Princess

QUARTERLY REPORT

for the period from 1 April 2006 to 30 June 2006

INVESTMENT MANAGER'S REPORT

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.

NET ASSET VALUE CONTINUES TO IMPROVE

During the second quarter of 2006, the net asset value (NAV) of the Princess portfolio increased by a record 7.97% to 107.67%. Thus, over the last 12 months the NAV has risen by a gratifying 20.87%. The value of the private equity assets in the portfolio, based on the latest valuations from the general partners, increased from USD 560m to USD 571m, with significant contributions from funds in the buyout and venture stages.

The Bond price at the end of the quarter stood at 86.50%, up from 84.00% at the previous quarter-end, but continues to trade at a substantial discount to the NAV.

Some USD 71.2m in distribution proceeds were received during the past quarter, well in excess of capital calls at just USD 17.1m, and as a result the net cash flow from private equity activity was a record USD 54.1m. Most of the distribution proceeds were received from the buyout sector, with substantial contributions coming from Silver Lake Partners (Seagate) and Fenway Partners (American Achievement Corp.). The Rutland Fund (Carron Energy and H&T) also made significant distributions during the quarter.

While the value of the private equity investments increased during the quarter, the relatively low level of capital calls and the high level of distributions resulted in an increase in cash and short-term investments in the portfolio and a further fall in the investment level to 75.71%. As detailed in the report on restructuring, the high cash holding level in the portfolio will limit the upside potential of the portfolio in the future.

PRINCESS RESTRUCTURING UPDATE

Following the exercising of the Mitigation Right by Swiss Re in February 2006 (as detailed in the 2005 Annual Report), Princess has been working closely with the shareholders (i.e. Partners Group and Swiss Re) to explore possible restructuring strategies. The Board has now mandated Partners Group to enter into formal negotiations with law firms and other service providers to prepare the necessary documentation to give effect to a restructuring proposal. It is anticipated that Princess Private Equity Holding Limited will duly invite the Bondholders to a Bondholders' meeting as per the Bonds' terms and conditions to vote on the proposed changes to the Bonds later this year.

If the Bond is not restructured, the portfolio is expected to be largely liquidated by 2010, with only a marginal portion of the NAV being invested in private equity assets. While the NAV is expected to be over 100% at maturity, with no new commitments being made the upside will be very limited. Insurance fees will continue to be incurred and full management fees charged, which will be a significant drag on the performance of the portfolio. When Bondholders convert in 2010 they would acquire an investment in a cash pool with limited upside potential.

The current Princess portfolio is well balanced and broadly diversified across industries. Princess has secured investments with many of the most renowned private equity firms globally. The NAV has been made a strong recovery since the low in July 2003 and since the beginning of 2004 has achieved an annualized performance of around 15%. Over the past few years, Princess has participated in many of the most successful IPOs and trade sales. The portfolio therefore includes substantial cash balances which will be available to fund new investment.

To secure the upside potential of the Princess portfolio it will be necessary to obtain Bondholder approval for a substantial restructuring of the product which would include:

- Early conversion into shares of Princess Private Equity Holding, rather than waiting until the end of 2010
- Termination of the insurance arrangements, thus reducing costs and allowing for a renewal in making commitments to private equity assets
- Broadening the investment scope by including secondaries and direct investments in the Princess investment universe
- Applying a global relative value investment approach with Partners Group as investment advisor. The investment manager would then strive to keep Princess fully invested with a targeted net annual return of 12%
- Listing on a recognized European stock exchange and a market-making program to ensure an active market in the shares and attractive secondary market valuations
- Dividends payments to investors ahead of the current maturity of the Bonds
- Changing the reference currency from USD to EUR is also being considered

We will continue to keep Bondholders informed of developments, including details as to any Bondholder meeting, through the monthly and quarterly reports.

NAV AND PRICE DEVELOPMENT SINCE INCEPTION

MARKET TRENDS

In the first months of 2006 more than half the money flowing into the buyout sector was raised by so-called mega buyout funds (fund size of USD 5bn or more). Compared to 2004 and 2005, when only 8% and 33% of total money raised respectively went to mega funds, one trend is apparent: general partners are shooting for ever bigger closings and the limited partners are doing their part to make it happen.

The tremendous growth in super-sized funds has given rise to concern among limited partners and others in the industry as to whether the trend is desirable or, indeed, sustainable.

MEGA BUYOUT FUNDS: BIG AND GETTING BIGGER STILL

Recently, hardly a month has gone by without the announcement of the launch of a new, larger-than-ever fund that is set to establish a new fundraising record. Carlyle Partners (whose fund IV closed at USD 7.85bn) launched a series of mega buyout funds in March 2005, only to be quickly outdone by Warburg Pincus with its latest fund at USD 8bn and Apollo Investment Fund VI at USD 10bn. This year, Texas Pacific Group announced that it would be seeking to raise as much as USD 12bn for a new fund, while Thomas H. Lee Partners is looking to drum up around USD 8bn to USD 9bn. European buyout fundraising has also increased over the last few quarters, narrowing the gap with the dominant US market. For instance, CVC Capital Partners raised EUR 6bn for their European fund, Apax Europe VI closed at EUR 4.3bn and Permira has just announced the successful first closing of its latest fund at EUR 10bn, making it the largest European fund in history.

That private equity funds are increasing in size is not a new phenomenon. If you consider that private equity started with wealthy families investing just USD 1m to USD 2m into local companies, raising USD 100m size funds was, in itself, already a huge step. The difference today is the sheer size of mega buyout funds. According to *Private Equity Intelligence*, in May of this year the ten largest funds actively fundraising averaged a fund size target of more than USD 8.5bn (with only two smaller than the mega buyout fund threshold of USD 5bn).

WILL RETURNS SUFFER?

The trend towards ever larger funds has some in the industry wondering whether these huge funds can, in fact, invest such large amounts of money and produce better returns than smaller, more focused funds. According to *Private Equity Intelligence*, between 1989 and 2003 18 out of 24 large US buyout managers and between 1994 and 2003 14 out of 18 large European buyout managers beat the performance of the median buyout fund for their respective vintage year. This suggests that large buyout managers have had a competitive edge in the past; but whether they can hold on to that competitive advantage, as the number and size of mega buyout funds continue to rise, remains to be seen. It almost certainly depends on whether they can find enough good investment opportunities.

WHERE TO INVEST THE BILLIONS OF DOLLARS?

Concerns have been voiced about mega buyout funds not being able to invest the money effectively. However, if we look at the amount of capital overhang in buyout funds, i.e. capital that has been committed but not yet drawn down, based on the current call-up rate, this amounts to 3 to 3.5 years. This is in line with historical amounts and no higher than one would expect given the growth of the overall market. It seems that even though mega buyout funds are raising huge amounts of money, they have been able to ramp up their investment activity to match their fundraising.

Increased investing has been possible not least due to the fact that, with literally billions of dollars available, mega buyout funds have been able to buy firms that only a few years ago would have been financially beyond their reach. Not surprisingly, seven out of the twelve largest buyout deals in history – among others, the USD 15bn buyout of Hertz from Ford, the USD 11bn SunGard LBO and the EUR 4.3bn taking private of Spanish travel operator Amadeus – were completed in 2005. And 2006 continues to see some very large deals being completed.
As fund sizes are growing, deals are also likely to increase in size, allowing general partners to compete in areas with fewer bidders and more unexploited opportunities. Not surprisingly, large public-to-private transactions are now increasingly being seen in the market.

It is firms with the longest and most well-established track records that are raising the mega buyout funds. Given their reputation and history, these firms enjoy access to the best talent pool – top business school graduates, top partners from other firms and industry experts are attracted to these companies. This should allow the general partners to better source and value deals.

IS BIGGER BAD FOR THE PRIVATE EQUITY INDUSTRY?

With the largest buyout funds looking to raise in excess of USD 10bn, there is concern that small and mid-sized buyout shops may find themselves marginalized by the big investors. Though the actual number of mega buyout funds is small compared to the number of funds overall, the amount of money flowing into these mega buyout funds is increasing. This could well leave increasingly less money for the other, smaller funds. This phenomenon has been dubbed the "oxygen effect", implying that the mega buyout funds are sucking more and more "oxygen" out of the market and making it more difficult for the other funds to survive.

Fundraising data, however, shows the impact of mega buyout funds on smaller funds to be minimal. Though it is true that mega buyout funds attract more money in absolute and relative terms, over the past few years – as buyout fundraising has picked up again – the amounts going to smaller funds has also increased substantially. Essentially, then, the additional money entering the buyout market has fuelled the growth of mega buyout funds, rather than these mega funds crowding out other (smaller) buyout funds.

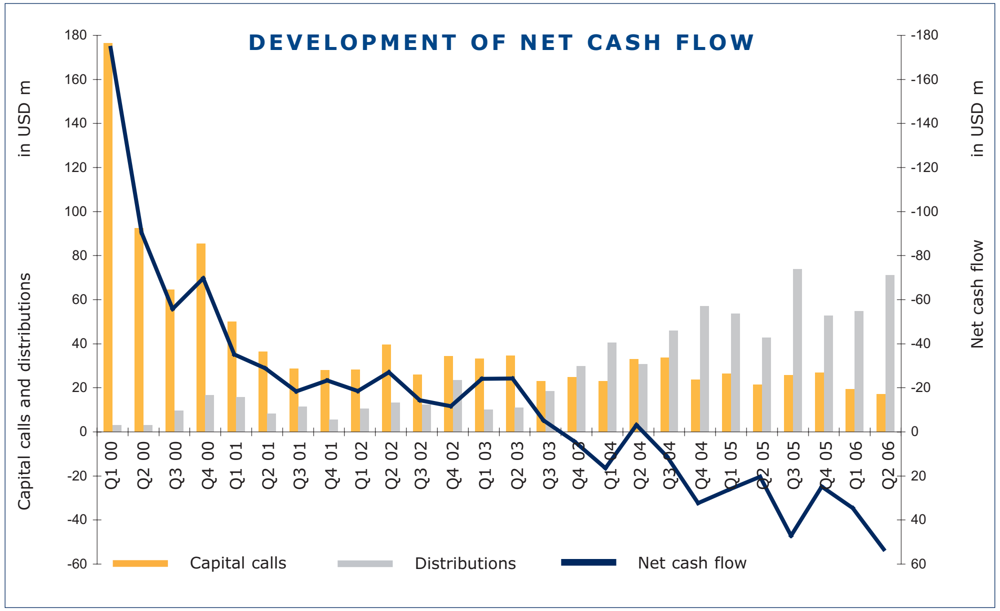
IS THERE AN END IN SIGHT?

How big can funds get? Private equity funds have grown – and will continue to grow – in both size and importance in the capital markets. From starting out by supporting local companies with a few million dollars to multi-billion dollar buyouts of international firms, private equity has become a major player not only in growing start-up companies but also when it comes to many of the major global companies' strategic planning. There are no reasons why private equity houses that have proven themselves and are able to work successfully with large companies should not continue to get bigger. It might not be long before we see a buyout fund break through the USD 20bn barrier – more than the entire industry raised in 1992. This leaves us, however, facing the ultimate question: "How big is too big?"

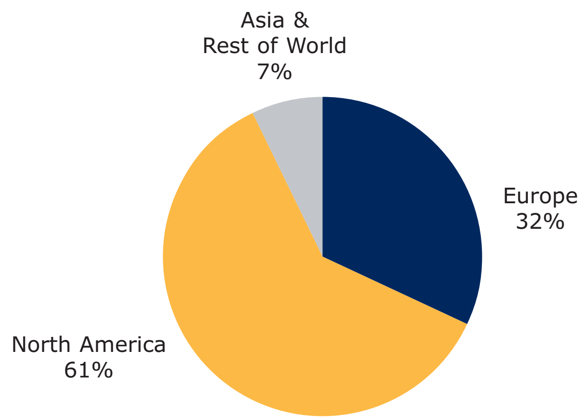
PORTFOLIO ALLOCATION

Princess has a well-balanced and broadly diversified portfolio according to geographic regions, financing stages, industry sectors and vintage years.

The portfolio has benefited from significant cash inflows and the accumulated cash balances are invested in a short term portfolio and are available to fund capital calls as required.

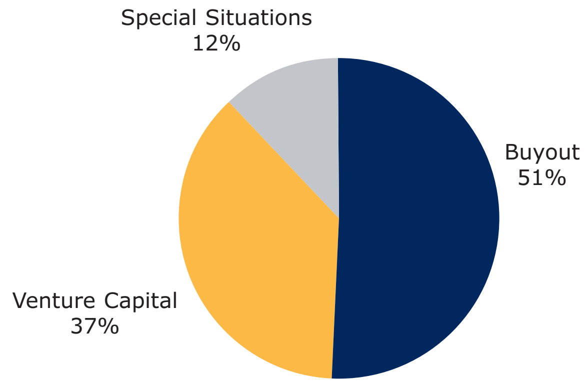


INVESTMENTS BY GEOGRAPHIC REGION*



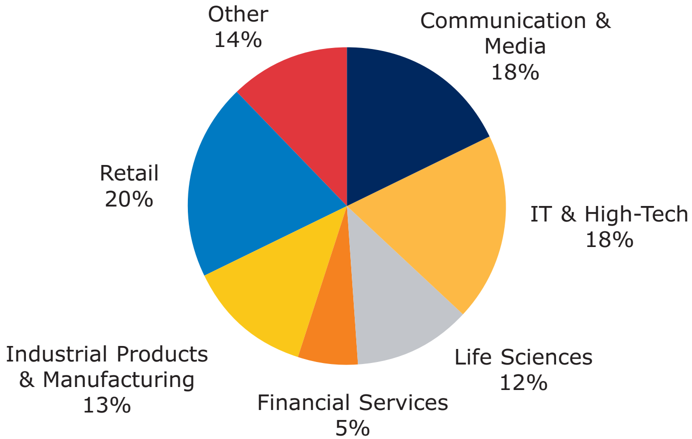
* based on value of private equity investments

INVESTMENTS BY FINANCING STAGE*



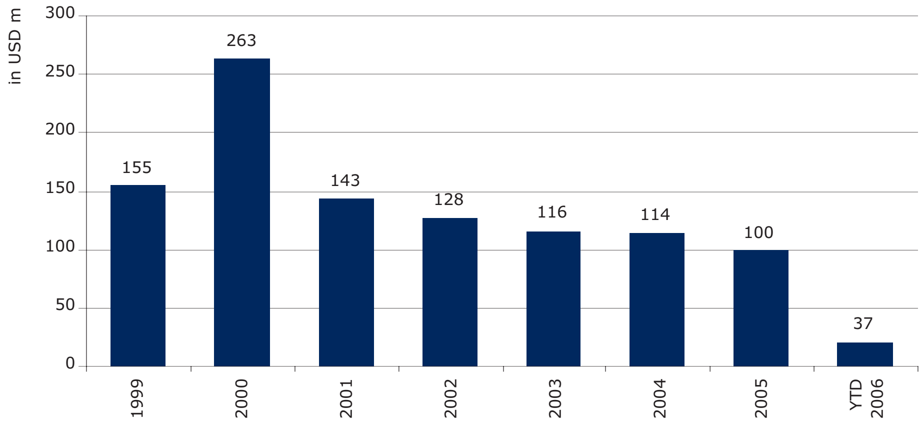
* based on value of private equity investments

INVESTMENTS BY INDUSTRY SECTOR*



* based on value of private equity investments

CAPITAL CALLS PER YEAR



PORTFOLIO

In the second quarter of 2006, Princess made no new commitments to partnerships.

Princess funded capital calls for USD 17m and received USD 71m in distributions during the past quarter. Unfunded commitments at the end of the quarter totaled USD 254m.

SELECTED NEW INVESTMENTS

Blackstone Communications Partners I, L.P.
In April, Blackstone signed an agreement with the *Kreditanstalt für Wiederaufbau* (KfW), a German state-owned bank, to purchase 191.7m shares, or 4.5%, of Deutsche Telekom AG for EUR 2.68bn. Blackstone has stated that it intends to be a long-term investor and has pledged to hold the shares for at least two years. Deutsche Telekom has welcomed Blackstone as a shareholder as they have demonstrated expertise in the telecommunications sector and they will broaden the shareholder base. The German government and the KfW will between them continue to hold 33% of the shares in Deutsche Telekom, Europe's largest telephone company.

Bridgepoint Europe III, L.P.
In May, Princess partnership Bridgepoint Europe III, L.P. acquired a 70% stake in Italian perfumery chain *Limoni* from former shareholders, while Limoni founder Piofrancesco Borghetti increased his stake from 20% to 30%. No financial terms were disclosed. Limoni is the market leader in Italy with a network of 400 stores. It also runs 16 stores in Croatia and Slovenia. Bridgepoint was attracted to Limoni by its proven management team, profitable format and readiness to grow – Limoni plans to open 60 new perfumeries in 2006.

Candover 2005 Fund

In May, Candover signed an agreement to acquire automotive data provider *EurotaxGlass's Group* for an enterprise value of EUR 480m from HM Capital Partners. EurotaxGlass's collects automotive data such as new car pricing, used car valuations, technical specifications as well as repair and maintenance parts lists and pricing for over 500,000 vehicle variants from 1,000 manufacturers. Switzerland-based EurotaxGlass's provides its data to over 150,000 customers in 28 European countries. With the backing of Candover, EurotaxGlass's plans to introduce new, high-value digital solutions and to exploit new growth opportunities across both existing and new areas.

Sterling Investment Partners II, L.P.

In May, Sterling Investment Partners announced the acquisition of *Cambridge International*, Inc., a leading North American manufacturer of engineered metal conveyor belts. The company's products are utilized in diverse end-markets including food processing, packaging, electronics, building products, agriculture and industrial applications. Sterling was attracted to the company by its leading market position, strong management team and diverse customer base. The company expects to achieve further growth in both domestic and international markets, and to pursue strategic acquisitions.

SELECTED NEW EXITS

The Rutland Fund

Princess partnership The Rutland Fund realized its investment in UK pawnbroker *H&T Group (H&T)* when it was floated on the Alternative Investment Market (AIM) in London. The enterprise value of H&T on flotation was GBP 91.9m and the market capitalization was GBP 54.2m. H&T is the UK's leading pawnbroker with 69 outlets across the UK. The company was acquired by Rutland Partners in September 2004 for GBP 49m, with the fund providing GBP 15.4m in equity. According to Rutland Partners, the fund has received – after costs and management's equity – GBP 44.5m in proceeds, representing a multiple of 2.9x on its original investment and an IRR of 89%.

TPG Partners III, L.P.

In one of the largest listings on the London Stock Exchange (LSE) in almost five years, UK department store *Debenhams* raised GBP 950m in its IPO in May. This marked the return of Debenhams, the second-largest department store in the UK, to the market less than two and a half years after its acquisition and delisting by a consortium of private equity firms, including Texas Pacific Group. The consortium originally invested GBP 600m of equity in May 2004. Since then, they have recouped a reported GBP 1.3bn in two recapitalizations. The consortium retains a stake which at the time of the IPO was valued at GBP 620m.

Palamon European Equity, L.P.

StarParks Group, which is owned by Palamon Capital Partners, sold six of its seven European leisure parks. Five of the parks were sold to Compagnie des Alpes, which operates Parc Asterix in France and owns 14 leading ski areas in Europe, while the sixth park was sold to a private entrepreneur. StarParks will retain ownership of Movie Park Germany. Palamon acquired the European division of Six Flags, Inc., which it re-branded StarParks Group, in April 2004. Since then, it has successfully restructured, refocused and rebranded the properties. To date, the investment has generated a 2.4x return, with further potential remaining in Movie Park Germany.

Carlyle Partners III, L.P.

In May, Princess partnership Carlyle III announced the sale of Milwaukee-based manufacturer *Rexnord Corporation*, which it had originally acquired back in November 2002 for USD 900m, to Apollo Investment for USD 1.83bn. Rexnord is a global manufacturer of gears, chains and other industrial components used in plants and equipment in a range of industries such as aerospace, construction, energy, mining, food and beverages. Worldwide, the company employs about 5,800 people and has 28 factories. The transaction, which is subject to government approvals, is one of the largest so far this year in the global machinery sector.

PORTFOLIO OVERVIEW

At the end of June 2006, the portfolio of Princess Private Equity Holding comprised commitments to 114 partnerships with investments in more than 2,500 underlying portfolio companies.

PRIMARY PARTNERSHIPS

Europe – Buyout
3i Europartners IIIA, L.P.
Astorg II, FCPR
BC European Capital Fund VIII, L.P.
Botts Capital Partners, L.P.
Bridgepoint Europe I "D", L.P.
Bridgepoint Europe III, L.P.
Candover 2005 Fund
Fourth Cinven Fund, 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.
Nordic Capital VI, 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.
Segulah II, L.P.
Warburg Pincus International Partners, L.P.

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

S V Life Science Fund II, L.P.
Wellington Partners II, 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

North America – Buyout

American Securities Partners III, L.P.
Apollo Overseas Partners V, L.P.
Apollo Investment Fund VI, L.P.
Blackstone Communications Partners I, L.P.
Bruckmann, Rosser, Sherrill & Co. II, L.P.
Carlyle Partners III, L.P.
Clayton, Dubilier & Rice Fund VII, 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.
Providence Equity Partners IV, L.P.
Silver Lake Partners, L.P.
Sterling Investment Partners II, 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.
Warburg Pincus Private Equity Fund IX, L.P.

North America – Venture Capital

Access Technology Partners, L.P.
Advanced Technology Ventures VI, L.P.
Apax Excelsior 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 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.

North America – Special Situations

Ares Corporate Opportunities Fund II, L.P.
Blackstone Mezzanine Partners, L.P.
Canterbury Mezzanine Capital II, L.P.
Levine Leichtman Capital Partners II, L.P.
OCM Mezzanine Fund II, L.P.
OCM Opportunities Fund III, L.P.
OCM/GFI Power Opportunities Fund, L.P.
Pegasus Partners II, L.P.
Peninsula Fund IV, L.P.
TCW/Crescent Mezzanine Partners III, L.P.

Asia and 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.

Asia and 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
Second Cinven Fund (No. 2), L.P.
William Blair Capital Partners VI, L.P.

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CONSOLIDATED UNAUDITED INCOME STATEMENT

for the period from 1 April 2006 to 30 June 2006

	Notes	**01.04.2006–30.06.2006 USD**	**01.01.2006–30.06.2006 USD**	01.04.2005–30.06.2005 USD	01.01.2005–30.06.2005 USD
Net income from limited partnerships and directly held investments		**59,554,260**	**90,140,457**	46,460,404	66,002,202
– Dividend and interest income	6&13	2,269,361	3,476,656	2,953,370	7,697,669
– Revaluation	6&15	55,195,269	83,087,279	44,941,055	59,417,048
– Foreign exchange gains & losses	6&14	2,089,630	3,576,522	(1,434,021)	(1,112,515)
Net income from short-term investments		**1,087,939**	**1,656,937**	–	–
– Gains and losses	7	1,087,939	1,656,937	–	–
Net income from cash & cash equivalents		**559,016**	**1,003,739**	102,804	191,796
– Interest income	9&13	533,872	855,704	149,176	234,383
– Foreign exchange gains & losses	14	25,144	148,035	(46,372)	(42,587)
Operating income		**61,201,215**	**92,801,133**	46,563,208	66,193,998
Operating expenses		**(5,400,227)**	**(11,512,089)**	(5,191,418)	(10,430,993)
– Management fee	3	(3,090,407)	(6,117,815)	(2,868,027)	(5,884,703)
– Insurance fee	3	(2,111,353)	(4,406,095)	(2,187,120)	(4,320,836)
– Administration fee	3	(87,376)	(171,573)	(72,904)	(144,028)
– Tax exemption fee	4	(2,181)	(2,181)	(2,179)	(2,179)
– Other foreign exchange gains & losses	14	(30,061)	(690,350)	–	–
– Other operating expenses		(78,849)	(124,075)	(61,188)	(79,247)
Financing cost		**(11,170,882)**	**(22,170,793)**	(10,585,008)	(21,030,963)
– Finance cost on convertible bond	11	(10,749,141)	(21,327,858)	(10,083,486)	(20,007,102)
– Amortization of transaction costs	11	(371,878)	(743,757)	(371,878)	(743,757)
– Interest expense	13	(49,863)	(99,178)	(129,644)	(280,104)
Surplus / (loss) for the financial period		**44,630,106**	**59,118,251**	30,786,782	34,732,042

CONSOLIDATED UNAUDITED BALANCE SHEET
as at 30 June 2006

	Notes		30.06.2006 USD		31.12.2005 USD
Assets					
Non-current assets					
Investments in limited partnerships and directly held investments	1&6		**571,402,080**		561,979,141
Current assets					
Short-term investments	1&7	**116,778,061**		59,463,335	
Other short-term receivables	8	**1,945,359**		421,528	
Hedging assets	6	**–**		2,913,419	
Cash and cash equivalents	9	**74,889,794**		49,315,979	
			193,613,214		112,114,261
Total assets			**765,015,294**		674,093,402
Equity					
Capital and reserves					
Issued capital	10	**100**		100	
Reserves		**77,527,155**		18,408,903	
Total equity			**77,527,255**		18,409,003
Liabilities					
Liabilities falling due after more than one year					
Convertible bond	11		**677,235,343**		655,163,727
Liabilities falling due within one year					
Hedging liabilities	6	**5,218,353**		–	
Other short-term payables	12	**5,034,342**		520,670	
Rounding		**1**		2	
			10,252,696		520,672
Total liabilities and equity			**765,015,294**		674,093,402

The financial statements on pages 12 to 26 were approved by the board of directors on 28 July 2006 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 2006 to 30 June 2006 (all amounts in USD)

	Share capital	Share premium	Accumulated surplus/(loss)	Total
Equity at beginning of reporting period	100	263,086,949	(244,678,045)	**18,409,004**
Surplus / (loss) for the financial period	-	–	59,118,251	**59,118,251**
Equity at end of reporting period	**100**	**263,086,949**	**(185,559,794)**	**77,527,255**

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January 2005 to 30 June 2005 (all amounts in USD)

	Share capital	Share premium	Accumulated surplus/(loss)	Total
Equity at beginning of reporting period	100	263,086,949	(307,108,118)	**(44,021,069)**
Surplus / (loss) for the financial period	–	–	34,732,042	**34,732,042**
Equity at end of reporting period	**100**	**263,086,949**	**(272,376,076)**	**(9,289,027)**

CONSOLIDATED UNAUDITED CASH FLOW STATEMENT

for the period from 1 January 2006 to 30 June 2006

	Notes	01.01.2006–30.06.2006 USD	01.01.2005–30.06.2005 USD
Cash flow from operating activities			
– Management fee	3	**(6,117,815)**	(5,884,703)
– Administration fee	3	**(171,573)**	(144,028)
– Insurance fee	3	**(4,406,095)**	(4,320,836)
– Tax exemption fee	4	**(2,181)**	(2,179)
– Other operating expenses		**(124,075)**	(79,247)
– Proceeds from / (costs of) hedging activities	6	**(1,650,000)**	(11,354,813)
– (Increase) / decrease in other short-term receivables		**(2,214,181)**	(2,419,672)
– Increase / (decrease) in other short-term payables		**4,863,152**	(188,334)
– Dividends received from limited partnerships and directly held investments	6	**792,190**	6,482,784
– Interest received from limited partnerships and directly held investments	6	**2,684,466**	1,214,885
– Purchase of limited partnerships and directly held investments	6	**(37,605,818)**	(46,502,755)
– Distributions by limited partnerships and directly held investments	6	**124,628,453**	87,128,163
– Net purchase of short-term investments	7	**(93,764,361)**	–
– Redemptions of short-term investments	7	**38,020,474**	–
– Interest on short-term investments	7	**86,097**	
– Interest from cash and cash equivalents	9	**855,704**	234,383
– Financing cost / credit line charges		**(448,658)**	(796,647)
Net cash from / (used in) operating activities		**25,425,779**	23,367,001
Cash flow from financing activities			
– Increase / (decrease) in credit facility	18	**–**	(10,000,000)
Net increase / (decrease) in cash and cash equivalents		**25,425,779**	13,367,001
Cash and cash equivalents at beginning of reporting period	9	**49,315,979**	16,605,856
Effects on cash and cash equivalents			
– Movement in exchange rates		**148,035**	(42,587)
– Rounding		**1**	(2)
Cash and cash equivalents at end of reporting period	9	**74,889,794**	29,930,268

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 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 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 "financial assets and financial liabilities at fair value through profit or loss".

The preparation of financial statements in conformity with IFRS 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.

Net income from short-term investments and cash and cash equivalents

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 realized and unrealized surpluses and losses are recognized in the income statement.

Expenditure

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

Functional and presentation currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which it operates ('The Functional Currency'). This is the US dollar, which reflects the Group's primary activity of investing in US dollar limited partnerships and private equity. The Group has also adopted the US dollar as its presentation currency.

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 income statement.

Investments in limited partnerships and directly held investments

Investments in limited partnerships are valued initially at fair value 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 partnerships and select only those investments, which adopt an internationally recognized 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.

NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
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Amounts realized on the sale of investments will differ from the values reflected in these financial statements and the differences may be significant.

The directly held investments are being treated as "financial assets at fair value through profit or loss" and are therefore disclosed at fair value. Initially they are valued 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 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".

Any distributions, including return of principal of investment, received from the underlying limited partnerships and directly held investments are recognized on the distribution date.

All transactions relating to investments in limited partnerships and directly held investments are recognized on the settlement 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 "financial assets at fair value through profit or loss".

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 "Realized gains and losses".

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

Cash and cash equivalents

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".

Accounting for derivative financial instruments and hedging activities

The Group's policy of hedging the value of non-US dollar investments against the US dollar does not qualify as hedge accounting as defined in IAS 39 (revised 2004). Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. As a result the unrealized changes in the fair value of these derivatives and the realized net gains / losses on the derivatives that matured during the period are recognized in the income statement under the heading of "Net income from limited partnerships and directly held investments – foreign exchange gains and losses". The fair values of various derivative instruments used for hedging purposes are disclosed in note 6.

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 unrealized surpluses and losses on transactions between group companies have been eliminated. A listing of the Group's subsidiaries is set out in note 22.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Investments in limited partnerships and directly held investments

For the valuation of such investments the directors review information provided by underlying partnerships and other business partners and apply widely recognized valuation methods to estimate a fair value as at the balance sheet date. 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. Therefore the amounts realized on the sale of investments will differ from the fair values reflected in these financial statements and the differences may be significant.

3 EXPENSES

Management fee
The management fee is paid quarterly in advance pursuant to the Investment Management Agreement between the Company 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 the Group.

Administration fee
The administration fee is paid quarterly in advance pursuant to the Administration Agreement between the Company 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 the Company and Princess Management & Insurance Limited. On 9 February 2006 when the mitigation rights were exercised, the calculation of the quarterly insurance premium has changed and the insurance premium is therefore calculated as 0.375% of Net Assets minus all assets held in cash, cash equivalents or marketable securities.

4 TAXATION STATUS

All companies in the Group 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.

5 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 program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on 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. A portion of the private equity investments are made in a number of different countries and denominated in a number of different currencies. Any returns on and value of such investments may therefore be materially affected

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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. The Group may use forward contracts to hedge its exposure to foreign currency risk in connection with the functional currency.

(b) Interest rate risk

The Group invests in interest-bearing short-term investments with maturity between three and twelve months from the date of purchase. Apart from that, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(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.

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 liquidity risk arising from the over-commitment strategy is managed through the use of quantitative models and the internal risk committee.

(e) Underlying asset risk

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 underlying asset risk is managed by an investment strategy that diversifies the investments in terms of geography, financing stage, industry or time.

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

Fair value estimation

The fair value of publicly traded derivatives and "financial assets at fair value through profit or loss" securities is based on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward foreign 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.

6 LIMITED PARTNERSHIPS AND DIRECTLY HELD INVESTMENTS

6.1 INVESTMENTS

	30.06.2006	31.12.2005
Balance at beginning of reporting period	**561,979,141**	581,626,665
Capital activity recorded at the transaction rate	**37,605,818**	98,252,399
Distributions	**(124,628,453)**	(205,398,410)
Revaluation	**83,087,279**	110,821,887
Foreign exchange gains / (losses)	**13,358,293**	(23,323,399)
Rounding	**2**	(1)
Balance at end of reporting period	**571,402,080**	561,979,141

6.2 DISTRIBUTIONS

	01.01.2006-30.06.2006	01.01.2005–30.06.2005
Dividends	**792,190**	6,482,784
Interest income	**2,684,466**	1,214,885
	3,476,656	7,697,669
Return of investments	**124,901,064**	87,150,466
Gains / (losses) from sale of stock distributions	**(272,611)**	(15,981)
Total distributions	**128,105,109**	94,832,244

6.3 FOREIGN EXCHANGE

	01.01.2006-30.06.2006	01.01.2005–30.06.2005
Foreign exchange revaluation	**13,358,293**	(18,992,569)
Revaluation of foreign exchange hedges relating to investments in limited partnerships and directly held investments	**(8,131,772)**	29,234,867
Realized gains / (losses) from foreign exchange hedges relating to investments in limited an directly held investments	**(1,650,000)**	(11,354,813)
Rounding	**1**	–
	3,576,522	(1,112,515)

At the balance sheet date, the Company 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 the Subholding. The unrealized surplus / (loss) at the end of the reporting period is detailed below:

	USD	Rate	Value date	Surplus/(loss) 30.06.2006	Surplus/(loss) 31.12.2005
Sell GBP against USD	36,799,770	1.7524	20.04.2006	**–**	679,602
Sell EUR against USD	91,254,375	1.2167	20.04.2006	**–**	1,959,825
Sell SEK against USD	9,777,083	7.6710	20.04.2006	**–**	273,992
Sell GBP against USD	35,670,000	1.7835	20.10.2006	**(1,382,680)**	–
Sell EUR against USD	90,790,100	1.2437	20.10.2006	**(3,271,037)**	–
Sell SEK against USD	13,386,881	7.4700	20.10.2006	**(618,636)**	–
				(5,218,353)	2,913,419

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7 SHORT-TERM INVESTMENTS

7.1 INVESTMENTS

	30.06.2006	31.12.2005
At beginning of reporting period	**59,463,335**	–
Additions	**93,764,361**	59,313,038
Redemptions	**(37,386,637)**	–
Gains / (losses) on short-term investments	**937,003**	150,296
Rounding	**(1)**	1
At end of reporting period	**116,778,061**	59,463,335

7.2 INCOME

	01.01.2006–30.06.2006	01.01.2005–30.06.2005
Interest on short-term investments	**86,097**	–
Realized gains / (losses) from short-term investments	**633,837**	–
Unrealized gains / (losses) from short-term investments	**937,003**	–
Total gains and losses from short-term investments	**1,656,937**	–

Due to the level of distributions received from limited partnerships, the Company holds cash in excess of its immediate requirements. To achieve better returns the cash has been invested into short-term bonds with a maturity of less than one year.

8 OTHER SHORT-TERM RECEIVABLES

	30.06.2006	31.12.2005
Distributions receivable	**1,945,359**	421,528

9 CASH AND CASH EQUIVALENTS

9.1 BALANCE

	30.06.2006	31.12.2005
Cash at banks	**74,889,794**	49,315,980
Rounding	**–**	(1)
Total cash and cash equivalents	**74,889,794**	49,315,979

9.2 INTEREST INCOME

	01.01.2006–30.06.2006	01.01.2005–30.06.2005
Interest received from cash at banks	**855,704**	234,383
Total interest income from cash and cash equivalents	**855,704**	234,383

10 SHARE CAPITAL

	30.06.2006	31.12.2005
Authorized		
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 until 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.

11 CONVERTIBLE BOND

	30.06.2006	31.12.2005
Balance at beginning of reporting period	**655,163,727**	613,012,186
Amortization of transaction costs	**743,757**	1,487,513
Finance cost on convertible bond	**21,327,858**	40,664,029
Rounding	**1**	(1)
Balance at end of reporting period	**677,235,343**	655,163,727

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. The Company 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 264,834,825 using cash flows discounted at market interest rates for an equivalent period. This amount is classified as share premium and will remain part of the permanent equity of the Group. The remaining net proceeds, after the allocation of the liability related transaction costs, of USD 424,077,733 are allocated to the liability component. The liability, including transaction costs, is therefore stated at a discount of 1.6110% per quarter to the maturity value.

The result of this technical requirement in IAS 32 is that the discount is amortized 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 Group. 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 years to the conversion of the bond.

12 OTHER SHORT-TERM PAYABLES

	30.06.2006	31.12.2005
Accrued interest	**99,178**	448,658
Other accruals	**4,935,164**	72,012
	5,034,342	520,670

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13 DIVIDEND AND INTEREST INCOME AND EXPENSE

	01.01.2006–30.06.2006	01.01.2005–30.06.2005
Interest income:		
– Dividend and interest income from limited partnerships and directly held investments	**3,476,656**	7,697,669
– Interest income from cash and cash equivalents	**855,704**	234,383
Total dividend and interest income	**4,332,360**	7,932,052
Total interest expense	**(99,178)**	(280,104)

14 FOREIGN EXCHANGE GAINS AND LOSSES

	01.01.2006–30.06.2006	01.01.2005–30.06.2005
Foreign exchange gains and losses on:		
– Limited partnerships and directly held investments	**3,576,522**	(1,112,515)
– Cash and cash equivalents	**148,035**	(42,587)
– Other	**(690,350)**	–
	3,034,207	(1,155,102)

15 REVALUATION

	01.01.2006–30.06.2006	01.01.2005–30.06.2005
Revaluation of:		
– Limited partnerships and directly held investments	**83,087,279**	59,417,048

16 COMMITMENTS

	30.06.2006	31.12.2005
Total commitments translated at the rate prevailing at the balance sheet date	**1,333,062,934**	1,264,969,349
Unutilized commitments translated at the rate prevailing at the balance sheet date	**253,576,788**	245,329,670

17 DILUTED NET ASSETS PER ORDINARY SHARE

The net assets are calculated by deducting the Liabilities falling due within one year from the Total 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.

	30.06.2006	31.12.2005
Net assets of the Group	**754,762,598**	673,572,730
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	**107.6694**	96.0874

18 CREDIT LINE FACILITY

The Company entered into a revolving credit facility with Bank of Scotland on 31 December 2002 for a maximum of USD 130,000,000. Security is inter alia, by way of a security agreement over the entire issued share capital of the Subholding. The credit facility has been reduced to USD 50,000,000 in the meantime.

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 to the borrowings due to Bank of Scotland (including capitalized interest) is less than 5:1.

There is a non utilization 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 period.

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

As at the balance sheet date, the amount drawn under the credit facility was nil.

19 INSURANCE POLICY

On 29 June 1999, the Company 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.

20 NUMBER OF EMPLOYEES

At the balance sheet date no persons were employed by the Group.

21 RELATED PARTY TRANSACTIONS

Partners Group Holding and Swiss Reinsurance Company hold 8,010 and 1,990 Class B Shares respectively.

Partners Group Holding 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

	Notes	**01.01.2006–30.06.2006**	01.01.2005–30.06.2005
Management fee paid to:			
– Princess Management & Insurance Limited	3	**6,117,815**	5,884,703
Insurance fee paid to:			
– Princess Management & Insurance Limited	3	**4,406,095**	4,320,836
Administration fee paid to:			
– Partners Group (Guernsey) Limited	3	**171,573**	144,028
Directors' fee paid		**5,408**	11,719

Princess Management & Insurance Limited is a company incorporated in Guernsey and owned by Partners Group Holding and Swiss Reinsurance Company. Partners Group (Guernsey) Limited is a company incorporated in Guernsey and owned by Partners Group Holding.

ii) Period-end balances

There were no period-end balances with related parties.

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22 GROUP ENTERPRISES – SIGNIFICANT SUBSIDIARIES

	Country of incorporation	**Ownership interest 30.06.2006**	31.12.2005
Princess Private Equity Subholding Limited	Guernsey	100%	100%

23 PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

Partners Group Holding, a company organized under Swiss law holds the majority of the Class B shares of the Company.

LIST OF ADDRESSES

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Trading Information

Reuters	DBSTRUK03
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