December 2013 the Group had commitments of £8.1 million (31 December 2012: £10.4 million) to meet outstanding capital calls from its fund interests.

Employees

The number of employees (including Directors) was as follows:

	2013			2012		
	Male	Female	Total	Male	Female	Total
Directors	6	–	6	8	–	8
Senior management	–	–	–	2	–	2
Other employees	2	5	7	2	6	8
	8	5	13	12	6	18

The Directors do not consider that information on environmental matters and social, community and human rights issues is necessary for an understanding of the development, performance or position of the Company's business; this information is therefore included in the Directors' report.

3 Principal risks and uncertainties

Set out below is a summary of the principal risks and uncertainties that could have a material adverse effect on the Group's strategy, performance and financial condition. The Group has an on-going process for identifying, evaluating and managing risk with the aim of mitigating the impact of the risks and uncertainties to which the business is exposed. This process provides reasonable, rather than absolute, assurance in managing risk and cannot eliminate it.

The Group's risk profile derives from a combination of two elements – the Group's own strategy, including the actions taken within that strategic framework, and the effects of changes in the external economic environment in which it operates, including the impact on the companies in its investment portfolio. The Board is satisfied that the Group's risk management process is appropriate in the context of the objectives and strategy set out above.

The Audit Committee oversees the Group's risk management process and is provided with a report on risk management at each of its meetings. Further information on this is provided in the Audit Committee report. The management of specific risks is the responsibility of the Executive Directors.

The principal risks and uncertainties summarised below are not set out in order of probability of occurrence or materiality; the Group may also be adversely affected by other risks and uncertainties besides those described here.

Strategic report continued

3 Principal risks and uncertainties continued

Economic and financial risk

The Group is subject to economic factors (such as the market demands of the sectors in which its investments operate) which may negatively impact the performance and growth rates of the Company's investments, which may result in the Company's Net Asset Value and net income declining. We seek to mitigate the potential impact of this by monitoring the trading performance and cash flows of our portfolio companies on a regular basis which allows us to act quickly should there be a need to do so, although the extent of any action we can take is dependent on the degree of influence we exercise over individual investments.

A lack of liquidity in the capital markets could mean that the Company may not be able to realise its investments in line with planned timings and values. This could impact the timing and amount of capital returned to shareholders under the Company's asset realisation strategy. Difficulties could arise in agreeing the Company's plans to realise investments with investee companies' management and investing partners leading to realisations being lower and/or later than planned.

Many of our investments produce little or no recurring income and the timing of realisations of unquoted investments (which itself may be a function of underlying economic conditions) cannot be ascertained with certainty. We rely on our detailed budgeting and forecasting procedures to ensure that the cash requirements of the Group are met. The Board regularly reviews the Company's working capital requirements and believes it has sufficient liquid resources to meet its expected cash obligations for the foreseeable future.

The Group is subject to the impact of changes in market prices for its quoted investments, as well as to movements in interest rates and exchange rates. A significant proportion of our investment portfolio is denominated in a currency other than pounds sterling, principally US dollars. Changes in the value of the US dollar affect the valuation of the Company's US investments, and therefore impact the valuation of the portfolio as a whole. The Group regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return; it is the Board's current policy not to hedge the Company's underlying non-sterling investments.

The Group has made investments in funds and by virtue of these investments may be obliged to make further capital contributions. Whilst the maximum amount of the future commitment is known, the timing of such capital calls cannot be predicted with certainty. The monitoring of this exposure is included in the Group's budgeting and forecasting procedures referred to above.

Investment risk

The Group's investment risk arises as a result of individual investment decisions and the performance of its investments. Our investment management process requires regular monitoring of the performance and prospects of each investment; this is usually achieved by board representation or equivalent at each investment. The experience of the management team is a key factor in mitigating our risk of loss on individual investments. The progress of each investment is reported regularly to the Board including an update on expected realisation timing and value.

Operational risk

The Group has a number of internal processes and systems to ensure that it complies with all legal and regulatory obligations, as well as internal controls designed to ensure the integrity of its financial information and reporting. The Audit Committee, on behalf of the Board, regularly reviews these systems, which include reports on the Company's risk management procedures. The Company has instituted procedures to ensure that Directors' outside interests do not give rise to conflicts with its operations and strategy.

By order of the Board.

Nick Friedlos
Director
4 March 2014

Board of Directors

Martin Knight
Non-executive Chairman
Age: 64

Directorships
Chairman of Imperial Innovations Group plc and Cambridge Mechatronics Limited. Non-executive director of Chrysalis VCT plc and Toumaz Holdings Limited. A Trustee of the Royal Institution.

Experience
Martin was previously a director of Morgan Grenfell & Co Limited and subsequently became the principal adviser to South Audley Street Investments. He was a governor and council member of Imperial College from 1992 to 2010.

Nicholas Friedlos
Director
Age: 56

Directorships
A number of Group companies

Experience
Nick has held financial and operational leadership positions in financial services businesses holding real estate and other assets in both the public markets and in private equity. He was Chief Financial Officer of London Merchant Securities, the real estate and investment business out of which LMS Capital was created. Nick has managed change in the businesses he has been involved with including mergers, reconstructions and portfolio disposals. Most recently he was Chief Executive Officer of Mapeley and was previously a partner at PricewaterhouseCoopers.

Antony Sweet
Chief Financial Officer
Age: 59

Directorships
Wesupply Ltd (non-executive) and a number of Group companies.

Experience
Before joining the Company, Tony was Chief Financial Officer of Systems Union Group plc. Prior to that, he was at PricewaterhouseCoopers (the last 13 years as a partner) where he gained experience of a variety of sectors and geographies, working for large multinational companies, as well as smaller entrepreneurial businesses.

Bernard Duroc-Danner
Non-executive Director
Age: 60

Directorships
Chairman, President and Chief Executive Officer of Weatherford International Ltd and director of a number of oilfield service sector companies.

Experience
Previously, Bernard was a non-executive director of London Merchant Securities and President and Chief Executive Officer of EVI, Inc. (now Weatherford International Ltd). Prior to this, he held positions at Arthur D. Little and Mobil Oil Inc.

Neil Lerner
Non-executive Director
Age: 66

Directorships
Deputy Chairman at the Royal Brompton & Harefield NHS Foundation Trust and council member of the RNLI.

Experience
Neil retired in September 2006 as Risk Management partner for KPMG where he had responsibilities for managing all aspects of professional risk and reputation. Until September 2009 he was Special Advisor to KPMG International's captive insurer.

Robert Rayne
Non-executive Director
Age: 65

Directorships
Non-executive Chairman of Derwent London plc and a non-executive director of Weatherford International Ltd and ChyronHego Corporation, as well as a number of charitable trusts and foundations.

Experience
Robbie has expertise in a wide range of sectors, including real estate, media, consumer, technology and energy. He established the Company's investment activities in the early 1980s as Investment Director and later Managing Director and Chief Executive Officer of London Merchant Securities.

Corporate governance report

The Board of LMS Capital plc is committed to maintaining high standards of corporate governance and business ethics. This report is made under the UK Corporate Governance Code published by the Financial Reporting Council in September 2012 ('the Code'). Copies of the Code are available from the Financial Reporting Council's website at www.frc.org.uk

This report sets out how the Company has applied the principles set out in the Code and the extent to which it has complied with the detailed provisions of the Code. The Board considers that the Company has complied with all of the provisions of the Code throughout the year ended 31 December 2013, except as follows:

- Robert Rayne served as Chairman of the Company in the period up to 4 January 2012, having previously been Chief Executive Officer. On that date he stood down as Chairman, remaining on the Board as a Non-executive Director. As a consequence of having previously served as an Executive Director, Mr Rayne was entitled to participate in the Company's long-term incentive plans, including the performance share plan and the carried interest plans. Details of these arrangements are set out in the Remuneration Committee report.
- The Board has not appointed a senior independent Non-executive Director.
- The members of the Audit Committee and the Remuneration Committee are the Chairman and one Non-executive Director, and the Chairman also chairs the Remuneration Committee. Following the change in the Company's investment policy approved by shareholders on 30 November 2011, there has been a consequent reduction in the scale of the Company's activities, and this has resulted in a reduction in the size of the Board. Against this background, the Board believes that the composition of the two committees is appropriate to the Company's circumstances – further details are set out on pages 15 to 18 below.

Board of Directors

The Board is responsible to the Company's shareholders for the performance of the Company and for its overall strategic direction, its values and its governance. It provides the leadership necessary to enable the Company's business objectives to be met within the framework of the internal controls detailed below.

Composition

The Board currently comprises six Directors: the Non-executive Chairman, three other Non-executive Directors and two Executive Directors.

On 20 May 2013 Richard Christou and Mark Sebba, Chairman and Non-executive Director respectively, resigned from the Board and Martin Knight was appointed as Chairman. Brief biographies of all of the Directors appear on page 11. The Board considers that it has an appropriate balance of skills, knowledge and experience available to it.

The Chairman's Role

Martin Knight is the Company's Non-executive Chairman and he is responsible for the effective running of the Board. The Executive Directors are responsible for the executive management and performance of the Company's operations. There is therefore a clear division of responsibilities at the head of the Company.

Executive Directors

During the year under review, no Chief Executive Officer was appointed. Following the strategic changes agreed by shareholders on 30 November 2011, the Board no longer considers it necessary to appoint a Chief Executive Officer, in particular because the full Board wishes to participate extensively in the realisation of the assets of the Company. In February 2012 the Board appointed Nick Friedlos as Executive Director with responsibility for overseeing the orderly realisation of the assets of the Company.

Non-executive Directors

Each Non-executive Director is appointed for a term of three years. Subject to agreement, satisfactory performance and re-election by shareholders, their directorships may be renewed for further terms.

From time to time during the year the Chairman holds meetings with the Non-executive Directors without the Executive Directors being present.

Director Independence and Commitment

In the opinion of the Board, Martin Knight and Neil Lerner are each considered to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the Directors' judgement. In addition Martin Knight was independent upon his appointment as Chairman on 20 May 2013.

Bernard Duroc-Danner and Robert Rayne are directors and shareholders of Weatherford International Ltd and do not participate in Board discussions or decisions concerning the Company's investment in Weatherford International Ltd. No Board papers or minutes relating to the Company's investment in Weatherford International Ltd are circulated to Mr Duroc-Danner or Mr Rayne. Notwithstanding this interest, the Board considers Mr Duroc-Danner to be independent in character and judgement. Given his extensive business and energy sector experience, he provides a valuable contribution to Board discussions and is knowledgeable about the Company's investments and their markets. Mr Rayne is not considered to be independent.

The Board is of the view that the Chairman and each of the Non-executive Directors who held office during 2013 committed sufficient time to fulfilling their duties as members of the Board.

Senior Independent Director

No senior independent Director has been appointed since January 2012. The Directors consider that the revised composition of the Board provides sufficient channels of communication between the Board and shareholders and that the independent Non-executive Directors are able to fill this role.

Director Re-elections

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election by shareholders at the first Annual General Meeting following their appointment. Thereafter at least a third of the Directors on the Board must retire and offer themselves for re-election. During the year under review, Antony Sweet retired by rotation and was re-elected by shareholders at the Annual General Meeting held in May 2013.

Accordingly, Robert Rayne and Bernard Duroc-Danner will retire at the forthcoming Annual General Meeting and, being eligible, each will offer himself for re-election at the meeting. A brief biography for each of these Directors can be found on page 11.

Following the recent Board performance evaluation, the performance of each Director offering himself for re-election is considered to be effective and demonstrates commitment to the role. The Board is of the view that it is in the Company's interests that these Directors should be re-elected at the forthcoming Annual General Meeting.

External Non-executive Directorships

With the Board's prior agreement, Executive Directors are permitted to accept one external non-executive directorship in other companies and may retain any fees received in that role.

Corporate governance report continued

Board of Directors continued

Directors' Conflicts of Interests

The Company's Articles of Association allow the Directors to authorise conflicts of interest and a register has been set up to record all conflict situations declared. All declared conflicts have been approved by the Board. The Company has instituted procedures to ensure that Directors' outside interests do not give rise to conflicts with its operations and strategy.

Board Procedures and Support

There are agreed procedures for the Directors to take independent professional advice, if necessary, at the Company's expense. All Directors have access to the advice and services of the Company Secretary. In addition, newly appointed Directors are provided with comprehensive information about the Company and its investee companies as part of their induction process. They are also given the opportunity to meet shareholders and receive a briefing from the Executive Directors.

Whilst no formal structured continuing professional development programme has been established for the Non-executive Directors, every effort is made to ensure that they are fully briefed before Board meetings on the Company's business and its investments. In addition, they receive updates from time to time from the Executive Directors on specific topics affecting the Company and from the Company Secretary on recent developments in corporate governance and compliance. Each of the Non-executive Directors independently ensures that they update their skills and knowledge sufficiently to enable them to fulfil their duties appropriately.

The Board has adopted a schedule of matters reserved to it for approval. These include the approval of financial statements, strategic plans, annual budgets, acquisitions and disposals and major capital and operating expenditure proposals. The Board delegates specific responsibilities to the Audit, Nomination and Remuneration Committees, which operate within written terms of reference approved by the Board. These Committees report regularly to the Board.

Board Meetings

Six scheduled Board meetings were held in 2013. At each scheduled meeting, the Board considers a report on current operations and significant business issues, such as major divestment proposals and strategy. A financial report is provided by the Chief Financial Officer and other reports and presentations are provided by senior management. Papers for each scheduled Board meeting are usually provided during the week before the meeting.

Attendance at Board Meetings

The following were Directors of the Company during 2013. They attended the following number of scheduled meetings of the Board and (where they were members) its Committees during the year:

	Board	Audit	Nomination	Remuneration
Meetings held	6	3	1	3
Martin Knight	6	3	1	3
Bernard Duroc-Danner	4	–	1	–
Nick Friedlos	6	–	–	–
Neil Lerner	6	3	1	2
Robert Rayne	6	–	1	–
Antony Sweet	6	–	–	–
Richard Christou	2	–	–	2
Mark Sebba	2	–	–	2

Mr Lerner attended all meetings of the Remuneration Committee after his appointment to that committee on 20 May 2013.

Mr Christou and Mr Sebba resigned as Directors on 20 May 2013.

Attendances set out above include attendance in person or by telephone or video link. In addition to the scheduled Board meetings specified above, the Board held three ad-hoc meetings during 2013.

Board Effectiveness

The Board carried out a board performance evaluation in December 2013. This encompassed a review of the performance of the Board, its Committees and individual Directors. It was conducted internally by the Chairman, supported by the Company Secretary. The process involved the distribution of a questionnaire to each Director; the responses were then analysed and a report was circulated to the Board. The outcomes of the evaluation were discussed by the Board at the February 2014 Board meeting and it was agreed that the Board, its Committees and the individual Directors were operating effectively.

Board Committees

Each Board Committee has established terms of reference detailing its responsibilities and powers. These are available in the Investor Relations section of the Company's website at www.lmscapital.com.

Audit Committee

The Audit Committee currently comprises: Neil Lerner (Committee Chairman) and Martin Knight. Mark Sebba served as a member of the Committee until his resignation as a Director on 20 May 2013. Neil Lerner is considered by the Board to have recent and relevant financial experience.

Since May 2013 the Committee membership has comprised only one independent non-executive director (and not two as required under the Code). This has arisen as a consequence of the Company reducing the scale of its operations as it undertakes the realisation strategy approved by shareholders in November 2011, including reducing costs wherever appropriate to this strategy. The Nomination Committee and the Board considered committee composition at their meetings in May and concluded that the reduction in the membership of the Audit Committee would not result in a reduction in scope or effectiveness of the corporate governance processes otherwise required by the Code.

The Chairman of the Committee may invite non-members to attend committee meetings and these typically include: a representative of the Company's external auditor, the Chief Financial Officer and other Directors. A report on the activities of the Audit Committee is set out on pages 20 to 23.

The terms of reference for the Committee take into account the requirements of the Code and are available for inspection at the registered office and can also be found on the Company's website at www.lmscapital.com. The role of the Committee is to assist the Board with the discharge of its responsibilities in relation to the Company and Group financial statements in the areas set out below.

The Audit Committee may request and receive reports from management to enable it to fulfil its duties under its terms of reference. The Committee Chairman reports to the full Board at each scheduled Board meeting immediately following a Committee meeting.

Corporate Reporting

The Committee monitors the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, with particular emphasis on reviewing significant financial reporting judgements contained in them. It reviews the Group's draft annual financial statements and half year results statement prior to discussion and approval by the Board and reviews the external auditor's detailed reports thereon.

It then reports to the Board any matters which it considers the Board should take into account in ensuring that published financial reports provide a fair, balanced and understandable assessment of the Company's position and prospects. In identifying any such matters the Committee also takes into account the findings reported to it from the external audit process.

Corporate governance report continued

Audit Committee continued

External Audit

The Audit Committee reviews the conduct of the external audit, including its effectiveness and independence, on an annual basis and makes recommendations to the Board regarding the re-appointment or removal of the external auditor, their terms of engagement and the level of their remuneration. The Committee also reviews the process which is in place to ensure the independence and objectivity of the external auditor.

During the year the Committee monitors the external audit as it proceeds. At its December meeting the Committee reviews, discusses and approves the external audit plan for the current financial year; the Committee then meets with the external auditor prior to the Board's consideration of the full year and half year results to consider their findings.

A policy regarding the engagement of the external auditor to supply non-audit services is in place. The policy recognises the importance of maintaining the objectivity and independence of the external auditor by carefully monitoring their involvement in projects of a non-audit nature. It is, however, also acknowledged that, due to their detailed understanding of the Company's business, it may sometimes be necessary or desirable to involve the external auditor in non-audit related work, principally comprising further assurance services relating to due diligence and other duties carried out in respect of acquisitions and disposals and tax services.

The results of the application of this policy in 2013 are set out in the Audit Committee report on pages 20 to 23.

Internal Control and Risk Management

The Board has delegated to the Audit Committee overall responsibility for monitoring the Company's system of internal control and risk management and for reviewing its effectiveness. Risk management and internal controls are a standing agenda item for each Audit Committee meeting. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss. The Committee reviews the effectiveness of the Company's internal controls throughout the year and will take any necessary actions should any significant failings or weaknesses be identified.

The business also has processes to identify risks, consider financial and non-financial implications and, so far as possible, take action to reduce those risks. Details of the principal risks and uncertainties potentially facing the Group can be found in the Strategic report on pages 4 to 10.

Operational matters and the responsibility for the day-to-day management of the business are delegated to the Executive Director with responsibility for overseeing the orderly realisation of the assets of the Company and through him, as appropriate, to other managers acting within delegated authority limits and in accordance with clearly defined systems of control.

Financial matters and the responsibility for the day-to-day financial aspects of the business are delegated to the Chief Financial Officer and through him, as appropriate, to members of his financial team acting within delegated authority limits and in accordance with clearly defined systems of control. The Chief Financial Officer reports to the Board on financial matters at each Board meeting.

Policies and procedures, which are subject to ongoing review and updated as required, are communicated across the Company and designed to ensure that they are properly and consistently applied in relation to significant risks, investment decisions and management issues arising within the Company. The Board believes that this delegated management structure ensures a strong link between overall corporate strategy and its implementation within an effective control environment.

The Company has no internal audit department, relying on in-house resource and external advisers to gain comfort on internal controls. In the Audit Committee's view, taking into account the small size of the business and the limited operating locations, the information it has is sufficient to enable it to review the effectiveness of the Company's system of internal controls.

The Audit Committee also monitors the Company's whistleblowing policy. Neil Lerner acts as the contact for staff who may have a concern that they cannot raise under their normal chain of management.

Nomination Committee

The Nomination Committee currently comprises: Martin Knight, who chairs the Committee, Bernard Duroc-Danner, Neil Lerner and Robert Rayne. Richard Christou and Mark Sebba served as members of this Committee until their resignations on 20 May 2013. The Committee is responsible for assisting the Board in determining the composition and make-up of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors, as the need arises. The selection process is, in the Board's view, both rigorous and transparent in order to ensure that appointments are made on merit and against objective criteria set by the Committee. In reviewing potential candidates, the Committee takes into account the need to consider the benefits of diversity on the Board, while ensuring that appointments are made based on merit and relevant experience.

When considering succession planning, the Committee looks at the balance, structure and composition of the Board and takes into account the future challenges and opportunities facing the Company. In light of the Company's realisation strategy agreed in November 2011, the Committee has not during the course of 2013 conducted a further review of its executive succession plan. The Nomination Committee normally meets as required, but at least once each year.

During 2013, the Committee had one scheduled meeting which included consideration of the resignations of Mr Christou and Mr Sebba and their impact on the composition of the Board and its Committees.

Remuneration Committee

The current members of the Committee are: Martin Knight (Committee Chairman) and Neil Lerner. Richard Christou and Mark Sebba resigned from the Committee when they resigned as Directors on 20 May 2013. Martin Knight became Chairman of the Committee on Richard Christou's resignation.

Since May 2013 the Committee membership has included only one independent non-executive director (and not two as required under the Code) and its Chairman, Martin Knight, is also Chairman of the Board. This has arisen as a consequence of the Company reducing the scale of its operations as it undertakes the realisation strategy approved by shareholders in November 2011, including reducing costs wherever appropriate to this strategy. The Nomination Committee and the Board considered committee composition at their meetings in May and concluded that the reduction in the membership of the Remuneration Committee would not result in a reduction in scope or effectiveness of the processes otherwise required by the Code to monitor Directors' remuneration.

Corporate governance report continued

Remuneration Committee continued

The terms of reference for the Committee take into account the requirements of the Code and are available for inspection at the registered office and can also be found on the Company's website at www.lmscapital.com. The role of the Committee is to assist the Board with the discharge of its responsibilities in relation to the Company and Group financial statements in the areas set out below.

The Board has delegated to the Remuneration Committee responsibility for reviewing and recommending the Company's remuneration strategy and policies and for setting the remuneration of the Executive Directors. To achieve this, the responsibilities of the Committee are to:

- review and recommend annually the remuneration policy;
- to ensure that the policy provides appropriate incentives to encourage performance by the Executive Directors and senior management that is linked to the Company's strategy and designed to promote the long-term success of the Company;
- make recommendations to the Board as to the Company's policy for the remuneration of the Chairman, the Executive Directors and the Company Secretary and to determine their total individual remuneration packages including bonuses, incentive payments, targets under performance-related pay schemes and share options or other share awards; and
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company.

The Committee invites Executive Directors to attend Committee meetings when appropriate in order to provide a management perspective on all aspects of employee compensation. The Committee takes advice, where it considers it appropriate, on technical aspects of compensation policy from independent external consultants appointed by the Committee. Clifford Chance advised the Committee on matters from time to time during the year.

A report on the activities of the Remuneration Committee is set out on pages 24 to 33.

Shareholder Communications

The Company communicates regularly with its major institutional shareholders and ensures that all the Directors, including the Non-executive Directors, have an understanding of the views and concerns of major shareholders about the Company. This is achieved by the Executive Directors maintaining contact from time to time with representatives of institutional shareholders to discuss matters of mutual interest relating to the Company and reporting back to the Board. Shareholders have the opportunity to meet any of the Directors of the Company should they so wish.

Additionally, the Board uses the Annual General Meeting as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors. At the Annual General Meeting the level of proxy votes lodged on each resolution is made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution. The chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions from shareholders and all Directors attend.

The interim and annual results of the Company, along with all other press releases, are posted on the Company's website, www.lmscapital.com, as soon as possible after they have been announced to the market. The website also contains an archive of all documents sent to shareholders, as well as details on the Company's investments, strategy and share price.

Financial Reporting

The Directors have acknowledged, in the Statement of Directors' responsibilities set out on page 38, their responsibility for preparing the financial statements of the Company and the Group. The external auditor has included, in the Independent auditor's report set out on pages 39 to 41, a statement about their reporting responsibilities.

The Directors are also responsible for the publication of an unaudited half-year management statement for the Company, which provides a balanced and fair assessment of the Company and Group financial position for the first six months of each accounting period. In addition, the Company produces two interim management statements, usually in May and November, which provide an unaudited quarterly review of the Company's financial position.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and financial position, are set out in the Strategic report on pages 4 to 10.

On 30 November 2011 the shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the Directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, the consolidated financial statements have not been prepared on a going concern basis. Taking account of the financial resources available to it, the Directors believe that the Group is well-placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources for the foreseeable future.

Martin Knight
Chairman
4 March 2014

Audit Committee report

Introduction from the Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for 2013 which provides shareholders with an overview of the activities of the Committee during the year. These activities are focused on the integrity of the Group's financial reporting, the quality of the external audit process, risk management and the effectiveness of the Group's systems of internal control. The Committee is also responsible for reviewing the Group's arrangements on whistleblowing, ensuring that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

The Audit Committee had three scheduled meetings during 2013; each meeting was also attended by the Executive Directors and the external auditor, KPMG Audit Plc ("KPMG"). The Committee also meets at regular intervals without the Executive Directors being present but with the external auditor in attendance. The Committee met on 26 February 2014 to consider the 2013 results and Annual Report.

I report to the full Board at each scheduled Board meeting immediately following a Committee meeting.

A summary of how the Committee carried out its responsibilities during 2013 as well as the more significant issues it addressed is set out in the report.

Neil Lerner
Chairman, Audit Committee
4 March 2014

Corporate reporting

Since the publication of the 2012 Annual Report the Committee has reviewed the following:

- The preliminary announcement of 2013 results;
- The 2013 Annual Report;
- The 2013 half year report; and
- Reports from KPMG on the planning and outcome of their audits and reviews for 2013.

Following adoption by the Company of the revised version of the UK Corporate Governance Code (issued in September 2012 and applicable to the Company for the first time from 1 January 2013) the Board requested that the Committee advise them on whether it believes that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. A report confirming this to be the case was presented to the Board at its meeting on 26 February 2014.

Significant accounting judgements

During the year, the Committee considered the key accounting matters and judgements in respect of the financial statements and these are described below. As part of this review, the Committee received papers from management setting out the assumptions used and conclusions reached, which were subject to challenge by the Committee as it considered appropriate in the circumstances.

Investment portfolio valuation

The principal focus for the Committee is the investment portfolio valuation; a full valuation is prepared by executive management at least twice a year for inclusion in the Company's half-year and full year financial reports.

Each valuation is submitted to the Committee for its review as part of which the Committee receives comments on the valuation from the external auditor – based on their review of the 30 June (half-year) valuation and audit of the 31 December (full year) valuation.

The following areas were of particular focus for the Committee in its consideration of the approach to investment valuation in 2013:

- Ensuring that the valuation methodology complied with the International Private Equity and Venture Capital Valuation Guidelines and the Company's stated accounting policy;
- The availability of third party information to corroborate valuation results at individual investment level – including:
  - Reports from general partners for the Company's fund interests; and
  - Market prices for its quoted investments; and
- The nature and reason for any adjustments made to third party information by the Company for its valuation purposes.

The valuation of unquoted investments inevitably requires the exercise of judgement and the Committee studied in detail the variables underpinning the valuation of each unquoted investment, in particular:

- Consideration of current trading and future prospects in determining the appropriate revenues or earnings base for valuation purposes;
- Consistency of approach in the valuation, satisfying itself that any change made was appropriate;
- Ensuring that metrics from comparable quoted companies were appropriate and up to date;
- For co-investments, comparing the Company's carrying value with (where available) the valuation used by the lead investor and ensuring that there are proper explanations for any differences; and
- Confirming that the valuation takes account (where appropriate) of the Company's realisation plans for the investment.

At its meeting in February 2014 the Committee considered a detailed report from the Chief Financial Officer on the year end investment valuation and concluded that the valuation process had been properly carried out and that the valuation was appropriate in aggregate. In reaching this conclusion the Committee took into account the findings of the external auditor.

Incentive schemes

The Company's incentive schemes for Directors and senior management are explained in the Remuneration Committee report on pages 24 to 33. The Audit Committee noted the changed disclosure requirements for the 2013 Annual Report and at its meeting in February 2014 considered a paper prepared by the Chief Financial Officer setting out the accounting treatment for each of the Company's incentive plans. Based on this the Committee was satisfied that the financial implications of each plan are properly reflected in the Company's 2013 financial statements.

Audit Committee report continued

Significant accounting judgements continued

Restatement

The Group early adopted Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) with effect from 1 January 2013 and is therefore required to restate the figures reported for 2012 (see note 2 to the financial information). The Committee considered the appropriateness of this change in accounting policy and reviewed the explanations provided in the financial information.

Non going concern

Since the Company has adopted a realisation strategy which will ultimately lead to the liquidation of the Company once realisation and settlement of the remaining net assets is complete, which may be over a number of years, the consolidated financial statements have not been prepared on a going concern basis. The Committee considered the continuing appropriateness of this approach, including, inter alia, its impact (if any) on the investment portfolio valuation.

As part of this review the Committee also satisfied itself that the statement under Basis of preparation in note 1 to the financial information concerning the adequacy of resources for the foreseeable future was appropriate.

The auditor also reported to the Committee the misstatements they had found during the course of their work, which were insignificant, and confirmed that in their opinion there were no material items remaining unadjusted in the 2013 financial statements.

Internal control and risk management

Risk management and internal controls were reviewed by the Committee at each of its scheduled meetings during the year and the Committee is of the view that risks have been properly identified and the systems were operating satisfactorily during 2013 and up to the date of this report.

The Committee also reviewed in detail the disclosures in relation to risks in the Strategic report to ensure that these are consistent with the findings of its own work on risk management during the year.

The Company has no internal audit department, relying on in-house resource and external advisers to gain comfort on internal controls. In the Audit Committee's view, taking into account the small size of the business and the limited operating locations, the information it has is sufficient to enable it to review the effectiveness of the Company's system of internal controls.

External audit

It is the responsibility of the Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the external audit process. The external auditor, KPMG, attended all meetings of the Committee during 2013 and to the date of this report. At the meetings KPMG provides reports as appropriate on topics including:

- the results of their audit of the full year accounts and review of the half year report;
- their plans and proposed audit scope for the year;
- developments in accounting, reporting and corporate governance; and
- their findings on the Group's systems of internal control.

Our assessment of the external audit process includes members of the Committee and certain members of the management team providing their written comments to the Chairman of the Committee on areas including:

- the procedures adopted by the external auditor to ensure their independence and objectivity;
- the appropriateness of risk identification in determining the external audit plan;
- their conduct of the audit process, including the extent of challenge of management's judgements; and
- the nature and content of reports presented to the Committee.

For 2013 the Committee was satisfied with the effectiveness and quality of the external audit process.

The Company has a formal policy governing the engagement of the external auditor to provide non-audit services, which includes procedures designed to limit such services to areas which would not result in potential conflict with the objectivity and independence of the external audit process. In addition KPMG report annually to the Committee their procedures to ensure their independence and objectivity and confirm the compliance of the partners and staff assigned to the Company's audit with those procedures.

During the year the amount of non-audit services provided by KPMG was £39,000 (2012: £40,000) and comprised:

- assurance services in connection with the tender offer in July 2013; and
- tax advisory services.

The Committee considers that the above items are such that these services could not easily or cost effectively be provided by another accounting firm and are not of such a nature or scale as to impact auditor objectivity or independence.

KPMG have acted as external auditor to the Company since its formation in 2006 and the lead audit partner rotates every five years. The Committee remains satisfied with the performance, objectivity and independence of KPMG and recommended to the Board that a resolution be put to shareholders at the forthcoming Annual General Meeting that KPMG be re-appointed and that their remuneration be determined by the Directors.

Audit Committee effectiveness

The annual Board evaluation described on page 15 included the work of the Committee and concluded that it was working satisfactorily.

Remuneration Committee report

1.0 Introduction from the Chairman of the Remuneration Committee

I am pleased to present our report on Directors' remuneration for 2013 which following recent changes in legislation is now divided into two parts:

1. Directors' remuneration policy: this is a forward-looking statement on the Company's remuneration policy for 2014 and beyond, for which shareholders' approval will be sought at the Company's forthcoming Annual General Meeting on 15 May 2014. If approved at that meeting, the policy will come into force immediately and the Company will only be able to make a payment to a Director if it is in line with the policy.

2. Annual report on remuneration: this includes amounts actually paid to Directors in 2013 and on which shareholders will be asked to vote in an advisory manner at the Annual General Meeting. This report includes information subject to audit.

Together, this report complies with the Companies Act 2006 (as amended) and the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012.

The Remuneration Committee believes that the Company's remuneration policy should support the Company's strategy and be aligned with the interests of all stakeholders. Key factors in achieving this are:

- Base salaries which are competitive and which reflect the market and the roles and contribution of the individual concerned; and
- Variable remuneration which is directly linked to the Company's objectives and strategy measured both on an annual basis and longer.

Given the Company's overriding objective to maximise cash returned to shareholders as it implements its realisation strategy, a new executive bonus scheme is being introduced to align executive variable remuneration directly with achievements in this regard. Section 2 includes information on how this portion of total remuneration is calculated. Following adoption of the realisation strategy at the end of 2011, there are no current plans to make further awards under the Company's share incentive or carried interest plans.

During 2013 Richard Christou and Mark Sebba resigned as Directors of the Company, and therefore as members of the Remuneration Committee as well, and Neil Lerner became a member of the Committee. I should like to thank Richard and Mark for all their help and support since I became Chairman of the Committee at the beginning of 2012.

Martin Knight
Chairman, Remuneration Committee
4 March 2014

2.0 Directors' remuneration policy

2.1 The Company's remuneration policy is designed to ensure that the Company is able to motivate and retain the talent required to run the Company successfully. The Company aims to structure executive remuneration in such a way as to align their reward with the best interests of shareholders.

2.2 In the circumstances of the Company's realisation strategy and the fact that it has no other senior management employees, the Remuneration Committee did not consider it relevant or appropriate to take into account pay and employment conditions of other employees when setting the policy for Directors' remuneration. Where it considers it appropriate the Committee consults the Company's financial advisers and shareholders on remuneration issues.

2.3 Executive Directors

The following table summarises the Company's policy on Directors' remuneration for 2014 and, so far as practicable, for subsequent years. Further details on incentive arrangements are set out later in this report.

	Link to strategy	Operation	Maximum potential value	Performance criteria
Base salary	Retention	Reviewed annually based on general economic and market conditions	Increases from 2014 levels based on market changes	None
Allowances and benefits	Retention	Health and related insurances. Gym membership	Based on market rates	None
Pension contributions	Retention	Base salary only is pensionable	Company contribution maximum – 15%	None
Bonus	Motivation to maximize returns to shareholders	Based on value returned to shareholders	£3 million	Value returned under the realisation strategy must exceed market cap at 1 Jan 2012 plus an annual compound return (see explanatory note below)
Carried interest	Motivation to maximize investment returns	Based on a proportion of realized gains on investments after a preferred return or hurdle	No maximum	Pre-tax investment gains must exceed 6% preferred return or 8% hurdle before any amounts are payable

Executive Directors' base salaries for 2014 are as follows:

Mr Friedlos – £220,000;
Mr Sweet – £215,000.

Remuneration Committee report continued

2.4 Non-executive Directors

Name	Annual fee £	Other amounts payable
Martin Knight	60,000	–
Bernard Duroc-Danner	40,000	–
Neil Lerner	45,000	–
Robert Rayne	40,000	See below

The fees for Non-executive Directors are reviewed annually – increases will reflect market changes from the above levels.

Mr Rayne was an Executive Director from 6 April 2006 to 1 October 2010, whereupon he became Non-executive. Under Mr Rayne's letter of appointment he participated in the carried interest plan and share option schemes up to the end of 2011, and is entitled to cover under the Company's various insurance policies. The Company will also provide a car, driver and secretary if required in the future, but does not currently do so.

Mr Rayne also has a consulting agreement with the Company to provide advice in connection with the Company's realisation plans. He is entitled to a fee of £60,000 per annum under this consultancy arrangement.

The other Non-executive Directors do not participate in the Company's incentive plans or share schemes or other benefits.

2.5 Bonus arrangements

The Company operates the following bonus plan for Executive Directors:

1) Each Executive Director will receive a bonus linked to the outcome of the realisation strategy;

2) The lower threshold for payments requires returns to shareholders equal to the market capitalisation of the Company at 1 January 2012 plus a compound return per annum of 5% ("the lower limit").

3) Full pay-out of the bonus at the conclusion of the realisation strategy will be made if cumulative returns to shareholders at least equal the market capitalisation of the Company at 1 January 2012 plus a compound return per annum of 15% ("the upper limit").

4) The maximum bonus amounts for each of the current Executive Directors are as follows:

   Mr Friedlos – £2 million;
   Mr Sweet – £1 million.

5) For value returned between the lower and upper limits, the bonus will be adjusted on a pro rata basis equal to [(A-L)/(U-L)] x P where:

   A = actual value returned
   L = lower performance threshold
   U = upper performance threshold
   P = potential bonus at upper threshold

6) The Remuneration Committee may approve annual performance bonus payments. Any such payments are not subject to clawback but will be deducted from any payment due at the end of the realisation period.

In addition to the above arrangements Mr Sweet is entitled to a payment in connection with his duties as Company Secretary up to a maximum of 15% of his base salary per annum.

2.6 Carried interest

Mr Rayne and Mr Sweet participate in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio. As a result of the implementation of the realisation strategy, no new carried interest arrangements have been instituted, the last year of the arrangements being 2011.

The Company's carried interest arrangements are based on annual capital pools for direct investments (i.e. excluding third party funds). Entitlement to carried interest on these pools is calculated as follows:

- For the 2009 and prior year pools, carried interest will be payable in respect of pre-tax net gains on investments in the pool after a preferred return to the Company at the rate of 6% per annum. This preferred return is a threshold beyond which carried interest is payable.
- For the 2010 and subsequent pools, carried interest will be payable in respect of pre-tax net gains on investments in the pool after a hurdle of 8% is reached. The change was made to reflect more usual practice in the private equity sector.

The percentage of eligible gains which may be allocated to participants in aggregate may not exceed 20%. Participants are allocated a proportion of the overall maximum at the commencement of each annual pool and may be diluted by new joiners during the life of the pool up to a maximum of 20%. The rules also include provision for reduction in the proportion allocated to any participant who ceases to be an employee.

The Annual report on remuneration includes details of amounts paid to Mr Rayne and Mr Sweet under these arrangements during 2013.

2.7 Share-based incentives

The Committee has determined that in the context of a realisation strategy, share-based awards are not an appropriate form of incentive. Accordingly no further awards are proposed under the existing share incentive plans.

Mr Rayne and Mr Sweet retain their interests in awards made under these plans in prior years – details of amounts paid during the year and any remaining entitlements as at 31 December 2013 are set out in the Annual report on remuneration.

2.8 Service agreements

Each Executive Director has a service agreement which sets out:

- The duties and obligations of the Director;
- Individual entitlements to elements of remuneration under the remuneration policy;
- Notice periods and compensation on termination of employment by the Company without notice or cause.

Remuneration Committee report continued

2.8 Service agreements continued

The Executive Directors have rolling service agreements which terminate on the Director reaching age 65 – the agreements for the current Executive Directors are summarised below:

Name	Date of agreement	Notice period
Nick Friedlos	21 March 2012	From the Company: 12 months until December 2013, reducing in stages to 6 months by June 2014 From the Director: 6 months
Antony Sweet	14 March 2007	From the Company: 12 months From the Director: 6 months

Compensation arrangements in the event of termination by the Company without cause are:

1) 100% of base salary, allowances and benefits and pension contributions attributable to the notice period from the Company in force at the date of termination;

2) A bonus as at the date of termination under the rules set out above on the basis that total returns to shareholders equal actual value returned to date plus the net asset value of the Company (calculated in accordance with its normal accounting policies) as at the termination date, such amount to be payable as returns are made to shareholders;

3) All entitlements under the Company's carried interest arrangements are deemed fully vested;

4) All entitlements under the Company's share incentive plans calculated in accordance with the "good leaver" provisions of the plans;

5) In addition the Remuneration Committee may at its discretion make ex-gratia payments to Executive Directors up to one times the total of 1) and 2) above.

In the case of Mr Sweet, in the event of a change in control of the Company he has the option to terminate his employment; in such circumstances he is entitled to receive the following:

1) 95% of annual base salary and annual allowances and benefits;

2) Pension contribution of 15% of the amount calculated for base salary in 1) above;

3) An amount equal to the average annual payment of cash bonus paid to him in the previous three years.

All Non-executive Directors have letters of appointment with the Company. Under their letters of appointment, both Non-executive Directors and the Company are required to give one month's notice to terminate appointments. Non-executive Directors are subject to the re-election requirements under the Company's Articles of Association. There are no provisions for Non-executive Directors to receive compensation upon early termination.

The following table provides details of the current Non-executive Directors' letters of appointment:

	Date of appointment	Date of expiry of current term
Martin Knight	4 January 2012	17 May 2015
Bernard Duroc-Danner	7 April 2006	13 May 2016
Neil Lerner	4 January 2012	17 May 2015
Robert Rayne	6 April 2006	30 September 2016

2.9 Recruitment

The Remuneration Committee determines all elements of the remuneration package for any new appointee to the Board. The following factors are considered:

- The nature of the role;
- The experience of the individual concerned and current remuneration package;
- Market data, including input from advisers involved in any recruitment process.

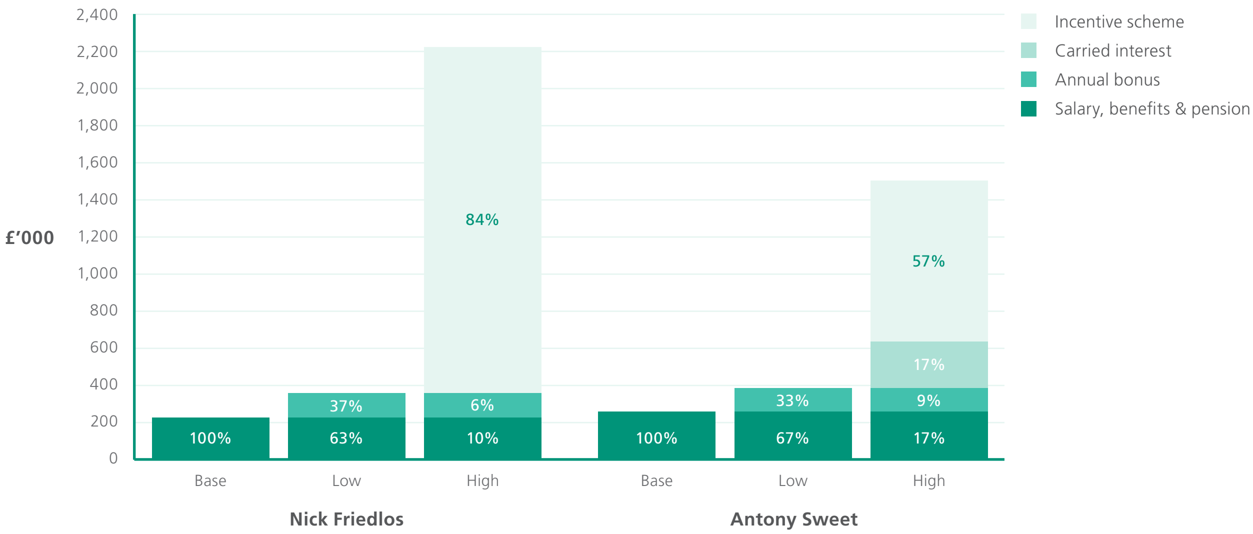
The package for a new Director will include all elements provided to current Directors. If necessary to complete the appointment, it may also include compensation for the forfeiture of awards from a previous employer.

The base salary will be set based on market estimates and may therefore vary significantly from current Directors; variable components will be in line with the policy outlined above and, subject to the impact if any of the market determination of base salary, will not exceed the highest amounts paid to the current Directors.

2.10 Application of remuneration policy

The chart below sets out for each current Executive Director an indication of the level of remuneration receivable for each based on:

- Base remuneration receivable, being base salary, allowances and benefits and pension contributions;
- Low achievement, being the base amount plus annual bonus payments of 60% of basic salary (reflecting recent award levels); and
- The maximum including payout in full from the bonus pool for each individual at the end of the realisation period, calculated based on the required return and Net Asset Value at 31 December 2013 and, for Mr Sweet, carried interest calculated assuming realisation at the Company's Net Asset Value at 31 December 2013.



Remuneration Committee report continued

3.0 Annual report on remuneration

3.1 Remuneration Committee

The members of the Committee during 2013 were: Martin Knight (Committee Chairman), Richard Christou, Mark Sebba and Neil Lerner. Mr Christou and Mr Sebba resigned as Directors of the Company on 20 May 2013, and therefore as members of the Remuneration Committee as well; Mr Lerner became a member of the Committee on that date.

3.2 Remuneration for the year ended 31 December 2013

The tables below set out amounts paid to each Director during the years ended 31 December 2013 and 2012:

	2013							
	Salary and fees £'000	Taxable benefits £'000	Pension contributions £'000	Carried interest £'000	Share options £'000	Bonus £'000	Consulting fees £'000	Total £'000
N Friedlos	220	9	–	–	–	132	–	361
A Sweet	215	13	32	97	47	129	–	533
	435	22	32	97	47	261	–	894
M Knight	54	–	–	–	–	–	–	54
B Duroc-Danner	40	–	–	–	–	–	–	40
N Lerner	45	–	–	–	–	–	–	45
R Rayne	40	9	–	276	123	–	60	508
	614	31	32	373	170	261	60	1,541
R Christou	42	–	–	–	–	–	–	42
M Sebba	17	–	–	–	–	–	–	17
	673	31	32	373	170	261	60	1,600

	2012					
	Salary and fees £'000	Taxable benefits £'000	Pension contributions £'000	Bonus £'000	Consulting fees £'000	Total £'000
N Friedlos	196	2	–	–	–	198
A Sweet	215	12	32	200	–	459
	411	14	32	200	–	657
M Knight	45	–	–	–	–	45
B Duroc-Danner	40	–	–	–	–	40
N Lerner	45	–	–	–	–	45
R Rayne	40	10	–	–	50	100
R Christou	100	–	–	–	–	100
M Sebba	40	–	–	–	–	40
	721	24	32	200	50	1,027

Amounts included for taxable benefits are insurance premiums for private healthcare, life assurance and income protection and gym membership.

Bonus payments are in accordance with the rules of the Executive Directors' bonus scheme set out in section 2 of this report.

3.3 Performance share plan

a. 2010 grant

On 13 April 2013 share awards granted in 2010 under the Company's performance share plan vested to the extent the required performance conditions had been met. The performance conditions were as follows:

- For 75% of the award to vest, the increase in Net Asset Value per share over the three year performance period must exceed the increase in RPI by at least 3% per annum. At RPI plus 3%, 18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to 75% of the award vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum. This performance condition was not met and therefore 75% of the award lapsed on 13 April;
- For the remaining 25% of the total award to vest, Total Shareholder Return over the three year measurement period must exceed the median Total Shareholder Return of the FTSE All-Share Index. This performance condition was met and therefore 25% of the award vested on 13 April.

As a result of the above, Mr Sweet was entitled to 64,947 shares and Mr Rayne 170,863 shares. In May 2013 these awards were settled in cash (as permitted under the rules of the plan) at 71.9 pence per share. There were no releases of performance share awards in 2012.

b. 2011 grant

The following awards granted under this plan in 2011 were outstanding at 31 December 2013:

		Number of shares				
	Grant date	**Total**	**Lapsed**	**Outstanding**	**Release date**	**Expiry date**
R Rayne	11 April 2011	509,298	(381,974)	127,324	11 April 2014	10 April 2021
A Sweet	11 April 2011	252,111	(189,083)	63,028	11 April 2014	10 April 2021

The performance period for the above share awards ended on 31 December 2013. The performance conditions were as follows:

- For 75% of the award to vest, the increase in Net Asset Value per share over the three year performance period ended 31 December 2013 must exceed the increase in RPI by at least 3% per annum. At RPI plus 3%, 18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to 75% of the award vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum. This performance condition was not met and therefore 75% of the award will lapse on 11 April 2014;
- For the remaining 25% of the total award to vest, Total Shareholder Return over the same three year measurement period must exceed the median Total Shareholder Return of the FTSE All-Share Index. This performance condition was met and therefore 25% of the award will vest on 11 April 2014.

As a result of the above, Mr Sweet will be entitled to 63,028 shares and Mr Rayne 127,324 shares.

No awards were made under this plan in 2013 or 2012.

Remuneration Committee report continued

3.4 Deferred share bonus plan

Mr Sweet was granted an award of 100,000 shares under this plan on 13 April 2010. The performance condition for the first release was satisfied and 33,333 shares with a then market value of £20,000 were released on 13 April 2011 and remain outstanding at 31 December 2013. The performance condition for the second and third releases was not satisfied and the related share awards lapsed during 2011 and 2012.

The performance condition attaching to awards made under this plan is that the increase in the Net Asset Value per share must exceed the increase in the Retail Prices Index by an average of at least 3% per annum. In the case of an award of up to 0.5% of the shares in issue, one third may be released on the first anniversary of the award date, the second third on the second anniversary and the final third on the third anniversary.

Where an award exceeds 0.5%, the release takes place over a four year period. The Committee may decide at its discretion that, when shares are due to be released, the participant may be given the cash equivalent of the market value of the shares.

No awards were made under this plan in 2013 or 2012.

3.5 Carried interest

Mr Rayne and Mr Sweet participate in the carried interest arrangements in place for staff involved in the management and development of the investment portfolio. Amounts paid in 2013 were in accordance with these arrangements – no amounts were paid in 2012.

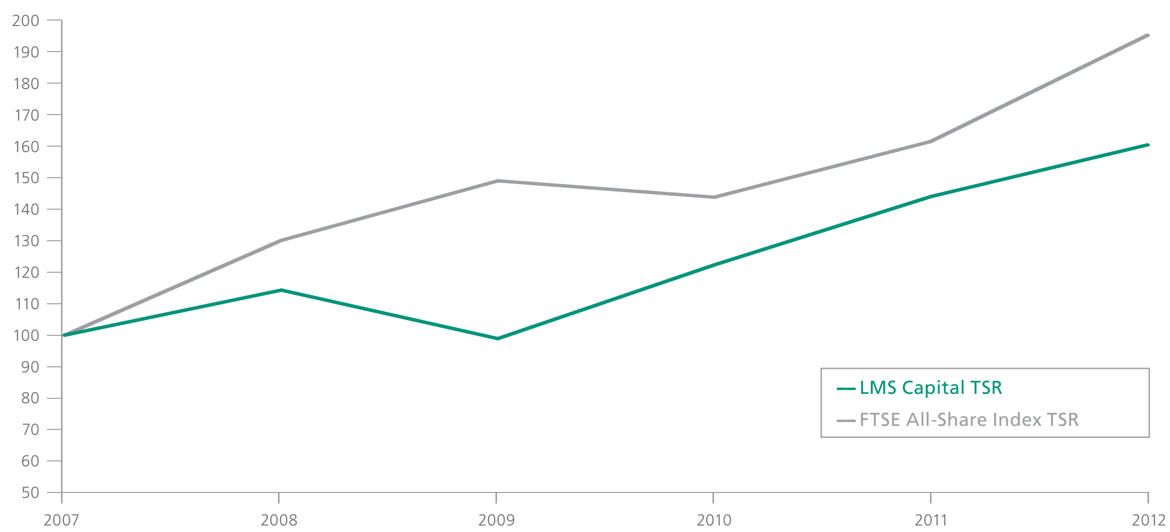
If the Company's investment portfolio were realised at its valuation at 31 December 2013, under these arrangements Mr Rayne would be entitled to carried interest of £1,500,000 and Mr Sweet to £154,000.

3.6 Performance graph

The Committee considers the FTSE All-Share Index a relevant index for Total Shareholder Return and comparison disclosure as it represents a broad equity market index of which the Company is a member.

The performance graph below shows the Company's Total Shareholder Return performance for the five year period ended 31 December 2013 compared with that of the FTSE All-Share Index.

Total Shareholder Return graph since 1 January 2008



3.7 Directors' share interests

The beneficial interests of those Directors who held office during 2013 in the ordinary shares of the Company are set out below.

	31 December	
	2013	**2012**
M Knight	**95,908**	–
B Duroc-Danner	–	447,570
N Friedlos	**92,404**	42,404
N Lerner	**75,326**	28,262
R Rayne	**5,587,681**	6,766,987
A Sweet	**33,631**	42,650
R Christou*	**169,965**	169,965
M Sebba*	**173,486**	173,486

* Number of shares at the date of ceasing to be a Director during 2013.

In addition, Robert Rayne holds a non-beneficial interest in 14,669,103 ordinary shares held in trust.

Except as stated above:

- There have been no changes in the above Directors' interests between 31 December 2013 and the date of this report; and
- the Company is not aware of any other interests of any Director (or any member of his immediate family) in the ordinary share capital of the Company.

There are no requirements or guidelines concerning share ownership by Directors.

3.8 2013 Annual General Meeting

At the Annual General Meeting held on 20 May 2013, shareholders voted in an advisory capacity on the Company's Remuneration report for 2012. Votes in favour were 97.15%, against 2.85%; 263,919 votes were withheld.

This report has been approved by the Board.

Martin Knight
Chairman, Remuneration Committee
4 March 2014

Directors' report

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2013.

LMS Capital plc is an international investment company whose shares are traded on the London Stock Exchange. Details of the Company's strategy and performance in 2013 are included in the Strategic report on pages 4 to 10.

Directors

The names and biographical details of the current Directors of the Company are given on page 11. In addition, further information about the Board is set out in the Corporate governance report on pages 12 to 19.

Details of the current Directors' service contracts and letters of appointment, together with their interests in the Company's shares, are shown in the Remuneration Committee report on pages 24 to 33. The Company maintains directors' and officers' liability insurance and provides the Directors and officers with a qualifying third party indemnity within the limits permitted by the Companies Act 2006.

The Directors may exercise all the powers of the Company subject to the provisions of relevant legislation and the Company's Articles of Association. The powers set out in the Articles of Association include those in relation to the issue and buyback of shares.

Corporate Social Responsibility

Environment

The Company has a limited direct impact upon the environment and there are few environmental risks associated with the Company's activities.

It does not own the building where it occupies floor space. Under the lease for these premises the Company and its landlord have agreed to devise and comply with an energy management plan; to operate initiatives to reduce, re-use and recycle waste; and to maintain and share data about energy and resource consumption to ensure that the premises are used in accordance with the energy management plan and in a way which improves energy efficiency. Office waste is recycled and segregated wherever possible, and staff are made aware of the importance of recycling.

The building is multi-tenanted and costs are apportioned to each tenant pro-rated according to space occupied. Water and gas supplied into the building are metered centrally by the building management and costs apportioned to each tenant pro rata according to floor occupancy. Electricity usage is separately monitored by tenant and energy efficient lighting is installed in the building with sensors which turn lights off when no movement is detected.

GHG emissions by scope – year ended 31 December 2013

Scope	**Source**	**Total emissions** (tonnes CO_2e)
Scope 1	Emissions from combustion of fuel	**37.4**
	Process or fugitive emissions	**16.0**
Scope 2	Emissions from electricity, heat, steam and cooling purchased for own use	**62.4**
Total		**115.8**

Intensity – emissions per unit floor area	**15.8 $kgCO_2e$ per square foot**
	170.3 $kgCO_2e$ per square meter

We have reported on all the emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our consolidated financial statements. We do not have responsibility for any emissions sources that are not included in our consolidated financial statements.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered from our own operations and emissions factors from UK Government's Conversion Factors for Company Reporting 2013.

Charitable donations

The Group did not make any charitable donations during 2013 (2012: £nil). However the Company does provide without charge office accommodation and services within its premises for The Rayne Foundation (www.raynefoundation.org.uk). The estimated monetary value of this in 2013 was £56,000 (2012: £51,000).

The Rayne Foundation aspires to understand and engage with the needs of UK society, and to find ways and means to help address those needs. It focuses on work which has wider than just local application or which is of national importance. It does this within four sectors: the Arts; Education; Health & Medicine; and Social Welfare & Development.

In addition, the Company provides the use of its meeting rooms and facilities to two charities: The Chicken Shed Theatre Company (www.chickenshed.org.uk) and The Place2Be (www.theplace2be.org.uk), for their trustee meetings and other functions.

Individual fund raising activities by employees of the Group are supported by their respective employers and colleagues.

Political donations

The Group did not make any political donations during 2013 (2012: £nil).

Contractual Arrangements

There are no contracts or arrangements with third parties which the Board deem essential to the operation of the Company, or which take effect, alter or terminate upon a change of control of the Company following a takeover bid. The Company's share incentive plans contain provisions relating to change of control. Outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Related Party Transactions

In January 2011, the Company moved office to 100 George Street, London W1U 8NU. Robert Rayne is non-executive Chairman of Derwent London plc, which is the landlord of this property. Details of this and other related party transactions are set out in note 21 to the financial information.

Dividends

The Board has decided not to recommend the payment of a dividend in respect of the year ended 31 December 2013 (2012: £nil).

Directors' report continued

Share Capital

On 3 July 2013 the Company published a circular to shareholders setting out details of a tender offer to return up to £35 million to shareholders. The tender offer was approved by shareholders at a general meeting of the Company held on 29 July 2013 and the results of the tender offer were announced on 30 July 2013. As a result, 38,888,738 ordinary shares in the capital of the Company (with a nominal value of £3,888,873.80) were purchased by the Company through its brokers. These shares were then cancelled, reducing the Company's issued share capital from 226,244,974 ordinary shares to 187,356,236 ordinary shares. The tender offer price was set at 90p and the total value of all ordinary shares purchased was £35 million.

At 31 December 2013, the Company's issued share capital remains at 187,356,236 ordinary shares of 10p each. Each share carries one vote. No shares are currently held in treasury. There are no restrictions on the transfer of shares. There has been no change in the issued share capital between the year end and the date of this report.

Substantial Shareholdings

As at 31 December 2013, the Company was aware of the following significant direct and indirect interests in the issued share capital of the Company.

Name of Shareholder	Percentage of issued share capital
Schroders plc	12.78
Trustees of Lord Rayne's Will Trust	12.44
Robert Rayne [1,2]	10.81
Lady Jane Rayne [1]	9.40
Asset Value Investors	8.73
Jupiter Asset Management Ltd [3]	7.84
Mantra Investissement SCA	5.47
British Empire Securities & General Trust plc	5.50
Taube Hodson & Stonex Partners LLP	2.70

Notes:

1. There are common interests in certain of these shares, which are held within charitable trusts.
2. Robert Rayne holds a non-beneficial interest in 14,669,103 ordinary shares held in trust and a personal interest in 5,587,681 ordinary shares.
3. Part of this holding (comprising 5.33% of the issued share capital) is managed by Jupiter Asset Management Ltd on behalf of The Rayne Foundation, which controls the voting rights attached to these shares.

On 28 February 2014 the Company was notified that the interest of British Empire Securities & General Trust plc had increased to 7.10%; no further notifications have been received as at the date of this report.

Annual General Meeting

The Company's Annual General Meeting will be held at Durrants Hotel, George Street, London W1H 5BJ at 10.00 a.m on 15 May 2014. The notice of meeting, which includes explanatory notes and provides full details of the resolutions being proposed at the Annual General Meeting, is available to view on the Company's website at www.lmscapital.com.

Auditor and Disclosure of Information to Auditor

The auditor, KPMG Audit Plc, has instigated an orderly wind down of its business and resolutions will be proposed at the forthcoming Annual General Meeting to appoint KPMG LLP as auditor and to authorise the Directors to fix their remuneration.

The Directors who held office at the date of approval of this report each confirm that, so far as they are aware, there is no relevant audit information (as defined by Section 418 (3) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board.

Antony Sweet
Company Secretary
4 March 2014

Statement of Directors' responsibilities

The Directors who served during the year ended 31 December 2013 and to the date of this Annual Report are as set out on page 11. The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. As explained in note 1 to the consolidated financial information, the Directors do not believe that it is appropriate to prepare these financial statements on a going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Nick Friedlos
Director
4 March 2014

Antony Sweet
Chief Financial Officer

Independent auditor's report to the members of LMS Capital plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of LMS Capital plc for the year ended 31 December 2013 set out on pages 42 to 76. These financial statements have not been prepared on the going concern basis for the reason set out in note 1 to the financial statements. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of investments (£157.7 million)

Refer to page 20 (Audit Committee report), pages 51 and 52 (accounting policy) and pages 62 to 64 (note 11) and pages 68 to 74 (note 18) for relevant disclosures.

The risk – The fair values of fund, quoted and unquoted investments have been determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines. This is a key judgemental area on which our audit concentrates. Most of the inputs used to derive a valuation require judgement, which may make a material difference to the financial statements.

Our response – Our audit procedures included, among others:

General process

- Enquiry of the Investment Manager to document and assess the design and implementation of the investment valuation processes and controls in place;
- Assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and consideration of whether they are indicative of bias or error in the Company's approach to valuations; and
- Attending the year-end Audit Committee meeting, where we assessed the effectiveness of the Audit Committee's challenge and approval of investment valuations.

Fund investments (£69.2 million)

We assessed the Group's review of the reliability of the underlying fund manager reports. We compared the Group's holdings in fund investments to independent analysis provided by the manager of the underlying fund. Where the December 31 fund reports were not available, we used September 2013 reports, comparing the Group's cash movements in the intervening period to drawdown and distribution notices. We considered whether there were factors, in addition to cash movements, that should result in an adjustment to the underlying fund's Net Asset Value and hence the resulting valuation.

Independent auditor's report to the members of LMS Capital plc only continued

2. Our assessment of risks of material misstatement continued

Our response continued

Direct (unquoted) investments (£64.5 million)

We assessed whether an appropriate valuation technique had been adopted in line with observed industry best practice and the International Private Equity and Venture Capital Guidelines by comparing the sources of inputs and estimates to those within the relevant guidance. Where the valuation technique was based on the price of recent investment, we considered whether that price remained appropriate with reference to the time elapsed since date of acquisition, whether subsequent funding rounds had taken place and whether more up to date financial information, both of the investee and within its market sector, was now available to produce a fair value estimate. Where an earnings-based approach was adopted, we formed an assessment of, and considered the reasonableness of, the various inputs used in deriving the valuation: this included comparison of underlying profit and debt inputs to management accounts, and where available, audited accounts. Valuation multiples were agreed to comparable trading and comparable transaction multiples, where available. Where a discounted cash flow approach had been adopted, we formed an assessment of the reasonableness of expected future cash flows. This included an assessment of the historical accuracy of management's forecasts (budget vs actual results) and comparison of the risk-adjusted rate adopted to available market data. Gains and losses on asset sales after the year end were also reviewed to provide additional evidence to support the estimated fair value at the balance sheet date.

Quoted investments (£24.0 million)

We do not consider there to be a high risk of significant misstatement or a requirement for a significant level of judgement regarding quoted investments as they are comprised of liquid, quoted instruments. However they have been covered in our response to the overall investment valuation risk for completeness. We compared investment holdings to underlying ownership records, and closing bid prices to external providers of market data.

Investment disclosures

We also assessed whether the Group's disclosures detailing the significant fair value estimates adequately disclose the degree of estimation and the sensitivity of the key inputs to those estimates.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £8.3 million. This was determined with reference to a benchmark of net assets (of which it represents 5%), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.4 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Committee report does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 19, in relation to going concern;
- the part of the Corporate governance statement on pages 12 to 19 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Statement of Directors' responsibilities set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Iain Bannatyne (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
4 March 2014

Consolidated income statement

	Notes	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Gains/(losses) on investments	3	**12,498**	(7,221)
Income from investments	4	**804**	1,159
Interest income	5	**62**	75
		13,364	(5,987)
Operating expenses	6	**(3,847)**	(5,264)
Profit/(loss) before tax		9,517	(11,251)
Taxation	8	**(469)**	(960)
Profit/(loss) for the year		**9,048**	(12,211)
Attributable to:			
Equity holders of the parent		**9,048**	(12,211)
Earnings/(loss) per ordinary share – basic	9	**4.3p**	(4.5)p
Earnings/(loss) per ordinary share – diluted	9	**4.3p**	(4.5)p

The notes on pages 50 to 76 form part of these financial statements.

Consolidated statement of comprehensive income

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Profit/(loss) for the year	**9,048**	(12,211)
Exchange differences on translation of foreign operations	**81**	(85)
Total comprehensive profit/(loss) for the year	**9,129**	(12,296)
Attributable to:		
Equity holders of the parent	**9,129**	(12,296)

The notes on pages 50 to 76 form part of these financial statements.

Consolidated statement of financial position

	Notes	31 December 2013 £'000	Restated 31 December 2012 £'000	Restated 1 January 2012 £'000
Non-current assets				
Property, plant and equipment	10	**513**	633	759
Investments	11	**157,721**	179,299	218,476
Non-current assets		**158,234**	179,932	219,235
Current assets				
Operating and other receivables	12	**532**	1,114	2,516
Cash and cash equivalents	13	**17,824**	20,117	30,602
Current assets		**18,356**	21,231	33,118
Total assets		**176,590**	201,163	252,353
Current liabilities				
Operating and other payables	14	**(7,123)**	(6,800)	(4,463)
Current tax liabilities		**(641)**	(676)	(843)
Current liabilities		**(7,764)**	(7,476)	(5,306)
Non-current liabilities				
Provisions and other long-term liabilities	15	**(3,572)**	(1,581)	(2,054)
Non-current liabilities		**(3,572)**	(1,581)	(2,054)
Total liabilities		**(11,336)**	(9,057)	(7,360)
Net assets		**165,254**	192,106	244,993
Equity				
Share capital	16	**18,736**	22,625	27,268
Share premium		**508**	508	17
Capital redemption reserve		**14,286**	10,397	5,635
Merger reserve		**84,083**	84,083	84,083
Foreign exchange translation reserve		**778**	697	782
Retained earnings		**46,863**	73,796	127,208
Equity attributable to owners of the parent		**165,254**	192,106	244,993

The financial statements on pages 42 to 76 were approved by the Board on 4 March 2014 and were signed on its behalf by:

Nick Friedlos
Director

The notes on pages 50 to 76 form part of these financial statements.

Company statement of financial position

	Notes	31 December 2013 £'000	31 December 2012 £'000
Non-current assets			
Property, plant and equipment	10	**513**	633
Investments in subsidiaries	11	**266,301**	281,801
Non-current assets		**266,814**	282,434
Current assets			
Operating and other receivables	12	**195**	156
Amounts receivable from subsidiaries	12	**12,362**	15,862
Cash and cash equivalents	13	**5,278**	5,535
Current assets		**17,835**	21,553
Total assets		**284,649**	303,987
Current liabilities			
Operating and other payables	14	**(3,876)**	(1,960)
Amounts payable to subsidiaries	14	**(113,444)**	(108,641)
Current liabilities		**(117,320)**	(110,601)
Net assets		**167,329**	193,386
Equity			
Share capital	16	**18,736**	22,625
Share premium		**508**	508
Capital redemption reserve		**14,286**	10,397
Retained earnings		**133,799**	159,856
Equity attributable to owners of the parent	16	**167,329**	193,386

The financial statements on pages 42 to 76 were approved by the Board on 4 March 2014 and were signed on its behalf by:

Nick Friedlos
Director

The notes on pages 50 to 76 form part of these financial statements.

Statements of changes in equity

Group

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2012	27,268	17	5,635	84,083	1,115	118,794	236,912	3,476	240,388
Impact of change in accounting policy (note 2)	–	–	–	–	(333)	8,414	8,081	(3,476)	4,605
Restated balance at 1 January 2012	27,268	17	5,635	84,083	782	127,208	244,993	–	244,993
Total comprehensive income/(loss) for the year									
Loss for the year	–	–	–	–	–	(12,211)	(12,211)	–	(12,211)
Exchange differences on translation of foreign operations	–	–	–	–	(85)	–	(85)	–	(85)
Transactions with owners, recorded directly in equity									
Share-based payments	–	–	–	–	–	(109)	(109)	–	(109)
Repurchase of shares	(4,762)	–	4,762	–	–	(40,482)	(40,482)	–	(40,482)
Share options exercised in the year	119	491	–	–	–	(610)	–	–	–
Balance at 31 December 2012	22,625	508	10,397	84,083	697	73,796	192,106	–	192,106
Total comprehensive income for the year									
Profit for the year	–	–	–	–	–	9,048	9,048	–	9,048
Exchange differences on translation of foreign operations	–	–	–	–	81	–	81	–	81
Transactions with owners, recorded directly in equity									
Share-based payments	–	–	–	–	–	(602)	(602)	–	(602)
Repurchase of shares	(3,889)	–	3,889	–	–	(35,379)	(35,379)	–	(35,379)
Balance at 31 December 2013	**18,736**	**508**	**14,286**	**84,083**	**778**	**46,863**	**165,254**	**–**	**165,254**

The notes on pages 50 to 76 form part of these financial statements

Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	27,268	17	5,635	186,193	219,113
Total comprehensive income/(loss) for the year					
Loss for the year	–	–	–	(4,045)	(4,045)
Dividends received	–	–	–	18,909	18,909
Transactions with owners, recorded directly in equity					
Share-based payments	–	–	–	(109)	(109)
Repurchase of shares	(4,762)	–	4,762	(40,482)	(40,482)
Share options exercised in the year	119	491	–	(610)	–
Balance at 31 December 2012	22,625	508	10,397	159,856	193,386
Total comprehensive income/(loss) for the year					
Profit for the year	–	–	–	(21,146)	(21,146)
Dividends received	–	–	–	31,070	31,070
Transactions with owners, recorded directly in equity					
Share-based payments	–	–	–	(602)	(602)
Repurchase of shares	(3,889)	–	3,889	(35,379)	(35,379)
Balance at 31 December 2013	**18,736**	**508**	**14,286**	**133,799**	**167,329**

The notes on pages 50 to 76 form part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Cash flows from operating activities			
Profit/(loss) for the year		**9,048**	(12,211)
Adjustments for:			
Depreciation and amortisation	6	**133**	138
(Gains)/losses on investments		**(12,498)**	7,221
Translation differences		**311**	385
Share-based payments	17	**(233)**	(109)
Interest income		**(62)**	(75)
Income tax expense		**469**	960
		(2,832)	(3,691)
Change in operating and other receivables		**581**	1,402
Change in operating and other payables		**(2,084)**	(2,063)
		(4,335)	(4,352)
Income tax paid		**(504)**	(1,126)
Net cash used in operating activities		**(4,839)**	(5,478)
Cash flows from investing activities			
Interest received		**62**	75
Acquisition of property, plant and equipment	10	**(13)**	(12)
Acquisition of investments	11	**(6,244)**	(7,264)
Proceeds from sale of investments		**44,350**	43,146
Net cash from investing activities		**38,155**	35,945
Cash flows from financing activities			
Repurchase of own shares		**(35,379)**	(40,482)
Net cash used in financing activities		**(35,379)**	(40,482)
Net decrease in cash and cash equivalents		**(2,063)**	(10,015)
Cash and cash equivalents at the beginning of the year		**20,117**	30,602
Effect of exchange rate fluctuations on cash held		**(230)**	(470)
Cash and cash equivalents at the end of the year	13	**17,824**	20,117

The notes on pages 50 to 76 form part of these financial statements.

Company cash flow statement

	Notes	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Cash flows from operating activities			
Profit/(loss) for the year		**9,924**	(4,045)
Adjustments for:			
Depreciation	10	**133**	138
Impairment of investment in subsidiaries	11	**15,500**	–
Share-based payments	17	**(233)**	(109)
Interest income		**(59)**	(71)
		25,265	(4,087)
Change in operating and other receivables		**(40)**	23
Change in operating and other payables		**1,916**	(1,525)
Change in amounts due to subsidiaries		**7,935**	21,988
Net cash from operating activities		**35,076**	16,399
Cash flows from investing activities			
Interest received		**59**	71
Dividends received		**–**	18,909
Acquisition of property, plant and equipment		**(13)**	(12)
Net cash from investing activities		**46**	18,968
Cash flows from financing activities			
Repurchase of own shares		**(35,379)**	(40,482)
Net cash used in financing activities		**(35,379)**	(40,482)
Net decrease in cash and cash equivalents		**(257)**	(5,115)
Cash and cash equivalents at the beginning of the year		**5,535**	10,650
Cash and cash equivalents at the end of the year	13	**5,278**	5,535

The notes on pages 50 to 76 form part of these financial statements.

Notes to the financial information

1. Principal accounting policies

Reporting entity

LMS Capital plc ("the Company") is domiciled in the United Kingdom. These financial statements are presented in pounds sterling because that is the currency of the principal economic environment of the Company's operations. The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (together "the Group").

The Company was formed on 17 March 2006 and commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities. The consolidated financial statements are prepared as if the Group had always been in existence. The difference between the nominal value of the Company's shares issued and the amount of the net assets acquired at the date of demerger has been credited to merger reserve.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("Adopted IFRS"). The Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

On 30 November 2011 shareholders approved a change in the investment policy of the Company with the objective of conducting an orderly realisation of the assets of the Company in a manner that seeks to achieve a balance between an efficient return of cash to shareholders and maximising the value of the Company's investments. As the Directors intend to liquidate the Company following the realisation and settlement of the remaining net assets, which may be over a number of years, these consolidated financial statements have not been prepared on a going concern basis.

The Group's business activities and financial position are set out in the Strategic report on pages 4 to 10. In addition Note 18 to the financial information includes a summary of the Group's financial risk management processes, details of its financial instruments and its exposure to credit risk and liquidity risk. Taking account of the financial resources available to it the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources for the foreseeable future.

These financial statements were authorised for issue by the Directors on 4 March 2014.

The financial statements have been prepared on the historical cost basis except for investments which are measured at fair value, with changes in fair value recognised in the consolidated income statement.

Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 31 October 2012, the International Accounting Standards Board issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments provide an exception to existing IFRS 10 consolidation requirements, and require investment entities to measure certain subsidiaries at fair value through the profit or loss account rather than consolidating. The standard and its amendments were adopted by the European Union on 20 November 2013.

The Company's business purpose is solely to invest funds for returns from capital appreciation and for investment income and it measures and evaluates the performance of all of its investments on a fair value basis. Accordingly it meets the criteria for investment entity status set out in IFRS 10 (as amended) and (as permitted) the Company has early adopted the amendments with a date of initial application of 1 January 2013. In accordance with the transitional provisions of the amendments the Company has applied the new accounting policy retrospectively and restated the comparative information. The impact of this change in accounting policy is set out in Note 2 to the financial information.

Use of estimates and judgements

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis; revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 1 – valuation of investments.

Basis of consolidation

The Group financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 December 2013. Investments measured at fair value through profit or loss are held through a series of intermediate holding companies which are consolidated within the Group financial statements. Note 23 includes details of the companies included in the consolidated financial information.

Investments in subsidiaries

The Company's Investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments the difference between net disposal proceeds and the corresponding carrying amount is recognised in the income statement.

Valuation of investments

The Group manages its investments with a view to profit from the receipt of dividends and changes in fair value of equity investments. Therefore all quoted, unquoted and managed funds investments are designated at fair value through profit and loss and carried in the statement of financial position at fair value.

Fair values have been determined in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines require the valuer to make judgments as to the most appropriate valuation method to be used and the results of the valuations.

Each investment is reviewed individually with regard to the stage, nature and circumstances of the investment and the most appropriate valuation method selected. The valuation results are then reviewed and any amendment to the carrying value of investments is made as considered appropriate.

Quoted investments

Quoted investments for which an active market exists are valued at the closing bid price at the reporting date.

Notes to the financial information continued

1. Principal accounting policies continued

Valuation of investments continued

Unquoted direct investments

Unquoted direct investments for which there is no ready market are valued using the most appropriate valuation technique with regard to the stage and nature of the investment. Valuation methods that may be used include:

- Investments in which there has been a recent funding round involving significant financing from external investors are valued at the price of the recent funding, discounted if an external investor is motivated by strategic considerations;
- Investments in an established business are valued using revenue or earnings multiples depending on the stage of development of the business and the extent to which it is generating sustainable profits or positive cash flows;
- Investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation;
- Investments in an established business which is generating sustainable profits or positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings; and
- Investments in early stage businesses not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the discounted cash flow of the investment to the investors.

Funds

Investments in managed funds are valued at fair value. The general partners of the funds will provide periodic valuations on a fair value basis which the Group will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the Group's valuation methods.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment loss.

Cost includes expenditure that is directly attributable to the asset, including where appropriate the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Depreciation is charged using the straight-line method over the estimated useful lives of the assets as follows:

Plant and equipment	3 years
Fixtures and fittings	3–7 years

When parts of an item of property, plant and equipment have different useful lives, these components are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of fair value and the present value of the future minimum lease payments at inception of the lease, less accumulated depreciation and any impairment loss.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

Impairment of assets

Loans and receivables

Loans and receivables are considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of loans and receivables measured at amortised cost is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant loans and receivables are tested for impairment on an individual basis. The remaining loans and receivables are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date and exchange differences are included in the income statement.

On consolidation the assets and liabilities of the Group's overseas operations including goodwill and fair value adjustments arising on consolidation are translated at the closing rates ruling at the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising on these items are classified as equity and transferred to the Group's foreign exchange translation reserve. Such exchange differences are recognised as income or expense in the period in which the related overseas operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of an overseas operation are treated as assets and liabilities of the overseas entity and translated at the closing rate.

Operating and other receivables

Operating and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash, for the purpose of the cash flow statement, comprises cash in hand and cash equivalents, less overdrafts payable on demand.

Cash equivalents are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values. Cash equivalents include short-term cash deposits with original maturity of less than three months.

Financial liabilities

The Group's financial liabilities include operating and other payables.

Operating and other payables with short duration are not discounted. They are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

Notes to the financial information continued

1. Principal accounting policies continued

Income

Gains and losses on investments

Realised and unrealised gains and losses on investments are recognised in the income statement in the period in which they arise.

Interest income

Interest income is recognised as it accrues using the effective interest method.

Investment income

Investment income comprises investment management fees receivable from portfolio companies and dividend income. Dividend income is recognised on the date the Group's right to receive payment is established.

Expenditure

Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or carried interest incentive arrangements if the Group has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

Share-based payments

The Group has issued share options and awards of performance shares to certain employees. Such options and awards are treated as equity-settled share-based payments and measured at fair value at the date of grant and the fair value is recognised as an expense with a corresponding increase in equity on a straight line basis over the vesting period.

Fair value is calculated by use of a binomial option valuation model taking into account the terms and conditions under which the equity-settled share-based payments were issued. Service and non-market performance conditions attached to transactions are not taken into account in determining fair value.

Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Notes to the financial information continued

2. Change in accounting policy

The Company has early adopted the International Accounting Standards Board's Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), with a date of initial application of 1 January 2013.

The amendments were issued on 31 October 2012 and provide an exception to existing IFRS 10 consolidation requirements, and require investment entities to measure certain subsidiaries at fair value through the profit or loss account rather than consolidating. The standard and its amendments were adopted by the EU on 20 November 2013.

The impact of this change in accounting policy on the Group's income statement for year ended 31 December 2012 is set out below:

	Year ended 31 December 2012		
	As previously reported £'000	Impact of change in accounting policy £'000	Restated £'000
Revenue from sales of goods and services	60,762	(60,762)	–
Gains and losses on investments	(9,472)	2,251	(7,221)
Interest income	88	(13)	75
Other income from investments	438	721	1,159
	51,816	(57,803)	(5,987)
Operating expenses	(62,752)	57,488	(5,264)
Loss before finance costs	(10,936)	(315)	(11,251)
Finance costs	(758)	758	–
Loss before tax	(11,694)	443	(11,251)
Taxation	(1,201)	241	(960)
Loss for the year	(12,895)	684	(12,211)
Attributable to:			
Equity holders of the parent	(12,951)	740	(12,211)
Non-controlling interests	56	(56)	–
	(12,895)	684	(12,211)
Loss per ordinary share – basic	(4.8)p	0.3p	(4.5)p
Loss per ordinary share – diluted	(4.8)p	0.3p	(4.5)p

The impact of this change in accounting policy on the Group's financial position at 31 December 2012 is set out below:

	31 December 2012		
	As previously reported £'000	Impact of change in accounting policy £'000	Restated £'000
Non-current assets			
Property, plant and equipment	7,367	(6,734)	633
Intangible assets	36,694	(36,694)	–
Investments	144,419	34,880	179,299
Other long-term assets	73	(73)	–
Non-current assets	188,553	(8,621)	179,932
Current assets			
Inventories	1,975	(1,975)	–
Operating and other receivables	14,751	(13,637)	1,114
Cash and cash equivalents	26,832	(6,715)	20,117
Current assets	43,558	(22,327)	21,231
Total assets	232,111	(30,948)	201,163
Current liabilities			
Interest-bearing loans and borrowings	(3,712)	3,712	–
Operating and other payables	(17,482)	10,682	(6,800)
Deferred income	(8,758)	8,758	–
Current tax liabilities	(1,055)	379	(676)
Current liabilities	(31,007)	23,531	(7,476)
Non-current liabilities			
Interest-bearing loans and borrowings	(11,621)	11,621	–
Deferred income	(1,990)	1,990	–
Deferred tax liabilities	(200)	200	–
Provisions and other long-term liabilities	(1,723)	142	(1,581)
Non-current liabilities	(15,534)	13,953	(1,581)
Total liabilities	(46,541)	37,484	(9,057)
Net assets	185,570	6,536	192,106
Equity			
Share capital	22,625	–	22,625
Share premium	508	–	508
Capital redemption reserve	10,397	–	10,397
Merger reserve	84,083	–	84,083
Foreign exchange translation reserve	665	32	697
Retained earnings	64,642	9,154	73,796
Equity attributable to owners of the parent	182,920	9,186	192,106
Non-controlling interests	2,650	(2,650)	–
Total equity	185,570	6,536	192,106

Notes to the financial information continued

2. Change in accounting policy continued

The companies excluded from consolidation are as follows:

Name	Place of business and country of incorporation	Holding %
365iTMS Limited	England and Wales	84.1
Entuity Limited	England and Wales	69.9
Nationwide Energy Partners LLC	United States of America	59.5
ITS (US) Holdings Inc	United States of America	100
Updata Infrastructure (UK) Limited*	England and Wales	47.8
Wesupply Limited	England and Wales	85

* Control of this company is exercised via shareholder agreements.

The total fair value of the above subsidiaries was £33,376,000 as at 1 January 2012, the effective date of the change in accounting policy. At that date the exclusion of these subsidiaries from consolidation gave rise to a net gain of £8,081,000, reduced to £4,605,000 after adjustments for non-controlling interests.

3. Gains/(losses) on investments

Gains and losses on investments were as follows:

	Year ended 31 December 2013			Restated Year ended 31 December 2012		
Asset type	Realised gains £'000	Unrealised gains/ (losses) £'000	Total £'000	Realised gains/ (losses) £'000	Unrealised gains/ (losses) £'000	Total £'000
Funds	**2,273**	**2,613**	**4,886**	(100)	(1,195)	(1,295)
Quoted	**158**	**7,430**	**7,588**	34	(6,351)	(6,317)
Unquoted	**839**	**3,215**	**4,054**	(968)	4,485	3,517
	3,270	**13,258**	**16,528**	(1,034)	(3,061)	(4,095)
Charges for incentive plans			**(4,030)**			(3,126)
			12,498			(7,221)

The charges for incentive plans are described in note 7.

4. Income from investments

Income from investments comprises the following:

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Dividends from quoted securities	**16**	10
Dividends from unquoted securities	**163**	542
Directors' fees	**115**	163
Interest and dividends from investments	**510**	444
	804	1,159

5. Interest income

Interest income comprises interest receivable on bank deposits.

6. Operating expenses

Operating expenses comprise administrative expenses and include the following:

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Depreciation	**133**	138
Operating lease expense	**146**	163
Non-recurring costs	**136**	749
Auditor's remuneration:		
Fees to Group auditor		
– parent company	**139**	129
– subsidiary companies	**51**	103
Non-audit related services		
– taxation advisory services	**39**	40

Non-recurring costs comprise compensation payments to staff.

Notes to the financial information continued

7. Personnel expenses

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Wages and salaries	**6,158**	5,281
Compulsory social security contributions	**182**	258
Contributions to defined contribution plans	**89**	147
Share-based payment transactions	**(233)**	(174)
	6,196	5,512

The wages and salaries expense includes £4,030,000 (2012: £3,126,000) in relation to the following incentive plans: (i) the executive incentive plan £2,478,000 (2012: £nil), and (ii) carried interest £1,552,000 (2012: £3,126,000). The wages and salaries expense is shown in the consolidated income statement as follows:

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Gains/(losses) on investments	**4,030**	3,126
Operating expenses	**2,128**	2,155
	6,158	5,281

The executive incentive plan is described in section 2.5 on page 26 of the Remuneration Committee report and is subject to shareholder approval at the 2014 Annual General Meeting. The scheme is linked to amounts returned to shareholders as a consequence of the Group's realisation strategy and £2,478,000 is accrued at 31 December 2013 (31 December 2012: £nil) calculated on the assumption that the Group's investment portfolio is realised at its year end carrying amount.

The Group operates carried interest arrangements in line with normal practice in the private equity industry; £4,197,000 is accrued at 31 December 2013 (31 December 2012: £3,887,000) calculated on the assumption that the Group's investment portfolio is realised at its year end carrying amount.

8. Taxation

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Current tax expense		
Current year	**469**	960
Total tax expense	**469**	960

Reconciliation of effective tax rate

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Profit/(loss) before tax	**9,517**	(11,251)
Corporation tax using the Company's domestic tax rate – 23.25% (2012: 24.5%)	**2,213**	(2,756)
Fair value adjustments not currently taxed	**(2,853)**	332
Non-deductible expenses	**2,175**	2,102
Non-taxable income	**(1,776)**	(113)
Deferred tax not recognised	**260**	477
Overseas tax paid	**469**	960
Prior year adjustment	**1**	75
Tax losses utilised	**(20)**	(117)
Total tax expense	**469**	960

Deferred tax liabilities

The Group has no unrecognised deferred tax liabilities.

Deferred tax assets

The Group has capital losses for tax purposes of £32.8 million at 31 December 2013 (31 December 2012: £30.1 million) available to offset future profits chargeable to tax. In addition, if the Group were to dispose of its investment portfolio at book value at 31 December 2013 it would realise further net capital losses for tax purposes of £18.8 million (31 December 2012: £27.9 million).

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits from these losses.

9. Earnings/(loss) per ordinary share

The calculation of the basic and diluted earnings/(loss) per share, in accordance with IAS 33, is based on the following data:

Group	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Earnings/(loss)		
Earnings/(loss) for the purposes of earnings per share being net profit/(loss) attributable to equity holders of the parent	**9,048**	(12,211)
Number of shares	**Number**	**Number**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**210,041,333**	269,495,938
Effect of dilutive potential ordinary shares:		
Share options and performance shares	**308,878**	1,618,736
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**210,350,211**	271,114,674
Earnings/(loss) per share		
Basic	**4.3p**	(4.5)p
Diluted	**4.3p**	(4.5)p

Notes to the financial information continued

10. Property, plant and equipment

	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
Balance at 1 January 2012 (restated)	311	1,010	1,321
Additions	11	1	12
Balance at 31 December 2012	322	1,011	1,333
Balance at 1 January 2013	**322**	**1,011**	**1,333**
Additions	**1**	**12**	**13**
Balance at 31 December 2013	**323**	**1,023**	**1,346**
Depreciation and impairment losses			
Balance at 1 January 2012 (restated)	297	265	562
Depreciation charge for the year	12	126	138
Balance at 31 December 2012	309	391	700
Balance at 1 January 2013	**309**	**391**	**700**
Depreciation charge for the year	**8**	**125**	**133**
Balance at 31 December 2013	**317**	**516**	**833**
Carrying amounts			
At 31 December 2012	13	620	633
At 31 December 2013	**6**	**507**	**513**

11. Investments

Group

	31 December 2013			Restated 31 December 2012		
Asset type	UK £'000	US £'000	Total £'000	UK £'000	US £'000	Total £'000
Funds	**29,156**	**39,990**	**69,146**	29,879	46,638	76,517
Quoted	**1,406**	**22,630**	**24,036**	1,014	16,114	17,128
Unquoted	**34,654**	**29,885**	**64,539**	47,476	38,178	85,654
	65,216	**92,505**	**157,721**	78,369	100,930	179,299

The movements in investments were as follows:

	Quoted securities £'000	Unquoted securities £'000	Funds £'000	Total £'000
Carrying value				
Balance at 1 January 2012 (restated)	24,198	89,306	104,972	218,476
Purchases	–	2,005	5,259	7,264
Disposals	(719)	(10,142)	–	(10,861)
Distributions from partnerships	–	–	(32,519)	(32,519)
Fair value adjustments	(6,351)	4,485	(1,195)	(3,061)
Balance at 31 December 2012	17,128	85,654	76,517	179,299
Balance at 1 January 2013	**17,128**	**85,654**	**76,517**	**179,299**
Purchases	**255**	**2,716**	**3,273**	**6,244**
Disposals	**(777)**	**(27,046)**	**–**	**(27,823)**
Distributions from partnerships	**–**	**–**	**(13,257)**	**(13,257)**
Fair value adjustments	**7,430**	**3,215**	**2,613**	**13,258**
Balance at 31 December 2013	**24,036**	**64,539**	**69,146**	**157,721**

The table below analyses investments carried at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1, Level 2 and Level 3 during the year (2012: £nil).

Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Group's view of market assumptions in the absence of observable market information (see note 18 – Market risk).

	31 December 2013 £'000	Restated 31 December 2012 £'000
Level 1	**24,036**	17,128
Level 2	**–**	–
Level 3	**133,685**	162,171
	157,721	179,299

Notes to the financial information continued

11. Investments continued

Group continued

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Year ended 31 December 2013 £'000	Restated Year ended 31 December 2012 £'000
Opening balance	**162,171**	194,278
Total gain in profit or loss	**6,997**	2,700
Purchases	**5,989**	7,264
Realisations	**(41,472)**	(42,071)
Closing balance	**133,685**	162,171

Company

The investment in subsidiaries was as follows:

	31 December 2013 £'000	31 December 2012 £'000
Opening balance	**281,801**	281,801
Impairment	**(15,500)**	–
Carrying value	**266,301**	281,801

Details of subsidiaries are set out in note 23.

The impairment loss for the year reflects the impact of changes in the values of the net assets of subsidiaries on the carrying value of the Company's investment. The carrying value above is based on the fair values of the underlying net assets in subsidiary companies, calculated in accordance with the Group's accounting policies set out in note 1.

12. Operating and other receivables

	Group		Company	
	31 December 2013 £'000	Restated 31 December 2012 £'000	31 December 2013 £'000	31 December 2012 £'000
Trade receivables	**209**	875	**–**	–
Other receivables and prepayments	**323**	239	**195**	156
Amounts receivable from subsidiaries	**–**	–	**12,362**	15,862
	532	1,114	**12,557**	16,018

13. Cash and cash equivalents

	Group		Company	
	31 December 2013 £'000	Restated 31 December 2012 £'000	31 December 2013 £'000	31 December 2012 £'000
Bank balances	**578**	3,064	**439**	2,339
Short term deposits	**17,246**	17,053	**4,839**	3,196
	17,824	20,117	**5,278**	5,535

14. Operating and other payables

	Group		Company	
	31 December 2013 £'000	Restated 31 December 2012 £'000	31 December 2013 £'000	31 December 2012 £'000
Trade payables	**1,472**	428	**20**	51
Carried interest (note 7)	**4,197**	3,887	**–**	–
Fund management fees (note 15)	**571**	375	**–**	–
Other non-trade payables and accrued expenses	**883**	2,110	**3,856**	1,909
Amounts payable to subsidiaries	**–**	–	**113,444**	108,641
	7,123	6,800	**117,320**	110,601

15. Provisions and other long-term liabilities

	Group	
	31 December 2013 £'000	Restated 31 December 2012 £'000
Fund management fees	**1,094**	1,581
Executive incentive plan (note 7)	**2,478**	–
	3,572	1,581

Full provision has been made for fees payable under an investment management agreement of £1,665,000 (31 December 2012: £1,956,000) which is considered onerous following the change in strategy of the Group from 30 November 2011. The fund management fees are expected to be paid annually until 2015. The current element of the provision of £571,000 (31 December 2012: £375,000) is included in operating and other payables.

Notes to the financial information continued

16. Capital and reserves

Share capital

	Ordinary shares			
	2013 Number	2013 £'000	2012 Number	2012 £'000
Balance at beginning of the year	**226,244,974**	**22,625**	272,674,285	27,268
Exercise of share options	–	–	1,189,553	119
Repurchase of shares	**(38,888,738)**	**(3,889)**	(47,618,864)	(4,762)
Balance at the end of the year	**187,356,236**	**18,736**	226,244,974	22,625

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The repurchase of shares was in connection with the tender offer in July for £35 million (2012: £40 million).

Capital redemption reserve

The capital redemption reserve comprises the nominal value of shares purchased by the Company out of its own profits and cancelled.

Treasury shares

The Company has no shares held in treasury.

Merger reserve

The Company commenced operations on 9 June 2006 when it received the demerged investment division of London Merchant Securities. Consolidated financial statements were prepared for the nine months ended 31 December 2006 to reflect the two step demerger process: this comprised an initial common control transaction followed by a subsequent demerger of the Group. The consolidated financial statements are prepared as if the Group had always been in existence. The difference between the nominal value of the Company's shares issued and the amount of the net assets acquired at the date of demerger has been credited to merger reserve.

Foreign exchange translation reserve

The foreign exchange translation reserve comprises all foreign currency arising from the translation of the financial statements of foreign operations.

17. Share-based payments

Company

Executive share option plan

The Company has a share option plan that entitles certain employees to purchase shares in the Company at the market price of the shares at the date of grant of the option, subject to Company performance criteria. Under the terms of the scheme, options may be exercised between three and ten years after the date of grant. At 31 December 2013 there were no option grants outstanding under this plan (2012: nil).

Deferred share bonus plan

The Company has a deferred share bonus plan for key executives. Shares awarded under this scheme are released over three or four years (depending on the size of the award) and the first release may take place no earlier than the first anniversary of the award subject to the increase in the Net Asset Value per share of the Company exceeding the increase in the Retail Prices Index by an average of at least 3% per annum.

Movements during the year were as follows:

	Year ended 31 December 2013 Number	Year ended 31 December 2012 Number
Outstanding at 1 January	**66,665**	1,321,667
Awards during the year	**–**	–
Exercised during the year	**(16,666)**	(1,171,667)
Lapsed during the year	**–**	(83,335)
Outstanding at 31 December	**49,999**	66,665

Share awards outstanding at 31 December 2013 are vested and available for exercise until 12 April 2020. The weighted average exercise price of awards outstanding at 31 December 2013 was £nil (31 December 2012: £nil).

The awards exercised during the year were settled in cash as permitted under the rules of the plan. The shares which lapsed during 2012 did so because performance criteria required for their release were not met.

Performance share plan

The Company has a performance share plan that entitles certain employees to receive an award of performance shares in the Company. Performance shares granted under the plan are subject to the performance criteria set out below.

For 25% of the total award to vest, Total Shareholder Return (TSR) over the three year measurement period must exceed the median TSR of the FTSE All-Share Index. For the remaining 75% of the award, the increase in Net Asset Value per share over the period must exceed the increase in the Retail Prices Index by at least 3% per annum. At RPI plus 3%, 18.75% of the total shares that are subject to the award will vest, rising on a straight-line basis to the remaining 75% vesting if the increase in Net Asset Value per share exceeds RPI by 8% per annum.

	Year ended 31 December 2013 Number	Year ended 31 December 2012 Number
Outstanding at 1 January	**1,552,071**	2,908,634
Granted during the year	**–**	–
Exercised during the year	**(392,325)**	(59,267)
Lapsed during the year	**(900,867)**	(1,297,296)
Outstanding at 31 December	**258,879**	1,552,071

Share awards outstanding at 31 December 2013 are vested and available for exercise until 11 April 2021. The weighted average exercise price of awards outstanding at 31 December 2013 was £nil (31 December 2012: £nil).

Of the awards which lapsed during the year, 654,658 (2012: 1,158,003) lapsed because the performance criteria were not met and 246,209 (2012: 139,293) lapsed when the beneficiaries left the Company.

The awards exercised during the year were settled in cash as permitted under the rules of the plan.

Notes to the financial information continued

17. Share-based payments continued

Recognition and measurement

The fair value of services received in return for grants and awards under the Company's share based incentive plans is based on their fair value measured using a binomial valuation model. There were no awards of shares under the plans in 2013.

The credit recognised in the income statement for share-based payments is as follows:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Executive share option plan	–	–
Deferred share bonus plan	(21)	(21)
Performance share plan	(212)	(88)
	(233)	(109)

18. Financial risk management

Financial instruments by category

The following tables analyse the Group and Company's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are not included in the table below.

Group

	31 December 2013			Restated 31 December 2012		
Assets	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000
Investments	146,963	10,758	157,721	161,072	18,227	179,299
Operating and other receivables	–	532	532	–	1,114	1,114
Cash and cash equivalents	–	17,824	17,824	–	20,117	20,117
Total	146,963	29,114	176,077	161,072	39,458	200,530

	31 December 2013			Restated 31 December 2012		
Liabilities	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000	Fair value through profit or loss £'000	Loans and receivables £'000	Total £'000
Operating and other payables	–	7,123	7,123	–	6,800	6,800
Total	–	7,123	7,123	–	6,800	6,800

Company

Assets	31 December 2013 Fair value through profit or loss £'000	31 December 2013 Loans and receivables £'000	31 December 2013 Total £'000	31 December 2012 Fair value through profit or loss £'000	31 December 2012 Loans and receivables £'000	31 December 2012 Total £'000
Operating and other receivables	–	195	195	–	156	156
Amounts receivable from subsidiaries	–	12,362	12,362	–	15,862	15,862
Cash and cash equivalents	–	5,278	5,278	–	5,535	5,535
Total	–	17,835	17,835	–	21,553	21,553

Liabilities	31 December 2013 Fair value through profit or loss £'000	31 December 2013 Loans and receivables £'000	31 December 2013 Total £'000	31 December 2012 Fair value through profit or loss £'000	31 December 2012 Loans and receivables £'000	31 December 2012 Total £'000
Operating and other payables	–	3,876	3,876	–	1,960	1,960
Amounts payable to subsidiaries	–	113,444	113,444	–	108,641	108,641
Total	–	117,320	117,320	–	110,601	110,601

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, its policies for measuring and managing risk, and its management of capital.

Notes to the financial information continued

18. Financial risk management continued

Credit risk

Credit risk is the risk of the financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and its cash and cash equivalents.

	31 December 2013 £'000	Restated 31 December 2012 £'000
Operating and other receivables	**532**	1,114
Cash and cash equivalents	**17,824**	20,117
	18,356	21,231

Operating and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. Each new customer is analysed individually for creditworthiness before payment terms are offered. The conduct of customer accounts is reviewed regularly.

The Group establishes an allowance for impairment that represents an estimate of incurred losses in respect of operating and other receivables. This allowance includes a specific loss component that relates to individually significant exposures and a collective loss component for groups of similar assets. This is determined based on historical payment data statistics and is intended to cover losses that have been incurred but not yet identified.

The maximum exposure to credit risk for operating and other receivables by geographic region was:

	31 December 2013 £'000	Restated 31 December 2012 £'000
UK	**301**	228
United States	**231**	886
	532	1,114

The aging of trade receivables was:

	31 December 2013		Restated 31 December 2012	
	Gross £'000	Impairment £'000	Gross £'000	Impairment £'000
Not past due	**209**	–	875	–
	209	–	875	–

Cash and cash equivalents

The Group limits its credit risk exposure by only depositing funds with highly rated institutions. Given these ratings the Group does not expect any counterparty to fail to meet its obligations and therefore no allowance for impairment is made for bank deposits.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Its financing requirements are met through a combination of liquidity from the sale of investments and the use of cash resources.

The following are the contractual maturities of financial liabilities:

31 December 2013	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 Years £'000	More than 5 years £'000
Operating and other payables	**7,123**	**7,123**	**7,123**	–	–	–	–
	7,123	**7,123**	**7,123**	–	–	–	–

31 December 2012 (restated)	Carrying amount £'000	Contractual cash flows £'000	6 months or less £'000	6–12 months £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Operating and other payables	6,800	6,800	6,800	–	–	–	–
	6,800	6,800	6,800	–	–	–	–

In addition the Group has uncalled commitments to funds of £8,139,000 (31 December 2012: £10,420,000) for which the timing of payment is uncertain.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Group aims to manage this risk within acceptable parameters while optimising the return.

Currency risk

The Group is exposed to currency risk on those of its investments which are denominated in a currency other than the Group's functional currency which is pounds sterling. The only other significant currency within the investment portfolio is the US dollar; approximately 59% of the investment portfolio within the Group's investment management business is denominated in US dollars.

The Group does not hedge the currency exposure related to its investments. The Group regards its exposure to exchange rate changes on the underlying investment as part of its overall investment return, and does not seek to mitigate that risk through the use of financial derivatives.

The Group is exposed to translation currency risk on sales and purchases which are denominated in a currency other than the Group's functional currency. The currency in which these transactions are denominated is principally US dollars.

Notes to the financial information continued

18. Financial risk management continued

Market risk continued

Currency risk continued

The Group's exposure to foreign currency risk was as follows:

	31 December 2013			Restated 31 December 2012		
	GBP £'000	USD £'000	Other £'000	GBP £'000	USD £'000	Other £'000
Investments	**55,217**	**98,811**	**3,693**	68,607	106,197	4,495
Operating and other receivables	**301**	**231**	**–**	228	886	–
Cash and cash equivalents	**4,257**	**13,567**	**–**	8,006	12,111	–
Operating and other payables	**(1,398)**	**(5,725)**	**–**	(1,961)	(4,839)	–
Gross exposure	**58,377**	**106,884**	**3,693**	74,880	114,355	4,495
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Net exposure	**58,377**	**106,884**	**3,693**	74,880	114,355	4,495

At 31 December 2013 the rate of exchange was USD 1.66 = £1.00 (31 December 2012: USD 1.63 = £1.00). The average rate for the year ended 31 December 2013 was USD 1.57 = £1.00 (2012: USD 1.59 = £1.00).

A 10 per cent strengthening of the US dollar against the pound sterling would have increased equity by £10.0 million at 31 December 2013 (31 December 2012: increase of £10.9 million) and increased the profit for the year ended 31 December 2013 by £10.0 million (2012: decreased the loss by £10.9 million). This assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	31 December 2013 £'000	31 December 2012 £'000
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**–**	–
	–	–
Variable rate instruments		
Financial assets	**17,824**	20,117
Financial liabilities	**–**	–
	17,824	20,117

An increase of 100 basis points in interest rates at the reporting date would have increased equity by £190,000 (31 December 2012: increase of £254,000) and increased the profit for the year by £190,000 (2012: decreased the loss by £254,000).

Fair values

The carrying amounts of financial assets (excluding investments) and liabilities, shown in the statement of financial position, approximate their fair values.

The fair values of financial liabilities are based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Other market price risk

Equity price risk arises from equity securities held as part of the Group's portfolio of investments. The Group's management of risk in its investment portfolio focuses on diversification in terms of geography and sector, as well as type and stage of investment.

The Group's investments comprise quoted investments (quoted on the main stock exchanges in London, US, Canada and AIM) and equity and debt instruments in unquoted businesses. A proportion of its unquoted investments are held through funds managed by external managers.

As is common practice in the venture and development capital industry, the investments in unquoted companies are structured using a variety of instruments including ordinary shares, preference shares and other shares carrying special rights, options and warrants and debt instruments with and without conversion rights. The investments are held for resale with a view to the realisation of capital gains. Generally, the investments do not pay significant income.

The significant unobservable inputs used at 31 December 2013 in measuring investments categorised as level 3 in note 11 are considered below.

1. Unquoted securities (carrying value £64.5 million) are valued using a market approach based on comparable quoted companies for which the key unobservable inputs are:

    - EBITDA multiples in the range 5–9 times dependent on the business of each individual company, its performance and the sector in which it operates;
    - Revenue multiples in the range 0.5–1.5 times, also dependent on attributes at individual investment level;
    - Discounts applied ranging from 10%–30% to reflect the illiquidity of unquoted companies compared to similar quoted companies. The discount used requires the exercise of judgement taking into account factors specific to individual investments such as size and rate of growth compared to other companies in the sector.

2. Investments in funds (carrying value £69.2 million) are valued using reports from the general partners of our fund interests with adjustments made for calls, distributions and foreign currency movements since the date of the report (if prior to 31 December 2013). We also carry out our own review of individual funds and their portfolios to satisfy ourselves that the underlying valuation bases are consistent with our basis of valuation and knowledge of the investments and the sectors in which they operate. However the degree of detail on valuations varies significantly by fund and, in general, details of unobservable inputs used are not available.

    If the valuation for level 3 category investments declined by 10% from the amount at the reporting date, with all other variables held constant, the profit for the year ended 31 December 2013 would have decreased by £13.4 million (2012: increased the loss by £16.2 million). An increase in the valuation of level 3 category investments by 10% at the reporting date would have an equal and opposite effect.

Notes to the financial information continued

18. Financial risk management continued

Capital management

The Group's total capital at 31 December 2013 was £165 million (31 December 2012: £192 million) comprising equity share capital and reserves. The Group had borrowings at 31 December 2013 of £nil (31 December 2012: £nil).

The Board monitors and reviews the broad structure of the Group's capital on an ongoing basis. This review includes:

– Working capital requirements and follow-on investment capital for portfolio investments, including calls from funds;

– The possible timing and extent of returning capital to shareholders in line with the Company's asset realisation strategy;

– The annual dividend policy.

The Group's objectives, policies and processes for managing capital reflect the change in strategy from November 2011.

19. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December 2013 £'000	Restated 31 December 2012 £'000
Less than one year	**289**	289
Between one and five years	**938**	1,227
More than five years	**–**	–
	1,227	1,516

20. Capital commitments

Group

	31 December 2013 £'000	31 December 2012 £'000
Outstanding commitments to funds	**8,139**	10,420

The outstanding commitments to funds comprise unpaid calls in respect of funds where a member of the Group is a limited partner.

21. Related party transactions

With effect from January 2011 the Company entered into a lease agreement with Derwent London plc in respect of the premises comprising its head office and registered office. Under the terms of the lease the Company pays an annual rent of £289,000 to Derwent London plc plus certain service charges. Robert Rayne is Chairman of Derwent London plc.

Under an arrangement with SQP Limited the Company pays fees of £60,000 per annum for the provision of services by Robert Rayne.

Compensation arrangements for key management are set out in the Remuneration Committee report on pages 24 to 33.

In connection with each of the tender offers in July 2013 and November 2012, the Company received an irrevocable undertaking from Withers Trust Corporation Limited (the "Undertaking"). The purpose of each Undertaking was a contingency measure to ensure that members of the extended Rayne family and associated trusts (the "Concert Party") would in aggregate tender sufficient shares so that the Concert Party's percentage interest in the ordinary shares of the Company would not increase as a consequence of the tender offer and consequently avoid any requirement under the City Code on Takeovers and Mergers for the Concert Party to make an offer for all the issued shares of the Company which they did not own. This arrangement described above was classified as a smaller related party transaction under the Listing Rules of the UK Listing Authority (the "Listing Rules"). For the purposes of this classification the deemed value of the consideration for the Undertaking was £7.3 million in July 2013 and £1.7 million in November 2012.

The results of both Tender Offers did not, however, ultimately require any extra shares to be tendered by Withers under the terms of the Undertakings. No fee was payable by the Company in connection with the Undertakings.

22. Subsequent events

There were no events subsequent to 31 December 2013 that would materially affect the interpretation of these financial statements.

Notes to the financial information continued

23. Subsidiaries

The Group's principal subsidiaries are as follows:

Name	Country of incorporation	Holding %	Activity
International Oilfield Services Limited	Bermuda	100	Investment holding
LMS Capital (Bermuda) Limited	Bermuda	100	Investment holding
LMS Capital (ECI) Limited	England and Wales	100	Investment holding
LMS Capital (General Partner) Limited	Bermuda	100	Investment holding
LMS Capital (GW) Limited	Bermuda	100	Investment holding
LMS Capital Group Limited	England and Wales	100	Investment holding
LMS Capital Holdings Limited	England and Wales	100	Investment holding
LMS NEP Holdings Inc	United States of America	100	Investment holding
Lioness Property Investments Limited	England and Wales	100	Investment holding
Lion Property Investments Limited	England and Wales	100	Investment holding
Lion Investments Limited	England and Wales	100	Investment holding
Lion Cub Investments Limited	England and Wales	100	Dormant
Lion Cub Property Investments Limited	England and Wales	100	Investment holding
Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments Limited	England and Wales	100	Investment holding
LMS Tiger Investments (II) Limited	England and Wales	100	Investment holding
Westpool Investment Trust plc	England and Wales	100	Investment holding

In addition to the above, certain of the Group's carried interest arrangements are operated through five limited partnerships (LMS Capital 2007 LP, LMS Capital 2008 LP, LMS Capital 2009 LP, LMS Capital 2010 LP and LMS Capital 2011 LP) which are registered in Bermuda.

Shareholders' information

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Shareholder enquiries
All administrative enquiries relating to shareholders, such as notification of change of address or the loss of a share certificate, should be made to the Company's registrars, Capita Registrars, whose address is given above.

Electronic shareholder communications
The Company has opted to send shareholders communications via the Company website rather than via the post. This is more environmentally friendly and cost efficient. If you would like to receive paper copies of these communications, please write to the Company's registrars, Capita Registrars, whose address is given above.

Share dealing service
A telephone dealing service has been arranged with Stocktrade, which provides a simple way of buying or selling LMS Capital plc ordinary shares. Full details can be obtained by telephoning 08456 010995, quoting the reference: 'Low Co 0236'. For further information, please visit: www.stocktrade.co.uk/LMS/

Company website
The Company's website provides further information on the Company's investments, its strategy and its share price, as well as an archive of all press releases, presentations and shareholder documents. You can sign up to be notified by email when press releases are announced. For further information, please visit www.lmscapital.com.

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Financial calendar 2014
Annual General Meeting:
15 May

Interim Management Statements:
May and November

Half-year results:
July/August

Year-end:
31 December

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ACCRUE FULTON
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