# Report for the quarter from 1 January 2004 to 31 March 2004

Princess

The convertible bond issued by Princess Private Equity Holding Limited offers both institutional and private investors access to an internationally diversified portfolio consisting of private equity partnerships. Investors have the opportunity to participate in the earnings generated by the private equity asset class. Moreover, the nominal capital is protected at maturity by an insurance policy, which is reinsured by Swiss Re.

## Princess's NAV continues its upward trend

***The anticipated upward trend in the Princess NAV has materialized over the past quarter.***

In the first quarter of 2004, the net asset value (NAV) of the Princess portfolio increased by 46 basis points from 77.16% at the end of December 2003 to 77.62% at the end of March 2004. This is the third consecutive NAV increase on a quarterly basis, and the NAV has now recovered from its low of 75.18% in July 2003.

The reason for the NAV increase in the first quarter of 2004 are the promising partnership valuations disclosed in the their most recent reports. The revaluations reflect realizations during the last few months of 2003 when the exit window started to re-open and Princess's partnerships were able to partially realize some of their successful investments such as Sigmatel, Simmons and Ameritrade.

In terms of distributions, the first quarter of 2004 was very successful for Princess, beating even the solid final quarter of 2003. Since January, Princess has received USD 38.6m from investee partnerships, stemming primarily from the sale of Simmons, IMO Car Wash and Blagden Packaging. Further sales of shares in Ameritrade and MEMC also contributed significantly to distributions in the past few months.

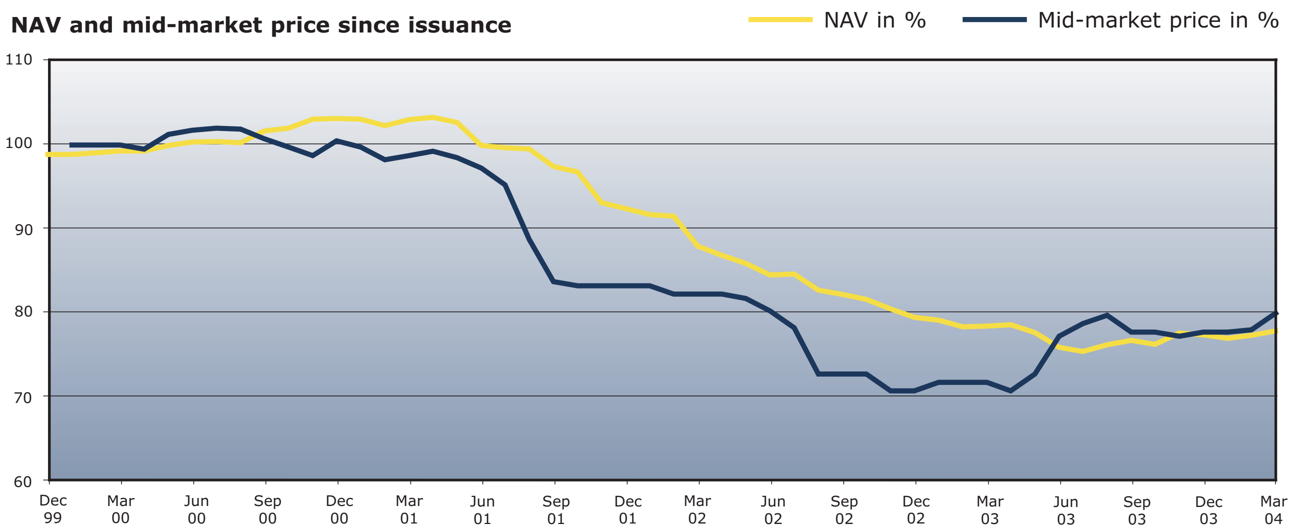
The rise in distributions is having a positive effect on the financing of Princess. The average monthly distributions are increasingly able to meet the monthly capital calls: the net cash flows (distributions minus draw downs) were positive every month during the first quarter of 2004.

Although Princess experienced significant distributions in the first quarter, its full potential has not yet been exploited. Princess is still invested in companies that have been developed over the past two to four years and that are now ready to be exited. As the exit environment has started to improve and trade sales and IPOs are expected to gain momentum in the second half of 2004, realizations will continue to generate further distributions for the Princess portfolio.

The mid-market price of Princess increased from 77.50% at the end of December 2003 to 79.75% at the end of March 2004, anticipating and valuing the further upside potential of the NAV.

Substantial valuation adjustments, especially for venture investments made prior to 2001, have already been made in the Princess portfolio and are reflected in the current NAV. While the possibility of further downward revaluations cannot be ruled out, all of these factors speak for continued improvement in the Princess NAV over the next year.

**NAV and mid-market price since issuance**




## Recapitalization – an alternative liquidity strategy

***Recapitalizations give private equity investors many advantages.***

Various indicators suggest that the number of IPOs and trade sales are on the rise. Despite the expected improvement in the traditional exit environment, private equity firms that are after liquidity events have in recent months increasingly been turning to recapitalizations.

Recapitalizations provide private equity investors with many advantages. First, recapitalizing a company allows equity investors to recoup a significant proportion of their initial investment and lower their total investment risk. In addition, by retaining all or part of their original equity ownership, investors can continue to actively support the portfolio company and to remain beneficiaries of the company's future growth potential. Their remaining equity stake is realized when the company is later taken public via an IPO or sold to a strategic or financial buyer.

Dr. Martin Halusa, CEO of Apax Partners, a partnership in which Princess is invested, addressed the topic of recapitalizations in a recent interview with Partners Group. An abstract of that interview can be found on the next page.

Apax Partners is one of the world’s leading private equity investment groups. With over 30 years of direct investing experience, Apax Partners’ funds provide long-term equity financing to entrepreneurs to build and strengthen world-class companies. It pursues a balanced equity portfolio strategy, investing in companies at all stages of development from early stage to buyout. Apax Partners’ funds invest in companies in six selected global sectors, i.e. information technology, telecommunications, healthcare, media, retail and consumer, and financial services.

**Dr. Halusa, the volume of recapitalizations appears to have increased significantly during the past few months. In your opinion, what has led to this increase?**
The key macroeconomic factor driving the recapitalization of deals is the low interest rate environment globally. There has been a shift out of equities and into fixed-income investments by institutional investors over the past couple of years and as rates have fallen bond investors have sought higher yielding debt. This demand by debt investors has been met through dividend recapitalizations (where private equity investors dividend out the proceeds of a new debt issue), satisfying private equity investors' need to generate liquidity at a time when equity markets have been largely closed.

**In basic terms, how does a recapitalization work?**
A recapitalization is a transaction in which the existing shareholders exchange some or all of their equity for cash by issuing debt, while still maintaining an ownership interest in the company. The investee company raises new debt finance in the form of senior, mezzanine or bond financing, the proceeds of which are used to repay shareholder loans or provide a dividend to the private equity investors who own the company.

**How have macroeconomic factors affected the recapitalization environment?**
Low interest rates have made the market more attractive for recapitalizations as they have allowed the investee companies to lock-in historically low interest rates for the benefit of the business going forward. Bond investors have traditionally been reluctant to allow private equity investors to withdraw their capital, however the demand for higher yielding debt has removed this constraint.

**What are the primary sources of capital for recapitalizations?**
Recapitalization can come from a number of sources, i.e. senior bank debt, mezzanine debt and the high-yield bond market. In addition, new equity may be sought as it allows the original equity owners to obtain greater distribution of value and gives the banks and bond investors a greater level of confidence that the pricing of the recapitalization is appropriate.

**What are the key considerations in determining the viability of a recapitalization?**
The key consideration for a recapitalization is the appropriate level of debt for the company. Here it is a question of balancing the need to maintain an efficient capital structure through gearing in order to maximise equity returns while ensuring the level of gearing as well as the covenants under which the company has to operate do not put the business or its flexibility to invest in growth and make acquisitions at risk.

**Are recapitalizations rather a new phenomenon or were they also present during other cycles of the private equity industry?**
Recapitalizations have been a constant feature of the market for businesses with strong cash generation.

**How many recapitalizations has Apax carried out lately? Could you give us some examples?**
Apax has conducted a number of recapitalizations in its portfolio. Most recently, we recapitalized our investment in Azimut, lowering the cost of funds and relaxing the covenant restrictions placed on the business. We also recouped our investment in Kabel Deutschland, just six months after making the original investment, for two factors: the business's strong cash generation and the increased appetite for debt in the cable/telecoms sector.

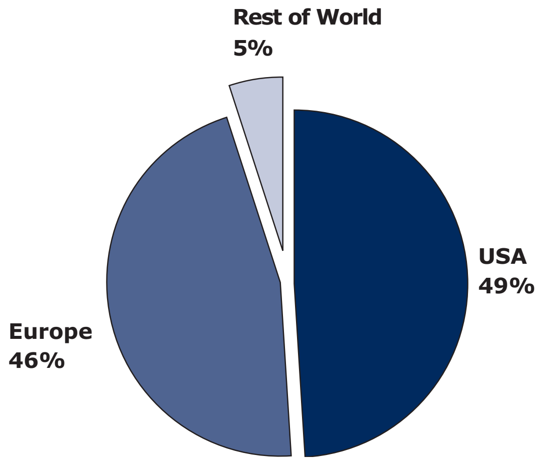
**Do you think that the current recapitalization environment is merely a "window" of opportunity that will soon close, or is the current rate of recapitalizations sustainable?**
I believe that recapitalizations will slow as interest rates rise, however, strong companies will still be able to access additional debt as a partial exit for or return of capital to investors.

**Do you believe that the recapitalization environment is by and large healthy/positive, or that lenders have become over-exuberant and that this will lead to over-leveraged, distressed companies?**
Although leverage levels in the USA in particular are high, with low interest rates and a long term to maturity these loans do not impose a heavy burden on the cash flow of the company. Underperformance by a company or market combined with high leverage will always create distress. For a strong business in an attractive and growing market, a recapitalization is a positive development, allowing investors to see a return of capital and to make their equity work harder.

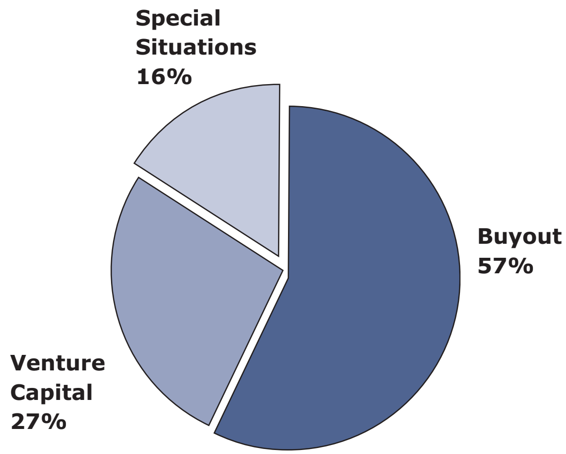
**Dr. Halusa, thank you for this interview.**

73% of the Princess portfolio is invested in the stable buyout and special situations segments. Venture investments have shifted towards the later stage and back to more traditional business ideas following the bursting of the technology bubble.

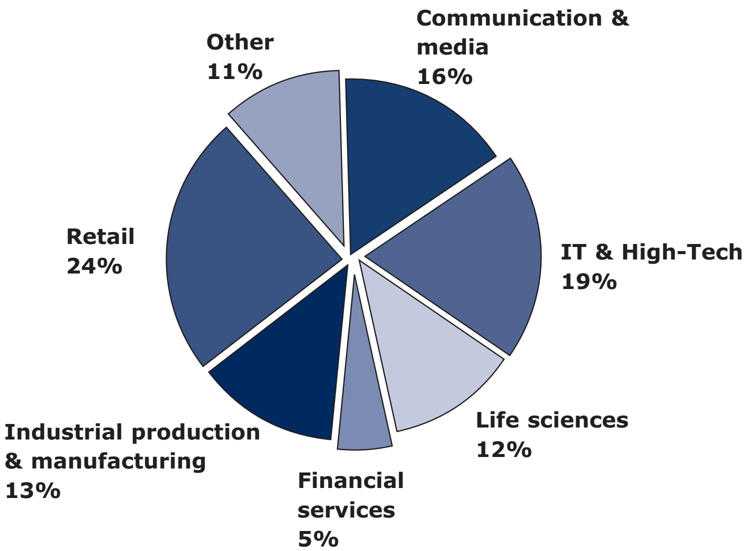
### Investments by geographic region*



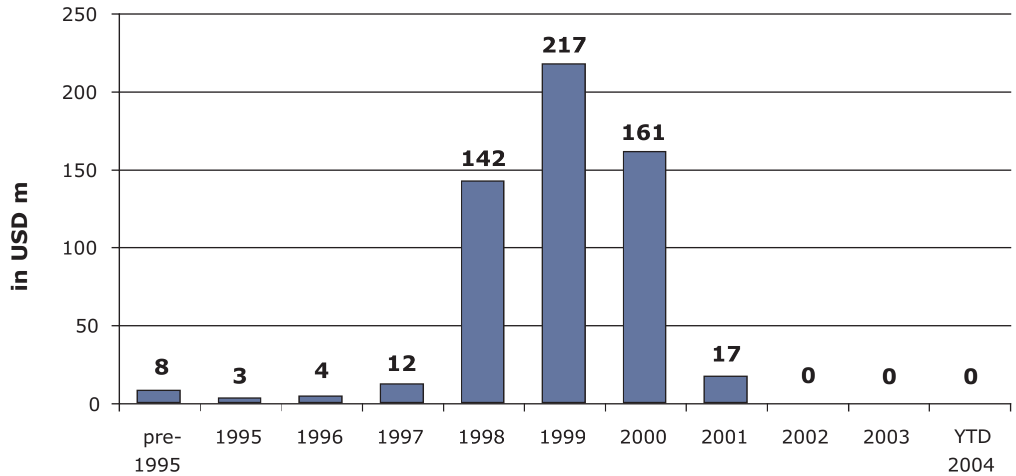

### Investments by financing stage*




### Investments by industry sector*




### Investments by vintage year*




*Allocation by unrealized value of private equity investments

In the first quarter of 2004, Princess received USD 40.5m in proceeds from 49 partnerships. At the same time, 65 partnerships made capital calls in the order of USD 21.9m.

## Selected new investments

**Providence Equity Partners IV, Thomas H. Lee Parallel Fund V**
In January, a private equity consortium including Thomas H. Lee Partners, Providence Equity Partners and Bain Capital acquired *Warner Music Group (WMG)* for USD 2.6bn from Time Warner, the world's leading media and entertainment company. WMG is the largest privately held independent music company and is home to a collection of the best-known record labels in the music industry including Atlantic, Elektra, Maverick, Warner Bros. and Word. At the beginning of March, WMG announced a series of restructuring initiatives aimed at creating a more efficient organization better able to compete in the challenging business environment of today's music industry.

**Segulah II**
In February, Segulah acquired *AB Previa,* Sweden's leading managed healthcare provider, from Capio AB for an undisclosed price. Previa offers private and public sector companies services that address organization, leadership, workplace environment, health, lifestyle and rehabilitation. Previa serves 12'000 companies with 650'000 employees. Segulah sees Previa as a company with the expertise and position to meet the growing demand for a holistic approach to creating healthy workplaces.

**Fenway Partners Capital Fund II**
In March, Fenway Partners Inc. completed its secondary buyout of *American Achievement Corp.* from Castle Harlan. Besides class rings and school yearbooks, Austin-based American Achievement turns out graduation announcements and diplomas. It also publishes "Who's Who Among American High School Students" and fashions sports championship rings, including those for some of New York Yankees' World Series winning teams. With American Achievement, Fenway takes over a company whose EBITDA has soared from USD 5m in 1997 to about USD 57m in 2003. While the financial terms of the transaction were not disclosed, according to a recent Moody's Investors Services report, Fenway paid USD 431m for the company.

## Selected new exits

**Bridgepoint Europe I "D"**
A private equity consortium led by Bridgepoint sold *IMO Car Wash Group,* the world's largest conveyor carwash chain, to JP Morgan Partners in January for GBP 350m. IMO operates 810 drive-through, conveyor wash installations in the U.K., Germany and ten other European countries, using a system that can wash four cars simultaneously. The consortium originally acquired IMO in 1998 for GBP 138m and subsequently purchased IMO's former sister company in Germany in 2002 for EUR 130m. Bridgepoint said, "It was one of the earliest successes of our pan-European buy-and-build strategy". In fact, IMO has doubled its number of sites and tripled its earnings in the past four years.

**Coller International Partners III NW2**
In February, a consortium including Bridgepoint sold its interests in Belgian *Blagden Packaging Group* to Alchemy Partners in a secondary buyout transaction for an undisclosed price. After acquiring the Group in 1998 in a deal worth EUR 149m, the consortium followed a buy-and-build strategy which has strengthened Blagden's position as the leading European new and reconditioned drum manufacturer. As a result, the company now has 19 facilities in eight European countries including Russia. The transaction represents a full exit for Bridgepoint and its partners, both of whom report a healthy return on their initial investment.

**Menlo Ventures IX, Morgenthaler Partners VII, Worldview Technology Partners IV**
In February, *Catena Networks Inc.* was acquired by Ciena Corporation, a global provider of intelligent network and service solutions, for USD 486m in Ciena shares. Catena Networks, with offices in Canada and the USA, has received USD 192m in venture capital funding from several venture capital specialists since its inception in 1999. Catena Networks provides integrated broadband access solutions to enable service providers to deliver voice, data and video services and to migrate smoothly to packed-based networks. Catena was planning an IPO later in 2004 but changed course after being approached by Ciena, which coveted it as a quick route into the market for access equipment.

**Providence Equity Partners IV**
The EUR 800m IPO of Irish phone company *Eircom* in March was the largest IPO by a European telecom company in three years. Princess participated in the IPO through Providence Equity Partners, which with a 44.2% stake in Eircom was its largest investor. Including the special dividend that was paid out in August 2002 when Eircom was recapitalized, Providence will generate a total profit of approximately EUR 300m. This is a multiple of almost 2.4× in less than two and a half years.

**3i Eurofund III**
In March, a consortium that included 3i Group sold their controlling stake in security firm *Segur Ibérica SA* for EUR 38m in Spain's largest-ever secondary buyout. The consortium bought a combined 70% stake in Segur Ibérica for an undisclosed sum in 1999. The company has since made two small acquisitions and doubled its revenues.

At the end of March 2004, the portfolio of Princess Private Equity Holding comprised commitments to 101 partnerships with investments in more than 2’500 underlying portfolio companies.

## Primary Partnerships

**Europe – Buyout**
3i Europartners IIIA, L.P.
Astorg II, FCPR
Botts Capital Partners, L.P.
Bridgepoint Europe I "D", L.P.
Graphite Capital Partners V "A", L.P.
Graphite Capital Partners V "F", L.P.
Industri Kapital 2000, L.P.
Italian Private Equity Fund III, L.P.
Mercapital Spanish Private Equity Fund II, L.P.
Nordic Capital IV, L.P.
Palamon European Equity "C", L.P.
Partners Private Equity, L.P.
Permira Europe II, L.P.
Quadriga Capital Private Equity Fund II, L.P.
Second Cinven Fund (No. 2), L.P.
Segulah II
Warburg Pincus International Partners, L.P.

**Europe – Special Situations**
Coller International Partners III, L.P.
Doughty Hanson & Co. European Real Estate Fund, L.P.
ICG Mezzanine Fund 2000, L.P. No. 2
Mezzanine Management Fund III, L.P.
The Rutland Fund

**Europe – Venture Capital**
Abingworth Bioventures III, L.P.
Elderstreet Capital Partners, L.P.
European E-Commerce Fund
European Equity Partners (III), L.P.
GMT Communications Partners II, L.P.
Galileo III, L.P.
Index Ventures I (Jersey), L.P.
Merlin Biosciences Fund, L.P.
Schroder Ventures International Life Science Fund II, L.P.
Wellington Partners II, L.P.

**USA – Buyout**
American Securities Partners III, L.P
Apollo Overseas Partners V, L.P.
Blackstone Communications Partners I, L.P.
Bruckmann, Rosser, Sherrill & Co. II, L.P.
Carlyle Partners III, L.P.
Fenway Partners Capital Fund II, L.P.
Heritage Fund III, L.P.
INVESCO U.S. Buyout Partnership Fund II, L.P.
Kohlberg TE Investors IV, L.P.
Silver Lake Partners, L.P.
T3 Partners, L.P.
TPG Partners III, L.P.
Thomas H. Lee Parallel Fund V, L.P.
Thomas Weisel Capital Partners, L.P.
Vestar Capital Partners IV, L.P.

**USA – Special Situations**
Blackstone Mezzanine Partners, L.P.
Canterbury Mezzanine Capital II, L.P.
Levine Leichtman Capital Partners II, L.P.
OCM Opportunities Fund III, L.P.
OCM/GFI Power Opportunities Fund, L.P.
Pegasus Partners II, L.P.
Providence Equity Partners IV, L.P.
TCW/Crescent Mezzanine Partners III, L.P.

**USA – Venture Capital**
Apax Excelsior VI, L.P.
Access Technology Partners, L.P.
Advanced Technology Ventures VI, L.P.
Austin Ventures VII, L.P.
Battery Ventures VI, L.P.
Cardinal Health Partners II, L.P.
Catterton Partners IV Offshore, L.P.
Chancellor V, L.P.
Columbia Capital Equity Partners III (Cayman), L.P.
Crescendo IV, L.P.
Dolphin Communications Fund, L.P.
Draper Fisher Jurvetson Fund VII, L.P.
EnerTech Capital Partners II, L.P.
Infinity Capital Venture Fund 1999, L.P.
INVESCO Venture Partnership Fund II, L.P.
INVESCO Venture Partnership Fund II-A, L.P.
Lightspeed Venture Partners VI, L.P.
Menlo Ventures IX, L.P.
Morgan Stanley Dean Witter Venture Partners IV, L.P.
Morgenthaler Partners VII, L.P.
Prism Venture Partners IV, L.P.
Sevin Rosen Fund VIII, L.P.
Sierra Ventures VIII-A, L.P.
Summit Ventures VI-B, L.P.
TA IX, L.P.
TH Lee Putnam Ventures Parallel, L.P.
TL Ventures V, L.P.
Vortex Corporate Development Fund, L.P.
Worldview Technology Partners III, L.P.
Worldview Technology Partners IV, L.P.

**Rest of World – Buyout**
Advent Latin American Private Equity Fund II, L.P.
Exxel Capital Partners VI, L.P.
Newbridge Asia III, L.P.
Polish Enterprise Fund IV, L.P.
Unison Capital Partners, L.P.

**Rest of World – Venture Capital**
Carmel Software Fund (Cayman), L.P.
Crimson Velocity Fund, L.P.
Genesis Partners II LDC
Jerusalem Venture Partners III, L.P.
Pitango Venture Capital Fund III

## Secondary Partnerships

Chase 1998 Pool Participation Fund, L.P.
Coller International Partners III NW1, L.P.
Coller International Partners III NW2, L.P.
Doughty Hanson & Co Fund III, L.P.
Partners Group SPP1 Limited
William Blair Capital Partners VI, L.P.

## Consolidated unaudited statement of income

*for the period from 1 January 2004 to 31 March 2004*

| | Notes | **01.01.2004– 31.03.2004 USD** | *01.01.2003– 31.03.2003 USD* |
|---|---|---|---|
| **Net income from limited partnerships and directly held investments** | | **8’976’453** | *(150’994)* |
| – Dividend and interest income | 5&12 | 1’692’465 | *776’675* |
| – Revaluation | 5&14 | 8’551’118 | *(200’535)* |
| – Foreign exchange gains & losses | 5&13 | (1’267’130) | *(727’134)* |
| **Net income from short-term investments** | | **–** | *–* |
| – Gains and losses | 6 | – | *–* |
| **Net income from cash & cash equivalents** | | **37’987** | *181’925* |
| – Interest income | 8&12 | 38’062 | *45’319* |
| – Gains and losses | 8 | – | *137’144* |
| – Foreign exchange gains & losses | 13 | (75) | *(538)* |
| **Operating income** | | **9’014’440** | *30’931* |
| **Operating expenses** | | **(5’547’668)** | *(5’880’186)* |
| – Management fee | | (3’370’501) | *(3’442’031)* |
| – Insurance fee | | (2’028’371) | *(2’082’885)* |
| – Administration fee | | (67’612) | *(69’430)* |
| – Tax exemption fee | | (2’243) | *(476)* |
| – Other operating expenses | | (78’941) | *(285’364)* |
| **Financing cost** | | **(9’150’052)** | *(9’730’494)* |
| – Finance cost on convertible bond | 10 | (8’480’399) | *(8’009’692)* |
| – Amortisation of transaction costs | 10 | (391’768) | *(391’768)* |
| – Interest expense | 12 | (277’885) | *(1’329’034)* |
| – Other finance cost | | – | *–* |
| **Surplus / (loss) for the financial period** | | **(5’683’280)** | *(15’579’749)* |

# Consolidated unaudited balance sheet

*as at 31 March 2004*

| | Notes | | 31.03.2004 | | 31.12.2003 |
|---|---|---|---|---|---|
| | | | **USD** | | *USD* |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Investments in limited partnerships | | | | | |
| and directly held investments | 1&5 | | **564'143'033** | | *570'883'233* |
| **Current assets** | | | | | |
| Short-term investments | 1&6 | **–** | | *–* | |
| Other short-term receivables | 7 | **–** | | *68'449* | |
| Hedging assets | 5 | **–** | **–** | *–* | |
| Cash and cash equivalents | 8 | **11'071'244** | | *18'790'091* | |
| | | | **11'071'244** | | *18'858'540* |
| **Total assets** | | | **575'214'277** | | *589'741'773* |
| **Equity and Liabilities** | | | | | |
| **Capital and reserves** | | | | | |
| Issued capital | 9 | **100** | | *100* | |
| Reserves | | **(49'872'052)** | | *(44'188'772)* | |
| | | | **(49'871'952)** | | *(44'188'672)* |
| **Liabilities falling due after more than one year** | | | | | |
| Convertible bond | 10 | | **593'959'819** | | *585'087'652* |
| **Liabilities falling due within one year** | | | | | |
| Hedging liabilities | 5 | **408'254** | | *17'777'313* | |
| Other short-term payables | 11 | **718'156** | | *1'065'480* | |
| Credit facility | 17 | **30'000'000** | | *30'000'000* | |
| Rounding | | **–** | | *–* | |
| | | | **31'126'410** | | *48'842'793* |
| **Total liabilities** | | | **575'214'277** | | *589'741'773* |

The financial statements on pages 12 to 27 were approved by the board of directors on 26 April 2004 and are signed on its behalf by:

B. Human — Director

G. Hall — Director

## Consolidated unaudited statement of changes in equity

*for the period from 1 January 2004 to 31 March 2004*

*(all amounts in USD)*

| | Share capital | Share premium | Accumulated surplus/(loss) | Total |
|---|---|---|---|---|
| **Equity at beginning of reporting period** | 100 | 241’028’914 | (285’217’686) | **(44’188’672)** |
| Surplus / (loss) for the financial period | – | – | (5’683’280) | **(5’683’280)** |
| Rounding | – | – | – | **–** |
| **Equity at end of reporting period** | **100** | **241’028’914** | **(290’900’966)** | **(49’871’952)** |

## Consolidated unaudited statement of changes in equity

*for the period from 1 January 2003 to 31 March 2003*

*(all amounts in USD)*

| | Share capital | Share premium | Accumulated surplus/(loss) | Total |
|---|---|---|---|---|
| **Equity at beginning of reporting period** | 100 | 241’028’914 | (236’390’057) | **4’638’957** |
| Surplus / (loss) for the financial period | – | – | (15’579’749) | **(15’579’749)** |
| **Equity at end of reporting period** | **100** | **241’028’914** | **(251’969’806)** | **(10’940’792)** |

## Consolidated unaudited cash flow statement

*for the period from 1 January 2004 to 31 March 2004*

| | Notes | **01.01.2004–31.03.2004 USD** | *01.01.2003–31.03.2003 USD* |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| – Management fee | | **(3’370’501)** | *(3’442’031)* |
| – Administration fee | | **(67’612)** | *(69’430)* |
| – Insurance fee | | **(2’028’371)** | *(2’082’885)* |
| – Tax exemption fee | | **(2’243)** | *(476)* |
| – Other operating expenses | | **(78’941)** | *(285’364)* |
| – Proceeds from hedging activities | 5 | **(18’995’855)** | *(12’755’080)* |
| – (Increase) / decrease in other short-term receivables | | **68’449** | *(15’257)* |
| – Increase / (decrease) in other short-term payables | | **(170’209)** | *(171’409)* |
| – Interest and dividends received from limited partnerships and directly held investments | 5 | **1’692’465** | *776’675* |
| – Purchase of limited partnerships and directly held investments | 5 | **(23’006’480)** | *(34’384’197)* |
| – Distributions of limited partnerships and directly held investments | 5 | **38’657’465** | *10’274’369* |
| – Purchase of short-term investments | 6 | **–** | *–* |
| – Repayment of short-term investments | 6 | **–** | *–* |
| – Cash inflow from cash and cash equivalents | 8 | **38’062** | *231’018* |
| – Financing cost / credit line charges | | **(455’000)** | *(1’329’034)* |
| Net cash from / (used in) operating activities | | **(7’718’771)** | *(43’253’101)* |
| **Cash flow from financing activities** | | | |
| – Increase / (decrease) in credit facility | 17 | **–** | *–* |
| **Net increase / (decrease) in cash and cash equivalents** | | **(7’718’771)** | *(43’253’101)* |
| **Cash and cash equivalents at beginning of reporting period** | 8 | **18’790’091** | *78’526’819* |
| Effects on cash and cash equivalents | | | |
| – revaluation | | **–** | *(48’555)* |
| – movement in exchange rates | | **(75)** | *(538)* |
| – rounding | | **(1)** | *(1)* |
| **Cash and cash equivalents at end of reporting period** | 8 | **11’071’244** | *35’224’624* |

## 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements:

***Basis of preparation***
The financial statements have been prepared in accordance with International Accounting Standard No 34 (Interim Reporting), except for the following:

*For the valuation of investments in limited partnerships, the directors refer to the most recent available information of the General Partner of the underlying investment. Owing to the diversified nature of the limited partnership investments and the variety of valuation bases adopted and quality of management information provided by the General Partners the values included in these financial statements do not necessarily comply with fair values as defined in IAS 39.*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) (with the exception indicated above) and under the historical cost convention as modified by the revaluation of available-for-sale investments, financial assets and financial liabilities held for trading and all derivative contracts. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

***Income***
Income from bank deposits is included on an accruals basis. Gains and losses from short-term investments and gains and losses from cash and cash equivalents also include the increase in value of bonds purchased at a discount. All realised and unrealised surpluses and losses are recognised in the statement of income.

***Expenditure***
The expenditure is included in the financial statements on an accruals basis.

***Reporting currency***
As US dollars reflect the economic substance of the underlying events and circumstances relevant to the Group and US dollars are used to a significant extent in, or have a significant impact on, the Group, US dollars are the appropriate currency to be used as the measurement currency and accordingly the reporting currency in these financial statements. All transactions in currencies other than the measurement currency are treated as transactions in foreign currencies.

***Investments in limited partnerships and directly held investments***
Investments in limited partnerships are valued initially at cost and thereafter at the most recent net asset value as reported by the underlying partnership and adjusted for subsequent net capital activity.

In selecting investments the Directors have taken into consideration the accounting and valuation basis of the underlying partnership and select only those investments, which adopt an internationally recognised standard.

The Directors also review management information provided by underlying partnerships on a regular basis. In those cases where the management information is limited, the Directors work with the underlying partnership in an attempt to obtain more meaningful information.

Notwithstanding the above, the variety of valuation bases adopted and quality of management information provided by the underlying partnerships and the lack of liquid markets for the investments held mean that there are inherent difficulties in determining the fair values of these investments that cannot be eliminated.

Amounts realised on the sale of investments will differ from the values reflected in these financial statements and the difference may be significant.

The directly held investments are being treated as "available-for-sale" and are therefore disclosed at fair value. For determining the fair value, the Directors refer to the most recent available information provided by the lead investor of the investment with any changes resulting from additional financing rounds or a permanent diminution in value.

Any changes in the fair value of the investments are shown within "Net income from limited partnerships and directly held investments – Revaluation".

The Group recognises the funding of the limited partnerships and directly held investments on the date funds are transferred to the partnership. Any distributions, including return of principal of investment, received from the underlying limited partnerships and directly held investments are recognised on the distribution date.

***Short-term investments***

Short-term investments are defined as investments with maturity between three and twelve months from the date of purchase and are being treated as "available-for-sale".

The short-term investments purchased at par are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value are included within "Net income from short-term investments – Gains and losses".

The short-term investments purchased at a discount are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value and the interest received at maturity are included within "Net income from short-term investments – Gains and losses". Upon maturity of the short-term investments purchased at a discount the difference between the last reported fair value and the maturity amount are included within "Realised gains and losses".

All transactions relating to short-term investments are recognised on the settlement date.

***Cash and cash equivalents***

The "cash and cash equivalents" consist of cash at bank and cash invested in money market instruments with a maturity of up to three months from the date of purchase. The cash equivalent investments purchased at a discount are included in the balance sheet at market values ruling at the balance sheet date. The changes in the fair value and the interest received at maturity are included within "Net income from cash and cash equivalents".

***Credit Facility / Loans***

All loans are stated at amortised cost.

***Foreign exchange***

Transactions in foreign currencies are translated into US dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the exchange rate prevailing at the balance sheet date. Exchange gains and losses are included in the statement of income.

***Accounting for hedging activities***

The Group's policy of hedging the value of non-US dollar investments in limited partnerships and directly held investments against the US dollar does not qualify as hedge accounting as defined in IAS 39. As a result the unrealised changes in the fair value of these derivatives and the realised net gains / losses on the derivatives that matured during the period are recognised in the statement of income under the heading of "Net income from limited partnerships and directly held investments – foreign exchange gains and losses".

***Consolidation***

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations, have been consolidated. All inter-company transactions, balances and unrealised surplus and deficits on transactions between group companies have been eliminated. A listing of the Group's subsidiaries is set out in Note 21.

## 2 Expenses

***Management fee***

The management fee is paid quarterly in advance pursuant to the Investment Management Agreement between Princess Private Equity Holding Limited and Princess Management & Insurance Limited. The quarterly management fee is calculated as 0.375% of the higher of the sum of Private Equity Net Assets and the undrawn commitments or the Net Assets of Princess.

***Administration fee***

The administration fee is paid quarterly in advance pursuant to the Administration Agreement between Princess Private Equity Holding Limited and Partners Group (Guernsey) Limited. The quarterly administration fee is calculated as 0.0125% of the first USD 1 billion of Net Assets and 0.005% of the amount by which such Net Assets exceed USD 1 billion.

***Insurance fee***

The insurance fee is paid quarterly in advance pursuant to the Insurance Trust Agreement between Princess Private Equity Holding Limited and Princess Management & Insurance Limited. The quarterly insurance premium is calculated as 0.375% of Net Assets.

## 3 Taxation status

The companies are exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinances 1989 and 1992 and they are each charged an annual exemption fee of GBP 600.

## 4 Financial risk management

***Financial risk factors***

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain exposures.

*(a) Foreign exchange risk*

The Group operates and invests internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to EUR, GBP, SEK and JPY. The Group uses forward contracts to hedge their exposure to foreign currency risk in connection with the measurement currency.

*(b) Interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets.

*(c) Credit risk*

The Group has no significant concentration of credit risk. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

*(d) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available.

***Accounting for derivative financial instruments and hedging activities***

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. Changes in the fair value of any derivative instruments are recognised immediately in the income statement. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 5.

***Fair value estimation***

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

## 5 Limited partnerships and directly held investments

### 5.1 Investments

| **5.1 Investments** | **31.03.2004** | *31.12.2003* |
|---|---|---|
| **Balance at beginning of reporting period** | **570’883’233** | *485’553’060* |
| Capital activity recorded at the transaction rate | **23’006’480** | *116’287’455* |
| Distributions | **(38’657’465)** | *(65’411’041)* |
| Revaluation | **8’551’118** | *6’941’827* |
| Foreign exchange gains / (losses) | **359’667** | *27’511’932* |
| Rounding | **–** | *–* |
| **Balance at end of reporting period** | **564’143’033** | *570’883’233* |

### 5.2 Distributions

| **5.2 Distributions** | **01.01.2004–31.03.2004** | *01.01.2003–31.03.2003* |
|---|---|---|
| Dividends | **1’213’014** | *490’892* |
| Interest income | **479’452** | *285’783* |
| Rounding | **(1)** | *-* |
| | **1’692’465** | *776’675* |
| Return of investments | **38’657’465** | *10’274’369* |
| **Total distributions** | **40’349’930** | *11’051’044* |

### 5.3 Foreign exchange

| **5.3 Foreign exchange** | **01.01.2004–31.03.2004** | *01.01.2003–31.03.2003* |
|---|---|---|
| Foreign exchange revaluation | **359’667** | *1’844’794* |
| Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments | **17’369’059** | *10’183’153* |
| Realised gains / (losses) from foreign exchange hedges relating to investments in limited partnerships and directly held investments | **(18’995’855)** | *(12’755’080)* |
| Rounding | **(1)** | *(1)* |
| | **(1’267’130)** | *(727’134)* |

At the balance sheet date, Princess Private Equity Holding Ltd. had the following forward foreign exchange contracts in place. The contracts were entered into to hedge against changes in the foreign exchange value of the investments of Princess Private Equity Subholding Limited. The unrealised surplus / (loss) at the end of the reporting period is detailed below:

| | USD | Rate | Value date | Surplus / (loss) 31.03.2004 | *Surplus / (loss) 31.12.2003* |
|---|---|---|---|---|---|
| Buy USD against GBP | 87'000'000 | 1.6397 | 25.03.2004 | **–** | *(7'072'190)* |
| Buy USD against EUR | 89'000'000 | 1.1410 | 25.03.2004 | **–** | *(9'057'313)* |
| Buy USD against CHF | 3'000'000 | 1.3373 | 25.03.2004 | **–** | *(244'039)* |
| Buy USD against SEK | 14'000'000 | 7.8764 | 25.03.2004 | **–** | *(1'285'911)* |
| Buy USD against JPY | 3'000'000 | 111.4325 | 25.03.2004 | | *(117'860)* |
| Buy USD against GBP | 87'084'000 | 1.8143 | 27.09.2004 | **(363'312)** | – |
| Buy USD against EUR | 95'035'925 | 1.2263 | 27.09.2004 | **(44'175)** | |
| Buy USD against CHF | 4'386'455 | 1.2539 | 27.09.2004 | **23'287** | – |
| Buy USD against SEK | 16'249'486 | 7.5387 | 27.09.2004 | **63'741** | – |
| Buy USD against JPY | 3'311'757 | 106.2880 | 27.09.2004 | **(87'795)** | – |
| | | | | **(408'254)** | *(17'777'313)* |

## 6 Short-term investments

| 6.1 Investments | 31.03.2004 | *31.12.2003* |
|---|---|---|
| **At beginning of reporting period** | **–** | – |
| Additions | **–** | – |
| Redemptions | **–** | – |
| Unrealised gains / (losses) | **–** | – |
| Rounding | **–** | – |
| **At end of reporting period** | **–** | – |

| 6.2 Income | 01.01.2004– 31.03.2004 | *01.01.2003– 31.03.2003* |
|---|---|---|
| ***Gains and losses*** | | |
| Realised gains and losses from investments issued at a discount | **–** | – |
| Unrealised gains and losses from investments issued at a discount | **–** | – |
| Interest received from investments issued at par | **–** | – |
| Net interest accrued from investments issued at par | **–** | – |
| **Total gains and losses from short-term investments** | **–** | – |

### 7 Other short-term receivables

| 7 Other short-term receivables | 31.03.2004 | 31.12.2003 |
|---|---|---|
| Bank deposit interest receivable | – | – |
| Distributions receivable | – | 68’449 |
| Stock distributions | – | – |
| Sundry prepayments | – | – |
| | – | 68’449 |

### 8 Cash and cash equivalents

| 8.1 Balance | 31.03.2004 | 31.12.2003 |
|---|---|---|
| Cash equivalents at beginning of reporting period | – | 49’929’322 |
| Additions | – | 69’909’661 |
| Redemptions | – | (120’000’000) |
| Realised gains and losses | – | 161’017 |
| **Cash equivalents at end of reporting period** | – | – |
| **Cash at banks** | 11’071’244 | 18’790’091 |
| Rounding | – | – |
| **Total cash and cash equivalents** | 11’071’244 | 18’790’091 |

| 8.2 Interest income | 01.01.2004– 31.03.2004 | 01.01.2003– 31.03.2003 |
|---|---|---|
| Interest received from cash equivalents on maturity | – | 185’699 |
| Net interest accrued from cash and cash equivalents | – | (48’555) |
| Interest received from cash at banks | 38’062 | 45’320 |
| Rounding | – | (1) |
| **Total interest income from cash and cash equivalents** | 38’062 | 182’463 |

### 9 Share capital

| 9 Share capital | 31.03.2004 | 31.12.2003 |
|---|---|---|
| **Authorised** | | |
| 20’000’000 Class A shares of USD 0.01 each | 200’000 | 200’000 |
| 10’000 Class B shares of USD 0.01 each | 100 | 100 |
| | 200’100 | 200’100 |
| **Issued and fully paid** | | |
| 10’000 Class B shares of USD 0.01 each | 100 | 100 |

Bondholders have the right to convert bonds into shares. Shares issued and allotted on conversion of the bonds will be fully paid Class A shares (“Ordinary shares”) and will rank pari passu in all respects with all other Ordinary Shares in issue on the relevant conversion date, save that the earlier of the date upon which 95 per cent of the principal amount of the bonds have been converted or final maturity (“Specified Date”), Ordinary Shares will not confer voting rights.

The holders of the Class B shares will be entitled to attend and vote at any general meetings. Following the Specified Date, each Class B share issued and outstanding will be automatically converted into a similar number of Ordinary shares without the holders thereof being obliged to make any payment therefor.

### 10 Convertible bond

| 10 Convertible bond | 31.03.2004 | 31.12.2003 |
|---|---|---|
| **Balance at beginning of reporting period** | 585’087’652 | 550’784’154 |
| Amortisation of transaction costs | 391’768 | 1’567’071 |
| Finance cost on convertible bond | 8’480’399 | 32’736’428 |
| Rounding | – | (1) |
| **Balance at end of reporting period** | 593’959’819 | 585’087’652 |

As at the balance sheet date the nominal value of the convertible bond outstanding was USD 700'000'000. The bond is not convertible into shares until on or after 1 January 2007, at the option of the investor, using the relevant conversion price. Princess Private Equity Holding Limited has entered into an insurance policy to ensure that it is provided with sufficient funds for the repayment of the principal upon redemption of the bond on 31 December 2010.

In accordance with IAS 32, Financial Instruments: Disclosure and Presentation, the net proceeds of the bond have been split between the liability and equity option components. The fair value of the equity component has been calculated as USD 242'200'000 using an accepted option valuation model. This amount is classified as share premium and will remain part of the permanent equity of the Company. The remaining net proceeds, after the allocation of the liability related transaction costs, of USD 446'135'767 are allocated to the liability component. The liability, including transaction costs, is therefore stated at a discount of 1.4379% per quarter to the maturity value.

The result of this technical requirement in IAS 32 is that the discount is amortised through the income statement as a finance cost, on a yield to maturity basis, over the 7.5-year life of the bonds until the first conversion at 1 January 2007. This accounting treatment has no effect on either the economic position or the net asset value of the Company. The cumulative finance cost in retained earnings is offset by an equivalent credit in share premium. However, the required treatment clearly does have a significant impact on the net surplus or loss reported in the income statement over the period to the conversion of the bond.

| **11 Other short-term payables** | **31.03.2004** | *31.12.2003* |
|---|---|---|
| Accrued interest | **718'156** | *895'271* |
| Other accruals | **–** | *170'209* |
| Rounding | **–** | *–* |
| | **718'156** | *1'065'480* |

| **12 Dividend and interest income and expense** | **01.01.2004–31.03.2004** | *01.01.2003–31.03.2003* |
|---|---|---|
| Interest income: | | |
| – Dividend and interest income from limited partnerships and directly held investments | **1'692'465** | *776'675* |
| – Interest income from cash and cash equivalents | **38'062** | *45'319* |
| Total dividend and interest income | **1'730'527** | *821'994* |
| Total interest expense | **(277'885)** | *(1'329'034)* |

| **13 Foreign exchange gains and losses** | **01.01.2004–31.03.2004** | *01.01.2003–31.03.2003* |
|---|---|---|
| Foreign exchange gains and losses on: | | |
| – limited partnerships and directly held investments | **(1'267'130)** | *(727'134)* |
| – cash and cash equivalents | **(75)** | *(538)* |
| | **(1'267'205)** | *(727'672)* |

| **14 Revaluation** | **01.01.2004–31.03.2004** | *01.01.2003–31.03.2003* |
|---|---|---|
| Revaluation of: | | |
| – limited partnerships and directly held investments | **8'551'118** | *(200'535)* |

### 15 Commitments

| | 31.03.2004 | 31.12.2003 |
|---|---|---|
| Total committed translated at the rate prevailing at the balance sheet date | **1'174'371'789** | *1'175'998'114* |
| Unutilised commitments translated at the rate prevailing at the balance sheet date | **305'808'104** | *327'917'025* |

### 16 Diluted net assets per ordinary share

The net assets are calculated by deducting the Current Liabilities from the Gross Assets. The 700'000 convertible bonds at a par value of USD 1'000 each, if converted at USD 100 per share would result in 7'000'000 shares.

| | 31.03.2004 | 31.12.2003 |
|---|---|---|
| Net assets of the company | **544'087'867** | *540'898'980* |
| Outstanding shares at the balance sheet date | **10'000** | *10'000* |
| Additional shares due to conversion | **7'000'000** | *7'000'000* |
| Net assets per share after conversion | **77.6160** | *77.1611* |

### 17 Credit line facility

Princess Private Equity Holding Limited has entered into a revolving credit facility with Bank of Scotland on 31 December 2002 for a maximum of US$ 130'000'000. Security is inter alia, by way of a security agreement over the entire issued share capital of Princess Private Equity Subholding Limited.

Interest is calculated using a LIBOR rate on the day of the advance plus a margin. The margin depends on the total drawdown amount. An additional margin may be added if the ratio of Net Asset Value divided by the drawn down facility (including capitalised interest) is less than 5:1.

There is a non utilisation fee which is payable yearly in arrears and this is calculated at 0.40% per annum on the average undrawn amount of the revolving credit during the year.

In addition, an arrangement fee of USD 1'170'000 was paid to Bank of Scotland on entering into the facility.

### 18 Insurance Policy

On 29 June 1999, Princess Private Equity Holding Limited has entered into an Insurance Agreement with Princess Management & Insurance Limited, to ensure that it will be provided with sufficient funds to be able to pay the principal amount of the Bond at maturity on 31 December 2010.

### 19 Number of employees

At the balance sheet date the Group had no persons employed.

### 20 Related party transactions

Partners Group Holding owns 19.9% of the share capital of GE & W AG which in turn holds 80.1% of the Class B shares of Princess Private Equity Holding Limited.

GE & W AG, a majority of whose shares are held by the founding partners of Partners Group, and Swiss Reinsurance Company hold 8,010 and 1,990 Class B Shares respectively. Mr Wietlisbach, a Director of Princess Private Equity Holding Limited and a partner of Partners Group, controls 26.7% of the issued share capital of GE & W AG.

Partners Group and all its subsidiaries and affiliates are considered to be related parties to the Group. The directors as disclosed in the Directors Report are also considered to be related parties to the Group.

***Transactions with related parties***

The following transactions were carried out with related parties:

| *i) Services* | **01.01.2004–31.03.2004** | *01.01.2003–31.03.2003* |
|---|---|---|
| Management fee paid to: | | |
| – Princess Management & Insurance Limited | **3'370'501** | *3'442'031* |
| Insurance fee paid to: | | |
| – Princess Management & Insurance Limited | **2'028'371** | *2'082'885* |
| Administration fee paid to: | | |
| – Partners Group Private Equity Administration Limited | **67'612** | *69'430* |
| IFRS Valuation advice: | | |
| – Princess Management & Insurance Limited | **–** | *–* |
| Directors fees paid | **4'677** | *–* |

Princess Management & Insurance Limited is a company incorporated in Guernsey and owned by Partners Group and Swiss Reinsurance Company. Partners Group Private Equity Administration Limited is a company incorporated in Guernsey and owned by Partners Group.

| *ii) period-end balances* | **31.03.2004** | *31.12.2003* |
|---|---|---|
| Accruals to related parties: | | |
| – Princess Management & Insurance Limited | **–** | *100'000* |

## 21 Group enterprises – significant subsidiaries

| | Country of incorporation | Ownership interest **31.03.2004** | *31.12.2003* |
|---|---|---|---|
| Princess Private Equity Subholding Limited | Guernsey | 100% | *100%* |

## 22 Parent company and ultimate controlling party

GE & W AG, a company organised by Swiss law holds the majority of the Class B shares. The majority of the shares of GE & W AG are held by the founding partners of Partners Group.

## 23 Risks

It is expected, that a large proportion of the Group's investments will be made by investing in private equity funds (including affiliated funds). Many of the private equity funds may be wholly unregulated investment vehicles. In addition, certain of the private equity funds may have limited or no operational history and have no proven track record in achieving their stated investment objective.

The value of the investments in the private equity funds and the income from them may fluctuate significantly.

The Group's over-commitment strategy could result in periods in which the Group has inadequate liquidity to fund its investments or to pay other amounts payable by the Group.

The Group expects that a portion of the private equity investments to be made by the Group will be in a number of different countries and denominated in a number of different currencies. Any returns on and value of, such portion of the private equity investments made by the Group may, therefore, be materially affected by exchange rate fluctuations, local exchange control and other restrictions, including restrictions on the convertibility of the currencies in question and also by political and economic developments in the relevant countries.

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**Auditors**

**PricewaterhouseCoopers**

**Trading Information**

| | |
|---|---|
| Listing | Frankfurt and Luxembourg |
| German Security Number | 313.965 |
| Swiss Security Number | 813.917 |
| ISIN Number | XS0098576563 |
| Reuters | DBSTRUK03 |
| Bloomberg | PRINEQ<<Corp>> <go> |
| Telekurs, Investdata | CH813917 |

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| | |
|---|---|
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