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terra firma

A unique perspective

Annual Review
2007

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The ability to see
potential where others
see only problems

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*Terra Firma aims to be the leading
contrarian investment firm – responsibly
delivering superior returns over
the long term*

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Executive Summary

The best kind of vision is insight



Everyone benefits when efficient and well-run businesses which serve the community are invested in and supported. At Terra Firma, we go one step further by taking ownership of businesses which are out of favour and which need new strategic thinking

Letter from the CEO



March 2008

Welcome to the first Annual Review of Terra Firma and its portfolio businesses.

At Terra Firma, we have always strived to be open, honest and transparent with our investors and I am delighted that this Review allows us to develop this principle and share information with our stakeholders generally. The activities of firms like Terra Firma touch many people and it is only right that those with an interest have the opportunity to understand our intentions, plans and results.

Some might be surprised that we have chosen to release such comprehensive information to the world at large. In doing so, we have gone further than the increased levels of disclosure espoused by many and as far as any private equity firm in Europe. The simple truth is we have nothing to hide. Private equity should not be clouded in secrecy, but explained. Its success is due to its ability to guide portfolio businesses more decisively and effectively than the public markets. Historically, however, private equity firms have been poor at communicating this.

In my view, private equity is unquestionably a force for good. Everyone benefits when efficient and well-run businesses are invested in and supported. At Terra Firma, we go one step further by taking ownership of businesses which are out of favour and which need new strategic thinking. We seek businesses which require operational change to improve how they serve their customers and thus how they will perform. Such restructuring is often not painless (and, in the short run, can produce unattractive headlines), but the alternative of allowing continued underperformance is, in the long run, much more painful and destructive. This role as a catalyst for change is private equity's most useful economic and social function. We believe that only when private equity firms become open and transparent will people appreciate this.

In restructuring and reorganising businesses, Terra Firma does, of course, also seek to make a return for its investors. However, it is often misunderstood exactly who gains from such investment performance. At Terra Firma, our largest group of investors are pension funds, both public and private, and the ultimate beneficiaries of strong investment performance are the members of those schemes. I hope that this report will give them a better idea about how their money is being put to work and will provide all Terra Firma's stakeholders with a better understanding of our business.

Best wishes

Guy Hands

About Terra Firma



About Terra Firma

Terra Firma invests in large, asset-backed and complex businesses that have been overlooked, under-valued or misunderstood by the financial community

These portfolio businesses are then nurtured to a higher level of performance through a combination of strategic change, sustained investment and improved management

We add value through involving ourselves directly in the companies Terra Firma* buys. Working alongside management, we overhaul the business both strategically and operationally. This often involves introducing new initiatives, processes and procedures in order to change the behaviour and culture of a company.

This type of change takes time, but a long-term approach to investment is vital in order to create successful, sustainable businesses. These revitalised companies are later sold to realise a return for the investors in Terra Firma's funds.

Since its launch in 1994, Terra Firma has invested approximately €11 billion of equity capital and has completed investments with an aggregate transaction value of €42 billion.

* A reference to "Terra Firma" means, prior to 27 March 2002, the Principal Finance Group of Nomura International plc and post 27 March 2002, as the context requires, TFCP Holdings Limited, Terra Firma Capital Partners Limited, Annington Management Services (Guernsey) Limited and any of their affiliates.

About Terra Firma

OUR INVESTORS

We raise funds from external investors including pension funds, insurance companies, sovereign wealth funds and individuals from around the world. Our largest investors are the pension funds – investing on behalf of today's pensioners, many of them retired public employees, and the pensioners of the future. In an environment where many pension plans are under-funded or under threat, the success of Terra Firma's businesses helps to provide improved and more secure income for pensioners and our other investors.

OUR STRUCTURE

Terra Firma's funds are typically Guernsey Limited Partnerships. Its active funds are Terra Firma Capital Partners II (TFCP II), Terra Firma Capital Partners III (TFCP III) and Terra Firma Deutsche Annington (TFDA). Terra Firma's investors invest as Limited Partners and the day-to-day affairs of each partnership are managed by its General Partner in Guernsey. The General Partners make all investment decisions on behalf of the funds.

Terra Firma Capital Partners Ltd (TFCPL) in the UK, with support from terrafirma GmbH in Germany, provides investment advice to the General Partners, including sourcing and

advising on investment opportunities and realisation strategies.

Terra Firma's funds make investments in selected businesses across the world, but with a particular focus on Europe. These portfolio businesses currently operate in over 60 countries globally.

OUR PEOPLE

We believe that what sets us apart is the commitment of our staff and the breadth of experience and skills they can offer. Today, the Terra Firma advisory team is made up of around 100 people in London and Frankfurt, drawn from 20 countries and speaking 29 languages. They come from a wide variety of backgrounds, including industry, finance, consultancy, private equity, law and accountancy.

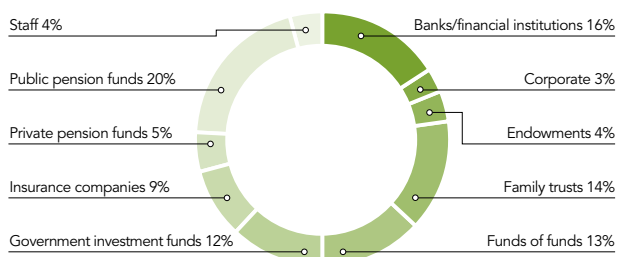
Our culture is an open one that promotes debate and discussion across every level of our organisation, and this approach has consistently delivered excellent results. Our people are creative and encouraged to challenge the accepted view. This ethos is fostered and developed within the group through our cultural values, which represent the types of behaviours we encourage at Terra Firma.

*Our approach is:
Professional, business-focused,
principled and results-driven.*

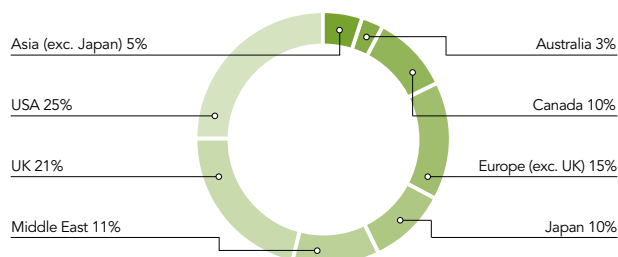
*Our organisation aims to be:
Open, adaptable, diverse
and meritocratic*

*Our people are encouraged to be:
Passionate, creative, team-spirited
and tenacious*

Terra Firma investors by type



Terra Firma investors by region



Financial summary

€16 billion

of equity raised

€11 billion

invested

€42 billion

enterprise value of investments made

Since 1994:

- €16 billion of equity funds have been raised to implement Terra Firma's investment strategy
- €11 billion of equity capital has been invested in out-of favour businesses across a variety of sectors around the world
- €42 billion is the total enterprise value of investments made
- Our funds have doubled the money they have invested. In our view, it is the long-term generation of profit for our investors which is key, not the annual marking to market of our investment holdings
- Terra Firma has held its investments for over four years on average, which is far longer than the average hold period for public company stock held by UK institutional investors

Review and highlights of 2007

2007 has been a successful year for Terra Firma

TFCP III

In May, Terra Firma closed TFCP III, with nearly €5.4 billion of investor commitments. We were delighted with the support of Terra Firma's existing and new investors in surpassing the fundraising target.

The total includes over €200 million of commitments from Terra Firma and its employees, creating a powerful alignment of interest between us and Terra Firma's investors.

TFDA

Also in May, a further €1 billion was raised from TFDA investors, including four new partners, to enable Nomura to sell its remaining stake in Deutsche Annington.

TANK & RAST

The partial sale of Terra Firma's German motorway services business, Tank & Rast, was completed this year and proceeds of €1.1 billion were distributed to investors.

AWAS

AWAS acquired Pegasus Aviation during 2007, to form the world's third largest aircraft lessor. The acquisition significantly strengthened AWAS's global position within the aircraft leasing sector by broadening both its customer and supplier base. Also, a €288 million co-investment offering was completed in December, allowing investors to further share in Terra Firma's growth strategy for the business.

EMI

The €5.9 billion acquisition of EMI was completed during 2007. This acquisition will allow us to draw on our full experience in strategically transforming businesses, repositioning assets and enhancing cash flows. In early 2008, co-investors also invested an additional €343 million alongside Terra Firma. The additional equity will provide EMI with capital to accelerate its restructuring and to fund add-on acquisitions.

ODEON/UCI

This year's refinancing of the cinemas business, Odeon/UCI, was an opportunity for Terra Firma to return funds to its investors. Odeon/UCI's purchase of Cinestar in June helped the business to achieve one of its stated objectives of becoming the market leader in Italy. This further consolidated Odeon/UCI's position as the number one pan-European operator, with a strong presence in the UK, Ireland, Spain, Portugal, Italy, Germany and Austria.

INFINIS

2007 also saw Infinis, Terra Firma's renewable energy business, acquire ReGen, a 42 MW landfill gas business, along with future wind and biomass generation development opportunities. These additional investments have helped Infinis consolidate its position as the UK's leading provider of renewable energy and provide good prospects for future growth.

Review and highlights of 2007

€5.4 billion of investor commitments
closed in TFCP III

€1 billion raised from TFDA investors

€1.1 billion returned to investors following
the partial sale of Tank & Rast

€5.9 billion acquisition of EMI

3rd largest worldwide aircraft lessor created by
merger of AWAS and Pegasus

Commitment to openness



Commitment to openness

An opportunity for our stakeholders to understand our intentions, plans and results

TRANSPARENCY

We take pride in the success of the businesses we support and in sharing that success with our investors, whether pensioners, individuals or corporates. We are also committed to improving the public understanding of what we do and how our activities and portfolio businesses are contributing to the wider community.

As a business, we welcomed the Walker Report which was published in the UK in November 2007 and the work that had been done to address the question of transparency within private equity. Committed to following its guidelines, we will promote conformity

within all of our portfolio businesses. In publishing our first Annual Review, we are presenting an in-depth picture of Terra Firma and already going much further than the requirements set out in the Walker Report.

We have invested approximately €325,000 and around 2,000 hours in making information on Terra Firma and our portfolio businesses more readily accessible. We believe that this is a good investment and, recognising that the businesses Terra Firma invests in touch the lives of many people, we are mindful of the social responsibilities that our work brings with it.

Contribution to the UK



Contribution to the UK

A long-term view is one of the biggest benefits of private equity investment

ECONOMIC IMPACT

TFCPL has a staff drawn from 20 different countries and advises a fund management team that invests globally from its base in Guernsey. By choosing to base itself in the UK, TFCPL and its staff pay UK taxes and contribute to the UK economy. The UK further benefits from the Guernsey fund managers, who direct the majority of their expenditure on other advisors (such as law firms, accountants, consultants and banks) towards UK firms.

We are concerned by the recent changes to the UK tax laws. The potential impact of these changes on Terra Firma and other private equity firms' business is significant. Taxing long-term capital gains more like annual income will encourage businesses to be less long term in their approach and will undermine one of the biggest benefits of private equity investment. Such trends in UK taxation, making the UK a less competitive financial centre than it was, have caused us to review our UK activities and may result in future

growth being pursued through our other European offices. This would also please a number of our staff that are foreign nationals and who have already expressed a desire to be located outside the UK. The changes in the UK tax regime combined with the high cost of living mean that UK residency is now less attractive.

Terra Firma is itself a customer of the UK financial services sector. The City of London, as Europe's largest financial services centre, generates an enormous amount of income for the UK economy and the UK's tax purse. There can be no doubt that creating a tax regime which is fair and transparent, but still competitive in the global market place, is challenging. However, London already faces competition from cities elsewhere in the world which have less expensive housing and a more modern infrastructure. Recent developments in UK policy may well drive global firms and highly skilled individuals away from London at significant cost to the UK economy in terms of lost revenues and lost taxes.

Outlook for 2008



Outlook for 2008

Private equity will suffer considerably over the course of the next two years as the current difficult markets take their toll

LOOKING FORWARD

After a period of exceptional growth from 2003 to the first half of 2007, the second half of 2007 saw a sharp slowdown in buyout activity as the substantial reduction in inter-bank liquidity meant that banks had little debt available to fund transactions. We had long forecast that such a contraction in debt provision was inevitable given the huge levels of leverage that were being provided by financial institutions around the world. Given the very significant challenges that the international banking community now faces, the situation is unlikely to improve, and may well worsen in the near future. This set of circumstances combined with the strong likelihood of recessions in both the US and Europe, and the probable consequential credit deterioration that would result, is likely to mean far fewer large buyouts will occur in 2008 than in recent years.

Private equity firms are therefore facing a very tough environment not only in terms of executing new deals, but also with regards to the performance of

those businesses which they already own. Most private equity portfolios are marked to market only at the end of the calendar year. While infrequent revaluation is advantageous in that it means firms can undertake significant, long-term changes in their portfolio businesses away from the scrutiny of the market, it also means that the valuations struck at 31 December 2007 do not reflect current market and business conditions. Therefore, many private equity portfolios will be marked down as we move through 2008. We also believe that a number of private equity portfolio companies will struggle to make their business cases as the recession takes hold leading to additional reductions in valuations. Thus the actual sale of businesses from these portfolios will produce lower levels of profit and is also likely to take considerably longer to realise than has been the recent norm. As a result, it is our expectation that the investment performance for the asset class of private equity as a whole will suffer considerably over the course of the next two years as the current difficult markets take their toll.

However, these challenges for the private equity market in 2008 may well create a more fertile market for buyouts in late 2009 and beyond. The high levels of activity in the period up to the summer of last year had driven the price expectations of the sellers of businesses to exceptionally high levels. The issues described above have been driving global equity markets down, and, over time, these forces should also mean more realistic price expectations among those who are seeking to sell businesses.

Over the next two years, returns will come from fundamentally improving the performance of the businesses we have acquired – which is exactly what Terra Firma does best. We will continue to concentrate on maximising the value in our existing portfolio businesses and focusing on executing new deals with creative capital structures that allow us to exploit our capacity to implement strategic and operational change during these difficult times.

TFCP Limited Business & Financial Review

*Discovery is seeing what others have
not seen and thinking what others
have not thought*



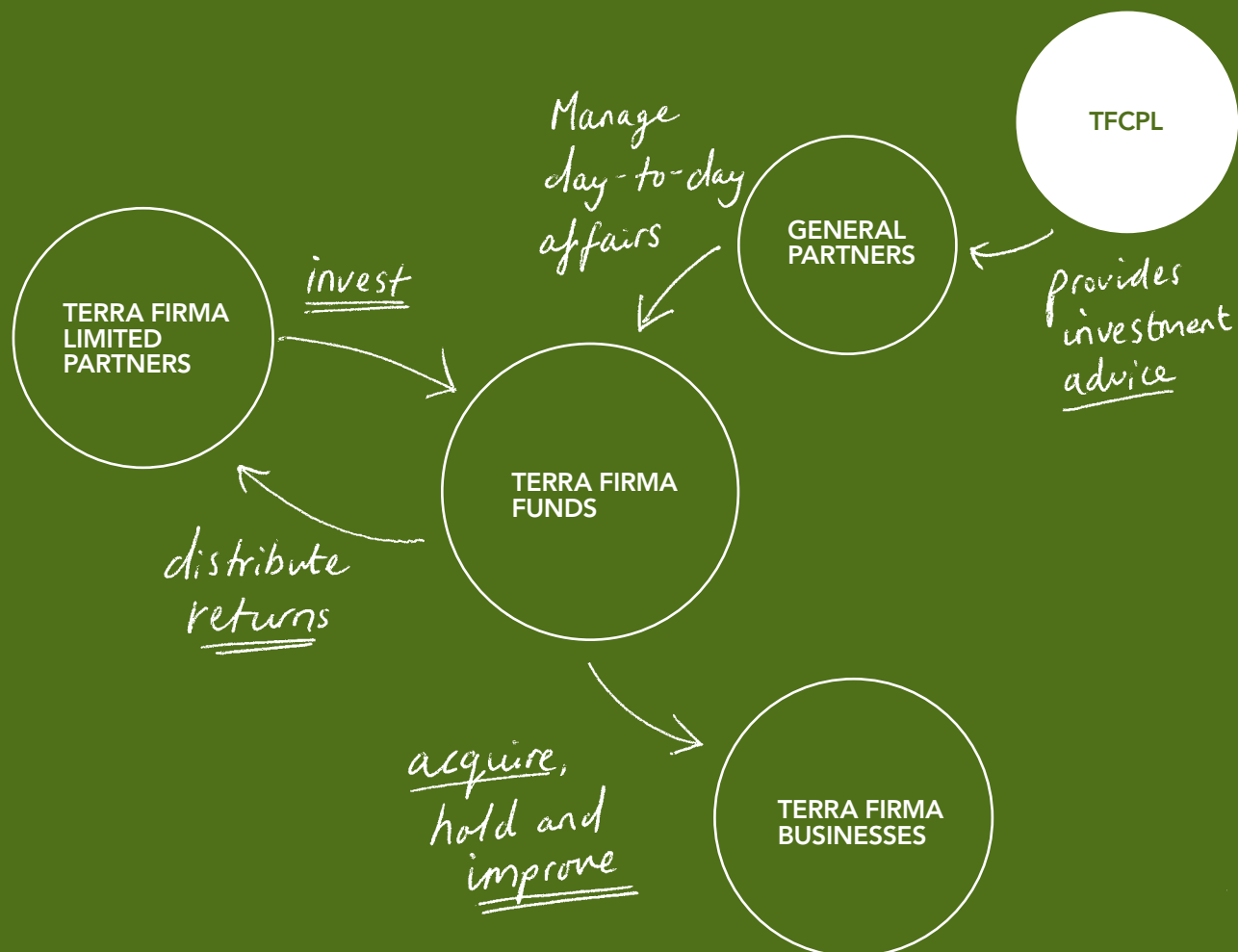
Introduction

TFCPL in the UK provides investment advice to the Guernsey-based Terra Firma fund managers, which invest capital provided by investors from around the world. This investment advice includes sourcing and advising on investment opportunities and realisation strategies.

The businesses in which the fund managers invest differ in size, in sector and in location. However, they are all typically in out-of-favour sectors that have been overlooked or misunderstood by the financial community.

Since 1994, TFCPL has advised on investments amounting to approximately €11 billion of equity with an aggregate enterprise value of €42 billion.

Introduction

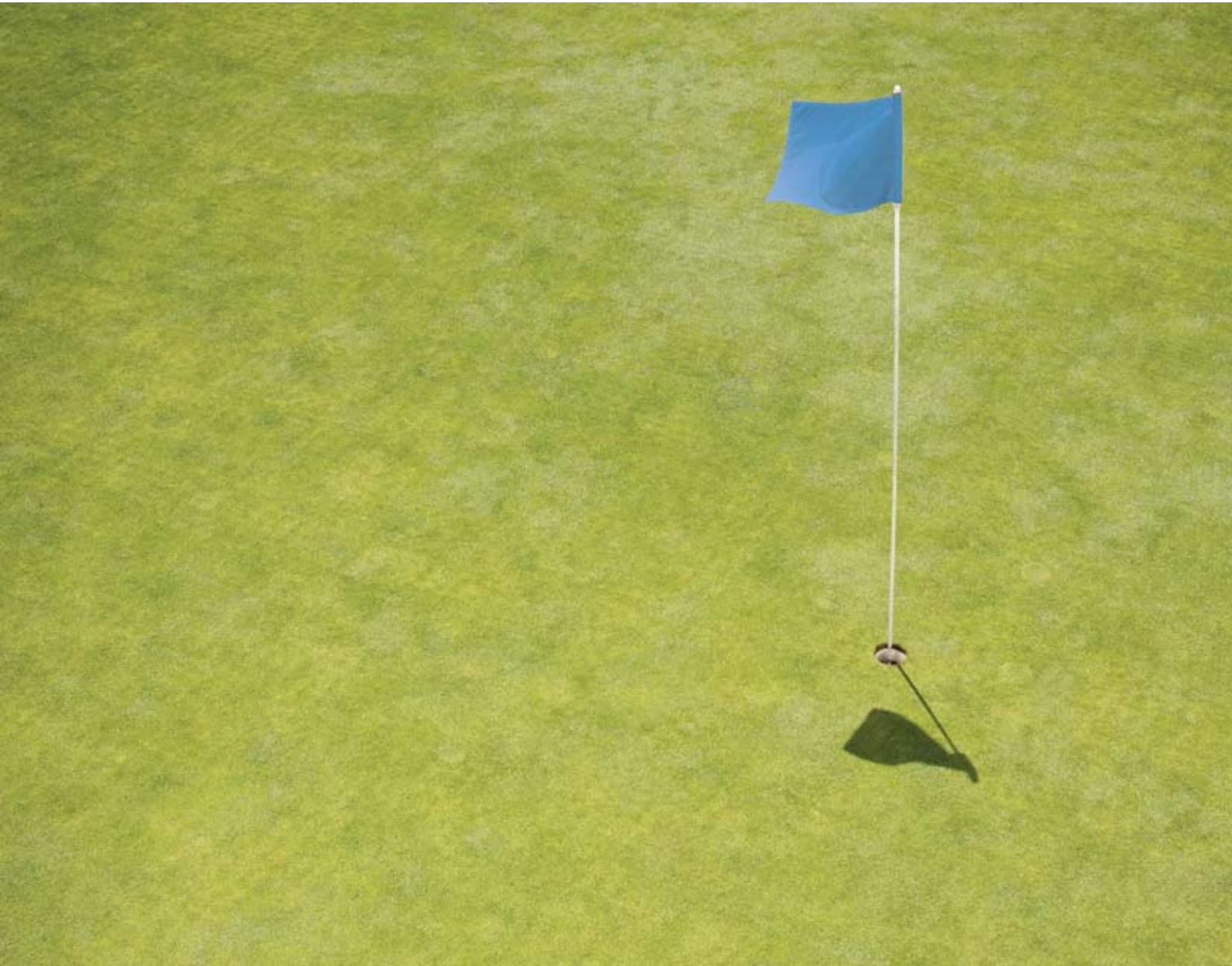


This business and financial review is based on the principles and guidelines for Operating and Financial Reviews published by the Accounting Standards Board which is best practice and voluntary.

The review contains forward-looking statements and information which:

- a. have been made available by the directors in good faith based on the information available to them up to the time of their approval of this report; and
- b. should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Strategy



Strategy

We focus on businesses that will benefit from strategic, operational or management change

BUSINESS OBJECTIVE

Terra Firma raises long-term capital from investors such as public and private pension funds, insurance companies, endowments and charitable foundations. The funds raised by Terra Firma are used to acquire businesses that are under-performing in some way, with these 'portfolio businesses' then being held by the funds. Terra Firma's objective is to maximise investor returns by unlocking the underlying potential in the businesses it acquires. Through a combination of strategic change, improved management and sustained investment, the portfolio businesses are nurtured to a higher level of performance.

Later, often after several years, these revitalised companies are sold to realise a return for the pension funds and other investors in Terra Firma's funds.

INVESTMENT APPROACH

Since 1994, Terra Firma has consistently applied an investment strategy that focuses on identifying and capturing value in businesses from sectors that are often overlooked, undervalued or misunderstood by the financial community. Terra Firma favours large, asset-backed businesses that have complex structures or regulatory issues and which will benefit from strategic, operational or management change.

We seek businesses that have a market-leading position – or provide a platform for add-on acquisitions that will create a market-leading position – as this allows Terra Firma's portfolio companies to drive change in a sector. It is these attributes, rather than any specific sector or country, that determine where Terra Firma invests.

Value creation



Value creation

There are a number of factors that give Terra Firma a sustainable competitive advantage when it comes to creating value:

DIFFERENTIATED STRATEGY

We focus on businesses where our views differ from the market consensus and where we can exploit our capacity to implement strategic and operational change.

Terra Firma fundamentally revises both strategy and operations within its businesses to create significant improvements in performance. This is not always easy or welcome, but it is necessary in order to create a successful business that is sustainable over the long-term.

TAILORED ORGANISATION

Since its inception, Terra Firma has evolved and has developed the full range of financial skills, strategic insight and operational expertise to pursue a differentiated investment strategy. The highly diverse knowledge base of the group allows Terra Firma to spot opportunities that are missed by others and to carry out many different types of transaction.

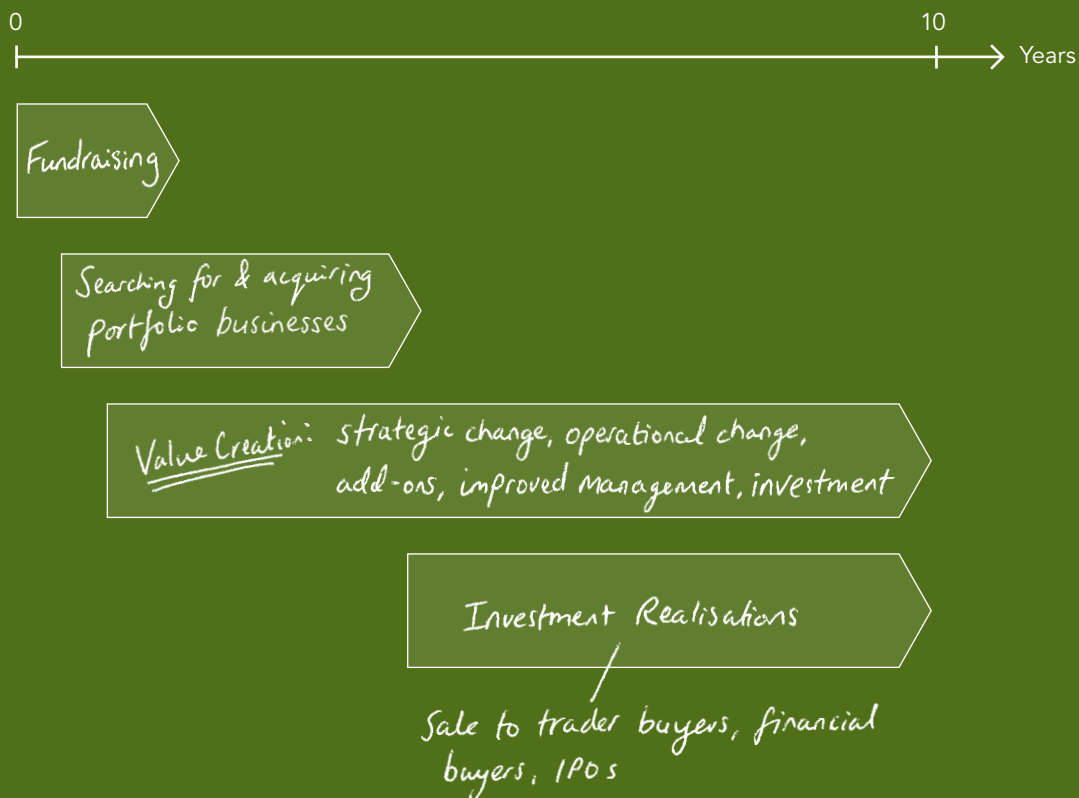
Our Financial Managing Directors co-ordinate the transaction process, which includes evaluating potential acquisition opportunities, overseeing the due diligence process, making price recommendations and recommending debt financing arrangements.

Our Operational Managing Directors, who between them have many years' experience in running and improving performance in numerous businesses, are supported by a team of professionals with strong strategic, operational and managerial expertise.

We are flexible in the way in which we use our own operational experts, whether it is through involvement in deal due diligence, developing and overseeing the implementation of the strategic plan or acting as interim senior management within the newly-acquired business.

Value creation

THE LIFE CYCLE OF A TERRA FIRMA FUND



Value creation

ENTREPRENEURIAL CULTURE

Our culture is an open one that demands debate and discussion across every level of our organisation and this is an approach that has consistently delivered excellent results. Our people are encouraged to be as creative as possible and to challenge the conventional view. Our deal teams also have the advantage of being able to draw on the range of skills and experience of members across the group, enabling them to identify the most suitable solution for each transaction.

ACTIVELY MANAGING PORTFOLIO BUSINESSES TO ENSURE MAXIMUM LONG-TERM VALUE

Our in-house operational team is closely involved with every Terra Firma portfolio business. The period immediately after the completion of an acquisition is particularly important to the success of that investment. This is when it is vital to make sure momentum is created and that management and staff are motivated and incentivised to work with Terra Firma to maximise the value of the business. Working in the business alongside management, our operational team refines the strategic and operational plan that we developed pre-acquisition and helps with its implementation. Our breadth of in-house operational expertise means we are able to address any short-term management changes or gaps whilst the business is in transition.

On an ongoing basis, staying in close and constant contact with the

portfolio company at many different levels enables us to actively influence and monitor business performance. This ensures that the long-term value of the business is being maximised and means we can assist on significant 'value shifting' opportunities and respond to any special circumstances. This hands-on approach allows us to be closely involved in day-by-day development and implementation of performance initiatives in each of Terra Firma's portfolio businesses.

BUSINESS MODEL REDEFINITION & PERFORMANCE IMPROVEMENT

We always invest considerable time in exploring the basic, but vital, issues relating to a potential acquisition's strategy and operations. This process enables us to identify fundamental weaknesses in existing business models and opportunities to significantly improve performance. A core element of Terra Firma's investment strategy is the intensive overhaul of a company's strategic and operational direction to enhance value. As well as transforming the business, this approach often places that company at the forefront of developments in its industry. Playing such an active role in industry change leadership differentiates Terra Firma from other private equity firms.

The WRG story overleaf provides a good example of how strategic change and operational enhancement has worked in practice at one of Terra Firma's portfolio businesses.

Value creation

The WRG – Infinis Story Generating profits and renewable energy

An open landfill site isn't the most obvious starting point for a successful green energy business, but then Terra Firma has never had much time for conventional thinking

When we acquired the Waste Recycling Group (WRG) in 2003 for €836 million, others saw a narrow business model and dwindling revenues. We saw the potential for investment with the reward of long-term profitable growth.

Primarily a waste disposal company with around 100 landfill and recycling sites across the UK, WRG also had a number of other interests including a small renewable energy business.

The landfill sector had fallen out of favour following a recent European Directive that would lead to a gradual scaling down of this method of waste disposal. Our view was that, while disposal would move away from landfill, it would never cease completely as 80% of the UK's waste was still ending up in landfill sites. We believed that this fact, coupled with a tough planning policy for new sites, signalled substantial room for WRG's profitable growth and improved margins.

Our initial task was to work with industry experts to develop and apply a strategy that would complement WRG's strengths. Under Terra Firma's

ownership, WRG pushed ahead with developing alternative waste disposal options, including completing the €225 million, 500,000 tonne per annum Allington incinerator project in Kent and refurbishing WRG's existing 150,000 tonne Eastcroft facility. We also focused on negotiating long-term landfill contracts with both public and private customers and removing the inefficiencies that had followed from several poorly integrated acquisitions.

We also wanted to diversify the business and unlock the potential in WRG's under-invested waste-to-energy capabilities. Methane is produced when waste decomposes and this can be collected and converted to power for the National Grid. However, as mentioned above there was only a small renewables division and most of its methane was either outsourced at low rates or simply burned off. We knew that investing in building its own power division would create a major and long-term income stream.

We also recognised that combining the UK landfill assets of Shanks, the UK's third largest landfill operator, with

those of WRG would add critical mass to the business. The 2003 purchase of Shanks' UK landfill business for €357 million gave WRG an added 80 million cubic metres of landfill space, an overall 30% share of the UK's waste disposal market and far greater waste-to-energy potential.

Following the merger of Shanks's landfill assets with WRG, we separated the company into a waste disposal division and a renewable energy generator. In 2006, the waste disposal division was sold at a significant profit to Fomento de Construcciones y Contratas, S.A. while the renewable energy business was retained and rebranded Infinis.

With a new management team in place, Infinis has lived up to its early promise. Having retained the lifetime rights to the methane gas being produced by WRG's landfill sites, it is now the UK's largest independent renewable energy company both in terms of number of sites and output. Today, it has approximately 296 megawatts (MW) of installed power capacity and accounts for around 10% of the UK's renewable energy.

Value creation



A new lease of life:

The restoration plan at the Bletchley landfill ensures that the site will eventually become a mixture of woodland, agricultural and recreational land. The first phase is already complete and the local community now has several new football pitches.

With the government target for renewable energy to increase from its current 5% of the UK's energy production to 20% by 2020, Infinis is well-placed to capitalise on a highly incentivised and growing market.

Looking ahead, Infinis has its sights set on growing from a UK-focused landfill gas business to a broad-based renewable energy company. The five-year plan includes moves into wind energy and the biofuels sector. The strategy will be realised through acquisition and organic growth, and it is already underway – in September 2007, Infinis purchased a renewable energy development portfolio from the Scottish Resources Group.

This includes development rights to a biomass and onshore wind portfolio and a biomass feedstock sourcing business.

Terra Firma's investment strategies for WRG, Shanks and now Infinis have undoubtedly proved successful, but that is just part of the whole story. We are equally proud of the fact that we have created a new company with a long-term future in the generation of clean energy. As well as paying dividends for shareholders, Infinis will be paying dividends of a different kind for generations to come.

Future outlook



Future outlook

Returns will come from fundamentally improving the performance of the businesses we have acquired

LOOKING AHEAD

Western economies have just experienced the largest boom in decades. This has been underpinned not only by technological innovation, but by the low interest rate policies of the US, UK and European central banks. Plentiful, inexpensive credit reached its peak in early 2007 before the sudden reversal brought on by the credit crisis. The substantial reduction in interbank liquidity has meant that banks have had very little debt available to fund transactions. Given the very significant challenges that the international banking community now faces, the situation is unlikely to improve, and may well worsen in the near future. This set of circumstances combined with the strong likelihood of recessions in both the US and Europe and the probable credit deterioration that would result is likely to mean far fewer large buyouts will occur in 2008 than in recent years.

For Terra Firma and the rest of the industry, arranging debt finance for new acquisitions will be far more difficult in 2008 than in the first half of 2007. However, Terra Firma's investment approach is about much more than financing, and our banking partners understand the added value that we bring. Longer-term, it will be greatly to the benefit of Terra Firma and its businesses as asset prices are re-based at a lower level. This will make acquisitions more attractive and less risky in years to come.

In this upcoming difficult period, returns will come from fundamentally improving the performance of the businesses we have acquired – which is exactly what Terra Firma does best. We will continue to concentrate on maximising the value in Terra Firma's existing portfolio businesses and we will focus on executing new deals with creative capital structures that allow us to exploit our capacity to implement strategic and operational change.

Resources



*Terra Firma's staff hail from the UK, US, Germany,
Australia, Ireland, South Africa, Denmark,
Sweden, Belgium, Netherlands, Finland, France,
Italy, Japan, Kenya, India, Malawi, Malaysia,
New Zealand and Spain*

Resources

Broad-based expertise

OUR REPUTATION

Since 1994, Terra Firma has developed a strong reputation in the investment community for being able to execute large, complex transactions. This has resulted in a robust and high quality pipeline of deals, with Terra Firma being actively sought out by strategic sellers, government institutions, advisers, investment banks and other intermediaries and service providers.

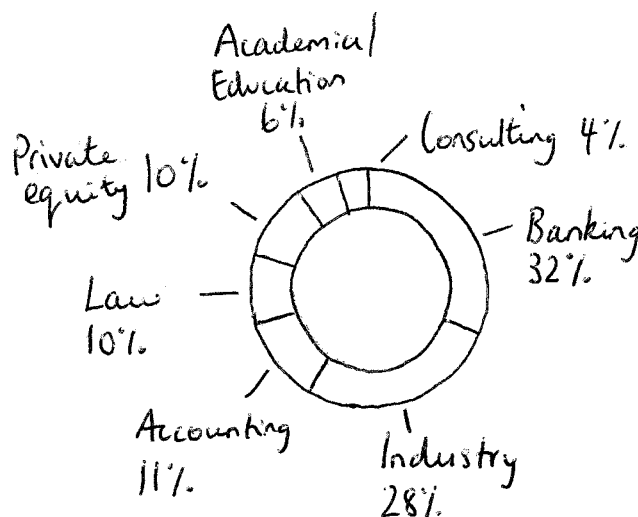
OUR PEOPLE

We believe that what sets us apart is the commitment of our staff and the breadth of experience and skills they can offer. Today, the Terra Firma team is made up of around 100 people based in London and Frankfurt, from 20 countries and speaking 29 languages.

Our team of approximately 70 investment professionals is drawn from a wide variety of backgrounds and gives us the diverse expertise we need to analyse each opportunity in minute detail.

This broad pool of in-house talent gives us a strategic advantage. It has helped to generate proprietary ideas and repeatedly enabled us to identify operational improvements

Our people are encouraged to be creative, adaptable and tenacious and to challenge the accepted view – we seek to recruit and develop people who will thrive in such an environment.



Resources

Our Senior Management Team



Guy Hands

**Chief Executive Officer &
Member of the Investment
Advisory Committee**

Guy Hands is Terra Firma Capital Partner's Chief Executive Officer and Founder. Guy sits on the Investment Advisory Committee and General Partners' boards.

Guy started his career with Goldman Sachs International where he went on to become Head of Eurobond Trading and then Head of Goldman Sachs' Global Asset Structuring Group. Guy left Goldman's in 1994 to establish the Principal Finance Group (PFG) at Nomura International plc which acquired 15 businesses with an aggregate enterprise value of €20 billion. Guy led the spin out of PFG to form Terra Firma in 2002.

Guy has an MA in Politics, Philosophy and Economics from Mansfield College, Oxford University. Guy was elected a Global Leader of Tomorrow of the World Economic Forum in 2000 in recognition of his achievements. Guy is also the President of "Access for Excellence", a campaign based at Mansfield College, Oxford, which promotes the broadest possible access to higher education in the U.K. He is a Bancroft Fellow of Mansfield College, Oxford and a member of the University of Oxford Chancellor's Court of Benefactors. Additionally, Guy is a Fellow of the Duke of Edinburgh's Award Scheme.

Guy is married with four children. His interests include photography, gardens and his family.

Resources



Stephen Alexander
Operational Managing Director

Stephen is currently Chairman of AWAS as well as being responsible for EMI Recorded Music's Catalogue business since March 2008. He was previously interim CEO of Odeon for the six months following the acquisition and was Chairman of Odeon/UCI and Chairman of the Thresher Group.

Prior to joining Terra Firma in 2002, Stephen was Chief Executive of Hicks, Muse, Tate and Furst's European food businesses. Prior to this, Stephen enjoyed a 17-year career with Allied Domecq PLC culminating in his role as Chief Executive of the Retail Division

comprising 15,000 retail outlets worldwide. This followed a period as Chief Executive of the Food Division, Lyons.

Stephen has an MA in Law from Emmanuel College, Cambridge. He was named a Global Leader of Tomorrow by the World Economic Forum in 1993.

Stephen is married with four children. His interests include music, film, theatre and sport. Stephen has been involved in a number of charities.



Phillip Burns
Financial Managing Director

Phillip was involved in the acquisitions of WRG and Shanks and was responsible for Deutsche Annington's acquisition and financing of Viterra.

Prior to joining Terra Firma in 2002, Phillip was a Vice President in Investment Banking with Goldman Sachs.

Phillip graduated from the University of Michigan with a BSc in Aerospace Engineering before graduating from Syracuse University College of Law with a Juris Doctor, summa cum laude.

Phillip enjoys skiing, sailing, running and cycling.

Resources



Mike Clasper
Operational Managing Director

Mike's prime focus is the transformation of the EMI business model with responsibility for the restructuring of the operations, sales, marketing and technology functions.

Prior to joining Terra Firma in 2008, Mike was CEO of BAA PLC, a post which he left in 2006 following a takeover by the Ferrovial Consortium. Previously, he enjoyed a 23-year career with Proctor & Gamble culminating in his role as President of Global Homecare.

Mike graduated from St John's College, Cambridge with a double first in Engineering. He was awarded the CBE

for Services to the Environment in 1995 and holds an Honorary Doctorate from Sunderland University. He served as a member of the Management Committee of the Prince of Wales Business and Environment Programme until 2007 and was a founder member of the Corporate Leaders Group on Climate Change. He is currently Chairman of the West London Consortium, he joined the National Employment Panel in 2006 and is a non-executive director of ITV PLC.

Mike is married with three children. He supports Sunderland FC, enjoys rugby, golf, tennis and the theatre.



Peter Cornell
Managing Director,
Stakeholder Relationships

Peter's role sees him focusing on Terra Firma's relationships with investors, regulators, government, banks and media. The role also includes product and business development.

Peter joined Terra Firma in 2007. Previously, he was Global Managing Partner of Clifford Chance, one of the world's leading international law firms with over 3,500 lawyers in 30 offices. In his career at Clifford Chance, Peter managed offices in Asia, the UK, the US and continental Europe.

Peter has an honours degree in Economics & History from the University of Exeter. Peter is on the Board of Directors and is a Teaching Professor at IESE Business School, Madrid. He was elected "Lawyer of the Year" by Legal Business in 2007.

Peter is married with four children. His interests include skiing, surfing, golf and tennis.

Resources



Fraser Duncan

Managing Director, Portfolio Businesses & Member of the IAC

Fraser's role is primarily focused on the Portfolio Businesses and his responsibilities include pre- and post-acquisition operational change planning and implementation, performance monitoring and governance processes. Fraser has a board seat on a number of the portfolio companies, providing him with an overview of operational matters. He has a team of operational finance and change management professionals which enables hands-on involvement in specific areas.

Fraser is also a member of the General Partners' boards.

Prior to joining the group in 1997, Fraser held positions within Rentokil Initial, Cameron Consultants and Unilever.

Fraser is a Chartered Management Accountant and holds a degree in Economics and Statistics from York University.

Fraser enjoys cooking, travel and photography.



Mayamiko Kachingwe

Financial Managing Director

Mayamiko was closely involved in the simultaneous acquisitions of Odeon and UCI, and he led both the AWAS and the Pegasus Aviation Finance Company investments.

Prior to joining the group in 2001, Mayamiko worked in the London office of the Boston Consulting Group, where he focused on strategy development in the financial services and industrial goods sectors.

Mayamiko holds a BA in Politics, Philosophy and Economics from Oxford University. After being awarded a Rhodes Scholarship, he went on to complete an M.Phil. and D.Phil. in Economics at Oxford and subsequently won a Prize Research Fellowship in Economics.

Mayamiko lives with his partner and their three children. His interests include football and golf.

Resources



Mike Kinski

Operational Managing Director

Mike has been involved in a number of the group's investments including Hyder Plc, some of the pub companies, WRG and Shanks and East Surrey Holdings. He was the acting Chief Executive of The Voyager Pub Company for a period up to its sale in 2002 and is now the Chairman of the Odeon/UCI Cinema Group. His portfolio responsibilities now include Infinis, the green energy business.

Prior to joining the group in 2000, Mike was Group Chief Executive Officer of Stagecoach Holdings Plc, and Chief Executive Officer of Power Distribution and Water Operations for Scottish Power Plc. This included the position of Chairman and Chief Executive Officer of Manweb Electricity Plc and Chairman and

Chief Executive Officer of Southern Water plc. He was also a government appointed non executive director of the UK Post Office from 1998 to 2002.

Mike has a Higher National Certificate in electrical and electronic engineering from Lanchester Polytechnic (Coventry) and an MBA (with distinction) from Warwick University. He is a visiting professor and honorary doctor at Middlesex University and a visiting professor at Brunel University.

Mike is married with two children. When not spending time with his family, he enjoys gardening and all sports with a particular interest in football.



Cormac O'Haire

Finance Director & Member of the IAC

Cormac is responsible for investor reporting, fund accounting and transaction equity funding. He is also responsible for the internal finance support within Terra Firma.

Prior to joining the group in 2002, Cormac was CFO and member of Dresdner Kleinwort Capital Executive Committee.

Cormac is a Fellow of the Institute of Chartered Accountants in Ireland and studied Accounting at the College of Industrial Relations.

Cormac is married with three children and takes a keen interest in music, Gaelic football and Thai cookery.

Resources



Tim Pryce

**General Counsel &
Member of the IAC**

Tim is responsible for the legal, structuring, tax and compliance teams.

Prior to joining the group in 2002, Tim worked for Nomura heading the legal team that provided legal support for the group. Tim previously practised law at Slaughter and May in London and Paris and was General Counsel for GE Capital (AFS Europe) and Transamerica (TDF Europe).

Tim is a solicitor and has an LLB (English law) and an Associateship from King's College, London and a Maitrise (French law) from the Sorbonne, Paris.

Tim's interests include golf and skiing.



Riaz Punja

Financial Managing Director

Riaz Punja has expertise in the media and entertainment sectors. He originated the investment in UCI and led the EMI and Odeon acquisitions as well as the bolt-on acquisitions in Spain and Italy. Prior to his role as Financial Managing Director, Riaz managed the deal origination function and was a member of the Investment Advisory Committee.

Prior to joining the group in 1998, Riaz was a member of Nomura International's Risk and Exposure and Capital Committees. He began his career with Arthur Andersen

before moving on to Babcock International PLC and then CSFB.

Riaz is a Chartered Accountant and holds a BA (Hons) in Economics and an MA in Marketing from Lancaster University. He was awarded a faculty scholarship.

Riaz's interests include reading, music, squash, tennis and walking safaris within East Africa. He is also involved in working with young Africans to help them develop their business ideas and concepts.

Resources



Chris Roling
Managing Director,
Portfolio Businesses

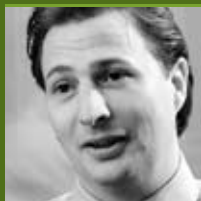
Chris's responsibilities include pre- and post-acquisition operational change planning and implementation, performance monitoring and governance processes. Chris works with Terra Firma's operational team and finance professionals to bring about strategic and operational change at Terra Firma's portfolio businesses. Since August 2007, Chris has been seconded on a full-time basis into the EMI business as Group Chief Operating Officer and Chief Financial Officer.

Chris joined Terra Firma in 2007 from ICI Paints and Packaging, where he was Senior Vice President Finance, Procurement and Logistics. Prior to that, Chris held senior

international CFO, general management and strategy roles with Aventail Corporation, Getty Images, The Kellogg Company, RJR/ Nabisco and PepsiCo.

Chris has a degree in International Economics from the University of Washington and a Masters in International Business from the University of South Carolina. He also received a Graduate Diploma in Middle Eastern Studies from The American University in Cairo.

Chris is married and has three daughters. He is active in several charities including Outward Bound and Terra Firma's Prince's Trust Committee.



Quentin Stewart
Financial Managing Director

Quentin has specific expertise in the waste management and utilities sector having originated the investments in WRG, Shanks and East Surrey Holdings. He subsequently oversaw the sale of WRG and various disposals from East Surrey Holdings. Quentin was also involved in the William Hill and Thorn transactions.

Prior to joining the group in 1997, Quentin worked for Arthur Andersen specialising in structured products.

Quentin is a Chartered Accountant and holds a degree in Business from De Montford University.

Quentin enjoys watching and playing sport, film, music and art.

Resources



Ashley Unwin
Managing Director of Talent

Ashley has responsibility for ensuring the appropriate leadership for both prospective acquisitions as well as the current portfolio businesses. In addition, he advises on the structure of the businesses and the execution of their strategies. Since December 2007, Ashley has been working in EMI as Chief Operating Officer for the UK and North America.

Prior to joining Terra Firma in 2007, Ashley was a management consultant, firstly with

Arthur Andersen where he had responsibility for the Strategy and Organisation consulting practice and then with Deloitte Consulting where he was a member of the UK executive.

Ashley has a BA honours in Business and an MSc in Organisational Development from the University of Sheffield.

Ashley is married with two children and his interests include cooking, skiing, running, cycling and football.



Julie Williamson
Financial Managing Director

Julie led the team advising on the investment in Tank & Rast and was responsible for its refinancing in 2006 and the partial exit in 2007. Julie was also heavily involved in the group's pub businesses. Since September 2007, Julie has been seconded on a full-time basis into the EMI business as Group Chief Investment Officer.

Prior to joining the group in 1998, Julie worked for Nomura heading the legal team that provided legal risk analysis and transaction

execution support for the group. Prior to that, she was a partner in the Banking department with the law firm of Winthrop & Weinstine.

Julie has a Bachelor of Business Administration, majoring in Finance from the University of Iowa and has a Juris Doctor also from the University of Iowa. She is a member of the Minnesota State Bar Association.

Julie is married with one son and enjoys skiing and mountain hiking.

Resources



Resources

The Terra Firma team is complemented by the best available specialist expertise

EMPLOYEE TRAINING & DEVELOPMENT

Our training and development programme is designed to ensure that our people have the skills they need to help our business achieve its strategic goals. On joining, all new staff meet senior executives to ensure they have a broad understanding of Terra Firma and how it operates.

Throughout our business, we encourage our people to take responsibility for their own personal and professional development at every stage of their career. That development can take many forms such as on-the-job coaching and counselling and job enrichment as well as formal training programmes, courses and professional qualifications identified by the individual, their Line Manager or Human Resources.

Our sponsorship programme helps those wishing to gain recognised professional qualifications and we have a policy of encouraging employees to pursue any qualifications that will help their work and career development. Everyone is given the opportunity to study for the Investment Management Certificate (IMC) and, for our deal teams, the Chartered Financial Analyst programme (CFA).

Over the past year, we have increased our focus on professional training throughout the business. All professional staff have been provided with training either in interview skills, languages or study courses that will support their development.

Each year, Terra Firma also offers internship opportunities to undergraduate and postgraduate students, allowing interns to gain an insight into life at work.

TERRA INCOGNITA & TERRA CONSILIA

Terra Firma is also advised by an array of distinguished professionals from the realms of international politics, economics and business. The advisers form two groups: Terra Incognita, a political and macro-economic advisory council, and Terra Consilia, an advisory council of highly-experienced senior business people.

These two groups provide Terra Firma with the collective experience of renowned figures who lead their respective fields. The groups also provide independent views on the portfolio businesses' performance as well as insight into specific business sectors and how changing political landscapes might affect potential investments.

SPECIALIST ADVISORS

The fund managers, which are based in Guernsey and make all the investment decisions in relation to the funds, are advised by many professional firms, of which TFCPL in London is one.

The Terra Firma team is complemented by the best specialist expertise available. This includes lawyers and accountants to help carry out due diligence, structure and execute transactions; investment banks to provide market advice; tax specialists to ensure compliance with worldwide tax rules; environmental consultants; industry specialists; and business change consultants to assist on strategic change programmes within the portfolio businesses.

Business description & environment



*Terra Firma businesses
operate worldwide*

Business description & environment

We seek businesses where
our views are different to
the market consensus

OUR MARKETS

From their offices in London and Frankfurt, TFCPL and Terra Firma GmbH have advised the Terra Firma fund managers on investments in developed markets across the globe, with a particular emphasis on Europe. While the location of headquarters of these portfolio businesses varies, many of them, such as AWAS, the aircraft leasing business, have truly global activities. In fact, in 2007, only 23% of the combined revenue of Terra Firma's portfolio businesses came from the UK.

TERRA FIRMA'S DIFFERENCE

There are a number of well-established private equity players who focus on the large buyout markets. Terra Firma's difference is its focus on the businesses that most other private equity firms tend to avoid. We seek companies

where our views are different to the market consensus. Such businesses are frequently in out-of-favour sectors, are usually complex or subject to regulatory regimes, and are in need of strategic, operational or managerial change.

Terra Firma has successfully followed this strategy for 14 years and now has a team of more than 70 investment professionals from a wide range of specialist backgrounds. The breadth of the financial team's transactional experience is underpinned by decades of industry knowledge provided by Terra Firma's operational experts. This wealth of in-house experience provides a strategic advantage over other private equity or strategic buyers and has repeatedly enabled Terra Firma to identify hidden value in target investments.

Business description & environment

Private equity has a major role to play in improving the quality and efficiency of businesses

THE PRIVATE EQUITY ENVIRONMENT

After a period of exceptional growth from 2003 to the first half of 2007, during which global buyout activity went from approximately €150 billion to over €600 billion – the second half of 2007 saw a sharp slowdown to just over €200 billion. The value of buyout activity fell from nearly €400 billion in Q2 2007 to less than €100 billion in Q4 2007 as the credit crunch meant that banks had little debt available to fund transactions. Given the very significant challenges that the international banking community now faces, the situation is unlikely to improve, and may well worsen in the near future. This set of circumstances combined with the strong likelihood of recessions in both the US and Europe and the probable credit deterioration that would result, is likely to mean far fewer large buyouts will occur in 2008 than in recent years.

Private equity firms are therefore facing a very tough environment not only in terms of executing new deals, but also with regards to the performance of those businesses which they already own. Most private equity portfolios are marked to market only at the end of the calendar year. While infrequent revaluation is advantageous in that it means firms can undertake significant, long-term changes in their portfolio businesses away from the scrutiny of the market, it also means that the valuations struck at 31 December 2007 do not reflect current market and business conditions. Therefore, many private equity portfolios will be

marked down as we move through 2008. We also believe that a number of private equity portfolio companies will struggle to make their business cases as the recession takes hold leading to additional reductions in valuations. Thus the actual sale of businesses from these portfolios will produce lower levels of profit and is also likely to take considerably longer to realise than has been the recent norm. As a result, it is our expectation that the investment performance for the asset class of private equity as a whole will suffer considerably over the course of the next two years as the current difficult markets take their toll.

However, these challenges for the private equity market in 2008 may well create a more fertile market for buyouts in late 2009 and beyond. The high levels of activity in the period up to the summer of last year had driven the price expectations of the sellers of businesses to exceptionally high levels. The issues described above have been driving global equity markets down, and, over time, these forces should also mean more realistic price expectations among those who are seeking to sell businesses.

ECONOMIC IMPACT OF PRIVATE EQUITY

Private equity has a major role to play in improving the performance of the businesses it owns and, as a consequence, of the economy as a whole. The scale and volume of private equity buyouts increased dramatically in early 2007 and there was considerable focus on the

private equity industry as several well-known businesses were acquired. Throughout, little was said about the beneficial impact that private equity has on the economy, both directly and indirectly.

The latest study from the British Venture Capital Association shows that in the UK, for example:

- The private equity industry directly employs more than 9,000 people and generated more than £5 billion in fee income for the financial services industry in 2007
- Over one million people are currently employed by private equity-backed companies, representing 8% of the total number of private sector employees
- Over the five years up to 2006-07, private equity-backed companies increased annual growth in sales revenue and created jobs at a faster rate than other private sector companies
- Indirectly, the UK economy benefits from the £35 billion paid in taxes by private equity-backed companies over 2006-07

Business description & environment

ECONOMIC IMPACT OF TERRA FIRMA'S ACTIVITIES

Global Investment Activities

Terra Firma's investment activities, although based in Guernsey, are global.

- The funds have approximately 180 investors from nearly 30 countries around the world
- Terra Firma's portfolio businesses operate in approximately 60 countries and 77% of the combined revenue of the portfolio businesses comes from outside the UK

UK Investment Activities

While 21% of the funds raised by Terra Firma are from the UK, over 70% of the funds' private equity investments are made within the UK. This redirection of capital is of enormous benefit to UK plc.

- A total of €8 billion of equity has been invested in the UK by Terra Firma since 1994

This investment benefits not only Terra Firma's UK portfolio businesses, but their suppliers, employees and business partners. UK banks, for instance, are key beneficiaries of this investment:

- Over £200 million of interest was paid by Terra Firma's UK businesses to banks based in the UK in 2007 alone

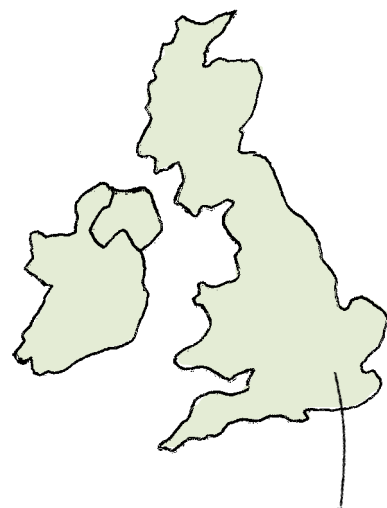
UK-Based Advisory Services

Our employees come from around the globe and we provide advice on investments that have operations all over the world. Despite this, TFCPL has chosen to base itself in the UK.

TFCPL's revenues consist of advisory fees from the Terra Firma fund managers. In 2007:

- TFCPL generated £46 million of earned income and £3 million of profit
- £15.2 million of corporation tax, income tax and national insurance was paid to the UK Treasury by TFCPL and its employees

Terra Firma's funds complement TFCPL's investment advice by drawing on the expertise of a broad group of other professional experts, including lawyers, accountants, investment banks, tax specialists, environmental consultants and industry specialists. Terra Firma has chosen to use expert advisors mainly in the UK and the income generated for these UK firms is significant.



£78m paid to advisors in the UK by Terra Firma businesses in 2007

Corporate social responsibility



Corporate social responsibility

At Terra Firma, we take our responsibility to the wider community very seriously. We recognise that the businesses we invest in touch the lives of many people and we are mindful of the social responsibilities that our investments bring

We believe our social responsibility extends to our employees, the portfolio businesses we advise and the communities in which we work. This approach is key to creating long-term, sustainable relationships that will enable us to better serve our employees, investors and stakeholders

Corporate social responsibility

Our donations directly benefit our local community

EQUAL OPPORTUNITIES

As an employer, TFCPL is committed to maintaining an inclusive, productive work environment in which all workers are treated with respect and dignity. We want each employee to work in a professional atmosphere that promotes equal opportunity and prevents discriminatory practices based upon gender, sexual orientation, age, religion, race or disability or any other form of discrimination that affects work performance or creates an uncomfortable working environment. TFCPL adheres to strict equal opportunities policies and strives to develop a culturally diverse and inclusive team.

INVESTMENT CRITERIA

When advising on potential investments, we take account of social, environmental and ethical issues.

Terra Firma invests in companies that respect human rights and comply with industry standards and local regulations and which act in a socially responsible manner.

COMMUNITY SUPPORT

In 2007, TFCPL donated more than £500,000 to charity through a variety of channels including the Prince's Trust, the PE Foundation and a donation of 10% of profits generated in the financial year 2006-07 to the Terra Firma Charitable Trust.

THE TERRA FIRMA CHARITABLE TRUST

The Terra Firma Charitable Trust, a not-for-profit charitable fund formed and funded by Terra Firma employees and donations from TFCPL, makes charitable donations which will directly benefit our local community in the Borough of Southwark in London.

The Trust aims to achieve this by acting as a good neighbour and helping to develop a sense of pride within the community through donations to locally-based charities. We support charities that have programmes in Southwark or which allow us to earmark donations exclusively for their work in the borough, such as the Unicorn Theatre. The Trust has also backed initiatives to aid and educate children and to help the elderly and is also a supporter of the Prince's Trust.

The Trust is proud to support the following charities and initiatives.

Corporate social responsibility



Corporate social responsibility

The Unicorn Story Big fans of local theatre

The Unicorn works with local schools enabling disadvantaged youngsters to experience and take part in the theatre, often for the first time



SPARKING IMAGINATIONS

Since it was founded in 1947, the Unicorn Theatre has been on a mission to stage shows that will spark children's imaginations and open their eyes to the world around them. Today, it is one of the leading producers of professional theatre for children in Britain, attracting top national and international productions. Its pioneering work has attracted a great deal of high profile support over the years and current patrons include Dame Judy Dench and Lord Attenborough.

As well as entertaining children through staged productions, the theatre also invests a great deal of time and energy in education. Based in Southwark, one of London's most deprived boroughs, the Unicorn's work with local schools enables disadvantaged youngsters to experience and take part in the theatre, often for the first time. It also

helps to provide cultural experiences for children with physical and sensory disabilities. Since opening its brand new £14 million theatre in 2005, the Unicorn has welcomed over 130,000 children and their families through its doors on Tooley Street, SE1.

Box office sales cover less than 30% of the income required to sustain it, so outside support is the lifeblood of this great theatre. As a near neighbour of Terra Firma on London's South Bank, the Unicorn has been one of our corporate charities since March 2007. Our employees have also become enthusiastic supporters of the Unicorn and have chosen to make donations through the Terra Firma Charitable Trust.

In the spring, we contributed to a project inspired by the Unicorn's popular production of *Jemima Puddleduck* and her Friends. Around ninety 5 to 8 year olds from a local primary school spent time working with Southwark artists to create a giant installation for the theatre foyer. As part of the project, the children shared storytelling sessions, wrote their own stories, made willow lanterns and designed light stencils. Their teachers reported that, as well as having great fun, the children came away with a renewed enthusiasm for reading.

We also supported the Summer Youth Theatre Project when thirty young people who live or go to school in Southwark were able to take over the whole theatre for two weeks. This was a chance for them to write their own script, build a set, compose their own music and design costumes. They created a piece of professionally-supported, full-scale theatre which they presented in the main auditorium to their family and friends. Along the way, they developed new skills and increased in confidence.

Our relationship with the theatre continues to grow and we are always looking for new ways to work together. This year, for instance, the Unicorn was the setting for our Annual Investor Conference. Rather than the faceless corporate hotels favoured by so many City businesses, we thought the Unicorn would be a much better fit for Terra Firma. The theatre was the perfect host and its main auditorium provided a fittingly dramatic backdrop to the proceedings. We know we will be back and we look forward to remaining involved with the Unicorn for a long time to come as we do our small bit to contribute to their wonderful work.

Corporate social responsibility



Corporate governance



Corporate governance

TFCPL has a well-established and highly effective corporate governance framework

FRAMEWORK

TFCPL has a well-established and highly effective corporate governance framework which has been developed to meet the needs of a small investment advisory business. The bodies and processes in place are more immediate and focused than those often seen in large public companies and are enabling the business to develop flexibly and securely.

THE BOARD OF DIRECTORS

TFCPL is managed and controlled in the UK. It has a Board of UK-based directors comprising three Executive Directors – Guy Hands, Cormac O'Haire and Fraser Duncan – and one Non-Executive Director – Robert Felton. The directors of TFCPL have been the same since September 2004.

Robert Felton is an independent non-executive director and is a fellow of the Institute of Chartered Accountants

in England and Wales. Robert trained with a firm of Chartered Accountants and then gained experience in the tax departments of various City firms during the course of which he qualified as a Fellow of the Institute of Taxation. He went on to join an Oxford firm as tax partner and subsequently set up his own firm.

The Board meets at least quarterly, but in practice more often. The Board's responsibilities include the direction and control of strategy, approval of the annual budget, approval of the Director's Report and Accounts, review of Annual Money Laundering and Compliance Reports and appointment of members of sub-committees of the Board. These include the Investment Advisory Committee, Remuneration Committee and Portfolio Operating Committee.

Tim Pryce is Company Secretary.

Corporate governance

The IAC brings objective discipline to the review of investment opportunities

COMMITTEES

Investment Advisory Committee

The Investment Advisory Committee (the IAC) consists of Guy Hands, Fraser Duncan, Cormac O'Haire and Tim Pryce. The IAC meets weekly or more often if business activity requires the consideration of investment-related matters. Its role is to recommend potential transactions to the fund managers in Guernsey. This includes assessment of potential new investments, refinancings or disposals, as well as follow-on fund financing for the portfolio businesses and post-investment appraisals. The IAC will review progress and make recommendations at all stages of a transaction.

The members of the IAC have the specialist skills to support the deal teams whilst bringing objectivity and consistency to the review of each of Terra Firma's investment opportunities. The fact that the IAC members are not members of any particular transaction team increases the objectivity the IAC brings to its vital role.

Remuneration Committee

The Remuneration Committee consists of Peter Cornell, Guy Hands, Cormac O'Haire, Tim Pryce and Mel Willsmore (Head of Human Resources) and meets twice a month or as otherwise required. It is responsible for all compensation and benefits issues, including Terra Firma's broad policies and principles and the individual remuneration packages for all TFCPL's employees.

Portfolio Operating Committee

The Portfolio Operating Committee (the POC) consists of Guy Hands, Fraser Duncan and the relevant senior Terra Firma employees assigned to a particular portfolio business. The POC usually meets on a weekly basis and its role is to review Terra Firma's management of its portfolio businesses. The POC is a forum for the relevant Terra Firma team to raise any opportunities, issues and concerns. This allows appropriate resources to be deployed and critical decisions to be made in a timely and focused manner.

CONFLICTS OF INTEREST

TFCPL has a Conflicts Policy addressing both personal and corporate conflicts of interest. Most procedures for dealing with conflict involve, in the first instance, disclosure of the relevant conflict to the affected parties and then either (i) seeking such third parties' consent or (ii) refraining from taking the conflicting action. Detailed provisions are in place to regulate, amongst others, business or other activities outside TFCP, entertainment and gifts, personal account dealing and directorships in portfolio companies. In addition, each of the Terra Firma funds has an Advisory Board composed of representatives of a selection of that fund's investors. The principal purpose of such Advisory Board is to consider and, if thought appropriate, consent to arrangements being entered into when there is a possibility of conflicts arising.

Corporate governance

PROFESSIONAL DEVELOPMENT

Over the past year, there has been increased focus on professional training throughout the company. The nature of the training is broad, depends on the development needs of the individual and has included both technical and soft skill-based training. For instance, all professional staff are required to complete Part 1 of the Investment Management Certificate. This course and exam focuses on the financial markets and the UK Regulatory Environment and is classified as a Financial Services Authority (FSA) approved threshold competency examination.

All employees at Director-level and above have also completed interview skills training and are encouraged to gain presentation skills and undertake broader communication and management training.

GENERAL ACCOUNTABILITY

Authorised Status

TFCPL is authorised and regulated by the UK FSA to provide investment advice to, and arrange deals for, the funds.

Compliance Officer

Tim Pryce, the General Counsel, is also the Compliance Officer of TFCPL. The Compliance Officer's function is to ensure that our directors and employees comply with the FSA Rules and any other rules and regulations governing the conduct of designated investment business made under the Financial Services and Markets Act 2000.

Director's Reports and Accounts

TFCPL prepares an annual audited Director's Report and Accounts. These accounts are prepared following United Kingdom company law which give a true and fair view of the state of affairs of TFCPL and its group. TFCPL's year-end is March and the accounts are filed every year at Companies House in London. TFCPL's auditor is Deloitte & Touche.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of TFCPL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Contingencies – Litigation

TFCPL was belatedly joined into litigation in December 2005 between the investment banks, IXIS, WestLB and CIBC. This litigation started almost two years earlier in February 2004 and arose out of a securitisation transaction arranged by WestLB and joint lead managed by it and CIBC in June 2002. The securitisation was undertaken in order to refinance the acquisition facilities provided by WestLB in 2000 to a company called Box Clever. This was a joint venture which brought together the television

rental businesses of Granada and Radio Rentals (then an investment of Nomura). Nomura agreed to provide assistance to Box Clever in connection with the modelling of its cashflows between 2000 and 2002. TFCPL took over this role in March 2002 at the time of its creation and some three months later its modelling assistance to Box Clever came to an end when the securitisation closed. TFCPL believes that the allegations made against it are entirely misconceived and is vigorously defending itself.

Ownership

Guy Hands is the ultimate beneficial owner of the share capital of TFCPL.

Senior management remuneration

The remuneration of Senior Management is designed to attract, motivate and retain staff of the highest calibre

Senior management remuneration

A high quality management team is essential to maintain our position as one of the leading contrarian investment advisory firms

REMUNERATION POLICY

The remuneration of Senior Management is designed to attract, motivate and retain staff of the highest calibre. A high quality management team is essential to maintain our position as one of the leading contrarian investment advisory firms.

REMUNERATION PACKAGE

The main elements of the remuneration package for senior management are as follows:

Annual Salary

In 2007, the total cash compensation paid to Senior Management including any bonuses was £8,978,216 and the average for these 15 individuals was £665,053.

Salaries are reviewed annually by the Remuneration Committee and are set in relation to an individual's performance and market comparator groups.

Terra Firma employees who are appointed to the boards of Terra Firma portfolio companies do not receive Directors' fees.

Benefits in Kind

Medical Insurance

All members of senior management are eligible to join the Group Medical Insurance scheme which is provided by BUPA. TFCPL pays the premium and the respective employee pays tax at source for this benefit via the monthly payroll.

Permanent Health Insurance

All members of senior management are provided with insurance under the company's Permanent Health Insurance Scheme. This policy provides 75% of pre-disability income (pensionable salary) once an individual exceeds 6 months' continuous sickness absence.

Pension Arrangements

Senior Management are all eligible to be members of the company group personal pension scheme which is provided by Legal & General. A range of benefits are provided in the event of death whilst employed by the company:

(i) a lump sum payment equal to four times Pensionable Earnings at the date of death.

(ii) a pension will be provided to an individual's spouse at the date of death, equivalent to 25% of Final Pensionable Earnings, together with pensions for each of up to three children under the age of 18 (or 23 if in full time education) of 10% of Final Pensionable Earnings.

(iii) In the event of an employee's death whilst a member of the Plan, the full value of the accumulated fund will be paid to their dependants.

For 2007-08, Pensionable Earnings was linked to a salary cap of £110,000.

SENIOR MANAGEMENT CONTRACTS

It is the company's policy that Senior Management has contracts with an indefinite term which provide for six months' notice to be given by either party. Guy Hands' contract provides for six months' notice to be given by him and 12 months' notice to be given by the company.

In addition to the notice period, each contract for Senior Management contains restrictive covenants that prohibit the individual from; taking up employment with any business that is (or is about to be) in competition with Terra Firma, soliciting or canvassing customers or clients of Terra Firma; and enticing or trying to entice away any member of staff - for a period of up to six months following the termination of their employment.

Alignment of interest



Alignment of interest

Alignment of interest is fundamental to the way Terra Firma does business

COMMITTED TO SUCCESS

As well as investing capital on behalf of others, Terra Firma and its team have invested a total of nearly €400 million in the Terra Firma funds. As one of the largest investors, it prospers along with its investors by developing and growing successful businesses. This alignment of interest is fundamental to the way Terra Firma does business.

"Carried interest" is performance-based and only results in Terra Firma staff participating in enhanced returns if a fund generates a return to investors

in excess of 8% per annum over its life. A fund typically has a 10-year life and carried interest is typically paid in the later years when the majority of a fund's investments have been realised and investors have received back their investment plus the majority of their profits.

This type of structure aligns interest to help create value in businesses over the long-term and is far superior to the focus on annual results and bonuses that exists in public companies and investment banks.

Nearly €400 Million committed to Terra Firma funds

Risk and uncertainties

Investment-related risks are taken into account by the IAC

As an investment advisor, TFCPL must provide high-quality investment advice to the fund managers. This advice necessarily provides views on uncertain future conditions and events which may not turn out as expected.

TFCPL has the appropriate skilled investment professionals, organisational structure and processes to manage the risk inherent in this activity. Where risks are relevant to investment recommendations, they are taken into account by the IAC in its risk and return assessment of a potential investment.

RISK MANAGEMENT FRAMEWORK AND THE ROLE OF THE IAC

It is the role of the IAC to make investment and divestment recommendations to the fund managers. Part of this role is to ensure that all recommendations adhere to the fund managers' strategy and to assess the risk and return profile of an investment opportunity. We believe that this consistent approach, and the resulting build-up of knowledge, enhances Terra Firma's ability to extract additional value in transactions and generates higher returns with less risk.

The IAC brings objective discipline to the review of each investment opportunity. The ongoing dialogue

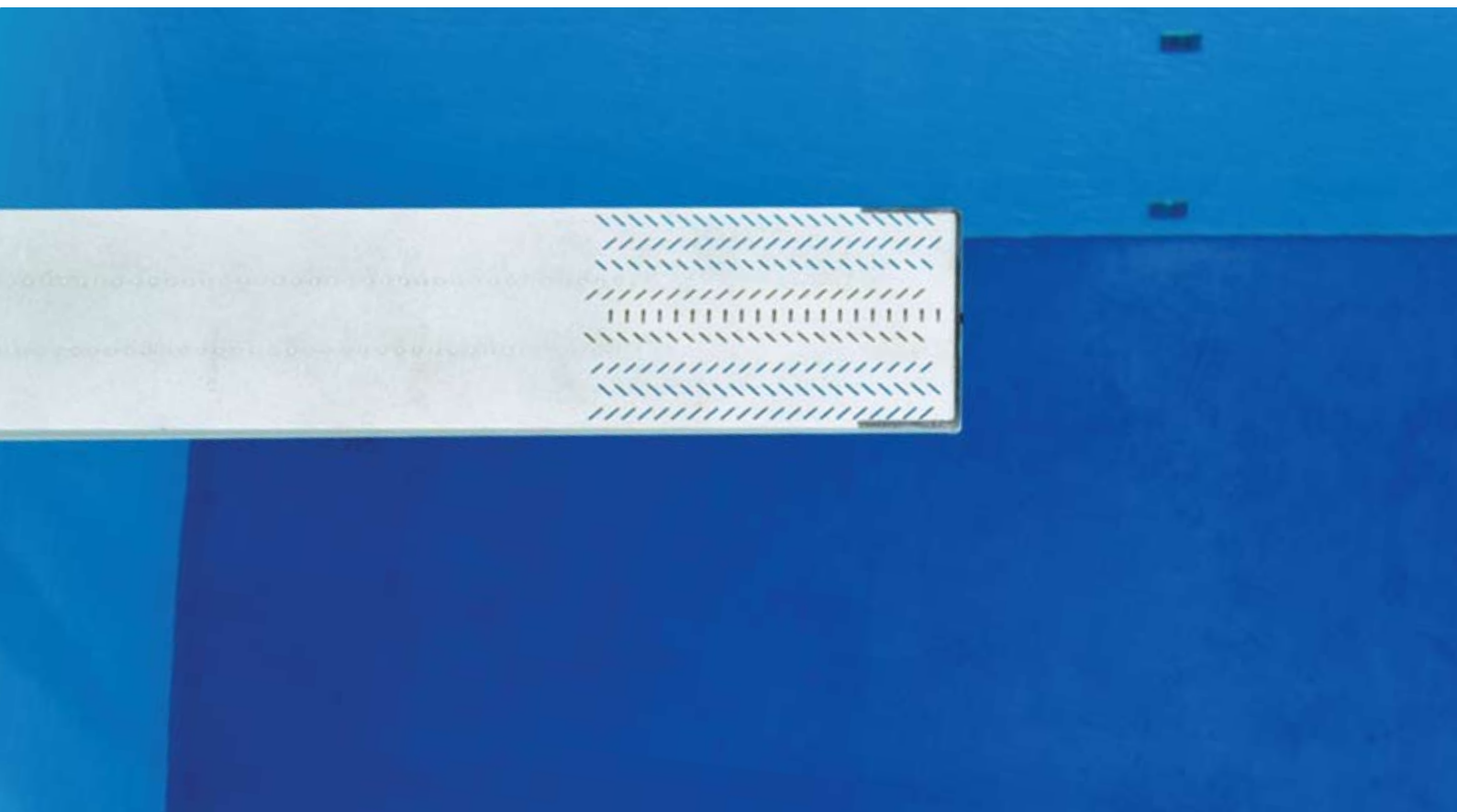
between the IAC and the team working on a particular transaction results in the sharing of best practices across all Terra Firma transactions as well as identifying additional risks and opportunities that might otherwise have gone unnoticed. It also increases pricing discipline and generally acts as a constructive check for the deal team.

The advice that TFCPL provides aims to take account of potential market risks related to economic and political events and trends. In order to stay apprised of current events and future financial trends and help form its view, TFCPL constantly reviews advice from economic, political, legal, financial, tax and accounting advisory firms.

TFCPL is advised by two independent advisory councils – Terra Incognita and Terra Consilia – which each meet formally (three and four times per year respectively) with senior TFCPL team members. The groups provide independent insight and ideas on specific business sectors, and advise on how current and changing political landscapes might affect investment activity. Several of these advisers also participate on the boards of Terra Firma's portfolio businesses as Non Executive Chairmen or Non Executive Directors.

* The risks outlined above represent those faced by TFCPL. The risks faced by the Terra Firma funds are set out in the Notes to the financial information on page (124-127). The portfolio businesses will face risks in their normal course of business and will be set out in their respective accounts.

Risk and uncertainties



CORPORATE RISK

TFCPL has in place policies and procedures to appropriately consider and manage its risks as set out below:

Liquidity Risk

TFCPL has a financial reporting and budgeting process which incorporates regular cashflow forecasts of advisory fee income and overheads. Given the predictable nature of its cash flows, liquidity risk is remote.

Leverage Risk

TFCPL has no current borrowings.

Interest Rate Risk

TFCPL has no interest rate exposure as it has no current borrowings.

Currency Risk

TFCPL is exposed to currency risk to the extent that, while its income is predominantly in £ Sterling, some of its costs are in € Euros. These costs relate to the fees paid to its German subsidiary, terrafirma GmbH. While this mismatch is not hedged, management believes it does not represent a material risk to the business.

Competitor Risk

Given the success of the strategy to date and the strength of the advisory team, the Board considers it unlikely that the fund managers might seek alternative investment advisers.

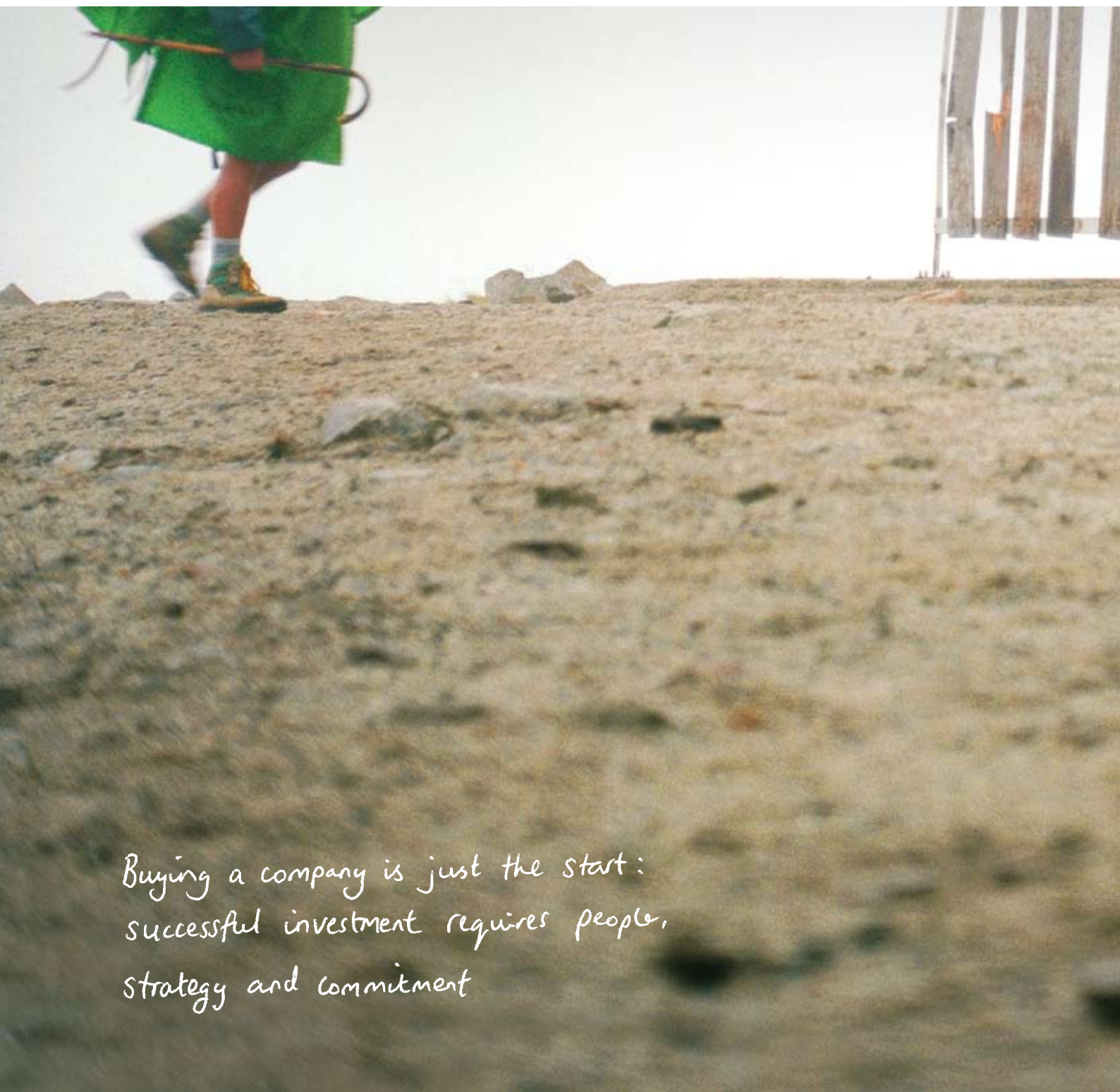
Key Man Risk

The reputation of TFCPL is highly correlated to the ability of Guy Hands and other members of the Senior Management team. TFCPL has considered the risk of the resignation, incapacity or death of these individuals and has put in place appropriate plans to manage this risk including the purchase of key man insurance.

TREASURY POLICIES

TFCPL generally receives its advisory fees from its clients in advance. Costs are budgeted and forecasts updated regularly. Cashflows are monitored to ensure reserves are adequate.

Portfolio Business Review



*Buying a company is just the start:
successful investment requires people,
strategy and commitment*

Introduction

Terra Firma's investors provide capital which is used to acquire and invest in underperforming businesses. Yet creating value in those businesses requires much more than cash; it demands energy, strategy and long-term commitment

While shareholders in public companies can sell their shares on a daily basis and rarely hold them longer than several months, Terra Firma's investors commit their capital for up to 10 years. Every business we invest in has this stable, ongoing backing. We work this way because we recognise that both time and commitment are vital to deliver fundamental change and long-term success in the kind of out-of-favour companies we acquire

Introduction

Portfolio businesses



UK renewable
energy



Worldwide aircraft
leasing



Pan-European cinema
operator



UK residential housing
sales & rental



German autobahn
services



German residential
housing sales & rental

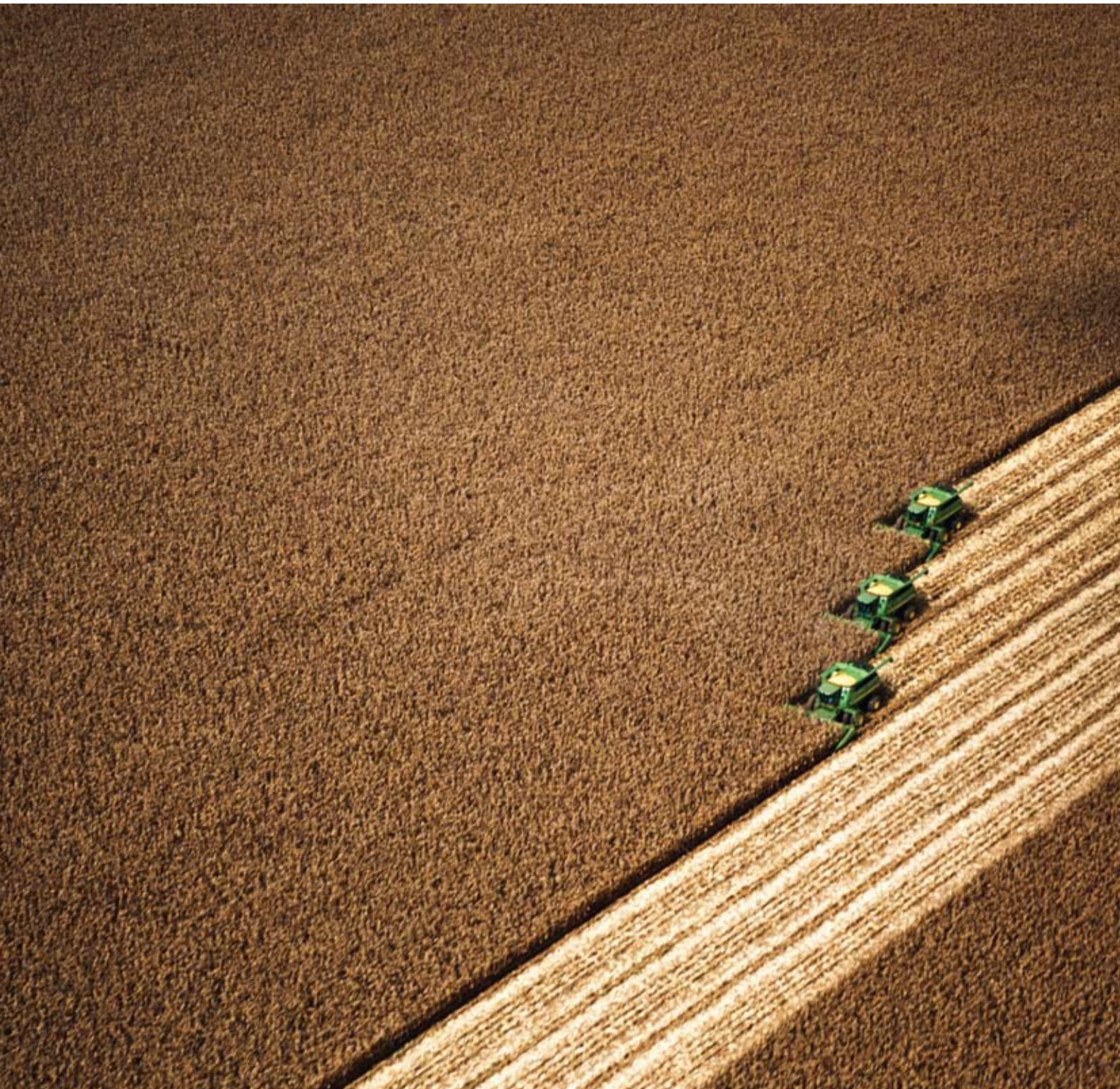


Northern Ireland natural
gas transmission,
distribution and supply



Global music publishing
and recorded music

Introduction



Introduction

Terra Firma's businesses are nurtured to a higher level of performance

STRATEGIC CHANGE

Once acquired, Terra Firma's portfolio businesses are nurtured to a higher level of performance through a combination of strategic change, improved management and sustained investment. This transition requires an intense, ongoing and long-term partnership between Terra Firma and the management of each portfolio business. As part of that, all Terra Firma's employees invest their own money, so their personal, professional and financial success is tied to the success of our portfolio businesses. Similarly, the management of our businesses, often selected

from different industries to bring fresh thinking to a sector, are motivated to succeed and are compensated based on the long-term success of each business. This alignment of interest is fundamental to the way Terra Firma does business.

It is perhaps no surprise that Terra Firma people and our management teams are passionate – even a little obsessive – about our businesses.

The next few pages give an overview of our portfolio businesses and how we are working together to create a successful, sustainable future.



15,500 homes sold to the public

Annington Homes

Annington Homes is a property business that acquired around 57,600 residential properties in England and Wales from the UK's Ministry of Defence (MoD) in 1996. Annington rents the substantial majority of its properties to the MoD to provide family accommodation for married service personnel, with the MoD taking responsibility for the maintenance of the properties it leases.

Annington's primary business is the refurbishment and sale of previously-owned homes. Given the high level

of vacancies in the MoD estate and future troop redeployments, the MoD regularly returns surplus properties to Annington Homes. Annington then renovates and sells these houses to the public, including current and ex-service personnel, at competitive prices.

Annington also privately rents a number of properties and occasionally redevelops sites or builds new homes.

60%

of properties sold to first time buyers

35%

of properties sold to key workers

£130,000

average sales price in 2007

Annington Homes



Annington's primary business is the refurbishment and sale of previously-owned homes

INVESTMENT RATIONALE

Following detailed due diligence of the UK residential housing market, Terra Firma believed that rent and house price increases would substantially exceed the forecasts at the time.

Based on detailed analysis of demographic, military and political trends, it looked likely that the MoD would release surplus properties for redevelopment and sale earlier than it had agreed at the time of acquisition. Predicting that more cash would be generated more quickly than many other bidders were expecting, Terra Firma ensured this was reflected in the price it paid to the MoD.

It was also clear that the rental cashflow from the estate, along with proceeds from the future sale of properties,

could be securitised to help fund the initial investment in the portfolio.

COMPANY STRUCTURE

Annington Homes manages the core business of renting 41,000 properties to the MoD and the refurbishment and sale of homes on the open market. Since 1996, Annington has sold more than 15,500 properties to the public.

Annington Rental Holdings owns 1,180 flats and houses let on individual and bulk leases on the open market. It manages a further 220 properties.

Annington Developments seeks opportunities for infill or wholesale re-development on all Annington sites. The business's priority is to maximise added value through planning consent and then either to

Annington Homes



sell the land, carry out infrastructure works, carry out construction or partner developers.

CHALLENGES FACED

The biggest challenge facing Annington relates to the release of surplus properties from the MoD. Annington has no control over the release of properties as the MoD's housing requirement is dependent on the long-term defence strategy which dictates troop movements and deployments. With the wars in Iraq, Afghanistan and a number of other commitments abroad, management of housing requirements has become even more complicated for the MoD. Once Annington is notified of the release of surplus properties, it has to respond quickly so that sites are not left vacant or unoccupied and they can be prepared for sale.

ACHIEVEMENTS

One of Annington's key strengths is the efficiency of its sales operation. Since 1996, the MoD has returned 16,247 units to Annington, of which more than 15,500 have now been sold to the public.

Annington attracts first-time buyers with pricing that makes mortgage payments comparable to rental payments. Together with the use of various financial incentives, it aims to make home-buying a realistic option for those who have previously been priced out of the UK's property market. On average, more than 60% of those buying an Annington home have been first time buyers and 30% have been sold to Service or ex-Service personnel. On average, 35% of properties have been sold to people who the UK Government classifies as 'key workers'.

Another reason why the sales programme has proved so popular with the public is that Annington has also focused on creating environments where people will want to live. Wherever possible, the 'street scene' is improved, from planting new landscaping to changing the external appearance of a property.

MANAGEMENT

James Hopkins, Chief Executive Officer

James joined Annington Homes Ltd as Chief Executive in 1998.

Prior to joining Annington, James was Managing Director of Hanson Land Ltd, a property development and management company established to undertake the £1 billion Hampton 'new town' development south of Peterborough. James was previously at Hanson plc, where he performed a number of roles involving asset management and property development, including directorships of both subsidiary and joint venture companies.

Barry Chambers, Finance Director

Barry was appointed Finance Director of Annington Holdings plc and other Annington group companies in 1998. His responsibilities span all financial matters, liaising with shareholders, IT systems development, administration and rent reviews.

Barry joined Annington from Rouse Kent Ltd, a special purpose vehicle established to construct a large mixed-use development on 650 acres at Kings Hill, Kent. Prior to that, he was Group Financial Controller at Rosehaugh plc.

Nick Vaughan, Commercial Director

Nick joined Annington Property Ltd as Commercial Director in January 2001 and was appointed to the Annington Holdings plc Board in April 2001.

Previously, Nick was Financial Analyst and Programme Manager at Annington Management Ltd. He joined from Rosehaugh plc, where he was Finance Director of a number of group companies.

Annington Homes

CURRENT FINANCIALS

In the year-to-date, Annington has sold 524 units for a total value of £68 million, which is significantly ahead of expectations. The increase has come from development activities which are materially better than the business anticipated.

The business has sold 299 individual homes, generating income of £44 million. This is marginally behind the business's expectations due to the low release levels from the MoD.

Bank interest, which is Annington's greatest expense, was in line with expectations. Annington's assets are primarily financed by long-term debt and so the business is well-protected from the current slowdown in the debt markets.

DEVELOPMENT PLAN

Annington will continue to focus on its existing core business; the refurbishing and selling of second-hand homes released as surplus from the MoD, concentrating on individual private sales in preference to bulk property sales. The group also has available equity that allows it to consider attractive complementary investments.

The business is actively building its investment portfolio of residential rental units, selectively acquiring properties that meet its minimum return criteria. Annington is also keen to pursue opportunities to work with the MoD to find creative solutions to its changing housing needs.

Annington also has an established development division that concentrates on infill or re-build opportunities within its core asset base. Where opportunities arise for larger developments, these will continue to be pursued through joint ventures or other partnership arrangements.



YEAR END: 31 MARCH	YTD 2006-07	YTD 2007-08
Rental business revenue	£112m	£116m
Sales business revenue	£67m	£68m
Income from parallel investments	–	£44m
Costs	(£68m)	(£83m)
Bank interest paid	(£124m)	(£116m)
Earnings before depreciation and tax	(£13m)	£29m
Capital expenditure	(£14m)	(£74m)
Private sales units sold	313	299
Development sales units sold	106	225
Average sales price per unit	£158,859	£129,624

Annington Homes

A leg-up onto the property ladder

"Before we moved in, our home was freshly decorated with new carpets and double glazing, which was brilliant as we wouldn't have been able to pay for those improvements ourselves."

The rising property values of the past ten years have priced thousands out of the UK housing market, particularly first-time buyers and key workers.

Annington Homes is one of the few companies reversing this trend and making home-buying a realistic option for thousands of young people and families. In 2007, 75% of its customers were purchasing property for the first time, 61% were under the age of 31 and 29% were key workers.*

There are a number of reasons for Annington's success. First and most important, Annington's purchase of ex-Service housing enables the company to offer refurbished family homes that are often more affordable than equivalent-sized properties on the market.

Another big benefit is the company's Homebuyer Incentives. They vary from site to site, but can include Annington paying stamp duty, 5% deposit and money towards legal and survey fees. For many, this can mean the difference between being able to buy or not.

Tracey Barber, a teacher, and her husband Adam chose for their first home a spacious two-bedroom property at Annington Court, Hereford.

"When we heard about the 5% deposit incentive as well as the survey and legal fees being paid, we knew we couldn't afford to let the chance pass us by," says Tracey. "Before we moved in, our home was freshly decorated with new carpets and double glazing, which was brilliant as we wouldn't have been able to pay for those improvements ourselves."

Annington has also taken some of the considerable stress out of the home-buying process. For example, homes are sold on a 'first come, first served basis', preventing bidding wars and gazumping. To make sure the buying process runs smoothly and quickly, Annington also puts purchasers in touch with independent advisers such as solicitors and surveyors. Even after the purchase, buyers get peace of mind from a 'safe and sound' guarantee. This covers all essential services such as gas, water and electricity for the first 28 days.

It all adds up to a successful formula that has brought home ownership within the reach of thousands of people.

TRUSTED TO HELP

The Annington Trust was set up in 1996 when the company purchased the MoD's Married Quarters Estate. It was part of the company's commitment to looking after the interests of families living in Service accommodation. Started with a capital sum, the Trust was established to support all kinds of activities and projects benefiting these families. Twice a year, the Trust reviews the different applicants for funds and makes a grant of income from the capital sum. So far, grants have provided valuable support to community centres, playschools, welfare offices and youth activities.



*Providing aircraft
to 100 airlines*

AWAS

The purchase of AWAS by Terra Firma was completed in March 2006 and followed by the June 2007 acquisition of Pegasus Aircraft Finance Company. The combination of AWAS and Pegasus created the world's third-largest aircraft lessor by assets under management, with more than 220 owned aircraft, approximately 90 further aircraft

under management and a delivery pipeline of around 40 aircraft.

At the acquisition of Pegasus, the combined fleet had an asset value of over \$8 billion including the pipeline assets, with lease contracts in force, whose average remaining lease term was 5.6 years.

\$8 billion
aircraft asset value

3rd
largest worldwide aircraft lessor

AWAS



INVESTMENT RATIONALE

Combining the two business created a market leader with a highly distinctive strategy. That strategy is to drive superior rental yields on an aircraft portfolio that is highly diversified by vintage, aircraft type and lessor quality, and to maximise residual asset value through a leading asset trading capability.

Global air travel is anticipated to grow at between 4% and 6% per annum over the next two decades, leading to long-term increased demand for aircraft. This, combined with the short-term excess demand for leased aircraft, will continue to support robust lease rates and asset valuations.

The investments in AWAS and Pegasus involved a high degree of operational

change. With AWAS, that change was heavily focused on centralising the business in Dublin. This would rationalise the multiple head offices into a single, cost-efficient location, as well as significantly increasing the operational efficiency of the business. The acquisition of Pegasus posed the different, but equally challenging, operational task of integrating a business of equivalent size and taking advantage of the synergies to reduce costs in as short a timescale as possible.

REDEFINITION OF STRATEGY

Historically, aircraft leasing companies have focused on leasing new or nearly new assets and sold older aircraft that required more technical expertise to manage. They deliberately avoided lower quality credits, leasing to

relatively high credit quality lessees which could be dealt with using a basic risk management process.

AWAS has been repositioned to pursue a differentiated strategy within the aircraft leasing market, focusing on maximising returns and controlling risk through a combination of both aircraft leasing and trading.

This strategy is highly distinctive as it places a heavy emphasis on a rigorous, investment-led approach to all leasing and asset trading decisions. This is complemented by proactive asset trading based on a proprietary and differentiated view of prospective movements in the aircraft cycle and also on the credit and equity capital markets. Additionally, in contrast to many competitors who seek to avoid

AWAS



complex situations, AWAS takes a measured approach to risk-taking and prices each transaction at a level which offers an appropriate balance between risk and return.

ACHIEVEMENTS

A new management team has been put in place to enable the business to implement the redefined business strategy and move the business forward. In addition to the appointment of a new CEO, CFO and Head of Sales, new positions have been created reflecting the dramatically increased emphasis placed on investment analysis and the management of credit risk.

Through the recruitment of a Chief Investment Officer, the analytical process and tools used to optimise investment and re-lease decisions have

been developed and refined to a level that is best in class within the industry. Additionally, the newly created post of Head of Risk has resulted in improved risk management. The business is now using tools that have been developed to mitigate or minimise the business's concentration of high-risk lessees and jurisdictions whilst maintaining superior returns.

From an operational perspective, the rationalisation of the AWAS business was completed within 12 months of acquisition. The subsequent merger with Pegasus is releasing significant synergies and the integration has been managed to ensure that the 'best of both' businesses is retained within the combined entity. As a consequence of the improved operational efficiencies in the business, it has been possible to more than double assets under management while decreasing the overall headcount level.

MANAGEMENT

Frank Pray, Chief Executive Officer

Frank joined AWAS as its Chief Executive and President in July 2006.

Frank was previously Managing Director of CIT Aerospace International, CIT's newly-formed aircraft finance and leasing operations where he managed CIT's international aircraft portfolio. Franklin joined CIT in 1997 as Vice President of Marketing. In 1998, he formed CIT Aerospace's New Aircraft Programs Group and took the position of Senior Vice President of Marketing.

Michael Howard, Chief Financial Officer

Michael Howard was appointed as AWAS's Chief Financial Officer in March 2007.

Michael joined AWAS from Statoil Topaz, Ireland's leading wholesale and retail fuel provider, where he also held the position of Chief Financial Officer.

Prior to that, he was with Irish Distillers Group, originally as Treasury and Projects Manager before becoming Group Finance Director in 2000.

Peter Ellison, Head of Sales

In early 2008, AWAS appointed Peter Ellison as Head of Sales for worldwide operations.

Peter has almost 25 years' experience in aviation and joins AWAS from easyJet, where he was Technical Director and responsible for restructuring the airline's engineering organisation in preparation for growth plans. He was previously at Lufthansa Technik Budapest, where he was Managing Director responsible for the start-up of operations.

John Nozell, Chief Investment Officer

John Nozell joined AWAS in October 2007 as Chief Investment Officer.

Previous to this, John was a Senior Finance lecturer at Cornell University. John has 25 years experience in senior finance positions primarily with Chase Manhattan where he was the Managing Director Global Investment Banking, Regional Head: Airlines & Aerospace Group.

Angus Williamson, Head of Risk Management

Angus Williamson joined AWAS in April 2007 as Head of Risk Management.

Angus has over 18 years experience in aviation having worked for the International Bureau of Aviation and most recently as Head of Investment & Business Development at AerCap.

AWAS

CURRENT FINANCIALS

AWAS has a November year-end. The results presented reflect the 12-month performance of AWAS to 30 November, excluding Pegasus.

AWAS performed well in 2007, although revenue was down on 2006, mainly due to the sale of a number of aircraft during the year.

The integration of AWAS and Pegasus will be completed in early 2008 and will generate synergy savings ahead of plan.

At year-end, only two aircraft in the combined AWAS fleet were off-lease. One was committed for sale and the other was the subject of a lease proposal with a customer for delivery in January 2008.

DEVELOPMENT PLAN

The combined AWAS business will increase its focus on earning high risk-adjusted rental yields on both newer and mid-life aircraft and by positioning the combined business as the market leader among weaker credit customers. Risk will be controlled through appropriate contract structuring as well as asset and lessee diversification.

In order to further develop the asset base of the business, an agreement was signed in December 2007 with Boeing to acquire 31 new generation 737 aircraft, with delivery starting in January 2011. This order is valued at \$2.3 billion at Boeing list prices. Also in December, a further agreement valued at \$5.5 billion was made to purchase 75 A320-200 aircraft from Airbus, plus 25 options, with delivery starting in 2010. AWAS also agreed to acquire six A330-300 aircraft which will be leased in 2009 and 2010.

These new aircraft will be delivered over the next seven years to meet long-term demand from AWAS's airline customers. This will generate growth in earnings and shift the overall mix of the fleet towards more fuel-efficient asset types, both of which are consistent with building the long-term value of the business.

AWAS, one of the world's leading aircraft leasing companies, is acting to helping the aviation industry tackle the issue head-on and reduce the impact it is having on the environment.

YEAR END: 30 NOVEMBER	2006 ¹	2007 ¹
Revenue	\$426m	\$389m
Costs ²	(\$50m)	(\$55m)
Bank interest paid	(\$106m)	(\$135m)
Earnings before depreciation and tax	\$269m	\$199m

1. Excludes the results of Pegasus

2. Excludes exceptional costs

AWAS

Clearing the air



Air travel has never been higher on the environmental agenda, with more and more passengers now aware of each journey's carbon footprint. AWAS, one of the world's leading aircraft leasing companies, is acting to helping the aviation industry tackle the issue head-on and reduce the impact it is having on the environment.

Since its acquisition by Terra Firma in 2007, AWAS has been expanding its fleet and adding younger, more fuel-efficient aircraft. Its orders include up to 31 Boeing 737 next generation aircraft in December 2007 and a further 75 orders for Airbus A320 family aircraft in January 2008 with options to purchase a further 25.

This recent investment by AWAS gives airlines access to modern, more fuel-efficient and environmentally-friendly

aircraft. As well as helping the airlines to accelerate the retirement of older, less-efficient aircraft, it also helps them to significantly reduce their operating costs.

There is no question that the airlines are continuing to play an important and growing role in world economic growth. It is companies like AWAS that are ensuring this happens in the most responsible way.

GO EAST

An area where AWAS has seen extremely strong growth in recent times has been the leasing of aircraft to service new routes to Eastern Europe. The company has been working with both established and new airlines to meet the 17% year-on-year increase in air passengers travelling to and from the region.*

Following the integration of several new member states into the EU, tourism and business in the region are booming and millions of Eastern Europeans are now enjoying new freedom to work throughout Europe. Budget airlines have become particularly active in this price-sensitive market, many of them AWAS customers. For the first time, they are making it affordable for workers not only to travel and find jobs abroad, but also to make regular trips home to visit loved ones. As the region goes from strength to strength, AWAS is continuing to play its small part by making the acquisition of aircraft that have lower operating costs and reduced emissions easier and less expensive.



230,000 units
across Germany

Deutsche Annington

Deutsche Annington Immobilien GmbH (DAIG) is Germany's leading housing company. DAIG owns or manages approximately 230,000 units and offers flats to rent in around 670 locations nationwide.

DAIG was created in 2001 when Terra Firma acquired ten regional property companies with a total of 64,000 flats from the German Federal Railways. DAIG's investment model

and philosophy centres on providing socially responsible, tenant-focused property management and widening the opportunities for people to buy their own homes.

One of the most efficient operators in the industry, DAIG has also successfully applied its management approach to newly-acquired portfolios of residential property.

No.1

residential landlord in Germany by number of units

70

customer centres and service offices

Deutsche Annington



DAIG is now the largest residential housing management company in Germany

INVESTMENT RATIONALE

DAIG's original portfolio was occupied mainly by existing or retired railway workers and their families who were entitled to stay in the housing as part of their contractual employment rights. This ongoing rental stream gave the business a strong and predictable source of cashflow. Furthermore, rents were substantially below market levels and could be modestly increased to improve cashflow.

The units were owned and managed by 10 regional housing companies which had historically operated independently on a not-for-profit basis. As such, there was enormous scope for the portfolio to be run more efficiently by integrating the companies into one and introducing market-based processes and strategy.

German residential real estate is an intrinsically low-risk asset class and the business also benefited from strong asset backing with a geographically diversified portfolio. The original portfolio was supplemented by the

acquisition of Viterra in 2005 (which owned or managed approximately 150,000 units) together totalling over 13 million square metres of rented space.

Terra Firma identified that the value created could be partially released through the sale of individual properties to tenants and local investors. For this strategy to succeed, DAIG would need to create a sales support network for the potential buyers which would include access to mortgage finance, conveyancing and other services not easily accessible in Germany where most homes are rented rather than owner-occupied.

COMPANY STRUCTURE

DAIG provides services to its tenants through seven regional subsidiaries with a total of 70 customer centres and service offices. At group level, DAIG subsidiaries provide sales support to owner-occupiers and small investors, and central administrative services for the group. The head office and central service companies are based in Bochum.

Deutsche Annington



Today, DAIG is a market leader in property management and has a socially-responsible sales operation that gives tenants and third parties the opportunity to buy their own homes. DAIG also acquires portfolios of residential property to which it applies the same successful property management and tenant privatisation policies.

ACHIEVEMENTS AND CHALLENGES FACED

Since it acquired the railway housing portfolio in 2001, DAIG has purchased several additional housing portfolios, including Viterra in August 2005. DAIG is now the largest residential housing management company in Germany by number of units and it has already proved its ability to acquire new portfolios and successfully integrate them into its operations.

DAIG has successfully improved the quality and reduced the cost of maintaining and servicing the homes it lets to its customers. It has also invested in improving the quality and value of the properties.

The tenant privatisation programme created by DAIG has given thousands of German workers the opportunity to own their own homes for the first time, and the company has now sold more than 13,000 homes.

The business has also proved its ability to create capital growth in the German property market. DAIG is the prime consolidator of housing portfolios in the German market, with the company's acquisition platform sustaining year-on-year returns by continually replenishing the portfolio and building an ever-growing rental asset base that provides stable, recurring cashflow.

Developments in the German wholesale property market have been challenging over the last 18

months, with some investors acquiring portfolios of property at unsustainable valuations with heavy debt burdens in the hope that property prices would rise. DAIG has remained disciplined on pricing during this period and is well-positioned to acquire portfolios opportunistically as speculative buyers experience a more difficult market.

MANAGEMENT

A strong management team has been built up over recent years including industry-leading senior management drawn from both outside and inside the property management industry.

Wijnand Donkers,
Chairman of the Management Board
Wijnand was appointed Chairman of the Deutsche Annington Management Board in May 2007.

Before joining DAIG, Wijnand spent over 20 years with BP plc gaining extensive international experience. He ran several large businesses in the foodstuffs, petrochemicals and gas sectors where customer orientation was the priority. He was a member of BP's Germany supervisory board from 2001 to 2005 and was responsible for BP's plastic recycling businesses in Germany, Austria and Turkey.

Dr. Manfred Püschel,
Member of the Management Board
In 1998, Manfred Püschel was appointed Chief Financial Officer of Viterra AG. After DAIG acquired Viterra in 2005, Manfred became a member of the Deutsche Annington Management Board.

Manfred's professional career started at VEBA as a member of the planning staff, from where he moved to management positions as board member and Chief Executive at Raab Karcher, as well as at several Stinnes group companies.

REDEFINITION OF STRATEGY

Historically, the regional railway housing companies had been run as separate entities with markedly different strategies, policies and corporate cultures. DAIG was established as the head office for the regional companies and a centralised management team was recruited which had extensive experience in the German residential housing market. The team's brief was to initiate the changes necessary to improve efficiency throughout DAIG's property management operations.

The management of the key value drivers – rental income, maintenance and overheads – was centralised, leaving the local housing companies to implement group-wide strategy and oversee the day-to-day property management of the flats. DAIG now has an integrated IT system, group-wide procurement and maintenance guidelines as well as harmonised management standards and service functions.

Deutsche Annington

CURRENT FINANCIALS*

The profitability of DAIG's rental business improved year-on-year. This was driven by a significant reduction in its overall vacancy rate from 5.7% at the end of 2006 to 4.2% in December 2007 and lower non-recoverable costs and maintenance expenses.

In the sales business, a decision taken to apply tighter return criteria, as well as less favourable market conditions, resulted in a sales volume shortfall against budget. The decision to lower sales volume was actively taken by the Board to ensure long-term value is optimised. Additionally, the volume shortfall was partially offset by corresponding higher margins and lower sales costs.

Throughout 2007, DAIG maintained its disciplined, value-accretive approach to acquisitions. While DAIG's acquisitions earnings were lower than expected as a result of this conservative approach, the company was able to capitalise on more reasonable prices in the latter half of 2007 and acquired approximately 8,800 units by year-end.

DEVELOPMENT PLAN

DAIG has access to significant committed capital funding and Terra Firma believes the business is in a strong position in 2008 to make the most of the continued disruption in the capital markets to selectively acquire residential property portfolios. A further competitive advantage for DAIG is the €500 million debt warehouse facility it agreed in mid-2007, which provides an immediate source of acquisition financing.



YEAR END: 31 DECEMBER	2006	2007
Rental business gross rents	€713m	€710m
Rental business costs	(€289m)	(€276m)
Sales business revenue	€448m	€236m
Sales business costs	(€425m)	(€240m)
Other revenue, costs and adjustments	(€43m)	–
Bank interest paid	(€275m)	(€246m)
Earnings before depreciation and tax	€128m	€185m
Overall vacancy rate	5.7%	4.2%
Acquisitions signed	3,311	8,834

*2007 results subject to final audit approval.

Deutsche Annington

Striking the right balance

"Nearly 50% of our employees are women, many of them are of child-bearing age and we want to make sure that maintaining both a career and a family life remain feasible for everyone."

DAIG is a company that understands the importance of life outside work and is finding new ways to help its people juggle family life with job commitments.

This focus on its employees was recognised this year when DAIG was awarded a Certificate following a successful 'Career and Family Audit'. Ursula von der Leyen, the German Minister of Family Affairs, presented the award which is given to companies that have adopted especially family-friendly personnel policies. She congratulated DAIG's efforts, describing the business as 'a trendsetter' and 'a model for other companies.'

DAIG impressed the auditors with its highly flexible working hours – which include personalised part-time hours – and its commitment to ongoing development for the company's 1,385 employees. DAIG also offers a whole range of further added-value benefits including the opportunity for employees to work remotely and move between offices.

"Nearly 50% of our employees are women," says Volker Siekermann, Personnel Director of DAIG.

"Many of them are of child-bearing age and we want to make sure that maintaining both a career and a family life remain feasible for everyone."

Other initiatives under consideration include providing facilities that will enable parents to work while supervising their children, either directly or with a webcam link to an office crèche. The company is also looking into setting up a partnership with child-care providers. Recognising the role of the extended family, DAIG also offers flexible working hours to employees who are caring for a sick relative as well as to parents who want to care for their children.

Studies underline the benefits of these kinds of initiatives to the business as a whole, with research by German studies underlining that a family-friendly personnel policy leads to a reduction in absenteeism and an increase in productivity.

DAIG is committed to doing more and over the next three years with plans to introduce new benefits for employees, especially in the area of health issues. It will also voluntarily subject itself to

scrutiny in 2010 so that it can continue to bear the 'family-friendly' seal of approval.

A RESPONSIBLE LANDLORD

DAIG takes its social responsibilities seriously. Working closely with stakeholders such as labour unions and tenants' associations, it has earned a reputation as a caring and considerate landlord.

The DAIG Charitable Foundation is an example of this commitment in action. A legally-established charity, it has an endowment of around €5 million. The interest generated from this capital is used to help DAIG tenants in a number of clearly defined ways including providing health and educational support when there is no help available elsewhere. So far, the Foundation's awards have included computers for school children, free household appliances and support for disabled tenants.



*A catalogue of more
than 1 million
contemporary and
classical titles*

EMI

EMI is one of the world's largest music companies. It operates directly in 50 countries, has licensees in a further 20 countries and employs around 5,500 people. The business is made up of two divisions: EMI Music Publishing and EMI Recorded Music.

EMI Music Publishing is a leading music publisher globally and has one of the world's largest catalogues of songs, including more than a million contemporary and classic titles. Its business is focused on the acquiring, protecting, administering and exploiting of rights in musical compositions, with revenue coming from licensing the right to use its music.

EMI Recorded Music represents recording artists spanning all musical genres – from classic legends to developing and regional artists and classical and renowned jazz performers. The business signs and develops artists, marketing and promoting them as well as distributing their music to retailers. EMI Recorded Music owns a catalogue of over three million tracks and its roster and catalogue includes artists such as The Beatles, Pink Floyd, Queen, David Bowie, the Beach Boys, Coldplay, Robbie Williams, Kylie Minogue, Norah Jones and Lily Allen.

14

Grammy Awards (2008)

7

Brit Awards (2008)

6

Ivor Novello Awards (2007)

EMI



Terra Firma has embarked on a major restructuring of the business which will transform not only EMI but potentially the entire music industry

INVESTMENT RATIONALE

EMI draws on Terra Firma's experience in strategically transforming businesses, repositioning assets, driving operational change and enhancing cash flows.

EMI's revenue has declined over the past five years due to the structural shift in the consumer music market and to a slow response, both by the industry and the company, to the move towards digital consumption. This shift has been detrimental to the consumer-oriented Recorded Music business, but Music Publishing, which accounts for two-thirds of group profits, has been more protected through its more diversified revenue base.

Terra Firma recognised the potential to develop the publishing catalogue

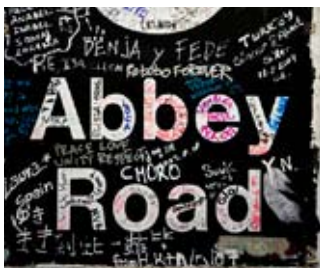
while streamlining the recorded music business and repositioning it to capitalise on the opportunities offered by the booming digital market.

REDEFINITION OF STRATEGY

Since acquiring EMI in August 2007, Terra Firma has embarked on a major restructuring of the business which will transform not only EMI but potentially the entire music industry. The goal is for EMI to become the most innovative, artist-friendly and consumer-focused music company in the world, while delivering the financial performance needed to build a sustainable business.

EMI Recorded Music, like the other major music companies, has traditionally been focused on producing successful albums. This has led to a policy of

EMI



making large advances to artists to secure recording contracts, followed by releases that are supported by significant up-front marketing spend. The reality was that a small number of very successful albums compensated financially for the losses incurred on the majority of artists and for a general lack of cost discipline within the industry.

Under Terra Firma ownership, EMI will aim to provide the best service to artists while maintaining the company's cost base at a level that can ensure profitable growth. To achieve this, Terra Firma is radically changing EMI Recorded Music's existing organisation. This will involve moving from standalone labels to a streamlined structure where the labels are solely focused on A&R

(Artists and Repertoire). The key label support activities, such as marketing, will be brought together under a unified, global leadership. EMI labels in the future will work closely with its artists on the creative process and on developing their long-term music careers. The support functions will assist the labels, ensuring that both EMI and its artists extract the full value from their work. The resulting re-shaped organisation will simplify what EMI does and help creative development while also speeding up decision-making.

By avoiding duplication, these changes and other restructuring efforts will enable Terra Firma to reduce headcount by 1,500-2,000 people, rationalise existing artist rosters and streamline the international market 'footprint'. Costs savings are predicted to be in the region of over £200 million per annum.

A key area of focus will be EMI Recorded Music's artist roster. Currently, EMI has more than 14,000 artists on its roster, of which just 200 account for half of revenues. It is actively working with 1,300 artists, but only a small number of these relationships are profitable. In the future, EMI will be more selective

in its artist relationships. It will also develop a broader relationship with its new artists. EMI is financing the building of the artist 'brand' – the return on this investment will come through not only the sale of recorded music, but also from touring, licensing and other revenue streams.

MANAGEMENT

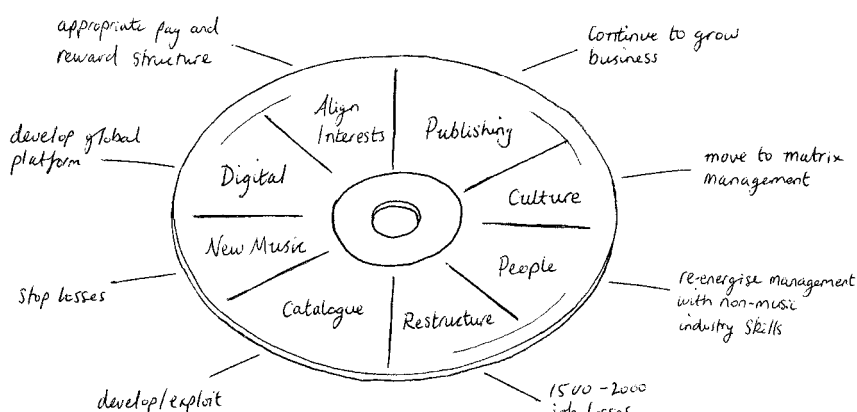
Guy Hands,
Interim Chief Executive of EMI Music

Roger Faxon,
Chairman and Chief Executive of EMI Music Publishing

Roger took up his current role as Chairman and Chief Executive of EMI Music Publishing in March 2007. He was previously President and Co-Chief Executive of EMI Music Publishing. Roger has held a number of senior roles at EMI including President and Chief Operating Officer of EMI Music Publishing, Chief Financial Officer of EMI Group and Executive Vice President and Chief Financial Officer of EMI Music Publishing.

Roger joined EMI from Sotheby's, where he was Chief Executive of Sotheby's Europe and previously Chief Operating Officer of Sotheby's North and South American operations.

EMI CHANGE PROGRAMME



EMI

CURRENT FINANCIALS

2006-07 was a challenging year for EMI Recorded Music. Sales declined by 15.0% on a constant currency basis. This was partly a function of the significant decline within the total music industry as well as the disappointing performance of EMI Recorded Music's portfolio compared to the prior year. The 13.6% global market decline in physical sales was only partly offset by strong digital sales growth of 68.3%. Total digital revenues represented 10.4% of total EMI Recorded Music's revenue in the year.

Recorded Music profit from operations declined to £44.9 million from a prior year profit of £145.1 million. The decline in profitability was driven by the flow through to profits from the reduction in revenues.

Despite the negative environment, EMI Music Publishing delivered a solid performance in 2006-07 with underlying revenues declining by less than 1% on a constant currency basis. Profit from operations increased to £105.6 million, an increase of 4.2% at constant currency.

Since acquiring the business in August 2007, there has been a focused review on the profitable and unprofitable activities of EMI. Together with EMI's new auditors (KPMG), we have undertaken a comprehensive global review of accounting policies, business

practices, and company valuations and are now positioned to move forward in a more accurate, transparent and consistent manner.

DEVELOPMENT PLAN

The new strategy and structure will create a healthy platform from which EMI can grow profitably in a number of ways:

Putting the artist at the heart of EMI

EMI Music Services will help the company attract new artists by providing essential services in a professional, high quality and cost-efficient manner.

Better understanding of its consumers

The music industry is focused on artists and is, to some extent, neglecting the consumer. A better understanding of what the consumer wants is required in order to invest marketing and promotion budgets more efficiently. The internet also offers significant potential for building a direct relationship with consumers both for promoting and selling music.

Tackling digital changes and opportunities

Historically, the industry has viewed digital principally as a piracy threat. In reality, it offers new possibilities across the value chain, from discovering and producing through to promoting music.

"Music is being used almost like an advertisement to sell gigs, merchandise, even ringtones. It is being used as much more of a marketing tool for other products."

YEAR END: 31 MARCH**2006-07****Recorded Music**

Underlying revenue £1,350m

Profit from operations before exceptional items, amortisation, and tax £45m

Music Publishing

Underlying revenue £401m

Profit from operations before exceptional items, amortisation, and tax £106m

Total group underlying EBITDA £174m

Total group net finance charges (£107m)

EMI

Charting the progress of an industry



In the music business, it's not just the sound that has changed over the past forty years. What goes on behind the scenes in the recording studios and offices has moved on too. As one of the industry's most well-known labels, EMI has pioneered some of those changes and seen its business evolve almost beyond recognition. Someone who has had a front row seat for longer than most is Pete Mew, a sound technician who has worked at EMI since 1965.

One of the most obvious changes Pete has witnessed has been the evolution of music technology. "When I started out," he says, "the biggest limitation was the number of tracks we could combine to make a record. Initially, it was two tracks. By the end of the analogue era, we had 48 tracks to play with. Now, the arrival of digital technology has opened it up even further, making it easier to record music and play around with the final sound."

Digital was a watershed in more ways than one – it has totally transformed not just the way music is made, but how it is distributed. Today's music fan is more likely to download a track onto their MP3 player from the internet than walk into a record store and buy a CD. This has led to music executives needing to be as creative as the artists they represent in finding new ways of generating revenue.

EMI is now operating in a business where the music is just one part of a much bigger commercial picture. Pete has seen first-hand this fundamental shift in the role of music. "Music is being used almost like an advertisement to sell gigs, merchandise, even ringtones," he says. "It is still generating money, so it's still repaying its investment, but is being used as much more of a marketing tool for other products."

The pace of creative and technological change in music remains breakneck, so it is hard to predict what the next innovation will be. What is more sure is that EMI, and Pete, will have a hand in it.

ANTONIO PAPPANO

Say EMI to most people and they'll probably talk about the Beatles or Coldplay. What they'll be less likely to know is that EMI represents a huge breadth of artists from all kinds of music genres. Antonio Pappano is one of the stars of EMI Classics. Currently Music Director of the Royal Opera in London, Maestro Pappano's prodigious talents have seen him conduct leading orchestras at the finest opera houses and concert halls in the world.

Just one of his many achievements is being the youngest conductor to lead the orchestra at the Royal Opera House, where he conducts both the Royal Opera and the Royal Ballet. Antonio has recorded extensively throughout his career, conducting Don Carlos, La Bohème, La Rondine (awarded Best Recording of the Year by Gramophone Magazine), Il Trittico, Werther, Manon, Tosca, Il Trovatore and many other great works for EMI Classics.

He is also Music Director of Rome's famed Accademia Nazionale di Santa Cecilia, Italy's leading symphony orchestra, with whom he has recorded several works, also for EMI Classics.



Infinis's generation capacity more than quadrupled between 2003 and 2007

Infinis

Infinis is the UK's largest purely renewable energy generator. In 2007, it exported 1.5 terawatt hours (TWh), equivalent to approximately 10% of the UK's renewable power.*

The company's portfolio currently includes around 100 generating sites across the UK and its total installed capacity amounts to 296 MW.

296 MW

installed generation capacity

10%

of the UK's renewable energy*

Infinis



The business has been transformed from a small landfill gas business division into a renewable energy generator

INVESTMENT RATIONALE

Infinis was previously the waste-to-energy division of the Waste Recycling Group (WRG). Terra Firma acquired WRG in July 2003 and later merged it with Shanks' landfill waste business, which it acquired in 2004. A leading waste management company, WRG held approximately 30% of the UK land space that had been granted planning consent for use as landfill and also owned a renewable energy business.

In a market experiencing increasing regulatory pressure and a growing focus on alternative energy sources, Terra Firma identified the potential of WRG's fledgling waste-to-energy operations to be a significant development area and margin driver for the business.

Growth in the sector is underpinned by the numerous targets that have been set for the reduction in greenhouse gas emissions:

- Under the Kyoto Protocol, developed countries have committed to a 5% reduction in 1990 greenhouse gas emissions during the period 2008-2012.

- The EU has announced a policy of generating 20% of primary energy from renewable sources by 2020.
- The UK's Renewables Obligation sets increasing targets for the percentage share of renewable energy in the UK power sector.

Terra Firma de-merged the waste-to-energy business from WRG in May 2006. The business was re-named Infinis and a new management team was appointed.

GENERATING POWER FROM LANDFILL GAS

Landfill gas is one of the naturally occurring products of decomposing organic matter in landfill sites. Around 60% of landfill gas is methane, which is one of a number of gases known to be a cause of global warming. A highly potent greenhouse gas, its contribution to climate change is over twenty times greater than that of carbon dioxide.

The generation of power from landfill gas helps to reduce the global warming impact of the methane emissions as well as providing an efficient and secure source of local power generation.

Infinis



HOW DOES IT WORK?

Wells are sunk into the landfill site to collect the gas which is then drawn into the well head and flows into a network of gas collection pipes.

To ensure clean combustion, the gas is then filtered and processed and passed through either a gas engine or a gas turbine where it is burnt to generate electricity.

REDEFINITION OF STRATEGY

Since its acquisition by Terra Firma, the business has been transformed from a small landfill gas business division into a renewable energy generator. Its revised strategy is to continue to grow and to develop clean sources of energy which reduce the emissions of greenhouse gases to the atmosphere and therefore mitigate climate change.

The team is focused on developing the company into a broad-based renewable energy business, potentially moving into biomass as well as wind power over the next five years. In 2008, Infinis expects further landfill gas developments and is also seeking planning approvals to develop wind and biomass facilities.

ACHIEVEMENTS

Infinis is now the UK's largest purely renewable energy generator. It is playing a leading role by developing renewable power from a number of technologies and it has a number of projects in development in the growing biomass and wind sectors.

Infinis's generation capacity has more than quadrupled from 57 MW in 2003 to 296 MW in 2007. The company has also increased the power exported from 0.3 TWh to 1.5 TWh in the same period. This strong track record demonstrates the company's ability to grow the business successfully through operational optimisation, organic growth and acquisitions.

- In January 2007, Infinis acquired the shares of ReGen and ENnate from their parent company, Summerlease Limited, adding 42 MW of operational capacity.
- In September 2007, Infinis acquired SRG, a renewable energy development portfolio with both biomass and wind projects. These projects include development rights to a 125 MW biomass portfolio, development rights to a 125 MW onshore wind portfolio and a biomass feedstock sourcing business.

MANAGEMENT

Phil Nolan, Chairman

Phil was appointed to the Infinis Board in January 2007.

Prior to joining Infinis, Phil was Chief Executive of Eircom, the Irish national telecoms operator, after its acquisition by a private equity consortium. He led Eircom back to the public market in 2004 and stepped down after the sale of the company in 2006. Previously, Phil joined the board of BG Group in 1998 and led the demerger of Transco becoming Chief Executive of the Lattice Group in 2000.

Alan Lovell, Chief Executive Officer

Infinis appointed Alan as Chief Executive in July 2006.

In his previous role, Alan was Chief Executive of Jarvis plc and was responsible for the financial and operational turnaround of the business. Alan's earlier roles include Chief Executive and Finance Director at Dunlop Slazenger and Costain Group plc.

Stewart Gibbins, Operations Director

Stewart joined WRG as Director of Operations in 2005, moving to Infinis in May 2006.

Stewart has over 10 years of senior management experience in power generation including managing a fleet of 50 MW gas-fired power stations for Rolls Royce in the UK, Europe and North America. Prior to that, Stewart was Engineering Director of Huwood Controls at Babcock Group.

Jane Aikman, Finance Director

Jane joined Infinis in July 2007.

Prior to joining Infinis, Jane was Group Finance Director at Wilson Bowden plc, the major house building and property development group, where she was part of the team instrumental in the sale of the Group to Barratt Developments plc.

Jane previously held Finance Director roles at Amey plc and later at Pressac plc.

Infinis

CURRENT FINANCIALS*

After acquisitions during the year, Infinis generated 25% more electricity than in 2006. Earnings were up on prior year, despite generation being affected by interruptions such as a landslide at one Infinis site and flooding in several major regions.

The outlook for Infinis in 2008 is positive. Electricity prices are strong due to the high price of underlying gas and carbon and the business's current output is fully contracted for the next 18 months. In addition, the UK remains behind its targets set for renewable energy and has an overall shortage of generation, providing a strong market for Infinis's renewable generation credits in the coming year.

DEVELOPMENT PLAN

The business's plan is to evolve from a landfill gas business to a broad-based renewable energy business, moving into onshore and offshore wind and also biomass over the next five years.

Infinis currently has 17 MW of new landfill gas developments in the pipeline for 2008-09. Further acquisitions covering a number of renewable technologies are under review.



"It has been really useful to spend time putting the theories I have learnt in my studies into practice at work."

YEAR END: 31 DECEMBER	2006	2007 ¹
Revenue	£66m	£92m
Costs ²	(£22m)	(£39m)
Bank interest paid	–	(£4m)
Earnings before depreciation and tax	£44m	£50m
Capital expenditure	(£17m)	(£24m)
Average megawatts	146	183

1. Includes the results of ReGen

2. Excludes exceptional costs

*2007 results subject to final audit approval.

Infinis

The green energy business that's leading by example

As the UK's largest generator of purely renewable energy, Infinis is in the business of helping its customers to operate in a more environmentally friendly way. It also leads by example and, for a young business, has an unusually clear focus on the environmental impact of its operations including the establishment of a whole range of green initiatives internally.

One of the Board's first goals was to develop an environmental management system in line with the international environmental standard ISO 14001. First published in 1996, the ISO 14001 sets out the different areas where an organisation can take positive action to reduce its environmental impact. With its system in place ahead of schedule, Infinis was then able to concentrate on creating an environmental policy that could help the business map out its activity for the coming years. Site-specific targets were set and the company's first greenhouse gas emissions review was carried out. To publicise its results and chart progress, Infinis also committed to producing regular CSR reports, the first of which was delivered during 2007.

With a clear picture of its environmental performance and a framework in place to guide its efforts, Infinis was then well-placed to act.

One of the core targets has been to reduce the amount of CO₂ being produced by the company's day-to-day operations, initially measured at 7,077 tonnes over six months. The main

causes were identified as the electricity bought in to run the business, fuel oil used in power-generating equipment and business travel. Upgrading power generating equipment has enabled Infinis to tackle the biggest contributor and has cut around 4,000 tonnes from the company's carbon footprint. For the first six month period to 30 June 2007, Infinis estimated its operations as being carbon-positive by over 4.6 million tonnes of carbon dioxide equivalent.

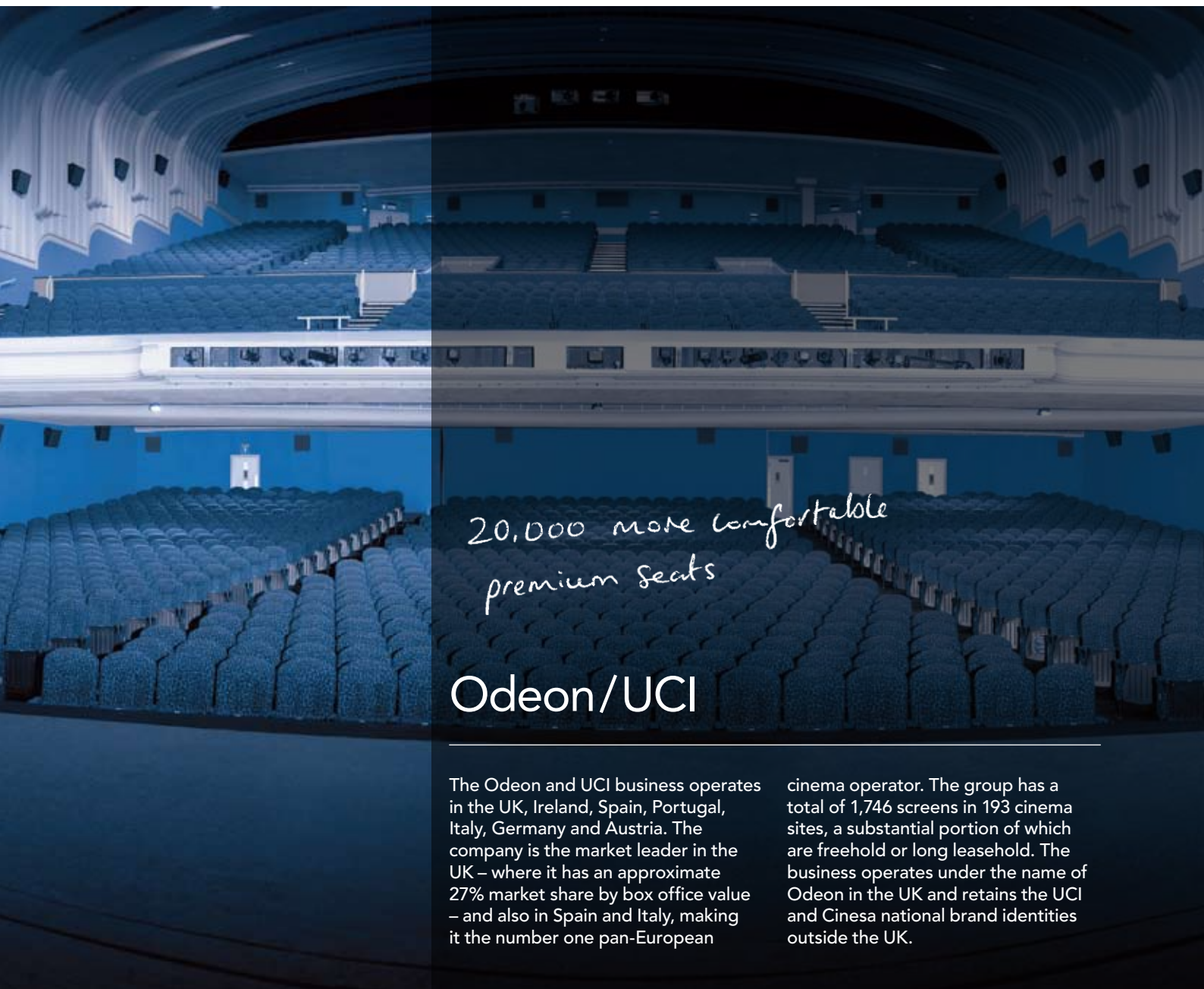
Building on this progress, Infinis is committed to finding new ways to keep making its performance greener. For instance, recycling the lubricating oil that is the company's main waste product. As well as using its own unique knowledge, the company is also bringing in outside experts to advise on the best way to meet the ambitious targets it has set itself.

The company is also helping its staff to be greener, and not just at work. 'smallsteps' is an initiative that offers loans and grants for employees wanting to buy eco-friendly technology for their homes or drive lower-emission vehicles. It also highlights the many small changes that can be made to our daily routines to lessen the environmental impact. This includes things like taking showers instead of baths, only boiling the water we need in a kettle and making sure lights and computers are turned off at night. The net result is a greener Infinis, both as a business and as a group of employees, and a clear environmental agenda for the future.

APPRENTICESHIPS - A PIPELINE OF TALENT

As well as developing the next generation of clean energy, Infinis is also planning ahead when it comes to its people. The company's apprenticeship scheme is aimed at those who have left full-time education in the past three years and are interested in a career in electrical or mechanical engineering. As well as giving people the chance to gain valuable qualifications and skills, the scheme is creating a pipeline of talent that will help Infinis to keep pioneering long into the future.

The last word, though, should go to an apprentice himself. Ben says, "I have picked up loads of skills with Infinis which I know will serve me well in my future career – it has been really useful to spend time putting the theories I have learnt in my studies into practice at work."



*20,000 more comfortable
premium seats*

Odeon/UCI

The Odeon and UCI business operates in the UK, Ireland, Spain, Portugal, Italy, Germany and Austria. The company is the market leader in the UK – where it has an approximate 27% market share by box office value – and also in Spain and Italy, making it the number one pan-European

cinema operator. The group has a total of 1,746 screens in 193 cinema sites, a substantial portion of which are freehold or long leasehold. The business operates under the name of Odeon in the UK and retains the UCI and Cinesa national brand identities outside the UK.

1,746
cinema screens

No.1
pan-European cinema operator

27%
market share of UK box office

Odeon/UCI



INVESTMENT RATIONALE

Prior to its acquisition by Terra Firma, Odeon had no clear strategic direction. It was managed by a collection of shareholders with different plans for the business and this non-alignment of interest meant the company was not operating to its full potential.

United Cinemas International (UCI), meanwhile, was considered a non-core asset by its two shareholders, Vivendi and Viacom, and had gone through a period of under-investment.

Terra Firma acquired Odeon in September 2004 and UCI in October 2004. Both acquisitions were independently attractive, but there were clearly even greater benefits flowing from a merger. Terra Firma worked on the transactions in parallel and contracts were exchanged for both businesses on the same day.

The purchase and merger of the two distinct companies offered an exceptional chance to unlock value through integration savings. Also, further consolidation was expected within the European cinema industry,

so establishing and adding to a European-wide company would enable significant operational improvements.

With a stable cash flow stream due to its low ticket price in a basic leisure sector, Odeon/UCI offered a number of areas for earnings improvement. They included ticket pricing, food and beverage retail sales and alternative revenue streams such as advertising. In addition, further opportunities were identified to selectively unlock value from the property owned by the company.

REDEFINITION OF STRATEGY

The strategy focused on realising savings from merging Odeon and UCI in the UK and on continuing to look for acquisitions in the key markets that would offer benefits from economies of scale. The strategy for the combined Odeon/UCI business was to enhance revenue through increasing admissions, improving the customer retail offering, greater capacity utilisation and investment in future technology developments such as digital and 3D. There was also an opportunity to dispose of any cinema

assets and property that would achieve a significant premium.

A site-by-site review was carried out to evaluate pricing policies, capacity utilisation and retail spend. One of the key findings was that the 'one-size-fits-all' ticket pricing policy did not reflect local competition influences or changes in market demand across a week's screening cycle. The operational team identified when the cinemas were underutilised and which special screening or minority interest formats would be most appropriate for the local market. This allowed ticket prices to reflect demand, with, for example, higher prices on a Saturday night in Central London and lower prices for senior citizens during the week.

The business has invested heavily in the roll-out of improved retail food and beverage offerings in the cinemas both in the UK and Europe, extending the range into ice-cream, coffees and pizza. It has also invested in switching from self-service areas to assisted service, which has both improved the customer experience and helped to grow retail sales.

Odeon/UCI



The business has focused on further driving up admissions through the use of alternative content and increasing capacity utilisation. To make the best use of each cinema's space, the company has introduced activities such as letting cinemas for conferencing and corporate screenings. The business has also focused on increasing sales of bulk tickets/vouchers to corporate customers and other organisations.

The business has also significantly expanded its customer database, improving contact with cinema-goers and driving growth in advance bookings.

ACHIEVEMENTS

The organisational structure was restructured to capture synergies and establish clear lines of accountability. Another key task was managing the separate businesses through the period of uncertainty before UK regulatory clearance was given to merge Odeon and UCI in the UK. The subsequent integration of both businesses delivered synergy savings and other cost

improvements totalling more than £10 million per annum.

The acquisition of individual cinemas and cinema chains has always been part of the strategic development of the business. As part of that policy, Odeon/UCI has successfully integrated Warner Lusomundo Sogecable (11 cinemas/109 screens) and the Iberian assets of AMC (5 cinemas/106 screens) with its existing Spanish businesses. These acquisitions strengthened its market leadership in the region and also offered the opportunity to eliminate overheads. Two further acquisitions in Italy (Europlex and Cinestar) have enabled UCI to take the position of number one cinema operator in that market.

Odeon/UCI has signed a deal with real-D, a supplier of Cinema 3D solutions, for the roll-out of 500 3D screens across the group along with the introduction of digital projectors. The use of digital technology offers long-term print cost savings to the distributors, an improved advertising platform, alternative content capability and greater flexibility in programming. Odeon has also successfully completed a one-year, all-digital test in 18 screens in two of its multiplexes in the UK, Surrey Quays and Hatfield.

The Odeon/UCI customer database in the UK and Europe now holds details for 2.8 million customers, and in Germany UCI has successfully launched a loyalty programme which already has around 200,000 members.

MANAGEMENT

Rupert Gavin, Chief Executive Officer

Rupert was appointed as Chief Executive of Odeon/UCI in 2005. Prior to joining the business, he was a member of the BBC's Executive Committee and Chief Executive of BBC Worldwide, which he led through a period of rapid expansion.

Rupert's earlier roles include a position at BT where he was ultimately responsible for the UK consumer operation (a £6 billion turnover business with a workforce of 30,000 people).

Roger Harris, Chief Operating Officer, UK and Ireland

Roger joined UCI in 2002, working closely with the Executive and UK Senior Management Team to develop a five-year plan for the UK business.

Roger has been in the cinema business since 1988. He held a number of positions at Famous Players in Canada, including Senior Executive Vice President and General Manager.

Jose Batle, Chief Operating Officer, Continental Europe

Jose joined the cinema industry in 1986, as Chief Executive of Cinesa, Spain. He was appointed Vice President of UCI when Cinesa was sold to UCI in 1991 and later established UCI Brazil, started operations in Italy and Portugal and continued the rapid expansion in Spain.

In 2003, he was appointed Senior V.P. Continental Europe and made additional acquisitions in Germany and Austria.

Jonny Mason, Chief Financial Officer

Jonny joined Odeon/UCI in March 2006 from Sainsbury's, where he was Finance Director and a member of the Operating Board. Sainsbury's had sales of £17 billion, 750 locations and 150,000 employees.

Jonny's previous roles included the CFO of a private equity-backed fitness chain and financial management in Hanson and Shell.

Odeon/UCI

CURRENT FINANCIALS*

Odeon/UCI had a successful year in 2007 with a strong film slate. The business saw total admissions of 75 million, which taking into account new cinema acquisitions, was ahead of 2006. Revenues grew a healthy 8% year-on-year and EBITDA grew by 11% helped by savings in property costs, marketing and head office costs. The film slate in 2008 also looks promising.

DEVELOPMENT PLAN

For 2008, Odeon/UCI plans the roll-out of new ticketing machines and systems in its UK cinemas. As well as delivering cost savings, this initiative is expected to improve customer relationships and will help to drive-up admissions still further. Four new sites will open during the course of 2008.

The business will continue to focus on improving its customer product offering, with initiatives including the roll-out and expansion of premium seating, DVDs sales, new bar concepts

(Ambar), Costa Coffee franchises and sales of Ben and Jerry's Ice Cream.

In order to improve information and services for guests, Odeon's websites and telephone lines will be fully integrated. The business has also begun introducing loyalty programmes in all European markets and will introduce a similar scheme in the UK when the new ticketing system is rolled out.

Odeon/UCI is also conducting negotiations with the major studios to conclude a potential large-scale deployment of digital and roll-out of 3D.

The business will continue to review further opportunities for growth in existing markets, both organically through opening new sites and via acquisitions.



YEAR END: 31 DECEMBER	2006 Actual	2007 Actual
Revenue	£479m	£516m
Costs	(£413m)	(£442m)
Bank interest paid	(£26m)	(£25m)
Earnings before depreciation and tax	£40m	£48m
Capital expenditure	(£19m)	(£31m)
Admissions	72m	75m

*2007 results subject to final audit approval.

Odeon/UCI

A new generation of cinema

"We wanted to partner with an organisation that understands the over-50s as well as we do and provides a service that is as accessible as it is fun. Odeon Senior Screen provides all that and more."

It's not just the movies that are moving with the times – the whole cinema-going experience has changed radically in recent years too. Odeon in the UK has played a big part in that, creating a new generation of cinemas designed to appeal to a broader range of the public than ever before.

Today, a visit to an Odeon cinema isn't just about deciding which film you want to see. Bars, coffee shops, Ben and Jerry's ice cream parlours, merchandising and premium seats are being rolled out across Odeon's auditoriums. Guests can book online or by telephone and a growing national customer database (nearly 3 million at last count) keeps them in touch with what's on when.

Odeon has also introduced some offers specially tailored for groups that cinemas have traditionally neglected – parents of young children and the over-50s.

BABY BLOCKBUSTERS

Odeon is the only cinema chain to offer screenings nationwide exclusively for parents and babies. The Newbies screenings are now running weekly at 74 cinemas across the UK.

The films shown (all new releases and certificate 12A or lower) are slightly quieter and the lights in the auditorium brighter than usual, creating a more calming environment for the babies. And because everyone in the screening has their own little one in tow, there is no need to worry about disturbing other cinema-goers. The majority of cinemas also have facilities for those all-important costume changes.

THE SENIOR SCREEN

Another initiative has seen Odeon team up with RIAS, the specialist insurer, to offer the over-50s access

to regular, reduced-price cinema screenings across the country.

Since its launch in June 2006, the Odeon Cinema Senior Screen has attracted more than 360,000 people to its weekday morning screenings.

Janet Connor, Managing Director of RIAS, said, "We wanted to partner with an organisation that understands the over-50s as well as we do and provides a service that is as accessible as it is fun. Odeon Senior Screen provides all that and more."

The net effect of all these initiatives has been more customers getting more out of their visit to the cinema. The increase in Odeon's bottom-line is proof of how successful it's been and there are plenty more innovative ideas in the pipeline – coming soon to an Odeon near you.



*Providing natural gas to more
than 115,000 properties*

PNG

Purchased in November 2005 as part of East Surrey Holdings (ESH), Phoenix Natural Gas (PNG) was established in 1996 to introduce natural gas to the industrial, commercial and domestic markets of the Greater Belfast area.

Today, PNG supplies 115,000 properties with natural gas in the region and is investing in its network to offer natural gas to the significant majority of Greater Belfast's homes and business.

10,000

new connections in 2007

81 km

of gas mains laid in 2007

PNG



INVESTMENT RATIONALE

When Terra Firma acquired ESH, a portfolio of regulated utility businesses, it recognised the strong growth prospects of the gas business. The strong management team was delivering far greater operational and capital investment efficiencies than were being achieved in the legacy mainland businesses. Furthermore, as a young business, ESH did not have the legacy issues, such as cast iron pipe and asbestosis exposure, affecting more mature comparable companies.

At the time of the acquisition, the comparative instability of the regulatory framework combined with the relative immaturity of the network demanded a new owner with a strong vision. Terra Firma has invested significant time working with PNG management and the regulatory authorities to agree a mutually satisfactory regulatory framework to allow PNG to develop its business and to benefit its customers.

COMPANY STRUCTURE Phoenix Natural Gas Ltd

Phoenix Transportation and Distribution builds, owns and operates the business's gas system, making sure gas gets from A to B. The company's aim is to make natural gas available to 80% of Greater Belfast and connect over 60% of available properties by 2016.

Phoenix Supply Ltd

Phoenix Supply was formed in January 2007 as result of EU Directive (EC55), which requires PNG to separate certain business functions when there are over 115,000 customers using natural gas. The core responsibility of Phoenix Supply is the supply of natural gas – this includes the purchasing of gas, customer service provision, customer billing, customer contact centre and credit control operations.

Phoenix Energy Services Ltd

Established in 2001, Phoenix Energy Services provides meter reading servicing and maintenance activities as well as 24/7 emergency services. Since then, the company has grown from a

start-up to a business with 54 skilled staff carrying out around 38,000 jobs per year. With a turnover of £2 million and 30% growth year-on-year, Phoenix Energy Services is now a significant service provider in the Northern Ireland home heating and energy services market.

REDEFINITION OF STRATEGY

The acquisition of ESH was, in reality, the acquisition of three separate utility businesses with very different profiles.

Sutton and East Surrey Water was a monopoly supplier to 250,000 households in the south of England. Terra Firma identified it as an ex-growth, non-core asset and decided to sell the business shortly after acquisition for £191m.

East Surrey Pipelines (ESP), a UK gas connections and gas transportation business, was viewed as a potential consolidation opportunity in a buoyant new housing market. Terra Firma initially grew ESP by acquiring and successfully integrating BGCL, a connection business owned by

PNG



British Gas. This made ESP the third largest independent gas connections business in the UK. Further consolidation followed in the sector and the subsequent increase in the value of ESP led to its sale by Terra Firma, leaving Terra Firma with PNG, the business with the most development potential.

Natural gas is a relatively new fuel in Belfast, having been first introduced only in 1996. With all new homes choosing natural gas, PNG is well-placed to serve the city's rapid growth in housing construction. Unlike the UK mainland where about 90% of consumers use gas, in Belfast only 40% of the market is now connected to gas. As a result, there is a potential for a further 150,000 homes to convert from coal, heating oil and electric to gas. PNG owns the gas distribution network in Belfast and is committed to investing in its network to offer gas to these consumers.

ACHIEVEMENTS

When PNG was set up in 1996, the core objective was to build and operate one of the most modern and

environmentally-friendly natural gas network systems in Western Europe.

PNG has made gas available to more than 255,000 properties, with 115,000 already connected to natural gas in the Greater Belfast area and is investing in further new network to make gas available to a further 55,000 homes and businesses in the next 10 years.

The PNG network is now considered a world-class benchmark for development best practice in the industry, and the lessons learned in Northern Ireland are influencing natural gas development around the world. Through continual innovation, implementation of ground-breaking technologies and dedication of service to its customers, PNG's aim is to help keep Northern Ireland's businesses competitive globally and help in significantly reducing its carbon footprint (given that natural gas produces 25% less carbon dioxide emissions than other fossil fuels).

The development of the natural gas market to maturity throughout Northern Ireland over the coming decades will deliver significant carbon emission reductions, bringing it in line with Great Britain and many of the leading European countries.

MANAGEMENT

Sir Gerry Loughran KCB, Group Non-Executive Chairman

Sir Gerry's role as the Non-Executive Chairman of the PNG Group is a continuation of his work championing Northern Ireland and its regeneration in the region and beyond.

Gerry retired from his post as head of Northern Ireland's Civil Service in 2002 ending a Civil Service career that spanned 36 years. Gerry previously held the post of Permanent Secretary Department of Economic Development.

Peter Dixon, Group Chief Executive

Peter was appointed to the PNG board as Chief Executive in 2000 and joined the East Surrey Holdings board in November 2003 as an Executive Director.

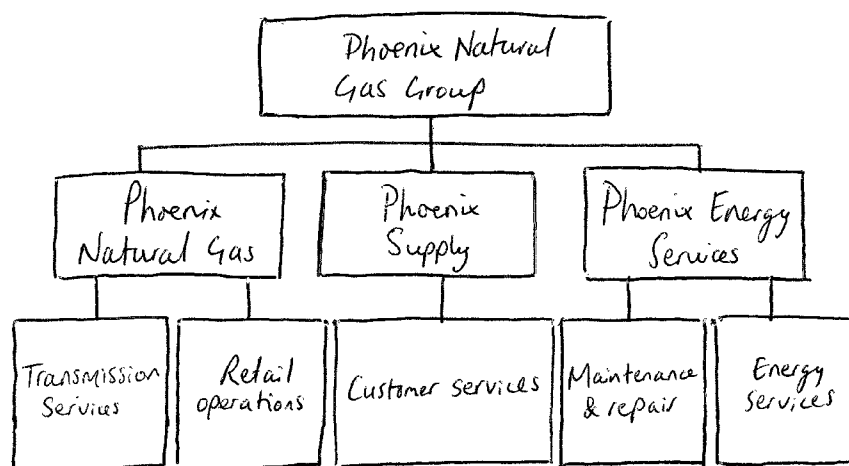
Peter has always worked in the gas industry, starting as an engineer in 1976 with North West Gas in Liverpool. Peter then moved on to play a key role in the break-up of British Gas into separate standalone businesses, before joining PNG as Commercial Director in 1997.

Michael McKinstry, Group Finance Director

Michael joined PNG in 1996 and was appointed to the PNG board in 2003. His responsibilities include finance, business planning, human resources, systems and contracts and procurement.

Michael's extensive management experience prior to joining PNG includes roles in heavy engineering with GEC, in the textiles industry with Ulster Weavers and in the energy industry with Premier Power after its purchase by British Gas.

PNG

**CURRENT FINANCIALS***

PNG achieved good earnings growth in 2007. While revenue from gas transported during the year was behind expectations due to temperatures being warmer than the five-year average, this was offset by the lower commodity cost of gas.

PNG performed well against its 2007 plan to develop its distribution network. It laid 81km of gas mains and established over 10,000 new connections to its gas network.

DEVELOPMENT PLAN

PNG continues to develop its distribution infrastructure and increase the number of users connected to its network.

An immediate objective is to complete the detailed implementation of the regulatory framework agreement with the Regulator.

On 1 January 2007, PNG split its supply divisions from its transmission and distribution business in order to comply with the EU Gas Directive. In addition, on 1 January 2008, the group separated its distribution business from its transmission assets. PNG is also continuing with plans to mutualise its transmission business – a sale and purchase agreement to sell the transmission business to Northern Ireland Energy Holdings Ltd was signed in February 2008.

"Safety has always been at the heart of Phoenix's operations and to get recognition during what is our tenth year in business is extremely rewarding."

YEAR END: 31 DECEMBER	2006	2007
Revenue	£93m	£90m
Costs ¹	(£76m)	(£60m)
Bank interest paid	(£17m)	(£17m)
Earnings before depreciation and tax	–	£12m
Capital expenditure	(£14m)	(£13m)
Customers	102,000	113,000

¹Excludes exceptional costs

*2007 results subject to final audit approval.

PNG

Tapping into new reserves of talent



A successful company knows that it is only as good as the people who work for it. Embracing this simple truth, PNG has launched several pioneering skills and training initiatives that will help ensure the business has the skill base it needs as it expands. As well as equipping the company for the challenges ahead, PNG is also motivated by a desire to provide employment opportunities in the local community, in particular to the unskilled and long-term unemployed.

At the heart of PNG's efforts is its innovative apprentice programme which gives unskilled workers the chance to build the skills they need for a long-term career in the gas industry. Each year, PNG recruits around five trainees for this three-year programme. As well as gaining valuable hands-on work experience, the trainees develop new skills through a combination of classroom learning and mentoring from senior colleagues.

PNG also plays an active part in the Northern Ireland Department for Employment and Learning's 'Bridge to Employment' programme. The scheme's main objective is to provide customised training to equip unemployed, particularly long-term unemployed, people with the skills they need to compete in the jobs market. Around 10 people successfully complete the programme each year, with the majority of them being offered full-time jobs by PNG.

PNG's commitment to training the next generation of gas engineers has created a pipeline of talent that will benefit the company for many years to come as well as the communities where it operates.

SAFETY FIRST

Health & Safety has always been high on the agenda at PNG and the company's efforts have been so successful, it has now been recognised within the wider industry. In 2006, PNG was presented with a British Safety Council 'Sword of Honour'. The ultimate

accolade for safety at work, this award is only given to a handful of organisations each year.

To be considered, PNG had to show that it has implemented world-class safety systems and has a culture of aiming for best practice that is promoted from the boardroom to the shop floor.

The then Prime Minister, Tony Blair, sent this message of congratulations: "These awards recognise the crucial success that these organisations and their employees have achieved in their pursuit of excellence in the management of health, safety and environmental matters."

Accepting the award on behalf of PNG, CEO Peter Dixon said, "Phoenix is absolutely delighted to be awarded this prestigious safety honour. Safety has always been at the heart of Phoenix's operations and to get this recognition during what is our tenth year in business is extremely rewarding."



400 Tank & Rast
Sites on the German
autobahn network

Tank & Rast

Autobahn Tank & Rast (Tank & Rast) holds 90% of German motorway concessions for petrol stations, shops, restaurants and motels. This includes approximately 370 restaurants, 340 petrol stations and around 50 hotels. The company's key revenue streams are lease income from tenants, fuel supply commissions from the oil companies and income from self-operated sites. On average, customers will find a Tank & Rast petrol station or service area every 60 autobahn kilometres,

and around 500 million guests a year visit Tank & Rast service facilities.

The business was privatised in October 1998 and bought by a consortium including Allianz, Apax and Lufthansa. When the consortium decided to exit in 2004, Terra Firma was the successful bidder. The December 2004 purchase was the culmination of more than seven years of interest in the company by Terra Firma.

370
restaurants

340
petrol stations

50
hotels

Tank & Rast



Tank & Rast's efforts to modernise autobahn services and introduce high quality and performance standards have won it independent acclaim

INVESTMENT RATIONALE

Tank & Rast had a strong position on the German Autobahn, underpinned by long-term government concessions. The company's stable cash-flows were supported by a significant fixed lease component of income and the large number of independent sites represented a low risk portfolio. These high quality assets also came with the benefit of a major investment programme. Furthermore, Tank & Rast's complex operational and contractual structure offered significant opportunities for improved asset yield management, cash generation and potential for evolution of its business model.

In addition to these more defensive qualities, Terra Firma believed there were further opportunities to achieve superior returns through operational development, particularly from capital investment in customer-focused initiatives. Further changes would be focused on the business operating model, with a priority of creating an environment for the most entrepreneurial tenants to flourish.

OPERATING ENVIRONMENT

Tank & Rast operates the sites along Germany's 12,000 km motorway network under long-term concessions granted by Germany's government. The service operations are sub-leased to around 150 tenants and are made up of approximately 400 sites.

In addition to the government, Tank & Rast's main business partners are the fuel suppliers – who supply branding and fuel but do not operate the fuel stations – and the tenants, who run the petrol stations, shops, restaurants and hotels. The fuel suppliers are a mix of global oil companies and 'Mittelstand' German oil companies, while the tenants are typically local individuals or small companies. Tank & Rast is responsible for the planning, construction, financing, maintenance and the leasing out of the site facilities.

REDEFINITION OF STRATEGY

Following Terra Firma's acquisition, the business was refocused strategically in three main areas:

The Consumer: international benchmarking showed that Tank & Rast was lagging behind comparable

Tank & Rast



European networks in terms of penetration, conversion and customer expenditure. Tank & Rast's response was to:

- Improve food choice by signing development agreements with major international fast food players such as Burger King
- Initiate a massive washroom refurbishment programme under the brand Sanifair
- Transform visibility and branding by an agreement with the German regional & federal governments in September 2005 to allow up to four brands to be signposted on the autobahn. This was combined with a newly created brand, 'Serways'.

The Tenants: since 2004, the 150 most effective tenants have been given extra sites to operate together with tools and investments from Tank & Rast that will help them to improve their business performance.

Capital investment: in 2005, Tank & Rast launched a €500m investment programme to finance the building of

totally new sites, the refurbishment of older sites and the consumer facilities outlined above.

ACHIEVEMENTS

The refocus in strategy has resulted in a service station network that is comparable to the best international benchmarks. Consumer choice has been significantly increased and research has shown a jump in customer satisfaction levels. Over three quarters of Tank & Rast sites now have motorway signage, the development agreement with Burger King will create over 140 new outlets and the Serways brand is being rolled out across the network.

The Sanifair washroom concept, which introduced 24-hour manning and a revolutionary voucher system, has been an enormous success and customer satisfaction now exceeds 90%.

Tank & Rast's efforts to modernise the autobahn services and introduce high quality and performance standards have also won it independent acclaim. In the Europe-wide ADAC Autobahn Services Tests of both 2006 and 2007, a Tank & Rast network facility came first and was recognised as offering service levels among the best in Europe.

MANAGEMENT

Dr Karl-H. Rolfes, Group Chief Executive Officer

Karl was appointed as Chief Executive of Autobahn Tank & Rast in 2001. His previous role was Director for Motorway Operations and Major Filling Stations with Elf France (TotalFinaElf).

Karl started his career at the University of Münster working in the energy sector. After joining Elf Germany, he held a variety of positions including Head of Legal Affairs and Strategy before being named Head of Retail and Restaurant Operations and attending Elf's Ecole Supérieur des Cadres in Paris.

Michel Marlière, Chief Operating Officer

Michel joined Tank & Rast in 2001 as Head of Marketing and Sales and since 2005, has been the business's Chief Operating Officer.

Michel's previous roles include Managing Partner at Evologic GmbH and Senior Investment Manager for Information Technologies & Key Account Equity at DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH, as well as several positions in the oil industry.

Bernhard Spetsmann, Chief Financial Officer

Bernhard has been Tank & Rast's Chief Financial Officer since 2005. Before joining the business, he worked independently as a business consultant for various private equity-owned companies, including Tank & Rast.

Bernhard's previous roles include a number of positions at Schmalbach-Lubeca AG including Head of Mergers & Acquisitions, Chief Financial Officer White Cap Europe/Asia and Head of Corporate Audit.

Peter Markus Löw, Chief Representative Governmental Affairs, Concessions & Communication

Peter joined Tank & Rast in 2001 with responsibility for the management of concessions and public relations as well as relationships with the federal and state governments.

Before he joined Tank & Rast, Peter held various positions in politics. These include Personal Assistant to the Prime Minister of the state of Saarland and working for two Federal Ministers (Personal Assistant and Head of Communication) within the German ministry of transport and housing.

Tank & Rast

CURRENT FINANCIALS*

Tank & Rast performed very well in 2007. Revenues were 9% up on prior year and the business was able to deliver earnings ahead of its initial targets.

Tank & Rast's growth was driven by capital investment projects implemented as part of the Terra Firma development plan. Projects such as Sanifair, Serways, network optimisation and Burger King outlets contributed to the growth in revenues in 2007 and are expected to deliver continued outperformance in 2008.

DEVELOPMENT PLAN

The consumer will continue to be a key focus for Tank & Rast. As well as the continued roll-out of the fast food, Sanifair and Serways projects, there will be two new areas of focus: hotels and retail. A recent deal signed with B&B Hotels will see newly built or refurbished branded budget hotels being introduced to the network, creating a totally new sector on Germany's autobahns. Within retail, an extensive piloting programme has resulted in the creation of a new retail

concept which is now being rolled out and features increased availability of freshly baked sandwiches made on the premises and a proprietary 'coffee-to-go' machine. Tank & Rast will also be working closely with its tenants on a major investment programme to develop an EPOS and cash desk system.

The very significant investment programme will continue over the long-term, with several totally new sites every year (subject to successful tenders) and an ongoing refurbishment programme to keep all sites up to date.

Finally, the revolutionary Sanifair washroom concept will be piloted in other high volume retail environments both in Germany and abroad.



YEAR END: 31 DECEMBER	2006	2007
Revenue	€249m	€272m
Costs	(€87m)	(€92m)
Bank interest paid	(€50m)	(€81m)
Earnings before depreciation and tax	€112m	€99m
Capital expenditure	€50m	€68m

*2007 results subject to final audit approval.

Tank & Rast

Driving up the reputation of Germany's service stations

"The strategic expertise of Tank & Rast makes it possible for us as tenants to achieve the greatest possible success by remaining close to our customers and recognising their needs."

It wasn't so long ago that drivers on German motorways would plan their journeys so they could avoid stopping at the country's famously poor service stations. That has all changed in the past few years, and much of credit must go to Tank & Rast's network of tenants.

Ask today's tenants how life is different since their industry was privatised ten years ago and they will tell you that their job has become much more involved, but also much more rewarding.

The biggest shift has come from Tank & Rast's efforts to create a culture that encourages entrepreneurship, fresh thinking and innovative ideas. Tank & Rast tenants are given the best of both worlds – the chance to shape their own business, but with the backing of an industry-leading business. As well as full and ongoing training support, every tenant benefits from the company's intensive research into customer behaviour and retail trends.

Tenants Oliver and Anja Fischer have used that support to steadily build a portfolio of service stations. They commented, "The strategic

expertise of Tank & Rast makes it possible for us as tenants to achieve the greatest possible success by remaining close to our customers and recognising their needs."

With a clear understanding of what motivates their customers, Tank & Rast's tenants such as the Fischers have set about transforming their businesses and, at the same time, the reputation of Germany's motorway service stations. Fresh food, a wide variety of popular products and regular special offers are just a few of the changes that have attracted more customers, driving up spend and encouraging repeat visits.

Successful tenants have been rewarded with the opportunity to manage more outlets and the result has been a smaller but higher-performing tenant base.

Germany's service stations have well and truly shaken off their poor image and the car driver's association ADAC has awarded Tank & Rast's network on numerous occasions. It's been quite a success story, and the journey's not over yet.

PUTTING THE SERVICE INTO SERVICE STATIONS

After years of investment and change at Tank & Rast, a recent survey has shown just how far the company has transformed the customer experience on Germany's motorways. The latest figures show customer satisfaction levels are up significantly, with several areas singled out for praise. The new service station brand, Serways has made a big contribution, with food a key focus for customers. A broader food offering, including the introduction of big brands such as Burger King, has helped to push satisfied customer numbers in this area up from 73% to 87%. The improvement in the toilet areas has also been welcomed. As well as being spotlessly clean thanks to specialist provider Sanifair, the toilets operate a token system which encourages customers to visit the shop and restaurant during their visit.

Indeed, customer satisfaction rates reached 92% in 2007. With happier customers and more of them, Tank & Rast is seeing its customer satisfaction numbers being reflected in its income. The challenge now is for the business to keep improving and to find more ways to drive both sets of numbers even higher.

Terra Firma's Funds TFCP II, TFCP III, TFDA



*Long-term value over
short-term profit*

Financial information

TERRA FIRMA'S FUNDS

Terra Firma's funds are Limited Partnerships based in Guernsey. Its investors invest as Limited Partners and the affairs of each fund are managed by a fund manager, the General Partner.

In this section, we have presented financial information that provides an overview of the investment activities of the Terra Firma funds. These are the funds in respect of which TFCPL currently provides investment advice.

The information presented represents the aggregated financial position and financial performance from the audited financial statements of the funds as at 31 December 2007.

BALANCE SHEET	Note	Aggregate 2007 €'000	Aggregate 2006 €'000
FIXED ASSETS			
Investments	3(b), 6	5,514,289	2,520,465
CURRENT ASSETS			
Cash at bank		64,085	49,180
Accounts receivable	7	5,234	8,653
CURRENT LIABILITIES			
Loans and advances	8	145,505	–
Accounts payable	9	6,846	16,052
NET ASSETS		5,431,257	2,562,245
PARTNERS' CAPITAL ACCOUNTS		5,431,257	2,562,245
Estimated Fair Value of Net Assets		7,711,394	5,886,946
PROFIT AND LOSS STATEMENT	Note	Aggregate 2007 €'000	Aggregate 2006 €'000
CAPITAL GAINS			
Capital gain on investments	3(d)	1,039,417	660,488
TOTAL CAPITAL GAINS		1,039,417	660,488
INCOME AND EXPENDITURE			
Interest on investments	3(d)	48,281	137,882
Foreign exchange	3(e)	8,137	3,348
Bank interest	3(d)	3,015	1,204
Partnership expenses		(30,191)	(20,771)
Auditor's remuneration		(167)	(121)
Bank charges		(42)	(121)
Organisational expenses		–	(5,828)
NET INCOME		29,033	115,591
NET RESULT FOR THE YEAR		1,068,451	776,079

Financial information

CASH FLOW STATEMENT	Aggregate 2007 €'000	Aggregate 2006 €'000
RECONCILIATION OF NET RESULT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		
Net result for the financial year	1,068,451	776,079
Decrease in receivables	3,419	95,505
Increase/(decrease) in payables	(9,206)	15,776
Income and gain on investments	(1,087,459)	(802,088)
Net Cash Inflow/(Outflow) from Operating Activities	(24,796)	85,272
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Proceeds from sale of investments	1,289,351	1,511,305
Purchase of fixed asset investments	(3,195,716)	(1,938,593)
Net Cash Outflow from Investment Activities	(1,906,365)	(427,288)
FINANCING		
Drawdowns on partners' commitments	3,153,856	2,067,578
Increase/(decrease) in loans and advances	145,505	(161,520)
Advance of General Partners' shares	(129,852)	(68,226)
Returns during the year	(1,223,443)	(1,467,057)
Net Cash Inflow from Financing Activities	1,946,066	370,774
NET INCREASE IN CASH	14,905	28,759

Notes to the financial information

1. ORGANISATION AND PURPOSE

The financial information presented represents the aggregated financial position and financial performance of the Terra Firma Partnerships described in the following table ("the Partnerships"). The financial information has not been consolidated as each fund is independently managed and controlled in the interests of the investors in each particular fund. The Partnerships aggregated in the financial information are:

Partnership	Date of establishment	General Partner
Terra Firma Capital Partners II, L.P.-A *	21 June 2002	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners II, L.P.-B *	21 June 2002	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners II, L.P.-C *	2 July 2002	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners II, L.P.-D *	2 July 2002	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners II, L.P.-E *	22 August 2002	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners II, L.P.-F *	25 October 2002	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners II, L.P.-H *	1 October 2003	Terra Firma Investments (GP) 2 Ltd
TFCP II Co-Investment 1 LP	24 November 2003	Terra Firma Investments (GP) 2 Ltd
TFCP II Co-Investment 2 LP	25 November 2004	Terra Firma Investments (GP) 2 Ltd
TFCP II Co-Investment 3 LP	23 March 2005	Terra Firma Investments (GP) 2 Ltd
TFCP II Co-Investment 2a LP	29 April 2005	Terra Firma Investments (GP) 2 Ltd
Terra Firma Capital Partners III	19 December 2005	Terra Firma Investments (GP) 3 Ltd
Terra Firma Deutsche Annington L.P. +	3 March 2006	Terra Firma Investments (DA) Limited
Terra Firma Deutsche Annington-II L.P. +	19 May 2006	Terra Firma Investments (DA) II Limited
Terra Firma Deutsche Annington-III L.P. +	19 May 2006	Terra Firma Investments (DA) Limited
TFCP II Co-Investment 4 LP	23 August 2006	Terra Firma Investments (GP) 2 Ltd
TFCP III Co-Investment LP	4 September 2007	Terra Firma Investments (GP) 3 Ltd
TFCP II Co-Investment 4a LP	17 September 2007	Terra Firma Investments (GP) 2 Ltd
Terra Firma Deutsche Annington-IV L.P. +	19 December 2007	Terra Firma Investments (DA) Limited
Terra Firma Deutsche Annington-V L.P. +	19 December 2007	Terra Firma Investments (DA) Limited

The principal place of business of the Partnerships is Guernsey. Their day-to-day activities are carried out by the General Partners of the Partnerships on behalf of the partners.

Generally speaking, the purposes of the Partnerships are to provide partners with long-term capital appreciation through the acquisition of equity and equity-related investments predominantly in unquoted companies and by making other selective equity and equity-related investments.

Notes to the financial information

2. GENERAL PARTNERS' SHARES

The General Partner of the Partnerships marked * receives a profit share of 1.5 per cent of committed capital per annum (1.0 per cent for Terra Firma Capital Partners II, L.P.-H) payable semi-annually in advance. Where a Limited Partnership does not yet have sufficient profits any shortfall is funded by payment of an interest-free loan from the Limited Partnership. Such a loan is repayable only out of future allocations of net income or capital gains, but not otherwise.

The General Partners of the Partnerships marked + are allocated a proportion of all amounts of net income, net income losses, capital gains and capital losses, which would otherwise be allocated and distributed to non-executive Limited Partners, as defined in the Limited Partnership Agreements of these Partnerships.

3. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the Partnerships' financial information:

(a) Basis of Accounting

The aggregated financial information has been prepared in Euros (€) since this is the functional currency of the Partnerships (except for TFCP II Co-investment 1 LP) under the historical cost convention as modified by the revaluation of investments and in accordance with the Limited Partnership Agreements. The financial position and performance of TFCP II Co-investment 1 LP have been converted from Pounds Sterling (£) at the rate prevailing at year-end.

(b) Investments

Those investments that are associates or are subsidiary undertakings are carried at the lower of cost or the General Partners' valuations in accordance with the Partnerships' normal policies and Limited Partnership Agreements and are neither equity-accounted nor consolidated. The General Partners consider that investments in subsidiaries are held as part of an investment portfolio with a view to the ultimate realisation of capital gains and hence, in accordance with the Limited Partnership Agreements, fully consolidated financial statements are not required.

(c) Valuation of Investments

Investments are valued at the lower of cost or General Partners' valuations at the balance sheet date. The Limited Partnership Agreements require the General Partners to prepare valuations in accordance with International Private Equity Valuation Principles. Provisions for diminution in value are recognised where the General Partners consider there has been a permanent impairment in value. Revaluation adjustments are dealt with in the revaluation reserve.

(d) Income

Bank interest is accounted for on an accruals basis. Due to the nature of investments in the Partnerships, whereby they are deemed to be equity or equity-related, investment income receivable is accounted for when the receipt of income is reasonably certain. Where taxes on income received by the Partnerships have been deducted at source, these have been allocated to individual Partners in accordance with the Limited Partnership Agreements.

(e) Foreign Exchange

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. All amounts for reporting purposes are shown in Euros (€). Investment transactions and income and expenditure items are translated at the rate of exchange ruling at the date of the transaction.

Notes to the financial information

4. ALLOCATION OF PARTNERSHIPS PROFITS AND LOSSES

The profits and losses of the Partnerships are allocated between the Partners pursuant to the Limited Partnership Agreements.

5. MATERIAL AGREEMENTS

Under the terms of the Limited Partnership Agreements, the General Partners are responsible for the management of the Limited Partnerships. Under the terms of the Investment Advisory Agreements, TFCPL was appointed to advise the General Partners as to the acquisition, monitoring, refinancing and realisation of the investments of the Limited Partnerships.

6. Investments	Aggregate 2007 €'000	Aggregate 2006 €'000
EQUITY AND EQUITY-RELATED INSTRUMENTS:		
As at 1 January	2,520,465	1,306,632
Additions during the year	3,175,543	1,857,163
Disposals during the year	(181,719)	(643,330)
Cost of investments at 31 December	5,514,289	2,520,465
Estimate of Fair Value	7,794,426	5,745,395
7. Accounts receivable	Aggregate 2007 €'000	Aggregate 2006 €'000
Drawdowns receivable	4,296	4,715
Divestment proceeds receivable	458	–
Deal costs	460	3,908
Other debtor	20	30
	5,234	8,653
8. Loans and advances	Aggregate 2007 €'000	Aggregate 2006 €'000
Bridging loan for acquisition (repayable January 2008)	103,381	–
Bridging loan for acquisition (repayable June 2008)	42,124	–
	145,505	–
The bridging loans are short-term interest-bearing borrowings of Partnership subsidiaries for the acquisition or potential acquisition of investments. These loans are repayable by calling on the Limited Partners.		
9. Accounts payable	Aggregate 2007 €'000	Aggregate 2006 €'000
Accrued expenses	6,138	9,976
Other creditor	393	6,001
Limited Partner contributions	315	75
	6,846	16,052

Notes to the financial information

10. RISK MANAGEMENT

Government regulation

The Guernsey Limited Partnerships are regulated by the Guernsey Financial Services Commission. The operations of the Terra Firma portfolio companies are regulated where appropriate by local authorities in the jurisdiction where the companies operate. Changes to the regulatory frameworks under which the companies operate are monitored.

The Partnerships operate complex legal and corporate structures in many countries. The General Partners of the Partnerships take appropriate professional advice on the suitability of these structures.

Macroeconomic risks

The Terra Firma Partnerships are currently invested mainly in European companies. The performance of their investment portfolios is influenced by economic growth, interest rates, foreign exchange rates, and commodity and energy prices in these countries. This risk is mitigated by the geographically diversified operations of the Terra Firma portfolio companies, which cover over 60 countries.

Investment decisions

The Partnerships operate in a competitive market. Changes in the number of market participants, the availability of debt financing within the market and the pricing of assets may have an effect on the Partnerships' financial position, financial returns and ability to bid successfully for potential acquisitions. The General Partners of the Partnerships appraise potential investments in a rigorous manner, taking advice from a range of advisors, including TFCPL.

Valuations and exits

The unrealised valuations of the Partnerships' investments in portfolio companies and opportunities to realise the value in these investments are affected by market conditions, including the availability of debt finance, the level of activity in the buyout market and activities of corporate buyers in relevant sectors and markets. The timing of opportunities for the Partnerships to exit their investments is also dependent on market conditions.

The Partnerships do not hedge the market risk inherent in their portfolios, but continually monitor current conditions by taking advice from a range of advisors, including TFCPL.

Liquidity risk

By giving appropriate notice, the Partnerships may call on their Limited Partners to fund calls for investment and partnership expenses. The Partnerships do not commit to investment decisions beyond their ability to draw funds from investors.

Currency risk

The Partnerships generally report in Euros and call and distribute monies to investors in Euros. The Partnerships invest in some portfolio businesses denominated in US dollars and Sterling and pay expenses in a range of foreign currencies and hence have an exposure to currency movements. The Partnerships hedge foreign exchange exposures on known future cashflows including on the completion of investment acquisitions and realisations.

The Partnerships do not take speculative currency positions.

Interest rate risk

The investments made by the Partnerships are equity and equity-related investments and are funded by investors' capital. The Partnerships are not leveraged and hence are not directly exposed to material interest rate risks.

To manage short-term cashflows pending calls for capital from investors, some Terra Firma Partnerships bear short-term borrowings with floating-rate interest and are subject to risk of changes in interest rates.

Operational risk

The Partnerships are exposed to a range of operational risks inherent in their portfolio companies, including business disruptions, legal and regulatory changes and human resources risk. The General Partners mitigate these risks by appointing strong management teams to its businesses to implement the Terra Firma strategy. The General Partners take advice from TFCPL, which maintains operational oversight of portfolio business companies supported by a reporting framework and controls.

Credit risk

The maximum credit risk of the Partnerships with regard to an individual portfolio company is their carrying value of their investment in the company.

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