terra firma

Annual Review 2012

Transforming businesses. Delivering value

TERRA FIRMA
TRANSFORMING BUSINESSES
DELIVERING VALUE

LETTER FROM THE CHAIRMAN

We have continued to invest in our portfolio businesses, reflecting our strong commitment to making each one a top performer in its sector

30th April 2013
Welcome to our latest Annual Review of Terra Firma and its portfolio businesses.

2012 proved to be another challenging year for the global economy, with political uncertainty hitting markets in Europe and the US, and emerging economies seeing their growth rates slow down.

Against this backdrop, Terra Firma, in its tenth year as an independent firm, and its portfolio businesses have made significant advances. We acquired new businesses, strengthened existing ones and grew the combined value of our funds by €2.8 billion, a 47% increase compared with 2011.

We added two new businesses to our portfolio: Four Seasons Health Care ('Four Seasons') and The Garden Centre Group. Both businesses fit very well with our strategy, since they are asset-backed, in essential industries and are in need of fundamental change.

Four Seasons is the UK's largest independent elderly and specialist care provider. The provision of elderly care is an essential industry which is well-positioned for growth, given the UK's ageing population. Terra Firma's acquisition in July 2012 will provide the necessary investment for it to continue raising the standard of care that it provides and achieve long-term sustainable growth. Our primary objective is to ensure that Four Seasons delivers consistently high-quality care for residents, service users and their families.

The Garden Centre Group, purchased in April 2012, is the largest plant and garden-focused retailer in the UK. Gardening is an integral part of British culture, with almost half of adults participating in gardening, rising to nearly two-thirds of those aged 45 years and over. The market for garden products has shown stable long-term growth and is expected to benefit from an ageing population.

LETTER FROM THE CHAIRMAN

During 2012, we continued to invest in our portfolio businesses, reflecting our strong commitment to making each one a top performer in its sector. In total, nearly €2.2 billion was spent on building and developing our businesses with a further €0.2 billion invested in add-on acquisitions for Infinis, RTR and EverPower. Our portfolio companies saw significant improvement last year, with combined EBITDA growth of 10% versus 7.3% growth in the level of the Dow Jones Industrial Average and 5.8% growth in the level of the FTSE 100. We have achieved this performance by working closely with our portfolio companies to create value in five ways: changing strategy; strengthening management; improving assets through capital expenditure; building the business through bolt-on acquisitions; and lowering the business's cost of capital.

We raised a new fund in 2012 – Terra Firma Special Opportunities Fund I – to acquire Annington from Nomura. At €4 billion, the deal was the largest European leveraged buy-out transaction since 2008. We also refinanced Deutsche Annington, our residential property business in Germany – at €4.3 billion, it was the largest European real estate refinancing of 2012.

As global markets continue to suffer from uncertainty, we have proven that we have the expertise to get deals done even in challenging markets. In 2012, Terra Firma was number one for leveraged buy-out transactions by value in Europe, the Middle East and Africa, and it was in the top ten globally.

At Terra Firma, we have always looked to the long term to generate returns, and it is good to see increasing awareness across the investment community of the value that should be placed on other, non-financial factors. Terra Firma is embracing the more systematic articulation of non-financial impacts in the investment process and with that in mind we have invited Dr Bob Swarup to contribute a piece to our Annual Review this year on the debate around Environmental, Social and Governance ('ESG') issues. We are building on

LETTER FROM THE CHAIRMAN

our commitment to the United Nations Principles for Responsible Investment by implementing more in-depth ESG reporting across our portfolio during 2013, working with our businesses and investors to define the most useful metrics. We are also conducting a series of ESG reviews across our businesses, supported by an external sustainability consultant.

PORTFOLIO BUSINESS PERFORMANCE

We have been particularly encouraged by the performance of our portfolio in the face of the difficult economic backdrop.

AWAS ended the year ahead of budget in all its key financial objectives, with 20 new aircraft delivered in the year and all 25 deliveries due in 2013 now placed with lessees. These new deliveries combined with selective disposals of end-of-life assets mean the fleet now has an average age of under six years.

CPC performed well operationally in a challenging market during 2012. The joint venture with Dantong, which sells boxed beef in China, is progressing well, and CPC is looking to broaden the number of markets that it supplies with a more consumer- and retailer-based offering. There is good momentum in this area and we are optimistic that CPC will increase sales to its chosen markets over the next twelve months. Fergal Leamy, a Terra Firma Business Director, was appointed CEO in October and is making strong progress. Mark Bahen, one of CPC's existing Australian Non-Executive Directors, was appointed Chairman in August, and we are confident that the right people are in place to move the business forward.

For Four Seasons, its focus over 2012 was on the integration and improvement of the ex-Southern Cross homes that were acquired at the end of 2011. The business also made strong progress implementing its post-acquisition plan and we have strengthened the existing management team with the appointment of Ian Smith as Chairman.

Despite unfavourable weather conditions in the UK, The Garden Centre Group's full-year financial performance was encouraging, demonstrating the importance of the restaurant and concessions contributions to the business and the focus on weather-proofing its revenue streams. The management team was strengthened with the appointment of Kevin Bradshaw to CEO and Nils Steinmeyer, a Terra Firma Finance Director, to CFO.

We have the expertise to get deals done even in challenging markets

LETTER FROM THE CHAIRMAN

Odeon & UCI continued with its expansion plans, successfully maintaining its position as the largest cinema chain in Europe. Furthermore, continued investment in the business means Odeon & UCI is now the largest fully-digital cinema operator in the world.

Following the successful fuel tender in 2011, Tank & Rast has worked hard to prepare the network for the new fuel distribution arrangements that started in early 2013. The execution of this new strategy will accelerate in coming months and we expect to see the full benefits coming through by mid-year.

Phoenix ended the year well, with new connections 30% ahead of target as the slow residential property market caused home-owners to invest in their homes rather than move house. The business continues to be a solid performer within the portfolio.

We are very pleased with the progress made in the past year by our renewable energy investments. Over the course of 2012, EverPower affirmed its position as an owner-operator of scale with six operating wind farms and over 500 MW of operating capacity, an eightfold increase since acquisition. RTR consolidated its position as the largest solar PV operator in Europe, making two add-on acquisitions in the last quarter. The business now has an operating capacity of around 300 MW, more than double the size of the original acquisition.

Last year, Infinis continued its significant growth trajectory, adding new onshore wind assets both from its organic project pipeline and selective acquisitions. The new wind farms have consolidated Infinis' position as the largest independent renewable energy generator in the UK, operating a diversified portfolio of landfill gas, onshore wind and hydro power plants with an installed capacity in excess of 570 MW. This momentum is a positive background for the sale of the business, a key objective for us this year.

Our residential real estate investments have also performed well over the last year. We successfully completed the acquisition of Annington from Nomura and look forward to continuing our partnership with the Annington team over the next decade. Annington's rental markets performed strongly in 2012, a trend we expect to continue in 2013.

Deutsche Annington has continued to benefit from a relatively strong and stable German economy. The strong growth in housing demand in Germany meant that, despite a reduced privatisation stock, in 2012 Deutsche Annington had the highest number of annual sales since 2006. Rolf Buch, a former member of the Management Board of Bertelsmann SE, was appointed CEO in April 2013. Under Rolf's leadership, we are confident that Deutsche Annington will continue to grow successfully as we consider strategic options for the future of the business.

LETTER FROM THE CHAIRMAN

MARKET OUTLOOK

The crisis in Europe continues to grind on, but it appears that the world is getting used to this state of constant uncertainty and that it has indeed become the new reality. Issues in Europe will continue to flare up, but they are increasingly part of the background noise of doing business.

The biggest trend we are currently seeing is that of markets taking a backseat to national politics. From 1982 to 2007, we largely had international markets in the driver's seat, with financial institutions given increasing global freedom and support.

However, since the 2008 credit crunch, the politicians have taken over. Their constant intervention has made it much harder to know where to invest.

Nowhere is this more evident than in Europe. The ongoing crisis will not be resolved without strong international agreement, and it is difficult to see how that will occur. In fact, we are witnessing just the opposite; across Europe, maverick and extremist parties are doing better as people reject the traditional parties they see as responsible for the current crisis and austerity measures.

Most voters in Europe are understandably unhappy with their current circumstances, but they are paying for the previous decade of living standards that rose based on debt and countries living beyond their means. Governments, confident that their economies would carry on growing, borrowed against future output. Individuals also increased their borrowing on the back of the rising value of assets such as houses. When that output didn't materialise and asset values fell instead of rose, it was clear that the previous level of borrowing and spending could not be maintained.

Politicians will always want to be popular, so when times are good they will spend, and when times are bad they will chastise scapegoats such as bankers, whom they will blame for the ensuing spending cuts and austerity. In reality, the politicians should have saved in the good times so that they would now have resources to use in a slump. In Britain, for example, the government at the time thought high tax receipts were here to stay, and they increased government spending accordingly. Now that we know that many of those increased receipts were illusory, we can recognise the folly of this approach, but the key is to recognise when you're living through good times, and capitalise on them.

In 2012, Terra Firma was number one for leveraged buy-out transactions by value in Europe, the Middle East and Africa

LETTER FROM THE CHAIRMAN

Sweden, for example, was fiscally prudent during the boom years, and this has enabled it to ride out the recent bust relatively well. Germany is another good example of a country that used the global boom not as an excuse to increase its leverage, but to focus on exporting to the rest of the world and strengthening its economy. They are now reaping the rewards after years of hard work. But for those countries whose politicians and citizens borrowed too much in the good times, the process of deleveraging will continue to weigh on growth.

Governments across Europe have responded to the crisis with austerity measures to restrain fiscal spending and increased regulation to rein in the banks. However, increased taxation and regulation are now cutting off any possible recovery. Small- and medium-sized enterprises, which are the backbone of the British and European economies, are being destroyed by these measures, and without them, we will not be able to achieve strong, sustainable growth.

In the US, the government faces a profound challenge in figuring out a sustainable solution to the country's spiralling fiscal spending. The tools to balance the budget, such as entitlement spending caps and higher taxes, are within its grasp, but the political dangers in employing them mean we are unlikely to see a solution soon.

What will happen in Japan is very difficult to determine – on the one hand they have the political will to jump-start the economy for the first time in a very long time, but on the other hand, by pushing spending, they are trying to change cultural habits that are deeply ingrained. As someone who has spent most of their career visiting Japan, my view has always been that it would take a generational change post-1990 for Japan to really change, and we are now starting to see that happen. It is a balancing act between political action and the will of the people, and it is not made any easier by the context of uneven global growth and rapidly growing neighbours such as China. The Japanese population is ageing rapidly, and they may need to turn away from their relative cultural isolation to embrace foreign concepts, as China has done, if they want to breathe new life into their economy.

LETTER FROM THE CHAIRMAN

This year we are seeing a new leadership team come to power in China, and it has significant challenges to face to continue on its traditional path of high growth. The consequences of its one-child policy are making themselves evident as the labour pool is starting to shrink, which will put pressure on its large manufacturing base. However, while exports will remain vital to the Chinese economy, it appears the government will spend the coming years turning to a more domestically-focused growth strategy.

The global recovery continues to be anything but straightforward; however, it is happening. Whilst the world economy is not performing as badly as many have feared, it is not doing as well as many have hoped. Life has returned to global markets, but this is largely a consequence of an unprecedented environment of extremely low interest rates. These rates will have to go up eventually, but that day is a long way away. In the meantime, investors are getting used to the current situation and realising that this is the 'new normal,' and they need to start putting their money to work again.

When looking at where to invest, people keep asking where growth is going to come from. Unfortunately, it's not as simple as that. It is often assumed that growth will provide good investment returns, but the reality can be very different, or even the reverse. For this reason we have not been advocates of investing in private equity in emerging markets. The benefits of this decision are becoming clearer as growth slows in Brazil and India and private equity firms are having a difficult time realising returns in China. Emerging markets are growing more unstable and therefore high growth will not simply equate to better investment returns.

Investors shouldn't necessarily look at growth as a proxy for returns. While Europe may continue to suffer from low growth, it may still be one of the best places to invest because the economics of investment opportunities remain very favourable. The US also looks positive for general investment, though the prolonged period of loose monetary policy carries its own risks; since interest rates are unlikely to get any better, the risk is on the downside.

We believe private equity can play a critical role in regenerating the economies of Europe. Focusing on transforming businesses is what differentiates private equity from other models of corporate ownership and from other asset classes. Private equity is fundamentally about long-term transformational investment. We raise capital that is committed for ten years and we use it to improve businesses and create value.

LETTER FROM THE CHAIRMAN

In contrast, the demands of quarterly reporting mean that listed companies struggle to maintain a long-term perspective. The private equity model aligns the interests of owners with management by speeding up decision-making and ensuring that all stakeholders are in the same boat and rowing in the same direction. While the political risk in Europe cannot be ignored, experience shows that as long as you factor it in, then the political storm clouds can be navigated and deals made to work.

CONCLUSION

During a year of challenging markets, Terra Firma has continued to complete significant transactions and improve the performance of our portfolio businesses. We have proven our ability to adjust to the 'new normal' in Europe and navigate the changing political and regulatory landscape thanks to our track record of investing in complex situations and working in regulated industries. By looking past the short-term volatility and focusing on where we can add long-term value, we will continue to identify opportunities for investment.

Terra Firma has ambitious plans for the coming year. We are continuing to evaluate exit strategies for certain businesses in order to return capital to our investors. We will also continue to look for opportunities to invest in businesses which meet our investment philosophy, and work to improve and strengthen our existing portfolio businesses.

On behalf of all of us at Terra Firma, I would like to take this opportunity to thank all our stakeholders for their support during 2012. I would also like to thank the directors and employees of our portfolio companies, along with the Terra Firma team, for their achievements during the year.

With best wishes,

Guy Hands

LETTER FROM THE CEO

Our people play a critical role in transforming our businesses and enhancing the value of our funds

During 2012, Terra Firma was the number one private equity firm in Europe by deal value. Our success in getting deals done is down to the intensive, hands-on approach we take to transforming the businesses we buy, which relies on the talent and determination of our employees and our ability to work as a team.

INVESTING IN TALENT

Terra Firma professionals work side-by-side with their portfolio company colleagues to implement our transformational strategies and deliver value for our stakeholders.

This close working relationship, usually with Terra Firma staff seconded to or based in the portfolio businesses, enables us to drive the successful transformation of the businesses we own. On average we have six people working on each business – a high figure, but one that reflects the scale of the changes we undertake.

One of my responsibilities as CEO is to ensure that we have the best possible group of professionals to deliver our investment strategy; that they are organised in the most efficient manner, operate seamlessly as one team and are deployed to maximum effect; and that we have in place the right arrangements to ensure that Terra Firma is aligned with its investors.

This year Terra Firma will welcome nine new graduates onto our Graduate Analyst Training Programme, which provides three years of training during which the graduates work on a number of teams within the firm as well as in the portfolio businesses. The Analyst Programme is an excellent path for recruiting bright young professionals and developing their talent in-house.

The nine graduates were selected from nearly 1,000 applicants, and were chosen after undergoing a rigorous testing and interview process. They come from top universities, with degrees in subjects as diverse as Economics,

LETTER FROM THE CEO

Natural Sciences and Modern and Medieval Languages, and one-third of the new entrants are women.

To allow Terra Firma to benefit from this pipeline of talent even further, where we have previously welcomed a new class of graduates every other year, starting in 2013 we will bring in a new class every year. This expansion of the programme will enrich the Terra Firma professional pool.

We take great care in hiring our graduates as it is very important to determine if they will work well as part of the Terra Firma team. Often in financial services, individual performance is measured in dollars and cents since that is easier than monitoring achievements versus objectives, or an individual's contribution as part of a larger team. At Terra Firma, we have made working together as a team one of our top priorities as a firm.

Terra Firma has always been able to recruit highly capable individuals because of the breadth of opportunities that we offer them.

For our financial and operational professionals, this might be the chance to work on a project in one of our businesses alongside portfolio business management in an area that is critical to the delivery of its transformation programme. Or they can develop innovative solutions to problems an organisation faces, and for which they do not have the required skills in-house.

This year we have had financial professionals at all levels working on our new acquisitions. At The Garden Centre Group, they have assisted in the site-by-site analysis of the property portfolio and in implementing a disciplined approach to the analysis and evaluation of a wide variety of business proposals. At Four Seasons, they have enabled the business to execute its acquisition strategy, working closely with management to identify and purchase assets to build on Four Seasons' position as the top independent care provider in the UK.

LETTER FROM THE CEO

For our operational professionals, we can provide the chance to work with our portfolio businesses in varying stages of their development, in different sectors and across multiple geographies.

In both cases, it will invariably involve becoming part of the portfolio business team on a temporary or permanent basis. This year, we have placed Terra Firma personnel in CEO, CFO and other management positions within our portfolio as we have done in almost every year that we have been in operation.

We offer these opportunities not simply because they enable our professionals to get a better understanding of how businesses work, how strategies get translated into business initiatives and how to get people to buy into and execute those initiatives. We also do this because it is a key component of how we go about transforming the businesses that we invest in – using our own people on the ground.

WORKING AS ONE TEAM

In an organisation such as ours, where there is a diverse range of backgrounds, expertise and practical experiences working together, it is important that we work with a one-team philosophy.

With this very much in mind, for the financial year beginning in April 2012, we radically overhauled the annual performance review process. Every employee is now judged by their line manager according to a set of criteria which relate to his or her personal performance and also their performance as part of the wider team.

By ensuring that some of the criteria relate to team performance, we have made it clear that how people operate collectively is as important as their own individual performance.

These measures are designed to ensure that in addition to supporting individual excellence we improve team performance. This is necessary over the longer term in order to develop a sustainable business.

BEING A GOOD PARTNER TO OUR STAKEHOLDERS

Terra Firma has long been committed to transparency with our investors, and we consider our reporting best-in-class. This Annual Review, now in its sixth edition, is an example of such efforts. However, more recently we decided to take this transparency a step further.

As a firm we aim to be very clear with our entire team about our objectives, and in the interest of transparency and clarity we decided to share these objectives with our investors. We produced a detailed valuation bridge presentation which clearly explained how we planned to return capital to them. This is an invaluable tool as it allows our investors to hold us accountable

LETTER FROM THE CEO

against our stated objectives, as well as enabling us internally to benchmark our progress carefully.

It is appropriate that we do what we say, and that we are judged by our ability to deliver our objectives. This focus on objectives which are shared both internally and externally ensures we are all focused on achieving the same goal. We are proud to be leading the sector in investor reporting and transparency, and we will continue to work with our stakeholders to communicate as openly as possible.

Terra Firma also strives to be a good corporate citizen by promoting direct engagement with our local community and encouraging equally active engagement on the part of our portfolio businesses.

Terra Firma is fully committed to supporting our local community of Southwark in inner-city London. From 2006 to 2008, TFCPL donated 10% of its net annual profits to the Terra Firma Charitable Trust. Since 2009, this donation has been split between the Trust and the Private Equity Foundation (PEF). In addition to what we have contributed to the PEF, the Trust has made total commitments of over £1.6 million to charitable organisations working in and for our local community.

CONCLUSION

Since its inception, Terra Firma has adhered to its strategy of investing in asset-backed businesses in essential industries that require fundamental change.

During 2012, a year of challenging economic headwinds, Terra Firma has remained focused on delivering value, and as a result of the entire team's hard work we have seen the total value of our funds increase by 47%.

Our people play a critical role in transforming our businesses and enhancing the value of our funds, and we continue to focus on how best to recruit, manage and develop the talent we need to succeed.

This continued commitment to our people, close working relationships with our portfolio companies and our openness with investors will help us to carry the last year's success forward into 2013.

Best wishes,

Tim Pryce

TERRA FIRMA – GUEST ARTICLE

Across the investment community, there is an increasing awareness of the potential impact of sustainability factors. At the same time, Environmental, Social and Governance ('ESG') strategies are increasingly being used to articulate the non-financial elements of the investment process

In the following guest article, Dr Bob Swarup examines ESG from first principles: what it is; its effect on long-term investment returns; and key considerations for an investor's ESG strategy

TERRA FIRMA – GUEST ARTICLE

DEFINING THE PRINCIPLES OF SUSTAINABILITY

Dr Bob Swarup

In recent years, ESG has become a much used phrase in the investment community. The implementation of ESG-related due diligence and management processes is a fast growing trend. By April 2013, 1,188 investors and asset managers with total assets of more than $34 trillion had committed themselves to the six principles of the UN's Principles for Responsible Investment (UN PRI), the primary ESG commitment programme for Limited Partners (LPs) and General Partners (GPs) globally.

The private equity community is adapting in step with this shifting sentiment. A 2012 report from PwC[1] noted that 40% of private equity funds placed a relatively high level of importance on sustainability, an increase from 33% the year before. Meanwhile, 24% of funds had already implemented the UN PRI, with a further 16% planning to do so – almost all driven by the importance placed on sustainability by LPs.

While these numbers are impressive, it is important to note that half of funds still do not see ESG as a high priority. There are clear tensions within the investment community over what ESG actually means and how best to implement it, and these are complicated by the spectrum of views taken by wider stakeholders. The British Columbia Teachers' Pension Plan – a UN PRI signatory – is just one example. An emotive members' resolution was passed in 2005 asking the scheme to divest from tobacco; however, the Chair of the Trustees has argued that investment in this sector is necessary because its high dividends help the pension plan meet its growing obligations.

The dilemma of whether to divest from high-return industries with a potentially negative social or environmental impact has been repeated across the investor universe. The Harvard endowment fund recently received a letter from a student group called Responsible Investment at Harvard that demanded the portfolio divest from coal producers. Others have criticised it and other institutional investors for buying agricultural land in Africa to develop export crops, arguing that it led to rising food prices and environmental degradation. The endowment in its turn has argued that its investments are all made on a sustainable basis.

1,100

MORE THAN 1,100 INVESTORS AND ASSETS MANAGERS HAVE COMMITTED THEMSELVES TO THE UN'S PRINCIPLES FOR RESPONSIBLE INVESTMENT

[1] Private Equity Trend Report 2012, PwC

DEFINING THE PRINCIPLES OF SUSTAINABILITY

Even the Norwegian Government Pension Fund – often held up as a paragon of ethical investing – has faced its own problems in setting the boundary between appropriate and inappropriate investments. In February 2012, a Norwegian newspaper alleged that the fund had made $2 billion of investments in 15 companies that produced technology used for wiretapping and surveillance. As the Fund's policy prohibits investment in companies that directly or indirectly contribute to deprivation of freedom or other violations of human rights, these investments sparked significant debate.

The genesis of these disputes between investment managers, investors and their stakeholders is twofold:

- ESG is a poorly defined and understood term for both investors and fund managers; and
- There is persistent doubt as to whether an attention to ESG considerations in the investment process improves investment performance.

If ESG is to be more than an obtuse acronym and have any genuine merit as part of an investment approach, it is important to delve further into these issues.

WHAT IS ESG?
'ESG' stands for Environmental, Social and Governance. Conventionally, these three terms serve as lenses for evaluating corporate behaviour, often encompassing a diverse set of criteria including organisational policies, management structure, strategic decisions, performance on various outcomes, and reporting processes. The term ESG has also become shorthand for a broad range of investment approaches that apply this lens to the capital allocation, due diligence, management and/or exit phases of an investment process.

The focus of ESG is similarly heterogeneous across the investment community. Some investors see ESG as a 'moral' ban on investing in certain sectors, such as alcohol or tobacco. Others have argued that ESG is a means of proactively improving long-term risk-adjusted performance through reductions in costs for a business, for example, or by gestating new investment themes such as renewable energy generation, where long-term growth is environmentally positive and may be supported by macroeconomic trends. Still others see ESG primarily as a risk-management tool, focused on preventing negative impact events – pollution, climate impact, child labour violations, bribery and the like – and the potential resulting destruction of financial value.

ESG has become a poorly defined and understood term for many investors, managers and stakeholders

DEFINING THE PRINCIPLES OF SUSTAINABILITY

This diversity of interpretation and emphasis is testament to the complexity of ESG and why it engenders such debate. Given the lack of consensus and the obscuring effects of jargon, it is inevitable that ESG has become a poorly defined and understood term for many investors, managers and stakeholders.

Both for new initiates and seasoned veterans of the ESG universe, it is helpful to revert to economic principles and think about the concept of ESG in the context of the allocation of resources and democracy.

At the most basic level, free market economics requires the exploitation of resources (for example, energy such as oil or coal) to produce goods and sell them on. This trade then allows us to enrich ourselves and society as a whole. Meanwhile, democracy requires the sharing of political power amongst the masses and a focus on the whole of society being better off rather than some limited tranche. By implication, this naturally leads to a welfare state of some form as well as ongoing political efforts to redistribute and share the fruits of economic progress.

The two are deeply intertwined. Democracy creates large markets of consumers with considerable discretionary spending power that enhance the fruits of trade. Capitalism in turn creates a complex web of interconnected trades that weave together society even more closely. Together, they create a powerful symbiotic environment for nurturing entrepreneurship and innovation.

Nevertheless, no partnership is perfect, and within this happy marriage there are two main long-term risks:

- First, that the resources we exploit to create products run out or become so scarce that they create supply bottlenecks that ramify throughout the chain and make it increasingly hard to sustain the complex economy that has been created.
- Second, that cartel-like or monopolising behaviour can lead to a growing sense of inequality and the resulting social tensions. This weakens key links in the production chain (if dealing with labour) and also, in the longer-term, threatens the deep pool of consumers that will buy the goods needed to sustain trade.

From these macroeconomic foundations, ESG emerges as a logical means of managing these longer-term qualitative risks in order to manage the sustainability of our society and economy in an efficient and equitable manner. However, this still begs the second question raised earlier: does ESG makes any difference – positive or negative – to investment returns?

ESG AND ALPHA

By definition, any form of effective risk management increases risk-adjusted returns. Therefore, ESG should a priori lead to better outcomes for funds and investors, and therefore some form of sustainable alpha.

DEFINING THE PRINCIPLES OF SUSTAINABILITY

However, given its inherently qualitative nature, the actual connection between ESG performance and financial 'alpha' is complex. Business and industry leaders are still working out exactly how to estimate the value impact, though a general consensus now holds that ESG performance can theoretically affect value through a range of channels: by determining a company's 'licence to operate' or access to new markets; by enabling a company to charge premiums to ESG-conscious customers; by contributing to reduced costs; by improving reputation; and/or by reducing risk. These effects may then be expected to funnel through to profit, cash flow and/or valuation multiples, thereby enhancing returns.

While this theoretical mapping sets the range of possible effects, the actual financial impact of specific business choices along environmental, social and governance lines is inherently company- and context-specific. The geography and nature of business operations, applicable laws and regulations, local labour expectations, supply chain dynamics and customer preferences all work together to determine the extent of potential financial losses and the associated level of risk. While consumers in the US or Europe are willing to pay a premium for the fair-trade stamp on almost any product, this mark is less relevant in other markets. And where governments are less capable of monitoring and penalising effluence and pollution, an investor may be forced to decide whether the reputation effect alone is sufficient to prompt avoidance.

Against this variance, it helps to examine some examples and themes. A comprehensive survey of recent academic studies by Deutsche Bank[2] found that companies that scored highly on ESG factors had a lower cost of capital, both in terms of debt and equity. As media attention to environmental issues and government regulatory activity increases, companies are finding that there are no shortcuts in environmental impact management. Most glaringly, the recent falls in BP's shares to a 14-year low – in the aftermath of the April 2010 oil spill caused by the explosion of the Deepwater Horizon rig in the Gulf of Mexico – were clear evidence of the significant downside embodied by environmental damage to shareholder value.

Another common link between environmental performance and value is the potential value generated from resource and energy efficiency. The costs of development and extraction of conventional sources are increasing, and as the higher energy prices required to maintain investment are passed down the chain, investors are finding significant cost savings are available from implementing simple behavioural programmes and technologies to reduce energy use. There is also a potential revenue upside from 'going green'; a study by three academics in the US found that office buildings with Leadership in Energy and Environmental Design ratings commanded a 6% rental premium relative to comparable buildings that did not[3].

Although the 'low-hanging fruit' is often reduced input and energy use, the link between ESG and value does not stop at environmental issues. Poor governance and labour practices can lead to frustration among a company's labour force and labour action

[2] Sustainable Investing: Establishing Long-Term Value and Performance, DB Climate Change Advisors, June 2012
[3] Eichholtz, P., Kok, N., and J. Quigley. 2010. Sustainability and the Dynamics of Green Building: New Evidence on the Financial Performance of Green Office Buildings in the USA. Working paper

DEFINING THE PRINCIPLES OF SUSTAINABILITY

can carry high costs. Officials estimate that the cost to the French economy of labour strikes in 2010 was around £350 million per day, for example[4]. We have even witnessed the disruption of entire economies as a result of rising concern for social welfare issues; the Arab Spring, for example, had its origins in the high price of food and the frustrations with an inequitable system that was unable to help its citizens manage an accelerating cost of living.

On a more positive note, certain research has found evidence of an upside to exceeding minimum labour management standards. For example, a McKinsey study in 2012 found that companies with boards with more diverse skills sets, ethnicity and gender demonstrated EBIT margins 14% higher than average[5], while a study in the US found that the companies on Fortune magazine's top 100 places to work in America outperformed the market[6]. Although it is risky to read too much into statistical analyses, these studies provide important directional indications for investors.

Last but not least, the importance of good governance systems for financial returns is both clear and, at least in developed economies, well accepted. The recent record fines handed out to HSBC and Standard Chartered for their involvement in facilitating money laundering are cases in point. Bribery, embezzlement or simply investment in poor-return opportunities that favour vested political or management interests are all important examples of value destruction that investors would naturally prefer to avoid.

From this perspective, a link between ESG and value is evident: resource depletion, in the absence of adjustment, implies rising costs; poor labour standards can cultivate a resistant workforce and trigger outbursts of social unrest; poor governance can permit value leakage. In contrast, good environmental and social practices can enable companies to command premiums in the market, raise productivity and ensure the longevity of the business by removing unrewarded risks. Investors aware of these ESG considerations can build on their existing investment strategies or management approaches to preserve and even enhance long-term returns.

WHAT IS GOOD ESG?

As our brief analysis above indicates, this concept we call ESG – once properly defined – can affect financial performance across entire economies and far into the future. Generating long-term returns requires a long-term view, and so we find ourselves drawn back to ESG as a vital part of any investment strategy.

ESG needs to be proactive, working constantly with companies and institutions to drive change and make the system stronger. There are some simple key principles that should play a role for every private equity investor:

- Identify the key environmental, social and governance issues that can influence future returns, such as climate change, water scarcity, changing demographics, globalisation or the dynamics of inter-regional migration. According to MSCI ESG Research[7], 62% of the aggregate installed capacity of

[4] http://www.telegraph.co.uk/news/politics/8900262/Striking-public-sector-will-cost-the-UK-economy-millions.html
[5] "Is There a Payoff From Top-Team Diversity?" McKinsey Quarterly, April 2012
[6] Goenner, C.F. 2008. Investing in Fortune's 100 Best Companies to Work for in America. Journal of Economics, 34(1), 1-20
[7] 2013 ESG Trends to Watch, MSCI ESG Research, December 2012

DEFINING THE PRINCIPLES OF SUSTAINABILITY

the 15 largest electrical utilities companies in the MSCI World index is located in areas vulnerable to floods and cyclones. Additionally, 46% of the assets held by the largest 17 real estate investment trusts are also located in such areas, as defined by the World Bank and the Centre for Hazards and Risk Research at Columbia University. These data points reflect hidden correlations and risks that investors cannot ignore;

- Estimate the materiality of these issues for each individual investment, taking into account the political, commercial and regulatory context as well as the business's strategy. Often, the significance is in the form of material downside risk, such as the potential need to pay carbon tax or a disruption in a core labour source. But there may be opportunities; an increasing consumer preference for organic food, for example, may benefit producers who avoid using chemicals;

- Ensure investment analysis appropriately takes into account material ESG considerations. Traditional financial models, with their inbuilt assumptions of equilibrium and perpetual resource availability, may not sufficiently discount future cash flows to take into account longer-term risks that ESG can highlight. While these risks are often qualitative, they are no less relevant. Scenario analysis can be a useful tool in these cases to help grasp the financial implications of qualitative ESG issues;

- Identify the short- and long-term strategies necessary to deal with these risks and to benefit from the inevitable changes that such issues as climate change, resource constraints and urban migration in emerging markets such as India and China will impose on our economy and society. This encompasses everything from capital allocation strategy down to the selection of a portfolio business CEO and the decision of which key metrics to monitor at board and business levels; and

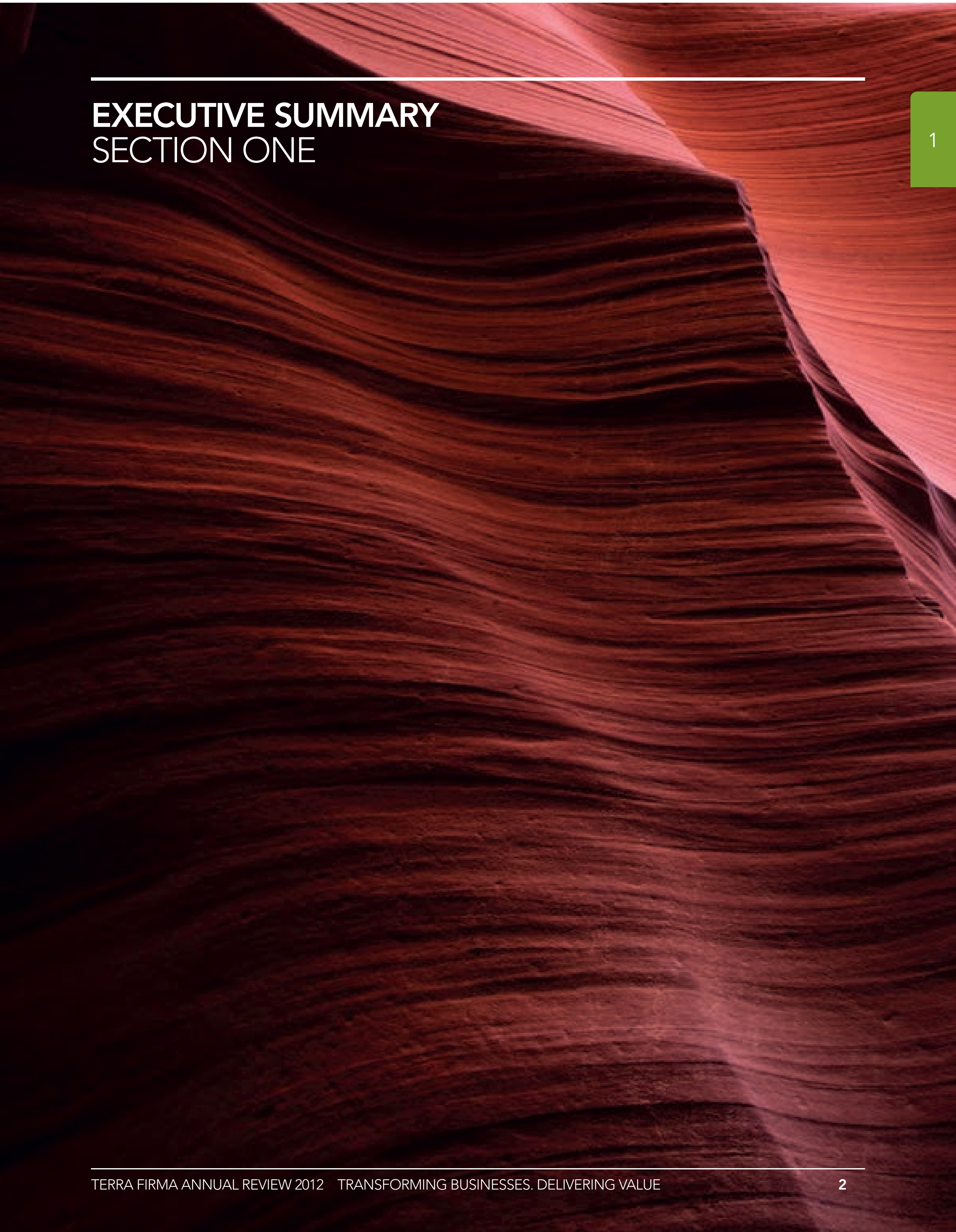
- Proactively utilise influence as a shareholder or owner to ensure that agreed environmental, labour and governance standards are respected within portfolio businesses and down the value chain, such that the operational and financial performance of each investment can be enhanced in a sustainable manner. Sustainability is at the core of healthy long-term returns.

An ESG strategy is more than altruism. The goal is simple: to maximise investment returns and the economic pie, not just for today, but also tomorrow. The alternative is a tragedy of the commons, where we are all worse off in the long run.

A. Swarup

Bob Swarup is the Founder of Camdor Global, an advisory firm that works with institutions and investors on strategic issues. He is Fellow at the Institute of Economic Affairs and has written extensively across media and academia, including most recently a report analysing the European sovereign debt crisis, historical parallels and options for policymakers

CONTENTS



EXECUTIVE SUMMARY
SECTION ONE

EXECUTIVE SUMMARY

TERRA FIRMA

Terra Firma is one of Europe's leading private equity firms. Since 1994, we have invested nearly €15 billion in 33 businesses with an aggregate enterprise value of over €45 billion

Our approach to investment is to buy asset-rich businesses in essential industries that can be transformed through fundamental change

We think and act long-term, building sustainable businesses by investing time, money and expertise into transforming their strategy, operations and finances

Raising long-term capital from a wide range of investors gives us the time we need to transform each business away from the public markets and create value for our stakeholders

Key to our approach is the fact that we control and are actively involved in all our portfolio businesses, with the average duration of our investments being approximately five years

We are a long-term investor, building sustainable businesses

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, Terra Firma Capital Management (Guernsey) Limited, Annington Management Services (Guernsey) Limited and any of their affiliates.

The financial information contained in this Annual Review is correct as at 31 December 2012.

EXECUTIVE SUMMARY

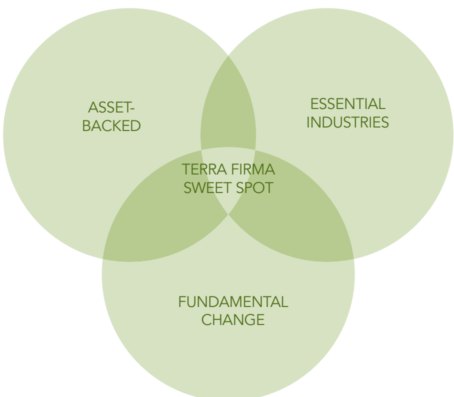
OUR INVESTMENT STRATEGY

Terra Firma means 'solid ground', reflecting our consistent and distinctive approach to investment. Since 1994, our investment strategy has worked through economic cycles and is not dependent on financial engineering or rising markets, although they may create further upside.

We add value through being directly involved in the companies we buy. Through a combination of strategic and operational change, sustained investment and improved management, we transform our businesses.

Underpinning our investment strategy is a 'macro-to-micro' approach to identifying investment opportunities. Our investment process starts with our view of what is happening at the macro and global level. From there we identify how these trends could create opportunities and look for businesses that we believe are well-positioned to seize them. We actively seek out investments in sectors which may be out of favour and in companies which have been under-managed or under-capitalised.

Having identified sector opportunities, we look for businesses with three key characteristics to enable us to capitalise on this potential:



ASSET-BACKED

We look for businesses which are rich in assets. This helps protect the value of our investments and provides a stable platform for growth. Assets also offer a wide variety of options to create value in our businesses.

Our extensive expertise in asset-backed investments dates back a long way. In the early 1990s, we pioneered the practice of asset-by-asset due diligence within the rail and pub sectors. By breaking down aggregate cash flows, we identified the true potential economic value of each underlying asset. We continue to use this approach today.

ESSENTIAL INDUSTRIES

We only invest in what we call 'essential' industries. They include energy and utilities, infrastructure, affordable housing, leisure, agriculture, healthcare and asset leasing. These industries are more resilient in downturns and do not depend strongly on technological innovation or branding. They are often in regulated sectors where we have considerable experience.

Given our 'macro-to-micro' approach, we do not have sector specialisms, preferring to be flexible and move between a limited number of sectors, guided by our view of their relative prospects.

REQUIRING FUNDAMENTAL CHANGE

We identify businesses that require fundamental change, perhaps because of past under-management or under-investment, or because they can be repositioned to benefit from a trend that we have identified.

We have a strong track record of transforming businesses by developing new strategies, investing significant amounts of capital and dramatically improving operational performance.

EXECUTIVE SUMMARY

OUR INVESTMENT STRATEGY

We will only make an investment when we are clear how we will create value. This view is based on our own detailed analysis and research and is often different from the views of the business's existing management team and those of competing buyers. Below are some examples of how our investments have benefited from this approach.

1

TRANSFORMING STRATEGY

Identifying a transformational strategy is central to creating value in a business. A new strategy will frequently be designed to make the most of long-term macro trends identified at an earlier stage in the investment process. This may involve implementing a new business model, repositioning a business within its industry, growing it by acquisition or diversifying its markets.

The intensive overhaul of our companies' strategies and operations has repeatedly put our businesses at the forefront of developments in their industries. We continue to refine and improve the strategies of our businesses throughout our ownership.

At acquisition, **AWAS** had customer and fleet concentration issues and no real risk management framework in place. A new strategy was developed for the business with a more consumer-focused approach to leasing, providing tailored customer solutions and forward fleet planning. The refocused business has since developed a leading asset trading capability whilst diversifying the customer and asset base.

Prior to its acquisition by Terra Firma, **Four Seasons Health Care** ('Four Seasons') had suffered a prolonged period of uncertainty with limited investment in the business. Through access to new capital, a restructured balance sheet and a proactive owner, Four Seasons will be able to build on its leading position in the healthcare sector as the industry shifts from low to high dependency care.

When Terra Firma acquired East Surrey Holdings, a portfolio of regulated utility businesses, it recognised the growth prospects of **Phoenix**, the gas business in Northern Ireland. The strong management team was delivering far greater operational and capital investment efficiencies than were being achieved in the mainland businesses. Terra Firma sold the two other businesses within the group, Sutton and East Surrey Water, and East Surrey Pipelines, whilst retaining Phoenix.

We look to create value in our portfolio businesses in five ways

2

STRENGTHENING MANAGEMENT

Our aim is to build exceptional management teams in our portfolio businesses. We put in place the necessary capability and incentives to ensure that our strategy and performance improvements are implemented effectively.

We typically strengthen management by combining the existing team with our own experts and with new hires, often from outside the sector to bring a fresh perspective.

Until UK competition clearance was received, **Odeon & UCI** was run as two separate businesses by interim CEOs seconded from Terra Firma. Thereafter, new senior management, including the CEO and CFO, were brought in to manage the combined business, oversee implementation of the new strategy and introduce clear operational and investment discipline.

A number of our businesses have been acquired with no management. With **Annington**, our UK housing business, the properties that form the basis of its portfolio were sold as assets only and Terra Firma had to put in place a strong team to establish an effective governance and operating structure. Annington's operating model is based on a small core team that uses outsourcing as a major tool to meet the fluctuating requirements of the business.

At **CPC**, the existing team, which had detailed knowledge of the herd and the properties, was supplemented by a number of new senior hires including a new Chairman, CEO and CFO. With these changes, the right organisation is now in place to drive the business forward.

EXECUTIVE SUMMARY

OUR INVESTMENT STRATEGY

3

DEVELOPING THROUGH CAPITAL EXPENDITURE

We are ready to invest significantly in our businesses to transform them and we implement new capital programmes to improve performance and grow our businesses organically. We also develop scalable platforms for expansion, enabling a business to grow more rapidly through acquisitions. All capital expenditure is controlled by Terra Firma using strict return criteria, ensuring that only the highest impact programmes are implemented.

In 2005, **Tank & Rast** launched a long-term €500 million investment programme to finance the construction of new sites, the refurbishment of older sites and the introduction of capex-driven strategic and consumer-focused initiatives. The company improved its food offering, including a better retail proposition, introduced the premium Sanifair toilet facilities across its network and created a new motorway service station brand called Serways which incorporated the new retail and food offerings and improved the quality of its service and facilities.

Rete Rinnovabile ('RTR') was formed by Terra Firma as a newly-established company with the specific strategy of consolidating a significant solar photovoltaic ('PV') portfolio in Italy. In its two years under Terra Firma's ownership, the business has used this buy-and-build strategy to become Europe's largest solar PV business, with nearly 300 MW of installed capacity, compared with just over 140 MW at the time of acquisition in April 2011.

EXECUTIVE SUMMARY

4

BUILDING THROUGH MERGERS AND ACQUISITIONS

We undertake mergers and acquisitions to strengthen our portfolio businesses, aiming to grow the scale and capability of a business and consolidate and improve its position within its industry. Since 1994, Terra Firma has invested in 33 businesses and executed over 45 additional bolt-on acquisitions to build them.

Infinis has undertaken a constant flow of merger and acquisition activity, selectively expanding and enhancing its portfolio of operational and development assets through a range of acquisitions. These have ranged from small opportunistic transactions to relatively large strategic deals that involved taking private publicly-listed peers, such as Novera. Through acquisitions and organic development, the business has added onshore wind and additional hydro generation to its portfolio. Today, Infinis is the leading independent renewable energy generation company in the UK.

The Garden Centre Group offers a unique platform from which to grow the UK's leading retail destination for gardening and garden-related leisure products. The sector is very fragmented, with the top four garden centre groups representing only 9% of the market. The team will look to acquire smaller groups as well as individual family-run sites and realise scale benefits from consolidation.

EXECUTIVE SUMMARY

OUR INVESTMENT STRATEGY

5

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

We lower the cost of capital within our portfolio businesses by reducing business risks. We do this by diversifying and stabilising cash flows and resolving business and regulatory uncertainties. We also actively manage the businesses' capital structures through refinancings and securitisations.

Working with Terra Firma and leveraging off the team's relationships and expertise, **EverPower** has put in place low cost construction and semi-permanent financings. The team has also successfully led the execution of private placement long-term debt.

Deutsche Annington refinanced its GRAND notes securitisation at the end of 2012, a move which has lowered its financing costs and reduced the restrictions on operations and investments. This was the largest European real estate refinancing in 2012.

EXECUTIVE SUMMARY

Right: Tim Pryce, Guy Hands

EXECUTIVE SUMMARY

OUR BUSINESSES

In 2012, we added to the portfolio through the acquisition of The Garden Centre Group and Four Seasons whilst continuing to drive change and build our existing businesses and preparing the mature businesses for sale.

The Garden Centre Group was acquired in April and is the largest plant and garden-focused retailer in the UK, with 129 sites across England and Wales operating under various brand names. Later in the year, Four Seasons, the UK's largest independent elderly and specialist care provider, was added to the portfolio. Both of these businesses are typical Terra Firma investments – asset-rich in essential industries and in need of fundamental change.

In what proved to be a challenging year for many companies, we continued to focus on investment, with nearly €2.2 billion spent on building and developing our businesses and a further €200 million invested in add-on acquisitions for Infinis, RTR and EverPower.

Working closely with the portfolio business management, we focused on strategic initiatives and operational improvement, ensuring we continue to drive forward positive change in the businesses and create value for our investors.

Over the course of the year, we have prepared certain more mature businesses within the portfolio for sale and we will continue this process in the coming months. We have a disciplined approach to exiting portfolio businesses and will hold onto a business until it can unequivocally demonstrate enhanced and sustainable value.

A year of acquisitions and expansionary initiatives

EXECUTIVE SUMMARY

FINANCIAL POSITION

The debt markets continue to be constrained and present challenges within the industry. However, in the last few months of 2012, Terra Firma closed several successful transactions. In December, Terra Firma purchased Annington from Nomura in the largest European leveraged buyout since 2008. This included £550 million of new debt.

Also in December, Deutsche Annington, was successfully refinanced in Europe's largest real estate refinancing of 2012. As part of this, the outstanding GRAND debt was reduced from €4.3 billion to €3.8 billion. Phoenix, Infinis and EverPower also raised new debt or successfully refinanced their businesses during 2012.

The ability to refinance our businesses and actively manage their balance sheets is a key component in their continued success. Along with management, we will continue to follow capital market developments closely to ensure any attractive opportunities for refinancing are utilised.

VALUATIONS

We firmly believe that private equity firms should be realistic and transparent about valuing their businesses on a mark-to-market basis. At Terra Firma, we engage in a thorough and detailed review of the valuations of our portfolio businesses annually, or more frequently if circumstances merit, and have those processes and valuations audited by KPMG for our annual accounts.

Whilst fair market valuations are important indicators of value, we are a long-term investor and our business plans are designed to deliver long-term sustainable growth rather than short-term profits. The most important valuation is the one attained when a business is ultimately sold, and we are continually working to ensure that the final performance of our investments is as strong as it can possibly be.

Nearly all the portfolio businesses' fair market valuations have increased since the end of 2011. However, we continue to be prudent when determining these year-end valuations.

Private equity valuations have three major elements: the operating performance of the portfolio business; the application of a multiple or discount rate from listed comparable companies or recent transactions to value that operating performance; and the effect of currency movements if the reporting currency of the portfolio business differs from that of the relevant fund.

Our portfolio businesses delivered a solid operational performance in 2012 and most companies reported year-on-year improvements in EBITDA, as shown in the table on page 13.

EXECUTIVE SUMMARY

OUR BUSINESSES

OPERATING PERFORMANCE

Our businesses have continued to perform well in the face of the continuing economic uncertainty and we are pleased with the underlying progress that has been made through their strategic initiatives to enhance growth.

EBITDA BY PORTFOLIO BUSINESS	CURRENCY	2011	2012	% INCREASE
Annington[1]	£m	122	137	13%
AWAS	$m	698	831	19%
CPC	A$m	33	4	(87)%
Deutsche Annington	€m	501	471	(6)%
EverPower	$m	(11)	18	265%
Four Seasons	£m	n/a	97	n/a
Infinis[1]	£m	92	84	(9)%
Odeon & UCI	£m	103	101	(2)%
Phoenix Group[2]	£m	23	23	1%
RTR	€m	75	116	55%
Tank & Rast	€m	208	217	4%
The Garden Centre Group	£m	n/a	27	n/a

[1] Based on nine months to December 2011 and December 2012
[2] EBITA

Our portfolio businesses employ over 50,000 people

EXECUTIVE SUMMARY

ANNINGTON

Annington reported increased rental revenue for the nine months to December 2012 compared with the same period last year, reflecting the strong rental market which is expected to continue in 2013. Similarly, revenue from the Sales business was higher than the same period last year as Annington focused on maintaining sales levels through a flexible pricing strategy, managing the release of sale stock from the short-term rental stock, marketing initiatives and sales incentives.

AWAS

AWAS's 2012 results reflected its growth and sound operating performance, with the business ending the year ahead of expectations in all its key financial objectives. AWAS took delivery of 20 pipeline aircraft during the year as well as acquiring 24 aircraft from airlines and other lessors. This, combined with 21 end-of-life disposals, reduced the average age of its fleet by one year to under six years.

CPC

In a challenging market, CPC's revenue was affected by lower than budgeted sales volumes and prices due to the ongoing Indonesian import restrictions as well as lower domestic prices. Direct costs were also adversely affected as cattle were moved to Queensland for sale in the domestic market which resulted in higher transfer costs. Herd valuation movements were adversely impacted by write-offs and lower market prices. However, the business performed well operationally, with increased efficiency somewhat offsetting weaker sales and nearly 100,000 calves branded: a record for the business.

DEUTSCHE ANNINGTON

The strong growth in housing demand in Germany meant that, despite a reduced privatisation stock, in 2012 Deutsche Annington had the highest number of annual sales since 2006. On the rental side, despite a reduced number of properties, rental income came in slightly ahead of expectations. In addition, almost 4,500 flats were refurbished in 2012 through Deutsche Annington's joint venture with a large German facility management service provider.

OUR BUSINESSES

EVERPOWER

2012 saw EverPower achieve its plan to become a wind-energy business of substantial scale. All construction projects were completed on time and to budget, resulting in installed capacity of 512 MW at the end of December 2012, more than quadruple that of the previous year. As a result of organic growth, as well as a significant 150 MW acquisition during the year, 2012 was the first year of positive EBITDA for the business.

FOUR SEASONS

Since its acquisition, the main focus of the Four Seasons team has been the integration and improvement of the ex-Southern Cross homes that were acquired at the end of 2011, and implementing the post-acquisition plan developed by Terra Firma. In an industry where quality of care is key, the focus for the business in 2013 will be to progress its initiatives around quality, operations and the estate. In February 2013, the business signed a voluntary joint recognition agreement with three trade unions. We believe that this will directly support our strategy for the business, creating the conditions under which staff training and development can be expanded and turnover reduced.

INFINIS

Infinis is currently undergoing a divisionalisation by its three core activities – landfill gas, hydro and onshore wind – in order to align and simplify the organisational structure and ensure greater operational and financing flexibility. As part of this exercise, Infinis was able to issue £350 million of high yield bonds in February 2013, which refinanced £275 million of high yield bonds that were issued by Infinis in December 2009.

The business has also continued to build out the portfolio by adding to its onshore wind capacity in 2012. This included the acquisition of three wind farms in May which added 25 MW of operating capacity. Infinis is also currently constructing five wind farms in England and Scotland with a total installed capacity of 53 MW.

ODEON & UCI

Odeon & UCI continued its portfolio expansion, opening new sites in the UK, Ireland, Italy and Spain during the year. All screens within the group have now been digitalised, a first for Europe, and a key achievement for the management team. Despite an overall annual decline in market attendance across Odeon & UCI's key markets, attendance numbers for Odeon & UCI were up on last year. This was driven by growth in market share in its key markets and by outperformance in key releases including the latest in the James Bond series, Skyfall, which was the UK's highest grossing film ever.

EXECUTIVE SUMMARY

PHOENIX GROUP

Phoenix's gas distribution business continued to expand its customer base, outperforming the budgeted number of new connections once again, this year by nearly 30%. A key driver continued to be the owner-occupied sector, with homeowners looking for an alternative fuel to oil and a slow residential property market resulting in people upgrading their homes rather than choosing to move house.

Phoenix's supply businesses were sold to SSE plc in 2012. This reflects the long-term strategy to grow the distribution business and to realise returns for investors.

Phoenix was again awarded the Sword of Honour in acknowledgement of the emphasis placed on safety within the Group. The award recognises organisations that have implemented safety systems that are among the best in the world. Phoenix has now been awarded the Sword of Honour more times than any other business in the UK.

RTR

In the first full year under Terra Firma ownership, RTR continued to optimise and enlarge its asset base in 2012, completing the roll-out of an improved remote monitoring and control system and adding 57 MW to its installed capacity through two add-on acquisitions. RTR is now the largest solar PV operator in Europe. The business also had a strong financial performance during the year, with better than expected weather conditions leading to increased energy generation.

TANK & RAST

Tank & Rast's growth initiatives made further progress in 2012. These included its project to open Sanifair sites off the autobahn network – they are now in operation on 52 third-party sites. It has also signed agreements to acquire two service stations off the motorway (autohöfe sites) in addition to its existing three sites. However, fuel volumes and related gastronomy sales continued to be impacted by relatively high fuel prices.

THE GARDEN CENTRE GROUP

In the first year of Terra Firma's ownership of The Garden Centre Group, the UK's unfavourable weather conditions proved challenging. However, the full-year financial performance was encouraging as, despite the poor weather, restaurant and concession income held up well, demonstrating the importance of the business's strategy of developing less weather-dependent revenue streams. A new management team was appointed at the end of 2012. In 2013, following a detailed post- acquisition strategy review by Terra Firma, Terra Firma will work with the management team to develop the strategy implementation plan which will then be executed by the company.

EXECUTIVE SUMMARY

VALUE CREATION

1

RTR: building a business for the future

In a little over two years, Terra Firma created Europe's largest generator of PV energy – RTR – by consolidating a number of smaller portfolios of Italian solar PV plants.

Along the way, management, processes and technology have all been transformed to create a business that is equipped to deliver high quality performance and to set an example for the rest of the industry to follow.

This journey provides a good illustration of the way that Terra Firma seeks to create new value whenever it makes an acquisition.

AN OPPORTUNITY FOR GROWTH

In the case of RTR, it all began in March 2011 when Terra Firma identified an opportunity to take advantage of the growth and consolidation in one of Europe's most important renewable energy markets. It acquired a portfolio of solar PV plants from Terna, the Italian high-voltage electricity grid operator, and created RTR – a best-in-class platform – to manage the assets. Since then, the focus has been on growing the business through acquisitions and implementing a strategic plan to add value to every aspect of RTR's activities.

RTR RETE RINNOVABILE

EXECUTIVE SUMMARY

THE RIGHT TEAM FOR THE JOB

In any business having the right people in place at every level is critical. In the case of RTR, the entire team had to be built from scratch – the assets had been purchased without staff and were non-core to the previous owners.

Since the acquisition, Terra Firma has assembled a team of 30 people who are motivated and highly skilled in their fields, from the core engineering disciplines to finance, legal and business development.

In a young and fragmented market, this kind of experience is vital as RTR – although the leading player in the Italian PV market – is competing with large organisations keen to capitalise on the growth opportunities.

It is an ongoing process. The strengthening of the RTR team in every discipline is a constant focus that is helping the business to stand out from the competition and is adding measurable value to the bottom line.

EXECUTIVE SUMMARY

VALUE CREATION

SMARTER SYSTEMS AND WAYS OF WORKING

In a highly technical industry, it takes significant investment to stay ahead of the competition. Terra Firma's support of RTR has enabled the business to make significant upgrades to its systems and processes. Most of the new technology installed since 2011 has been built from scratch, and RTR is consistently setting the benchmark for the industry.

The knock-on effect of these upgrades has been significant both in terms of working practices and business performance.

One example has been RTR's investment in a new system for monitoring the output of all PV fields across the country. The upgraded technology makes it possible for staff to see faults in real time and verify them remotely from RTR's head office in Rome. This allows the team to act more responsively, sending text messages or emails to field-based technicians who can then resolve the problem. The net result of this improved control is a significant reduction in downtime and an increase in productivity.

This more sophisticated monitoring has delivered other benefits too. For example, careful analysis of the resulting data is helping RTR to identify ways of maximising production. In one project, RTR has, through a study of shadows, discovered that changing the inclination of the panels by five degrees

on the company's two largest sites would improve production by more than 3% per year.

Combining this data with reliable weather forecasts allows accurate prediction of energy that can be produced for the next 48 hours – a powerful tool for production planning as well as the fulfilment of government regulations.

Another area where improved processes have had a positive impact is safety and security. To combat the risk of panel and copper theft, particularly at remote sites, RTR has established a multi-level security system. It features a number of safety mechanisms which detect intruders on the site and help distinguish between false alarms and real risks. The overall result has been reduced risk of theft and lower insurance costs.

Through significant investment RTR's operating capacity has doubled since acquisition

EXECUTIVE SUMMARY

NEXT-GENERATION THINKING

As its first two years under Terra Firma's ownership have shown, RTR is committed to doing more than simply keeping pace with developments in this fast-evolving high-tech sector. Every day, the company is testing the latest technologies that set new standards in terms of working practices and plant efficiency and output.

Thanks to its growth since 2011, RTR is now funding some of the industry's most promising innovations with its own capital and is becoming recognised as a European centre of excellence and idea generator.

One of the areas that is being explored to improve efficiency is 'solar power optimiser' technology. Now successfully tested, this is a device which helps reduce the negative impact on production caused by shading on panels. The business is also currently testing new software for inverters that would significantly increase the yield of the plants.

ADDING VALUE OVER THE LONG TERM

RTR's evolution and growth have been dramatic even in an industry as dynamic as renewable energy.

Terra Firma's investment since 2011 has turned a collection of individual assets into a major renewable energy player. The business has doubled in size in that time to become an operator that owns and manages 117 plants across the country with a production capacity of nearly 300 MW. It is now firmly established

as the natural candidate to continue the process of consolidation that has taken place in the fragmented Italian market and across Europe.

In making that transformation possible, Terra Firma has invested to add value in every area of the business, from its structure and processes to the way it works and innovates.

It is a strategy that, underpinned by a sound capital structure and committed acquisition programme, has seen RTR deliver a performance that is unmatched in the Italian and European markets.

With the committed backing of Terra Firma, the business is extremely well placed to maintain that momentum and deliver even more outstanding value in the years ahead.

ABOUT TERRA FIRMA

OUR INVESTORS

Terra Firma invests on behalf of a wide range of organisations including pension funds, financial institutions, sovereign wealth funds, endowments and family offices. A significant proportion of our investors are pension funds, investing on behalf of today's pensioners and the pensioners of the future, many of them retired public employees. Our investors are based all around the world.

The success of Terra Firma's businesses helps to provide enhanced income for all our investors, and we are very aware of the firm's fiduciary duty to these underlying beneficiaries.

OUR STRUCTURE

Terra Firma's funds are typically Guernsey Limited Partnerships. Our four active funds are Terra Firma Capital Partners II (TFCP II) and Terra Firma Capital Partners III (TFCP III), which are general private equity buyout funds, Terra Firma Deutsche Annington (TFDA) which is a specialist German residential real estate fund and Terra Firma Special Opportunities Fund I (TFSOFI) which is a specialist UK residential real estate fund. Terra Firma's investors invest as Limited Partners within the funds, and the day-to-day affairs of each Partnership are managed by its General Partner, a Guernsey-based management company. The General Partners make all investment decisions on behalf of the relevant funds.

Terra Firma Capital Partners Ltd (TFCPL) in the UK, with support from Terra Firma Capital Management Ltd (TFCML) in Guernsey, terrafirma GmbH in Germany and a representative office in China, provide 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 58 countries.

OUR PEOPLE

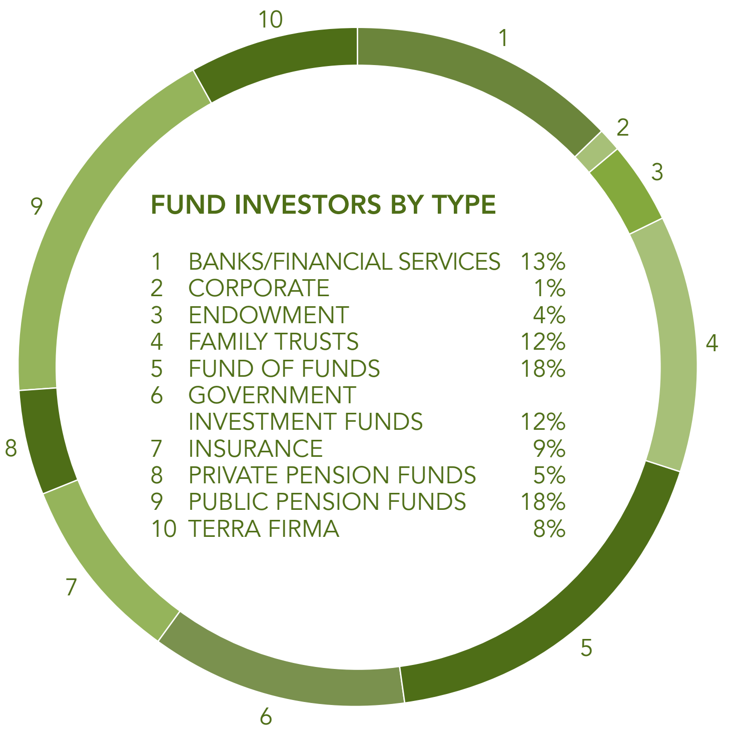
Our ability to create value is directly related to the diversity of our team and we have built up substantial transactional, operational and analytical expertise in-house. This multi-disciplinary capability allows us to manage an investment from the initial identification of an opportunity through the purchase and transformation of a business to its eventual sale. Throughout the course of our investment, our in-house specialists work together with the management teams to maximise the long-term value of our portfolio businesses.

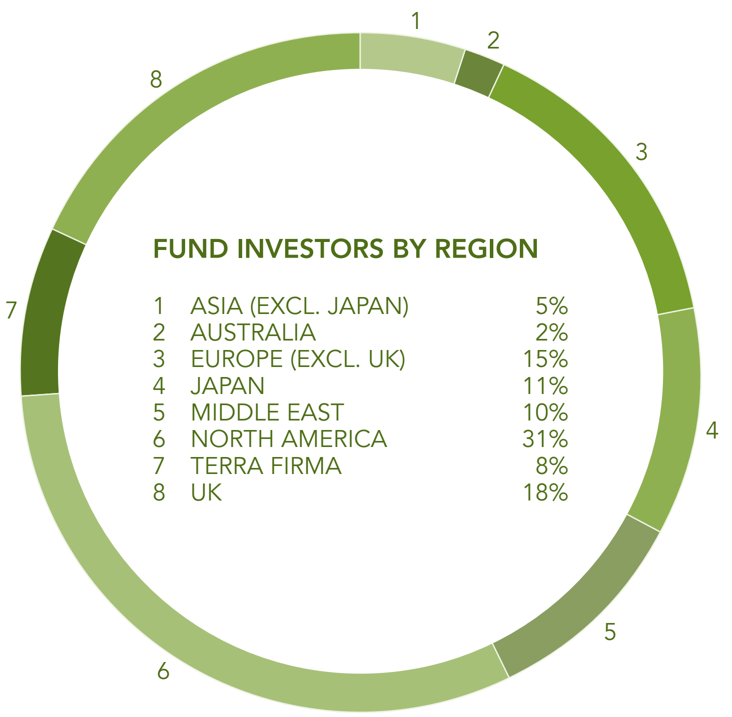
Operational expertise is fundamental to enhancing value within our portfolio companies, and in the current economic climate such skills are more important than ever. Our operational team has many years' experience in running and improving performance in numerous businesses and has strong strategic, operational and managerial expertise.

The Terra Firma advisory team is made up of more than 85 people in London, Guernsey, Frankfurt and Beijing drawn from 19 countries and speaking a total of 20 languages. They come from a wide variety of backgrounds including industry, finance, consultancy, private equity, law and accountancy.

EXECUTIVE SUMMARY

Pension funds make up nearly a quarter of the investor base





EXECUTIVE SUMMARY

MANAGEMENT COMMITTEE

Guy Hands
Chairman and
Chief Investment Officer

Guy is Terra Firma's Chairman and founder. He is the Chief Investment Officer and sits on the boards of the General Partners and heads Terra Firma's Management Committee.

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 Sachs 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. He was elected a Global Leader of Tomorrow by 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 UK. 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.

Terra Firma's Management Committee is responsible for the firm's strategic direction, stakeholder relations, personnel and corporate responsibility and is comprised of our most senior executives

EXECUTIVE SUMMARY

Tim Pryce
Chief Executive Officer

Tim is a founder member of Terra Firma and its Chief Executive Officer. He sits on the boards of the General Partners and is a member of Terra Firma's Management Committee and Remuneration Committee.

Tim joined Terra Firma as its General Counsel. In this role, he built and led the Legal, Structuring, Tax and Compliance teams. He has been involved in a number of Terra Firma's investments.

Tim began his career practising law at Slaughter and May before working at GE Capital, Transamerica and the Principal Finance Group of Nomura International plc. Tim is a solicitor and has an LLB (English law) and an Associateship from King's College, London and a Maîtrise (French law) from the Sorbonne, Paris.

Tim speaks French in addition to his native tongue, English. Tim and his partner enjoy travel and the arts.

Chris Barnes
Chief Financial Officer

Chris is the Chief Financial Officer of Terra Firma and is responsible for investor reporting, fund accounting and transaction equity funding. He is also responsible for internal financial management and all tax issues for Terra Firma, together with the IT and Facilities teams. Chris sits on the boards of the General Partners and is a member of Terra Firma's Management Committee and Remuneration Committee.

Chris joined the group in 2001 and has worked on the structuring and execution of many of Terra Firma's investments.

Prior to Terra Firma, Chris worked in the Private Equity Tax group at Arthur Andersen. Chris is a Chartered Accountant and has a Double First in Economics and History from Cambridge University.

Chris is married with three children and is a keen Chelsea fan.

SENIOR TRANSACTION TEAM

Robbie Barr
Chief Operating Officer

Robbie is Terra Firma's Chief Operating Officer and has overall responsibility for the operational management of Terra Firma's portfolio businesses. His responsibilities include pre- and post-acquisition operational change planning and implementation, performance monitoring and governance processes. Robbie manages a team of operational, finance and change management professionals which enables hands-on involvement in specific areas. Robbie sits on the TFCPL board and is Chairman of Odeon & UCI.

Prior to joining Terra Firma in 2009, Robbie held a number of senior positions at Vodafone Group plc, including the role of Group Financial Controller and the regional CFO for Vodafone's businesses outside Western Europe.

Robbie is a Fellow of the Institute of Chartered Accountants in England and Wales and has an MA in Mathematics from Magdalen College, Oxford University.

Robbie is married with three children. His interests include tennis, golf and skiing.

Arjan Breure
Financial Managing Director

Arjan plays an active role in deal origination and portfolio value optimisation. He currently focuses on operational real estate businesses and residential housing. He is responsible for Terra Firma's investment in Deutsche Annington, and for Tank & Rast. Arjan sits on the boards of Deutsche Annington and Four Seasons.

Prior to joining Terra Firma in early 2008, Arjan was Head of Asset Management at Citi Property Investors, Terra Firma's co-investor in Deutsche Annington. He previously worked for Cherokee Investment Partners and in the New York offices of Prudential Securities Merchant Banking and Rabobank International.

Arjan has an MBA from INSEAD and a Masters in Economic History from the University of Utrecht. In addition to English and German, Arjan speaks Dutch, his native language.

Arjan is a struggling golfer and enjoys travel and music.

EXECUTIVE SUMMARY

Our ability to create value is directly related to the diversity of our team

Damian Darragh
Financial Managing Director

Damian has completed a wide range of transactions at Terra Firma, including the sale of WRG, the spinout and development of Infinis, and its subsequent acquisitions. He also led the refinancing of Phoenix Group and the acquisitions of EverPower and RTR.

Damian currently focuses on the energy and infrastructure sectors, with a particular focus on renewable power. He sits on the boards of Infinis, EverPower and RTR.

Damian joined Nomura International plc in 1993 where he worked with Terra Firma's forerunner, PFG. Following a sabbatical when he completed a Sloan Fellowship MSc at London Business School, he re-joined Terra Firma in 2005.

As well as an MSc, Damian has a degree in Electronic Engineering Science (MEng) from the University of Manchester and L'Institut Supérieur D'Electronique du Nord. He speaks French and his native language, English.

Damian is married with three children. He enjoys skiing, golf, scuba diving and watching football.

Mike Kinski
Operational Managing Director

Mike has been involved in a number of the group's investments including the pub companies, WRG, Shanks, and East Surrey Holdings. He is currently the Chairman of Infinis and sits on the boards of Odeon & UCI and CPC. His other portfolio responsibilities include EverPower.

Prior to joining the group in 2000, Mike was Group Chief Executive Officer of Stagecoach Holdings Plc (FTSE 250), and Chief Executive Officer of Power Distribution and Water Operations for Scottish Power Plc (now part of Iberdrola, an IBEX 35 company). This included the position of Chairman and Chief Executive Officer of Manweb Electricity Plc and Chairman and Chief Executive Officer of Southern Water plc. Prior to this he was a main board director of Jaguar Cars Ltd. He was also a government appointed non executive director of the UK Post Office from 1998–2002.

Mike has an HNC 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 both Brunel and Reading Universities.

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

EXECUTIVE SUMMARY

SENIOR TRANSACTION TEAM

Lorenzo Levi
Operational Managing Director

Lorenzo has been involved in a number of the group's investments and is currently on the boards of Phoenix Group, AWAS, Tank & Rast, RTR, Four Seasons and The Garden Centre Group.

Prior to joining the group in 2002, his career ranged from sales management and corporate development roles for companies such as IBM (an S&P 500 company) and Nortel Networks to strategy work for management consultants Bain & Co.

Lorenzo is an Italian national. He has a BSc in Electrical Engineering and a BSc in Economics from MIT as well as an MBA from Harvard. Lorenzo speaks English and French in addition to his native tongue, Italian.

Lorenzo is married with two children. He enjoys football, listening to music and travelling.

Stefan Thiele
Operational Managing Director

Stefan joined Terra Firma in February 2013 to focus on Terra Firma's renewable energy investments.

Prior to joining the group, Stefan spent 14 years at Energie Baden-Württemberg Ag (EnBW). Whilst there, he held a number of senior positions including Chairman of the Managing Board for the Renewable Energy Division from 2008. Stefan has also held other positions in the energy industry including Chairman of Neckar AG, a member of the board of directors for Borusan EnBW Energy and a member of the board of directors for Hidroelectrica.

Stefan holds an MSc in Electronic Engineering from the University of Aachen and speaks German and English.

Stefan is married with two children. He enjoys his family, sports and old cars.

EXECUTIVE SUMMARY

Steven Webber
Financial Managing Director

Steven has worked on some of the firm's most successful investments including transactions as diverse as Annington – one of the very first for the group – Tank & Rast and the group's pub businesses. More recently, Steven worked on the AWAS deal and the acquisition of Pegasus by AWAS, and has focused on the leisure, leasing and transportation sectors. Steven sits on the boards of Annington, AWAS and CPC.

He joined PFG, the forerunner to Terra Firma, in 1996 following his graduation from the University of Reading with a Masters degree in International Securities, Investment & Banking (MSc).

Steven enjoys travel, outdoor sports and photography.

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. She was also heavily involved in the group's pub businesses.

Julie currently focuses on the hospitality and leisure sectors. She sits on the boards of Odeon & UCI and The Garden Centre Group.

Prior to joining the group in 1998, Julie worked for Nomura International plc where she headed the legal team that provided legal risk analysis and transaction execution support to 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.

EXECUTIVE SUMMARY

LONG-TERM ALIGNMENT

Lorenzo Levi, Steven Webber, Stefan Thiele

Private equity funds are typically structured as partnerships between the investors who provide capital and the private equity fund that invests that capital. At Terra Firma, we strongly believe in this partnership and that the long-term alignment of interest between the investor, the private equity fund and its employees is of the utmost importance.

Overall, Terra Firma and its employees have committed more than €880 million to our funds and are the largest investor in TFCP III and one of the largest investors in TFCP II. Our belief in the future success of our investments is demonstrated by us investing our own personal savings, as well as our careers, in them.

Terra Firma's reward structure for its employees reflects this alignment, especially amongst its senior team where compensation is focused on carried interest. Carried interest is performance-based and only results in rewarding the Terra Firma team if investors receive a return in excess of 8% per annum over the life of the fund. A fund typically has a 10- to 14-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. When carried interest payments are payable to Terra Firma, they are held in reserve until five years after the fund closes before being released to the team.

We believe that this type of incentive structure is vital in ensuring that private equity employees are focused not only on the careful selection of investments, but also on nurturing each investment to exit, in order to ensure maximum return for the investors and – ultimately – the transaction team.

This combination of employee compensation being focused on carried interest and personal investment means Terra Firma and its employees will prosper along with our investors by developing and growing successful businesses.

Terra Firma and its employees have committed more than €880 million to our funds

TRANSPARENCY AND STAKEHOLDER INTERACTION

Julie Williamson, Robbie Barr

The businesses that Terra Firma invests in touch the lives of many people and we are mindful of the social responsibility that our work brings with it. It is essential that all our stakeholders – customers, employees, investors, suppliers, unions, governments and trade bodies – understand our objectives, plans and results, and how our activities and portfolio businesses contribute to the wider community.

We believe that Terra Firma, and the private equity industry in general, can be proud of the contribution they make to society by providing funding for companies and helping them to grow into successful and sustainable businesses. We encourage openness and active dialogue with our stakeholders and those of our portfolio businesses around the role of the private equity industry and the value it creates.

In 2007, following the recommendations made by Sir David Walker in his report on Disclosure and Transparency in Private Equity, we were one of the first private equity groups in the UK to publish an annual review of our business. The majority of our portfolio businesses publish or intend to publish annual reports in line with the Walker guidelines, although this is not mandatory for non-UK businesses. The latest Annual Review by the Guidelines Monitoring Group on Transparency and Disclosure – the group created to monitor private equity firms compliance with the Walker guidelines – published in February 2013, highlighted two of Terra Firma's businesses as examples of good disclosure practices.

Terra Firma is active in the development of best industry practices, principally through the British Venture Capital Association and the European Venture Capital Association. In addition, Terra Firma has endorsed the Institutional Limited Partner Association Private Equity Principles and is a signatory to the United Nations Principles for Responsible Investment.

We encourage openness and active dialogue with our stakeholders and those of our portfolio businesses

Chris Barnes, Tim Pryce

OUTLOOK FOR 2013

The continuing crisis in Europe provided a challenging backdrop to 2012, and the task European nations face in returning to stability remains difficult. While all nations are agreed in wanting to achieve growth, there is a wide divergence among them as to how to achieve it, and this is at the heart of the continuing disagreements within the European Union. However, while there is no end in sight to these problems, it appears that investors are becoming used to this state of affairs, and are no longer letting the troubles in Europe hold back their activities. There is still reason to be cautious in 2013, but also reason to be optimistic.

Around the world we are seeing politicians grasp the reins of financial control in their attempts to drive economic growth. While in Europe the outlook is still unclear, in the US the government's repeated attempts to support the economy appear to be paying off in the short term though the long-term consequences of their policies will only become clear over time. China, however, seems to have successfully managed a soft landing of its booming economy. Overall, the risk of political intervention has risen, making it more difficult to decide where to invest.

As Europe navigates the latest twists and turns of its ongoing crisis, governments across the continent are looking at different ways to encourage economic growth. Though it has not enjoyed the best reputation among European politicians, we believe that the private equity industry has a vital role to play in this process and that the politicians should encourage its

Private equity will continue to mature and adapt to the changing environment

EXECUTIVE SUMMARY

involvement in European economics. Private equity, at its best, focuses on transforming businesses and creating successful companies for the long term, an approach which is greatly needed in Europe. Firms such as Terra Firma bring in capital from all over the world and put it to work in businesses where they see the best opportunities to create growth.

For private equity, it is important to remember that returns do not necessarily follow growth. While a positive economic backdrop is certainly useful for investments, it is not a prerequisite. In some rapidly growing economies, a lack of stability or the unpredictability of government action presents a real risk to investments. In contrast, in a lower growth region such as Europe, there are still many good opportunities to be had with less risk.

At Terra Firma, we continue to see businesses that have been neglected or unloved due to the economic backdrop in Europe and the pressures being faced by their current owners. These are businesses that are in need of change, whether strategic or operational and they need investment, focus and commitment – all things which private equity ownership can bring.

Looking more globally at the potential opportunities for private equity in 2013, deciding where to invest is tough for all the reasons outlined above. The emerging markets, whilst continuing to be popular for both deal makers and investors, are laden with risk and due to lack of growth in other regions, the expectations for investment returns in these jurisdictions could prove over-ambitious.

In the US, the picture is mixed. This year has already seen signs of confidence, with the private equity giants resurrecting the mega deal in Buffett's acquisition of Heinz and Silver Lake's Dell bid, yet deal flow generally is slow.

The fundraising environment in 2013 continues to be challenging; however, those that can display a clear and consistent strategy and offer investors a differentiated product should be successful. There is no shortage of funds in which to invest, and LPs have a difficult job choosing the right manager and product, not least due to the sheer volume of funds being raised. The secondaries market will slowly continue to grow as an exit route for those seeking liquidity but who are unable to wait for exits, which will continue to be difficult to execute.

Private equity will continue to mature and adapt to the changing environment. As an industry, private equity has a proven track record of innovation and continues to find ways to deliver value for investors. One example of this that we expect to see continuing in 2013 is the further development of the high yield market in Europe, borne out of a need to find alternative debt funding as banks retreat from lending and investors search for yield in a low interest rate environment.

We believe that the strength of the private equity model lies in its ability to implement change. The alignment of interest between owners and management speeds up decision-making, whilst being away from the pressures of quarterly reporting to the markets enables a longer-term perspective. Private equity allows all stakeholders to work together to achieve a sustainable vision for their business, so problems in the short term, whether political, economic or otherwise, whilst not being able to be ignored, can be navigated.

PORTFOLIO BUSINESS REVIEW
SECTION TWO

PORTFOLIO BUSINESS REVIEW

INTRODUCTION

ANNINGTON	UK residential housing – sales and rentals	infinis	UK renewable energy
AWAS	Worldwide aircraft leasing	ODEON FANATICAL ABOUT FILM / uci	Pan-European cinema group
Consolidated Pastoral Company Pty Ltd	Australian cattle farming	PHOENIX ENERGY HOLDINGS	Irish natural gas distribution and supply
DEUTSCHE ANNINGTON	German residential housing – sales and rentals	RTR RETE RINNOVABILE	Italian solar energy
FOUR SEASONS HEALTH CARE	UK healthcare	TANK & RAST	German autobahn services
everpower	US wind power	The GARDEN CENTRE GROUP	UK garden centre group

Creating value in businesses through transformation and sustained investment

PORTFOLIO BUSINESS REVIEW

THE **ANNINGTON** PORTFOLIO IS SPREAD ACROSS ENGLAND AND WALES

84%

BY PROPERTY VALUE IS LOCATED IN THE SOUTH OF ENGLAND

PORTFOLIO BUSINESS REVIEW

ANNINGTON

PORTFOLIO BUSINESS REVIEW – ANNINGTON

Annington became the largest private owner of residential property in the UK when it purchased the Married Quarters Estate from the Ministry of Defence ('the MoD') in 1996. Annington leases back the majority of its properties at a material discount to market rates to the MoD to provide accommodation for Service families. The MoD is responsible for the management and maintenance of the properties it leases, but once these are released to Annington, they are refurbished and made available for sale or private rental at open market prices

YEAR END: 31 MARCH	YTD DEC 2011[1]	YTD DEC 2012[1]
Rental business revenue	£132m	£134m
Sales business revenue	£49m	£51m
Costs	(£59m)	(£48m)
EBITDA	**£122m**	**£137m**
Net interest expenses – external[2]	(£204m)	(£160m)
Loss before depreciation and tax	(£82m)	(£51m)
Capital expenditure	£9m	£15m
Units sold	378	261
Average sales price per unit	£124,035	£196,815

[1] Based on nine months to December
[2] Net interest expenses – external includes accrual interest on zero coupon bonds

PORTFOLIO BUSINESS REVIEW – ANNINGTON

INVESTMENT RATIONALE

Annington acquired more than 57,400 residential properties and was created specifically to manage the properties leased to the MoD and to refurbish and sell or rent on the open market those homes released by the MoD as surplus.

The company now owns around 42,000 homes, which are leased either to the MoD for Service families or to other private tenants.

James Hopkins, Guy Hands

CREATING VALUE

TRANSFORMING STRATEGY

The strategy for the newly-created business had three objectives:

- Establishing an efficient rent review process which would achieve the best results for the company;
- Developing a flexible and cost-effective refurbishment and sales capability to maximise the potential from sites released by the MoD; and
- Exploring specific opportunities related to either the existing portfolio or further MoD housing requirements.

A flexible sales organisation was created to deal with fluctuating numbers of properties released in unpredictable geographic locations.

Through sensitive pricing strategies and the careful use of incentives, home ownership has been made a realistic option for those who have previously been priced out of the UK's property market. Annington has sold over 17,000 homes to the public, 47% of them to first-time buyers.

STRENGTHENING MANAGEMENT

The properties were acquired with no management. A team was assembled to establish an effective governance and operating structure. Annington's operating model is based on a small core team that uses outsourcing as a major tool to meet the fluctuating requirements of the business.

DEVELOPING THROUGH CAPITAL EXPENDITURE

Capital expenditure has improved the properties and sites. With the types of properties that Annington owns, the location and environment are very important and it has dedicated substantial investment to creating an attractive environment and 'street scene' around the properties.

BUILDING THROUGH MERGERS AND ACQUISITIONS

Annington has added value through planning, redevelopment and infill development. It has also used available cash to acquire additional properties to lease to either the MoD or private tenants. Annington continues to work with the MoD to find creative solutions to its housing challenges and to look for opportunities to leverage its established management platform.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

The stable government-backed rental cash flow from the leased estate, along with proceeds from the sale of properties released, was securitised to reduce the initial investment required to acquire the portfolio.

2

PORTFOLIO BUSINESS REVIEW – ANNINGTON

CURRENT FINANCIALS

Rental business revenue for the nine months to December 2012 was up on the same period last year, reflecting the strong rental market which is expected to continue in 2013. The 2012 Rent Review achieved an increase of 10% across the reviewed sites, and was the fourth and final round of the third tranche in the Rent Review cycle to have been completed since the original deal in 1996. 2013 is a fallow year in which there will be no rent reviews.

Similarly, Sales business revenue was higher than the same period last year, as Annington focused on maintaining sales through sensitive pricing, managing the release of sale stock from short-term rental stock, marketing initiatives and sales incentives.

Given market conditions, Annington's sales have held up well for the nine months to December 2012 with 261 property disposals, although volumes are down on prior years due to the availability of stock. Regular price reviews and careful use of incentives have meant that performance levels have been maintained and are on track to exceed business plan targets by the financial year end in terms of both values and volumes.

CURRENT DEVELOPMENT PLAN

Annington focuses considerable resource and effort on the Rent Review process with the MoD and has achieved a compound annual growth rate in rents of 5% since 1998. The requirement for the MoD to pay rents on unoccupied properties ensures gross to net rent is consistently high and as the MoD is responsible for maintenance of the properties, Annington retains a high proportion of its rental income.

Annington continues to optimise the value from releases of surplus properties by the MoD to unlock the potential to revert to full market value. It refurbishes and holds stock for short-term rent in order to defend market prices and releases units for sale as local conditions dictate or bulk leases properties to selected qualified counterparties (for example, housing associations) where redevelopment is anticipated pending planning consent.

Where value optimisation through sales of released units is not viable, MoD releases are let on the open market through the Rentals division for an immediate value uplift through rentals at or close to market rates.

In certain high value areas, the Developments division can add value through its expertise in planning and development. A series of successful joint ventures have demonstrated a clear ability to balance risk with sharing the upside from these opportunities.

76%

OF THE ANNINGTON PORTFOLIO BY PROPERTY VALUE IS WITHIN A TWO-HOUR DRIVE OF LONDON

PORTFOLIO BUSINESS REVIEW – ANNINGTON

Andrew Chadd, James Hopkins

COMPANY STRUCTURE

Annington operates across three business divisions:

Annington manages the core business of renting around 40,000 properties to the MoD along with the refurbishment and sale of homes on the open market;

Annington Rentals owns over 1,550 flats and houses let at market rates to the MoD and others; and

Annington Developments seeks opportunities for infill or wholesale redevelopment on all Annington sites.

MANAGEMENT

James Hopkins

Chief Executive Officer

James joined Annington Homes Ltd as CEO 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.

Andrew Chadd

Chief Financial Officer

Andrew joined the Annington board in 2003 before becoming Finance Director Designate in July 2012 and then CFO in October 2012. Andrew joined Nomura's Principal Finance Group (the predecessor of Terra Firma) as Finance Director, Portfolio Businesses in 1999. In this role, he was involved in a number of Terra Firma's portfolio businesses, including Annington, AWAS, Infinis, RTR and EverPower. Andrew was seconded to EMI in 2007 where he worked on a number of major initiatives, including acting as CFO of EMI Music. Andrew started his career at Unilever before going on to finance roles at First Choice Holidays and Dun & Bradstreet.

Nick Vaughan

Commercial Director

Nick joined the Annington Group in 1998 as Financial Analyst and Programme Manager at Annington Management Ltd before becoming Commercial Director in 2001 and joining the board later that year. Nick joined from The British Land Company plc where he worked on a number of strategic property projects and acquisitions and prior to that Rosehaugh plc where he was Finance Director of a number of group companies.

PORTFOLIO BUSINESS REVIEW – ANNINGTON

A fond farewell and thank you to Sandy Hunter

Sandy has been a part of the Annington team since 1996

PORTFOLIO BUSINESS REVIEW – ANNINGTON

As an ex-military pilot, Sandy Hunter might not have seemed the most obvious candidate to become Deputy Chairman of a property company, but his wider business interests meant that he brought the ideal blend of skills to the job. He had also served as Chairman of one the country's largest Housing Association groups, gaining first-hand experience of the complexities of large property portfolios

This mix of experience has proved invaluable ever since he joined the business in 1996 and will be much missed when he leaves this year. Sandy was part of the original Annington bid team led by Guy Hands to acquire the MoD's housing stock in England and Wales.

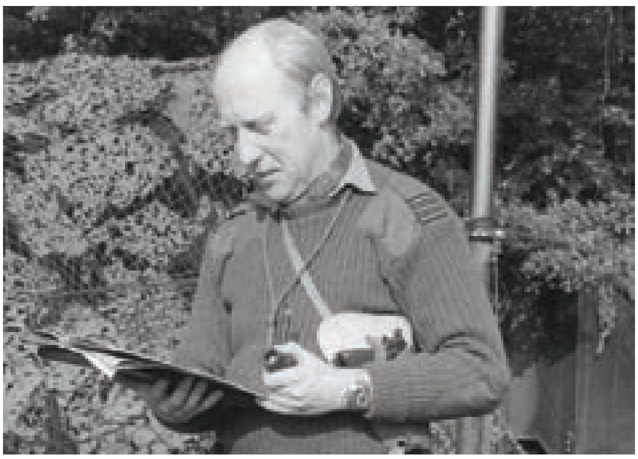
"I had served in the Armed Forces for over 30 years," says Sandy, "and had lived, with a greater or lesser degree of satisfaction on the part of my wife, in many of the houses in question. I had a real interest in the problems involved in Service life and had a great sympathy for Service families."

Sandy is full of praise for the leadership shown by the management team in Annington's early years.

"James Hopkins arrived on the scene in 1998 and immediately transformed the business," he says. "He quickly welded together an innovative and energetic executive team which broke new ground, especially in the preparation and presentation of surplus MoD housing for sale. At the same time, the bread and butter work of the MoD Rent Review was systematised and refined. Under his leadership, the staff supporting all these activities was small in number but loyal, enthusiastic and extremely well motivated. For me as a Non-Executive Director, it has been a constant delight to play a small part in the success of the company and to enjoy its ethos."

As part of the management team, Sandy has also worked hard to reach out to the Service families living in the houses now owned by Annington (although contractually there can be no direct involvement in the management and maintenance of the estate). A key success has been the Annington Trust, which was set up in 1996 to support community activities. It is still going strong today and has donated over £300,000 to various family groups.

"Now time and the demands of good governance have caught up with me and I must take my leave of the company," says Sandy. "It will be a wrench for me to leave Annington and I can honestly say that I have never in either my military or business careers had the good fortune to serve in such a happy, efficient or well-led team as this remarkable company. I leave it with regret and with my very best wishes for its future success."



Sandy served in the Armed Forces for over 30 years

PORTFOLIO BUSINESS REVIEW

IN THE SIX YEARS SINCE ACQUISITION **AWAS** HAS INCREASED THE FLEET SIZE FROM 154 TO 254 AIRCRAFT, WHILST HALVING THE AVERAGE AGE OF THE FLEET

6

AVERAGE AGE OF THE FLEET IN YEARS

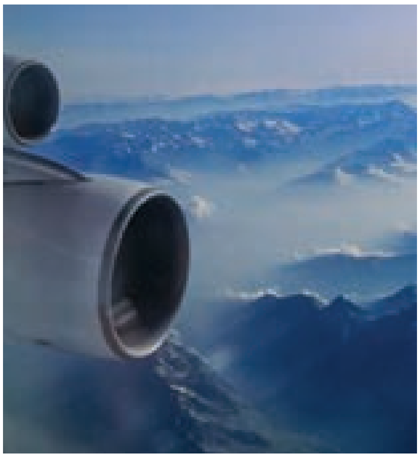
PORTFOLIO BUSINESS REVIEW

PORTFOLIO BUSINESS REVIEW – AWAS

The acquisition of AWAS by Terra Firma in 2006 was followed by the 2007 acquisition of Pegasus Aviation Finance Company. AWAS has more than 240 aircraft on lease to over 90 customers globally and a delivery pipeline of more than 75 aircraft. The company serves markets in the Americas, Europe, the Middle East and Asia-Pacific, with a customer base that includes some of the world's major international and regional airlines. Its principal sources of revenue are lease rental payments and the proceeds of aircraft sales

YEAR END: 30 NOVEMBER	2011	2012
Revenue	$780m	$926m
Costs	($81m)	($95m)
EBITDA	**$698m**	**$831m**
EBIT	$418m	$496m
External interest expense	($238m)	($255m)
Operational PBT	**$180m**	**$241m**
Capital expenditure	$1,388m	$2,060m

These results are unaudited



PORTFOLIO BUSINESS REVIEW – AWAS

INVESTMENT RATIONALE

At acquisition, AWAS owned 154 Airbus and Boeing aircraft, some with attractive long-term leases and many providing attractive rental yields. The acquisition of Pegasus added a further 80 planes to the asset base and diversified the portfolio.

The aviation transportation sector is an essential part of economic development and the world fleet is expected to double by 2030. Furthermore, leasing companies' share of new orders is set to increase as airlines shift from owning to leasing.

AWAS was a non-core asset, under-managed and starved of investment with an older than average asset portfolio and no new aircraft on order. The business had significant credit exposure with no real risk management framework as well as customer concentration issues. The management team and company organisation had no centralised authority, making communication and decision-making ineffective and slow.

CREATING VALUE

TRANSFORMING STRATEGY

A new strategy was set out for AWAS to adopt a customer-focused approach to leasing, providing tailored customer solutions and forward fleet planning. It introduced a new risk management framework to actively manage credit and concentration risk and created additional value by reducing operating costs in the business.

STRENGTHENING MANAGEMENT

The management team was replaced and the workforce rationalised shortly after acquisition. AWAS's operations were relocated to a new headquarters in Dublin, Ireland, which has a strong leasing community with an attractive taxation environment, and Pegasus's operations were folded into this. Today, AWAS is an efficient scalable platform with 125 people managing more than 240 aircraft.

DEVELOPING THROUGH CAPITAL EXPENDITURE

AWAS is resourced to capitalise on aircraft investment and disposal opportunities in addition to the more typical 'buy and hold' strategy. As part of this more active strategy, the business sells off aircraft as they get older in order to improve the return on the portfolio.

AWAS has a significant delivery pipeline with Airbus and Boeing for more than 75 modern, fuel efficient aircraft. Together with 20 new aircraft delivered in 2012 and 24 other acquisitions from airlines and other lessors, the asset base of the business continues to grow and strengthen. This strong capital position also gives AWAS the means to offer its customers innovative fleet management solutions, such as sale and leaseback transactions or aircraft exchanges.

BUILDING THROUGH MERGERS AND ACQUISITIONS

As well as creating one of the world's leading aircraft lessors, the acquisition of Pegasus realised more than $15m of annual synergies, reduced the average age of the fleet and provided an attractive order book.

44

AIRCRAFT ADDED TO THE FLEET IN 2012

PORTFOLIO BUSINESS REVIEW – AWAS

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

The business was repositioned to reduce risk with the acquisition of newer aircraft and the introduction of credit concentration limits and cash maintenance reserves. AWAS's capital structure was actively managed through the introduction of debt financing for pre-delivery payments ('PDPs') along with term debt and bond issuances.

CURRENT FINANCIALS

AWAS performed ahead of expectations for all of its key financial objectives for the year. Revenue of $926m was $146m ahead of prior year, whilst costs of $95m were just $14m more than prior year due to tight control of overheads and a better than expected credit performance. This resulted in EBITDA of $831m being $133m ahead of 2011 results.

Improved maintenance performance, including lessor contributions amortised over the life of the lease, was offset by lower gains on aircraft sales and by impairment charges taken on some aircraft at the year-end. External interest expense was $17m higher than 2011, mainly due to accelerated amortisation of fees on refinanced loan facilities and higher swap costs. Together, these variances meant that the business reported an Operational PBT of $241m, ahead of prior year by $61m.

Capital expenditure spend during the year on acquisitions and PDPs was $2,060m. This was $672m higher than in 2011, reflecting the investment of capital to enlarge and renew the AWAS fleet.

CURRENT DEVELOPMENT PLAN

IATA's airline industry outlook for 2013, published in December, forecasts increased earnings for airlines compared with 2012 due to easing oil prices and efficiency improvements, which will offset continued economic weakness. The passenger sector will continue to be stronger than the cargo sector.

The difference in regional performance will remain, with year-on-year profit growth in all regions except Europe and Africa. AWAS's revenue mix continues to be aligned with this trend and, despite the uncertainties affecting its customers, AWAS's credit performance remains ahead of budget.

In 2012, 20 new pipeline aircraft were delivered and the business has placed all 25 deliveries which are expected to the end of November 2013 and is continuing its work to place its remaining pipeline aircraft. The new deliveries, and the selective disposal of end-of-life assets (21 during the year), continued to lower the average age of the AWAS fleet, which is now under six years, having been close to seven years at the end of November 2011.

AWAS has maintained a pipeline of attractive investment opportunities and during the year to November 2012 acquired 24 aircraft from airlines and other lessors. The business continues to see attractive opportunities to invest in 2013.

Winner of the Airfinance Journal European Deal of the Year award

PORTFOLIO BUSINESS REVIEW – AWAS

Lorenzo Levi, Werner Seifert

Ray Sisson, Simon Glass

MANAGEMENT

Dr. Werner G. Seifert
Chairman
Werner was appointed Chairman of AWAS in 2008 and is a member of Terra Firma's specialist advisory group. Prior to joining AWAS, he held positions as CEO of Deutsche Börse AG, General Manager of Swiss Re and Partner of McKinsey&Co, and served on several Boards.

Dr. Seifert holds a PhD in Business and Political Science from the University of Hamburg, Germany. Until 2012, he was teaching as Honorary Professor at the European Business School in Reinhartshausen, Germany.

Ray Sisson
Chief Executive Officer
Ray joined AWAS as CEO in August 2010. He brought with him extensive aviation industry experience gained at: GE Capital Aviation Services where he was successively responsible for the Asia Pacific and EMEA regions; Titan Aviation where he was CEO; and SR Technics where his last position was Chief Commercial Officer.

Simon Glass
Chief Financial Officer
Simon joined the business as CFO in February 2011. He has over 25 years of international business experience in the banking and financial services industries. Prior to joining AWAS, Simon was most recently at the Royal Bank of Scotland Group plc where he held the position of Deputy Group Finance Director. Over the past 20 years, he has held a number of senior finance positions within the global banking industry.

Daniel Bunyan
Chief Investment Officer
Daniel joined the business as Head of Portfolio Management in October 2010 and Chief Investment Officer at the end of 2012. He brought with him a wealth of experience in the sector, including as a Partner in the Aviation practice of Oliver Wyman/MMC with a particular focus on strategy development and financial analysis.

Angus Williamson
Head of Risk Management
Angus joined AWAS in 2007 as Head of Risk Management. Angus has over 20 years' experience in aviation, having worked for the International Bureau of Aviation and most recently as Head of Investment and Business Development at AerCap.

PORTFOLIO BUSINESS REVIEW – AWAS

AWAS pulls together for a worthy cause

The AWAS team at the ORBIS Ireland Plane Pull

PORTFOLIO BUSINESS REVIEW – AWAS

An ingrained belief in Corporate Social Responsibility is a cornerstone for the people at AWAS, and in 2012 they followed through on that commitment with their continued support of ORBIS Ireland

Established in 2005, ORBIS Ireland is focused on one major project: to eliminate a highly prevalent and life destroying, blinding disease – trachoma – in some of the poorest regions of southern Ethiopia.

2012 began with AWAS hosting the AWAS Ball in Aid of ORBIS for the fifth consecutive year, an event that coincided with the heavily attended Air Finance Conference in Dublin. In a single evening over €130,000 was raised for ORBIS. AWAS donated the entire cost of the event, ensuring that every dollar contributed went directly to the charity to support its vital work.

Later in the year, and for the third year in succession, AWAS entered a team of 25 in ORBIS Ireland's Plane Pull event. This event features teams pulling a freighter aircraft at Dublin airport, and has raised over €40,000 since it started. For the second year in a row, the AWAS team came away winners with the best time for their pull.

There is a huge need for this money to tackle a disease that is devastating yet easy to cure and prevent with the right resources. Trachoma is a highly infectious eye disease that has been wiped out in the Western world, but in countries like Ethiopia it continues to bring misery, pain, blindness and poverty. However, with effective treatment someone's suffering could be over in a matter of days. Their sight could be saved and their life transformed.

In developing countries, children who are blind or visually impaired struggle in school, are unable to join the workforce, are unable to reach their full potential or contribute to their family income and are seen as a burden on families and society. Up to half of children in developing countries who become blind will die within a year.

Ethiopia has one of the highest blindness prevalence rates in the world – around twice that of other developing countries – with 1.2 million blind people out of a population of 82 million. Over 80% of the population live in rural areas and there are currently only 35 ophthalmologists working outside of Addis Ababa to care for approximately 70 million people. This works out at around one ophthalmologist for every two million people in rural areas.

Ray Sisson, AWAS CEO, commented, "AWAS is proud to support ORBIS. The work that they do is truly remarkable and meaningful. Recently I had an opportunity to tour ORBIS's flying air hospital which visits the neediest and performs sight-saving procedures. The experience reinforced for me the importance of the cause, as well as how well-organised ORBIS is in combating sight-related illnesses throughout Africa."

Celebrating the best time of the day

2

PORTFOLIO BUSINESS REVIEW

CPC IS BEING TRANSITIONED FROM A FARM GATE PRODUCER TO A MARKET-FOCUSED SUPPLIER

5

PROPERTIES ADDED SINCE ACQUISITION

PORTFOLIO BUSINESS REVIEW

Consolidated Pastoral
Company Pty Ltd

PORTFOLIO BUSINESS REVIEW – CPC

CPC owns a portfolio of cattle stations with 368,000 head of cattle across 5.8m hectares of land in Australia. The company also holds a 50% interest in a joint venture which owns and operates two feedlots in Indonesia. CPC's direct sales channels primarily involve selling cattle to domestic feedlots or processors and exporting live cattle

YEAR END: 31 DECEMBER	2011	2012
Revenue	A$49m	A$48m
Costs	(A$45m)	(A$50m)
Cash EBITDA	A$4m	(A$2m)
Purchase and non-cash livestock adjustment	A$29m	A$6m
EBITDA	**A$33m**	**A$4m**
External interest expense	(A$18m)	(A$17m)
Capital expenditure	A$4m	A$5m

PORTFOLIO BUSINESS REVIEW – CPC

INVESTMENT RATIONALE

At acquisition, CPC had nearly 280,000 head of cattle, making it the second largest Australian beef producer. Its vast land holdings allowed for small amounts of higher-value alternative use.

Demand for protein is being driven by an increasing population and changing diets in developing economies. Australia is one of the few major disease-free beef exporters in the world, allowing it access to markets which are restricted to other international suppliers.

CPC had the characteristics of an under-managed and under-invested, family-run business. This presented an opportunity to acquire assets with attractive fundamental attributes and to assemble a robust management team to take advantage of the myriad of opportunities available to a well-capitalised, larger-scale business.

CREATING VALUE

TRANSFORMING STRATEGY

A more commercial mindset was introduced along with an analytical capability to identify investment opportunities to develop existing assets, explore new geographical markets and make add-on acquisitions.

Terra Firma undertook a major strategic review in 2012, and the resulting plan seeks to transform the business from being a farm gate producer to a market-focused supplier.

19

PROPERTIES IN THE PORTFOLIO

STRENGTHENING MANAGEMENT

The existing team, which had detailed knowledge of the herd and the properties, was supplemented by a number of new senior hires including a new Chairman, CEO and CFO.

DEVELOPING THROUGH CAPITAL EXPENDITURE

The business has undertaken a significant capital investment programme to improve its cattle stations and increase their cattle-carrying capacity. Investment has been made to improve watering points, build yards and laneways, add fencing and bring more land into production.

BUILDING THROUGH MERGERS AND ACQUISITIONS

The industry is fragmented, with many station owners lacking the resources to benefit from the changes in the sector – this provides an opportunity to grow the business through acquisitions.

CPC has acquired five additional properties since Terra Firma's original investment. These acquisitions provide additional breeding and grazing capacity to support an increase in the size of the herd. They also provide greater flexibility in the way in which cattle are bred, grown and marketed, and offer defensive possibilities in times of adverse climatic conditions or if end-market conditions change.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

Risk is being reduced through the establishment of a forward-looking management team, the creation of integrated systems and processes, and a more diversified geographical exposure for both production and sales markets. The latter is being further supported through partnerships and further involvement along the supply chain.

PORTFOLIO BUSINESS REVIEW – CPC

CURRENT FINANCIALS

CPC finished its financial year with revenue of A$48m, slightly below 2011. Over 70,000 head of cattle were sold in the year, which was lower than expected due to the continuing import restrictions in Indonesia which has reduced export volumes and resulted in lower prices in this market due to excess supply. Domestic prices were also lower than expected, given increased slaughter rates following a drier season than in previous years. Cattle originally earmarked for export to Indonesia will continue to be transferred to Queensland properties for subsequent domestic sale in 2013/14, as Indonesian import restrictions are unlikely to be reduced in the foreseeable future.

Total costs of A$50m were A$5m more than prior year, with lower sale-related transport costs being offset by higher internal transfer and feedlot costs as cattle were moved to Queensland for sale in the domestic market.

Operating EBITDA, before non-cash valuations and write-offs, was A$15m, 78% ahead of 2011. An ongoing exercise to more accurately count the existing herd concluded in December 2012. As a result, overall herd numbers were reduced by 15,800, causing a reduction in book value and an adverse EBITDA impact of A$8m. This write-off was due to a variety of factors, including cattle that had died due to extreme weather conditions on some of the Northern properties in the last few years. Lower market prices led to a further downward revaluation of A$2m. Taking into account these one-off and non-cash adjustments and other charges, EBITDA for the year was A$4m; however, the business performed well operationally, with increased efficiency somewhat offsetting weaker sales.

After a late start to the second round brandings, 99,600 calves were branded in the year, 14,100 (17%) above prior year: this was a record for CPC.

Capital expenditure for the year was A$5m, slightly lower than expected due to a later start to the annual investment programme, as well as a delay in some expected maintenance projects.

99,600

CALVES BRANDED IN 2012

PORTFOLIO BUSINESS REVIEW – CPC

Fergal Leamy, John Stevenson, Mark Bahen

CURRENT DEVELOPMENT PLAN

Following a major strategic review in 2012, the business is being transformed from a farm gate producer to a market-focused supplier. As a result, there have been a number of senior management changes. Mark Bahen, one of CPC's existing Australian Non-Executive Directors, replaced Ken Warriner as Chairman in August 2012 and Fergal Leamy, who was a Business Director at Terra Firma, was appointed CEO in October 2012. In addition, General Managers of Queensland and the Northern Territory were appointed, the Health and Safety team was strengthened and a number of promotions made to Station Manager positions. The right organisation is now in place as CPC heads into the new season.

The business continued to be adversely affected by the lower number of import licences being issued by the Indonesian Government. However, the Chinese joint venture with Dantong which sells boxed beef, has progressed well and offset some of this negative impact. This business will be further developed as CPC seeks to broaden the number of markets that it supplies with a more consumer- and retailer-based offering. We are optimistic that CPC will deliver significantly more sales to its chosen markets over the next 12 months.

MANAGEMENT

Mark Bahen

Chairman

Mark has been a Non-Executive Director of CPC since the acquisition by Terra Firma and became Chairman in August 2012. Mark is a former partner of Clayton Utz, one of Australia's leading commercial law firms where he practiced corporate and commercial law and headed up the agribusiness practice. Mark has provided advice to some of Australia's leading agribusiness companies and has retained a personal involvement in agriculture all his working life.

Fergal Leamy

Chief Executive Officer

Fergal was appointed as CEO in October 2012. Fergal was a Business Director at Terra Firma and has spent 15 years working with food and agricultural businesses across Europe, the US and Australia. Prior to joining Terra Firma, Fergal was the CEO of Greencore USA, one of the world's leading private label food manufacturers. Fergal began his career at McKinsey & Company in London where he served many leading food and agricultural clients. Fergal has Bachelor degrees in Business and Law from University College Dublin.

John Stevenson

Chief Financial Officer

John is an Australian Chartered Accountant with over 25 years' working experience in Australia and Asia. Prior to joining CPC in June 2010, John was a Finance and Managing Director for Jardine Matheson Ltd in Indonesia for 10 years and has extensive experience as a Financial Manager throughout the South-East Asia region. In Australia, John practised as a Chartered Accountant with Coopers & Lybrand and Deloitte, and his pastoral experience includes working as the Financial Controller for Heytesbury Beef in the mid-1990s.

PORTFOLIO BUSINESS REVIEW – CPC

Life on the open range

Campdrafting is a unique Australian sport involving a horse and rider working cattle

PORTFOLIO BUSINESS REVIEW – CPC

Living on a cattle station that may be hundreds of kilometres from the nearest town brings with it some unique privileges, and some challenges too

The 'local' school can be a few hours' drive away and many properties only receive mail weekly by privately-operated mail plane. However, technology has made a huge difference to the people in these remote outposts, helping them to connect more easily with each other and the wider community.

With most managers of CPC stations having children, access to education is a key issue. The answer is a hugely successful distance education system called 'School of the Air'. There are 16 branches of this school across Australia, with the homework assignments being sent out to the rural properties in two- to three-week units to be completed by the children and sent back to their teachers for marking. There are also interactive eLearning sessions each school day where the children can see their teacher and classmates for up to an hour.

On station, lessons are led by a tutor who is employed by CPC. They are typically someone from a rural background with an interest in a teaching career. For them, the role is a great opportunity to test their skills in a small classroom environment and also to get involved in station life. This form of teaching generally takes the children up to 11 years of age – after that they go on to boarding schools in the region for their secondary education, with CPC contributing towards the cost.

When you're living and working in such distant outposts, community gatherings are a rare but valuable opportunity to catch up with neighbours and friends. Campdrafting is a particularly popular event in rural Australia, with people coming from great distances to show off their horsemanship and cattle herding skills.

Recognising the importance of these events to local life, CPC regularly sponsors local campdrafts and rodeos, loaning cattle or providing financial support. This can involve up to 1,000 head of cattle being caught, sorted, freighted and then returned to the station, so it's a huge undertaking and vital to the future of these events. CPC employees also help out, often volunteering for shifts in the yards, cleaning up or taking on roles in the campdraft committee.

Despite the remoteness of the stations dotted across the outback, communities are thriving. As CPC's managers and their families can testify, the internet and a few well-supported social events can do a lot to bridge the huge distances that separate people.


CPC regularly sponsors campdrafts and rodeos

PORTFOLIO BUSINESS REVIEW

DEUTSCHE ANNINGTON COMPLETED THE LARGEST EUROPEAN REAL ESTATE REFINANCING IN 2012

€4.3bn

GRAND SECURITISATION REFINANCING

PORTFOLIO BUSINESS REVIEW

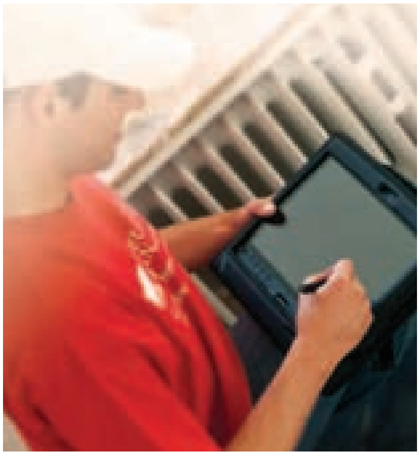
DEUTSCHE ANNINGTON

PORTFOLIO BUSINESS REVIEW – DEUTSCHE ANNINGTON

Deutsche Annington was created in 2001 when Terra Firma acquired 64,000 residential properties from the German Federal Railways. The company owns, maintains and rents the properties and sells individual units to tenants and third parties. Through add-on acquisitions, the company has almost tripled in size

YEAR END: 31 DECEMBER	2011	2012
Property management income	€1078m	€1065m
Property management costs	(€630m)	(€628m)
Property sales income	€253m	€305m
Property sales costs	(€201m)	(€271m)
Adjusted EBITDA[1]	**€501m**	**€471m**
Interest paid	(€286m)	(€267m)
Overall vacancy rate	4.1%	3.9%
Privatisation units sold	2,503	2,784

[1] Adjusted by non-recurring items



PORTFOLIO BUSINESS REVIEW – DEUTSCHE ANNINGTON

INVESTMENT RATIONALE

German residential real estate is an intrinsically low-risk asset class. The original transaction involved residential properties geographically spread across Germany. The portfolio generated a steady and reliable rental stream.

The ten companies which were acquired provided rented housing mainly for German railway workers, with the possibility of selling some of those properties to tenants and third parties. The housing had been owned and managed separately by the ten companies on a not-for-profit basis. As a result, there was enormous scope for integration and efficiency savings and the professionalisation of an under-managed sector. It also provided the opportunity for people to buy their own homes through socially-responsible privatisation.

CREATING VALUE

TRANSFORMING STRATEGY

Deutsche Annington was created to support the ten separate portfolios of assets and it now has an industry-leading property management platform. Deutsche Annington offers its customers a competitive range of properties with excellent service and strives to further improve service quality, customer focus and efficiency.

The owner occupancy rate in Germany was one of the lowest in Europe and Terra Firma believed that there was significant latent demand for home ownership. Deutsche Annington offers a tenant privatisation programme, giving tenants and third parties the opportunity to buy their own homes at affordable prices. Since 2002, more than 52,000 units have been sold.

Further portfolio acquisitions have enabled Deutsche Annington to replenish its portfolio and build a rental asset base that provides stable, recurring cash flows.

STRENGTHENING MANAGEMENT

A senior management team was installed shortly after acquisition that was made up of experienced local hires and was able to draw on Terra Firma resources and advice from Annington, Terra Firma's UK residential property company. As the business has developed the senior management team has been strengthened where necessary.

DEVELOPING THROUGH CAPITAL EXPENDITURE

Deutsche Annington has invested heavily in enhancing the attractiveness of its properties to tenants. In the six years to 2012, it has spent more than €860m on maintenance and property improvements with nearly €90m approved for investment in 2013. Deutsche Annington also undertook a comprehensive strategic initiative to increase customer satisfaction across its operations and enhance operational efficiencies. After investing more than €100m, the project has set new standards in the German housing industry.

BUILDING THROUGH MERGERS AND ACQUISITIONS

Through add-on acquisitions, Deutsche Annington has almost tripled its asset-base and is now the largest privately-owned residential landlord in Germany, with nearly 210,000 owned and managed units nationwide. The acquisition of Viterra in 2005 added nearly 138,000 properties under ownership or management, bringing with it significant efficiency savings through synergies. The added geographic diversity that this brought helped to further de-risk an already low-risk portfolio.

€90m

MODERNISATION PROGRAMME APPROVED FOR 2013

PORTFOLIO BUSINESS REVIEW – DEUTSCHE ANNINGTON

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

In August 2006, Deutsche Annington successfully completed the GRAND financing involving the securitisation of over 180,000 residential housing units in the largest-ever European Multifamily Commercial Mortgage-Backed Securitisation at an attractive interest rate. During the last quarter of 2012, DAIG successfully closed the GRAND notes refinancing transaction. This reduced the refinancing risk whilst benefiting the business through lower financing costs and significantly decreasing restrictions on operations and investments. The transaction was very positively received by the market.

CURRENT FINANCIALS

2012 was another successful year for DAIG with Adjusted EBITDA ahead of expectations at €471m. This positive performance was driven by a strong Sales revenue of €305m which was due to a higher number of housing units being sold and higher average sales prices. The relatively high volume of sales came from both the privatisations (single units) and multifamily and other categories.

The additional sales proceeds resulted in higher debt amortisation and hence lower interest expenses. Notarised sales of 5,527 during the year were also strong.

On the Rental side, although rents were slightly ahead of expectations, the higher level of property sales reduced the number of properties available for rental and resulted in Adjusted Rental EBITDA of €437m.

CURRENT DEVELOPMENT PLAN

As a responsible landlord, DAIG offers its customers a competitive range of properties with excellent service. The group has established an industry-leading platform for the management of its portfolio and is constantly striving to further improve service quality, customer focus and efficiency.

The Rental business is aiming to maintain its earnings level despite sales of the property portfolio. The business will also progress its organisational restructuring in order to deliver savings in the external cost base during 2013 and in future years. The Sales business will continue to focus on its portfolio clean-up initiative: selling non-core units in under-performing sites and inefficient locations.

DAIG remains focused on its investment projects. Building on the successful implementation of the modernisation investment programme in 2012, a modernisation programme worth nearly €90m has been approved for 2013. This includes an energy efficiency programme which aims to align the modernisation programme with a strategy to reduce greenhouse emissions. In addition, it is pursuing initiatives which enable older citizens to remain in their own homes for as long as possible. Both projects are government-supported initiatives.

DAIG aims to further expand its portfolio through the opportunistic purchase of suitable residential properties and the company pursues opportunities for further acquisitions on the basis of a disciplined approach to valuation.

PORTFOLIO BUSINESS REVIEW – DEUTSCHE ANNINGTON

Rolf Buch

Klaus Freiberg (COO), Rolf Buch (CEO), Dr. A. Stefan Kirsten (CFO)

MANAGEMENT

Rolf Buch

Member of the Management Board

Rolf joined Deutsche Annington in March 2013 and took over as CEO on 1 April 2013. Prior to that he was a member of the management board for Bertelsmann Se &Co, where he was responsible for Arvato, the global BPO services provider operating in over 40 countries.

Robbie Barr

Member of the Management Board

Robbie sits on the Deutsche Annington Management Board and performed the role of Acting CEO until the arrival of Rolf. He also manages Terra Firma's team of operational, finance and change management professionals who are responsible for pre- and post-acquisition operational change planning and implementation, performance monitoring and governance processes. Robbie is also the Chairman of Odeon & UCI.

Prior to joining Terra Firma in 2009, Robbie held a number of senior positions at Vodafone Group plc, including the role of Group Financial Controller and regional CFO for Vodafone's businesses outside Western Europe.

Dr. Stefan Kirsten

Member of the Management Board

Stefan joined the Deutsche Annington Management Board as CFO in January 2011. In his last role, he was CEO at Majid Al Futtaim Group LLC, a real estate business in the Emirates. Prior to that, Stefan held senior leadership roles in German industry, including CFO of both Thyssen Krupp AG and Metro AG.

Klaus Freiberg

Member of the Management Board

Klaus has been a member of the Deutsche Annington Management Board since February 2010 and is responsible for Property Management. He joined from Arvato AG where he was CEO. In his various roles with Arvato, which he joined in 1995, Klaus supervised and optimised the service centres of Deutsche Post and Deutsche Telekom.

PORTFOLIO BUSINESS REVIEW – DEUTSCHE ANNINGTON

How Deutsche Annington keeps adding value

Deutsche Annington has appointed 370 Facility Managers

PORTFOLIO BUSINESS REVIEW – DEUTSCHE ANNINGTON

Germany's largest residential property rental company, Deutsche Annington, has been putting its size to good use and delivering real benefits to the communities across its sites. This year, the key focus has been on providing additional services beyond its core offering of leasing affordable apartments

Keeping properties clean and well-maintained is important to the quality of life of all residents, and Deutsche Annington has been investing to make sure that happens. It has appointed 370 Facility Managers across its sites, looking after 140,000 apartments. These are people who residents and others can turn to when they have problems or questions relating to their properties. The new roles have also created much-needed employment opportunities, with 37% of recruits being over 50 years of age, 21% being previously unemployed and 8% having been out of work for more than a year.

Working alongside the Facility Managers are 700 Deutsche Annington tradesmen with the skills to tackle everything from painting and plumbing to heating and masonry jobs. Based at ten locations throughout Germany, they service 180,000 apartments. In 2012, they carried out around 195,000 minor repairs and renovated 4,500 vacant apartments. This has been another employment good news story; the tradesmen include former workers who had lost their jobs at struggling and insolvent local firms.

Deutsche Annington has also responded to demographic changes in Germany and acted to make sure it can provide an even better service to its older residents. More than 40% of its tenants are over 60 and most want to live independently in their own homes for as long as they can. In response, Deutsche Annington has been converting increasing numbers of its apartments to meet their needs. For example, Deutsche Annington recently completed 22 apartments in a pilot project in Geesthacht. These efforts to safeguard the quality of housing and life for its residents in the long term are being carried out in close cooperation with politicians, welfare associations and local service providers.

Elsewhere, Deutsche Annington is improving the services that it offers the whole community. It has invested around half a million euros to provide support through The Workers' Samaritan Federation (Arbeiter-Samariter-Bund). The Federation helps Deutsche Annington's residents by giving them professional advice from an on-site office, offering shopping and meal services, an emergency call service and home care.

2012 has been another year of Deutsche Annington looking for ways to deliver a superior service to its residents. The result is better-maintained properties, improved support for residents and homes they can enjoy for longer.

Clean and well-maintained properties are important to the quality of life of all residents

PORTFOLIO BUSINESS REVIEW

SINCE ACQUISITION **EVERPOWER** HAS BUILT AND PUT INTO OPERATION FIVE BEST-IN-CLASS WIND FARMS

2

400 MW

OF NEW OPERATING CAPACITY ADDED IN 2012

PORTFOLIO BUSINESS REVIEW

everpower

PORTFOLIO BUSINESS REVIEW – EVERPOWER

EverPower has assets in the North East and West Coast US power markets. It has six operating wind farms with over 500 MW of operating capacity, several late-stage development projects with an estimated capacity of over 400 MW and a longer-term pipeline of around 2,000 MW

YEAR END: 31 DECEMBER	2011	2012
Revenue	$12m	$42m
Grant income	$0m	$5m
Costs	($23m)	($29m)
EBITDA	**($11m)**	**$18m**
External interest expense	($4m)	($16m)
Earnings before depreciation, amortisation and tax	**($16m)**	**$3m**
Capital expenditure	$170m	$315m

These results are unaudited

PORTFOLIO BUSINESS REVIEW – EVERPOWER

INVESTMENT RATIONALE

Power generation is a core industry and, within this, the US renewables sector is still growing, driven by the desire for energy security and supported by environmental policy. Wind turbines are an infrastructure-type asset class, with established channels of project financing and the possibility of long-term power contracts.

The financial crisis was a difficult period for the wind power sector, leaving many companies over-leveraged, under-capitalised and over-committed. This offered an opportunity to enter the market at a low point in the cycle, bringing a disciplined approach to organic growth and exploiting the distressed market for further acquisitions.

Terra Firma believes that US policy will continue to support the development of the renewable energy sector over the long term.

CREATING VALUE

TRANSFORMING STRATEGY

Since acquisition, EverPower has been transformed from a development-only business into a growth-oriented, high quality developer, owner and operator of utility-scale wind generation assets.

The commercial side of the business has been positioned to maximise value through a combination of short- and long-term contracts, financial hedges, and merchant trading positions. In this way, the business will be well-positioned to benefit from potential rises in the price of power and renewable energy credits.

STRENGTHENING MANAGEMENT

EverPower today is a fit-for-purpose organisation across all the critical operational functions – development, procurement, construction, maintenance, commercial and finance. This has been achieved by supplementing the original management with selective hires to broaden and deepen the team, and by putting in place an appropriate incentive scheme to ensure alignment.

The company has also been professionalised through the establishment of an appropriate board, governance and organisational structure. New senior level appointments have included a Chairman and Non-Executive Directors, a CFO and a Commercial Director.

DEVELOPING THROUGH CAPITAL EXPENDITURE

Since the original acquisition, more than $550m has been invested on the construction of pipeline assets through a low point in the cycle. This has allowed EverPower, through both a targeted procurement programme and well-established relationships with all the major suppliers, to capitalise on this and build out the portfolio quickly and at low cost. By the end of 2012, EverPower had built and put in operation five best-in-class wind farms.

BUILDING THROUGH MERGERS AND ACQUISITIONS

Terra Firma has developed extensive relationships throughout the sector with utilities, non-regulated trading entities, banks, advisers and developers – which creates a steady source of deal flow. These relationships have allowed EverPower to accelerate its growth and the business has made four acquisitions with a total transaction value of more than $420m.

6

OPERATING WIND FARMS

PORTFOLIO BUSINESS REVIEW – EVERPOWER

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

Through rapidly and efficiently building out the portfolio, EverPower has received Government cash grants on all its projects in lieu of tax equity financing which effectively lowers the cost of capital.

Working with Terra Firma and leveraging off the team's relationships and expertise, the business has put in place low cost competitive construction and semi-permanent financings at attractive levels. The team has also successfully led the execution of private placement long-term debt and will continue to seek to optimise the balance sheet.

CURRENT FINANCIALS

As a result of the Mustang Hills acquisition, and successful commissioning of four projects in 2012, EverPower has reached critical mass. Overall, revenue at $42m was lower than expected, as higher availability was more than offset by lower winds (primarily at Mustang Hills), and lower power prices. Full-year EBITDA of $18m was $29m above 2011, marking the first year of positive EBITDA for the business. Costs of $24m were lower than expected, primarily due to lower than anticipated project development costs and maintenance charges.

Capital expenditure in the year was $315m, with the bulk of spending relating to the build-out of the Twin Ridges and Patton wind farms which were delivered on time and to initial cost estimates.

CURRENT DEVELOPMENT PLAN

EverPower made excellent progress in 2012, achieving its plan to expand installed capacity to create a wind energy business of substantial scale. As at 31 December 2012, the business had more than quadrupled its operating capacity compared with the end of 2011 and has therefore demonstrated a first-class track record in bringing projects from their infancy to completion.

During the fourth quarter, two new wind farms, Twin Ridges (139 MW) and Patton (30 MW), were completed in time to qualify for the 30% Federal cash grant, despite delays in receiving some towers and other parts. In addition, an extension to the Howard facility (4 MW) was also completed in time for the 31 December 2012 grant deadline. These new facilities are performing as expected.

The facilities at Howard, Highland North and Mustang Hills are all achieving over 98% availability, a level that is higher than expected and ahead of industry benchmarks. In addition, Howard and Highland North are meeting production and profitability targets.

Production from the Mustang Hills facility is fully contracted to Southern California Edison (the largest purchaser of renewable energy in the US), under a 24-year Power Purchase Agreement. The project forms part of the 1.5 GW Alta Wind Energy Center where there is a long history of wind resource monitoring. However, Mustang Hills, like the other projects in the Alta Wind Energy Centre, suffered from lower than expected wind speeds in the second half of 2012.

The business continued to evaluate opportunities for further growth. The decision to extend the Federal Production Tax Credit ('PTC') regime in early January 2013 was favourable in the context of EverPower's pipeline, as it means that assets that are put into construction during 2013 will qualify for either the PTC or an accelerated 30% of capital cost Investment Tax Credit.

PORTFOLIO BUSINESS REVIEW – EVERPOWER

Jim Spencer, Mike Kinski

MANAGEMENT

Jim Spencer
Chief Executive Officer
Jim founded EverPower in 2002. Prior to that, he served as an adviser to Renewable Energy Systems Ltd and was instrumental in establishing its Asia Pacific presence in NSW Australia. His earlier roles included President of Sithe Asia Holdings and Vice President of Prudential Capital Corporation in the Utilities & Finance Group. Jim has over 20 years' experience in the power industry managing the development and financing of energy projects.

Charles H. Williams
Chief Financial Officer
Charlie joined EverPower in 2009 and is responsible for the company's financial activities. He was previously CFO and Executive Director of Clipper Windpower Plc, a utility-scale wind turbine manufacturer and project developer, and CFO of Sithe Asia Holdings, a Hong Kong-based independent power producer.

Andrew Golembeski
Executive Vice President and Chief Operating Officer
Andrew is one of the founders of EverPower and has more than 20 years' experience in the electricity industry. Prior to EverPower, he was Vice President of Sithe Energies Inc. Andrew's expertise spans a variety of technologies in the US and internationally, and includes wind, solar, coal, combustion turbines and hydro plants.

Christopher Shears
Senior Vice President, Development
Chris joined EverPower in 2008. He has over 15 years of experience in the wind and renewable energy fields, including GB Business Development Manager for Renewable Energy Systems Ltd where he was responsible for wind strategy and building the company's UK project portfolio.

George Henderson
Chief Commercial Officer
George joined EverPower in 2010 and is responsible for all activities in the energy and renewable credit markets, including energy operations, portfolio hedging and commercial risk management. Prior to EverPower, he held senior roles in energy trading and marketing for PSEG Energy Resources & Trade LLC and Lehman Brothers Commodity Services. George has also been an international crude oil and petroleum product trader for various public and private companies.

Carol Strickland
Corporate Secretary and Chief Administrative Officer
Carol joined EverPower in 2008 and is responsible for corporate governance-related matters and administration. Prior to joining EverPower, she was the Corporate Secretary and Chief of Staff at US Trust Corporation.

Mike Speerschneider
Director of Government Affairs and Permitting
Mike joined EverPower in 2004 with over 10 years of experience in the energy industry. Michael oversees all permitting and government affairs activities for EverPower, with responsibility for working actively with state and federal agencies on both projects and on a broad regulatory level. He is dedicated to improving the overall business environment for the company through the legislative process.

Energising local sport and education

Friday night football games are a key community activity

PORTFOLIO BUSINESS REVIEW – EVERPOWER

Cambria County, Pennsylvania is typical of rural America – the population is just under 150,000, unemployment is 8% and median household income is around $42,000

Here, like in so many American communities, life often centres around high school sports teams, and Friday night football games are a major component of the area's social structure.

Until a recent gift from EverPower, which has three wind farms in the area, the students at Cambria Heights High School played on a field with a 40-year old scoreboard that often malfunctioned and caused game delays. "It literally was held together with duct tape," says Tom Boyle, Cambria Heights Athletics Director.

EverPower made a cash donation which enabled the school district to purchase a new scoreboard that will be in place by summer 2013. "We are extremely grateful to EverPower," continued Boyle. "Its donation means so much for the community and the school."

In addition to helping Cambria Heights High School, EverPower has helped create a long-term athletics competition between the Cambria Heights High School and nearby rivals Forest Hills High School. Each year the two schools' varsity football teams will compete in a 'Wind Bowl'. The Wind Bowl replaces the Coal Bowl, sponsored in the past by a mining company, with the winning school being able to keep and display the trophy for the full year. There will also be an 'EverPower Challenge' created to recognise all varsity-level sports. Teams from the two high schools will compete for points and the winning team will receive a trophy for the year.

EverPower is also supporting the academic side of life at the school by creating a scholarship competition for students interested in engineering or sustainable energy. Awarded annually, the scholarships will help towards the students' university or technical training costs.

Last summer, Mike Kinski, Operational Managing Director at Terra Firma, visited the project site with Jim Spencer, President and CEO of EverPower. "Mike and I wanted to do something for the county that would strengthen the relationship between our company and the residents," says Spencer. "Our support provides a tangible sign of how much we care about the communities where our projects are located."

EverPower's projects in Cambria County are: Highland Wind Farm (62.5 MW); Highland North Wind Farm (75 MW); and the recently-completed Patton Wind Farm (30 MW).

Cambria Heights High School football team

PORTFOLIO BUSINESS REVIEW

FOUR SEASONS HEALTH CARE IS THE UK'S LEADING ELDERLY CARE PROVIDER

2

20,000

MORE THAN 20,000 RESIDENTS

PORTFOLIO BUSINESS REVIEW

FOUR SEASONS
HEALTH CARE

PORTFOLIO BUSINESS REVIEW – FOUR SEASONS

Four Seasons is the UK's leading elderly care provider, operating 447 care homes and 58 specialist care centres in the UK, the Isle of Man and Jersey

YEAR END: 31 DECEMBER	2012
Revenue	£712m
Costs	(£615m)
EBITDA	**£97m**
External interest expense	(£73m)
Earnings before depreciation, amortisation and tax	£24m
Capital expenditure	£43m

These results are unaudited

PORTFOLIO BUSINESS REVIEW – FOUR SEASONS

INVESTMENT RATIONALE

Four Seasons is the largest independent provider in the £14.5 billion care market. It employs more than 30,000 staff caring for more than 20,000 residents. The group ranks among the highest-rated providers for quality of care and also leads the sector in the development of specialist services for residents with higher dependency needs such as nursing care for frail elderly, respite and an award-winning specialist dementia service.

Four Seasons represented a strong opportunity to acquire a stalled, ex-growth business which has a strong position within a changing industry.

The business is split into the Care Home Division ('CHD') which focuses on elderly care and contributes around 90% of profits and The Huntercombe Group ('THG'), which is focused on specialist care across a range of services in hospitals and specialised units.

Four Seasons has a strong asset base, owning around 60% of the facilities it operates, limiting its exposure to rental costs.

Prior to the acquisition by Terra Firma in July 2012, Four Seasons suffered a prolonged period of financial uncertainty which limited investment in the business. A restructured balance sheet will enable Four Seasons to build on its leading sector position, developing quality and specialisms in order to achieve long-term sustainable growth.

30,000

STAFF

CREATING VALUE

TRANSFORMING STRATEGY

Four Seasons now has a stable capital structure and access to new capital to build sector share as the industry shifts from low to high dependency care and to redefine the role of a care home from low-skill accommodation provider to a core part of the elderly healthcare industry.

STRENGTHENING MANAGEMENT

Terra Firma's acquisition will free Four Seasons' existing management from capital structure concerns and allow them to focus on operational change and transforming the business. A new Chairman has been appointed and the team will strengthen the development and procurement functions.

DEVELOPING THROUGH CAPITAL EXPENDITURE

Terra Firma is working with Four Seasons management to leverage its local knowledge in order to pursue highly accretive development projects and cultivate capital expenditure opportunities across the existing estate.

BUILDING THROUGH MERGERS AND ACQUISITIONS

In a highly fragmented market which is currently depressed by a number of cyclical factors including securing debt, bank/property company ownership issues and low fee rate growth, there are significant acquisition opportunities. The team is focusing on deploying capital for niche, higher dependency or self-pay assets for which there is the strongest growth in demand.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

Restructuring Four Seasons' balance sheet will de-risk the business and lower the cost of capital.

PORTFOLIO BUSINESS REVIEW – FOUR SEASONS

CURRENT FINANCIALS

For the full year ending December 2012, Four Seasons generated revenue of £712m, ahead of the plan established by Terra Firma at the time of acquisition. EBITDA of £97m was below expectations due to the higher than expected short-term costs arising from the integration of the 139 former Southern Cross care homes that were taken over in late 2011. These cost overruns have now largely been eliminated and continued to trend downwards in the final quarter of 2012.

Occupancy in the CHD averaged 88% over the year (0.5% above the prior year), with significant progress having been made in the former Southern Cross homes, where occupancy has increased by 4% since integration and is now in line with the CHD average. Occupancy in THG averaged 70% over the year, with the last two months of the year seeing a recovery in occupancy after a weaker summer.

Capital expenditure was £43m, which was lower than expected due to more focused spending in the areas identified in Terra Firma's strategic review. A significant amount of capital expenditure in 2012 related to improving the acquired Southern Cross homes.

CURRENT DEVELOPMENT PLAN

The key focus of the business in 2012 was the integration of the former Southern Cross homes, the integration of the Care Principles acquisition which took place in July 2011, and implementing the operational improvements which were identified by Terra Firma as part of its investment analysis. In addition, the business has proactively responded to the tighter regulatory regime put in place by the Care Quality Commission following the Southern Cross insolvency and various quality-of-care scandals in recent years.

Since acquisition, Terra Firma has instigated a number of initiatives for immediate implementation. These cover quality (through the roll-out of Four Seasons' award-winning dementia care programme in the CHD), operations (through savings resulting from reduced use of agency staff and procurement and facilities management efficiencies), estates (via a review of the property portfolio), and a strategic review of THG's specialist care services. Procurement savings initiatives are progressing well and are expected to yield EBITDA savings of around £5m in 2013, with no associated compromise in providing a high quality of care.

The existing management team has been strengthened, with Ian Smith being appointed as Chairman. A programme leader and external consultants have also been appointed to accelerate progress in the procurement and facilities management initiative.

In February 2013, Four Seasons signed a voluntary joint recognition agreement with three trade unions: the GMB, the Royal College of Nursing and UNISON. Under this agreement, Four Seasons will recognise the joint unions for negotiation and consultation with its employees and will create the conditions under which Four Seasons can expand the training and development of its workforce and reduce staff turnover and its associated costs. This move directly supports Terra Firma's strategy and business plan for Four Seasons, whereby quality of care is fundamental to our plan to transform the business.

PORTFOLIO BUSINESS REVIEW – FOUR SEASONS

Peter Calveley, Steven Webber

Lorenzo Levi, Ian Smith

MANAGEMENT

Ian Smith
Chairman
Ian was appointed Chairman of Four Seasons in September 2012. Prior to this, Ian held a number of senior positions including CEO of Reed Elsevier and Taylor Woodrow. From 2004 to 2006, Ian was CEO of General Healthcare Group, a private hospital company. He has served on the Parliamentary Review of the Royal Mail (the Hooper Review) and he completed a Parliamentary Review on Civil Service relocation and regional strategy (the Smith Review). Ian has been working with the 'Quartet' on the Israeli/Palestinian peace process for two years to 2012.

Peter Calveley
Chief Executive Officer
Peter joined Four Seasons in 2005 as Medical Director in a part-time capacity, before taking on a full-time position in 2007 as Chief Operating Officer. In 2008, Peter was made CEO. He is a former GP and Primary Care Trust director and executive chairman. In addition, he is a member of the Department of Health Forward Thinking Group which informs Government policy.

Ben Taberner
Chief Financial Officer
Ben was appointed CFO in March 2010. He joined Four Seasons in 2003 as Group Financial Accountant with responsibility for the group's debt and corporate restructuring as well as statutory and investor reporting. Previously, Ben was a senior manager at KPMG in London and Manchester focusing on the audit of international groups.

Dominic Kay
Group Commercial Director
Dominic joined Four Seasons in 2005 and has responsibility for legal, property, mergers and acquisitions, and developments for the group. He has previously held various directorships in the aviation, travel, leisure and insurance sectors.

PORTFOLIO BUSINESS REVIEW – FOUR SEASONS

A pioneering approach to dementia

The PEARL programme has won a national award from The Improvement Foundation

PORTFOLIO BUSINESS REVIEW – FOUR SEASONS

A new case of dementia occurs about every three minutes in the UK and this rate is forecast to increase as the population ages. It affects one in 14 people over 65 years of age and one in six people over 80 years

Four Seasons is committed to supporting those affected, recognising their individuality and helping them to live their lives as richly and fully as they always have. Its pioneering programme, delivered through its PEARL specialist dementia care homes, is already making a dramatic difference to sufferers and their families.

"My husband had been in bed for 16 months. The home took him off night medication first, then daytime medication. In a matter of weeks he was up and about. On the next visit, we sat in the lounge eating breakfast together and he is much more aware and alert. It is remarkable."

This testimony from the wife of a resident at a PEARL specialised dementia care home is one of many stories illustrating what the programme means in human terms.

Four Seasons' approach is a reaction to prevailing practice which relies on the over-use of anti-psychotic medication to manage people with dementia, effectively robbing them of their well-being. Reducing the use of these drugs is a national priority and Four Seasons is leading the way on this agenda through its specialised dementia care programme.

Studies carried out in PEARL homes show they have achieved a dramatic reduction in the requirement for these drugs, averaging 48% with a corresponding improvement in wellbeing. Numerous other benefits have been measured, including reduced need for anti-depressants and medication to alleviate anxiety or to induce sleep.

The programme uses a range of therapies in daily care, including sensory rooms, music therapy and reminiscence therapy. Each unique care programme is planned in consultation with the resident and important people in his or her care experience, including relatives, staff and GPs.

Environment is key and PEARL homes have been designed with consideration for the impact of light, colour, contrast, texture, aroma and sound on residents. The aim is to assist their overall orientation and create a balanced, sensory, stimulating environment for them.

The training is rigorous. Staff undergo months of education in dementia care mapping, person-centred care and experiential training. As part of this, trainees spend a day experiencing how it feels to have their individuality disregarded. They wear smeared glasses to impair their sight and earplugs to impair hearing. They are left wearing damp incontinence pads. They are not addressed directly by name; are not given choice about food or beverages; have tablets administered without explanation and are ignored for long periods. It is an enlightening experience and one that is helping to redefine what the care industry as a whole has tended to term 'challenging behaviour'. Four Seasons recognises this as a distress reaction and the carer is trained to think about why the person is distressed and to deal with the cause.

Building on the success of the programme, Four Seasons is rolling out its specialised dementia care service with 56 homes having gained accreditation and another 70 on the pathway to accreditation. The programme has also received outside recognition for its market-leading work, winning a national award from The Improvement Foundation.

PORTFOLIO BUSINESS REVIEW

INFINIS WAS RECOGNISED BY THE SUNDAY TIMES AS THE FASTEST GROWING LARGE BUYOUT IN THE UK IN THE SUNDAY TIMES/ DELOITTE 2012 LEAGUE

5

THE BRITISH SAFETY COUNCIL HAVE PRESENTED INFINIS WITH THEIR INTERNATIONAL SAFETY AWARD FOR 5 CONSECUTIVE YEARS

PORTFOLIO BUSINESS REVIEW

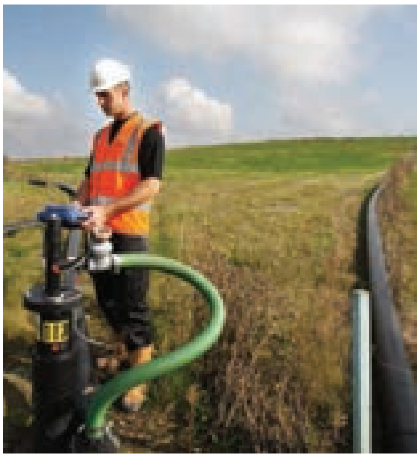
infinis

PORTFOLIO BUSINESS REVIEW – INFINIS

Infinis has an installed renewable energy generating capacity of over 570 MW, consisting of 336 MW of biogas generation, 221 MW of onshore wind generation and 17 MW of hydro generation together with a growing onshore wind development pipeline

YEAR END: 31 MARCH	YTD DEC 11[1]	YTD DEC 12[1]
Revenue	£164m	£152m
Costs	(£72m)	(£68m)
EBITDA	**£92m**	**£84m**
Bank interest	(£30m)	(£30m)
Earnings before depreciation and tax	£62m	£54m
Capital expenditure	£36m	£57m
Average megawatts/hour	286	292

[1] Based on nine months to December



PORTFOLIO BUSINESS REVIEW – INFINIS

INVESTMENT RATIONALE

In 2003, when Terra Firma acquired the Waste Recycling Group (WRG), it was one of the leading waste management companies and the leading waste disposal operator in the UK. In 2004, the assets of Shanks, the third largest landfill operator in the UK, were acquired by Terra Firma and merged with WRG as part of its consolidation strategy.

The fledgling biogas division of WRG was identified as a profitable growth business underpinned by the growing focus on alternative energy sources and the government financial incentives put in place to encourage investment. The business had been under-managed, with its generating capacity under-developed and some capacity outsourced to third parties.

CREATING VALUE

TRANSFORMING STRATEGY

In 2006, the biogas division was demerged from WRG to create a standalone business, Infinis, which retained the rights to the biogas produced from WRG's landfill sites and used it as fuel to produce renewable energy for the UK electricity grid. Since then, Infinis has expanded its landfill gas portfolio and overhauled its site operations with the establishment of leading-edge in-house operational and maintenance capabilities.

Through acquisitions and organic development, the business has grown and added onshore wind and hydro generation to its portfolio, including the acquisition in May 2012 of three wind farms from Broadview Energy, and it continues to expand through the development of these technologies.

Infinis started out as a very small non-core, neglected and largely outsourced unit within a waste management company. Today, the business is completely transformed into a standalone enterprise that ranks as the UK's leading independent renewable energy generation company.

STRENGTHENING MANAGEMENT

Terra Firma set up a separate governance structure and installed a new management team, appointing a new CEO, CFO, Operations Director, Commercial Director and Head of Wind Development.

DEVELOPING THROUGH CAPITAL EXPENDITURE

Infinis has invested heavily in the roll-out of its gas collection systems and engines, taking the biogas generating capacity from 57 MW to 336 MW.

It has also developed a significant onshore wind business, diversifying away from the original landfill gas focus. The business now owns and operates a portfolio of onshore wind and hydro projects across the UK with a total installed capacity of 221 MW and 17 MW respectively, and a further 53 MW of onshore wind projects under construction.

Infinis has established one of the industry's most advanced control and remote monitoring centres, allowing the company to track the environmental and operational performance of its generating capacity across the UK on a real-time 24/7 basis.

9%

INFINIS GENERATES 9% OF
THE UK'S RENEWABLE ENERGY

PORTFOLIO BUSINESS REVIEW – INFINIS

BUILDING THROUGH MERGERS AND ACQUISITIONS

The company has undertaken a constant flow of merger and acquisition activity, selectively expanding and enhancing its portfolio of operational and development assets. Acquisitions have ranged from small opportunistic transactions to relatively large strategic deals that involved taking private publicly-listed peers.

As an example, Infinis' acquisition of Novera Energy in 2009 added 148 MW of installed capacity made up primarily of onshore wind and landfill gas with a small hydro asset base, and increased its development pipeline.

The business has become the largest independent renewable energy generator in the UK, with over 570 MW of installed capacity – enough to provide power to over one million users – and a strong onshore wind development pipeline for future growth.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

The diversification of its power portfolio, increase in scale and the geographic spread of its assets within the UK has reduced the operational risk of the business. In December 2009, Infinis completed a refinancing, providing the business with £275m five-year funding. In January 2013, this bond was itself refinanced with a £350m six-year high-yield bond with lower interest charges.

CURRENT FINANCIALS

For the nine months ended 31 December 2012, Infinis generated revenue of £152m which was slightly below expectations and EBITDA of £84m which was marginally ahead of plan. Revenue performance was boosted by strong landfill gas production, with volumes helped by wet weather improving the conditions of landfill caps. However, this was offset by slower than expected wind speeds, lower hydro power generation and the impact of a reduced price of the recycled element of the 'Renewable Obligation Certificates ('ROCs')' compared with the prior year.

Direct and indirect costs were below expectations, due in part to one-off benefits and development spend being incurred later in the year than anticipated.

Capital expenditure was ahead of prior year reflecting investment in five wind farms currently under construction. It is expected that the majority of the forecasted capital expenditure will be incurred before the end of March 2013.

The 10 MW Seamer wind project was commissioned in November and exceeded production budget in December. The projects currently under construction are anticipated to qualify for the current level of ROCs. The replacement for the turbine that was damaged by the December 2011 fire at the Ardrossan wind farm was commissioned in November and has since operated in line with expectations.

CURRENT DEVELOPMENT PLAN

Infinis' strategy is to further strengthen its leading position in the UK renewable energy generation sector by expanding capacity at existing sites and through further acquisitions. It has exceeded its initial target of 500 MW of installed capacity and will continue to develop its significant pipeline of projects under construction.

The company has an attractive onshore wind development portfolio comprising 53 MW of projects in construction, 137 MW of projects with planning consent or positive determination and a pipeline of earlier stage developments with the potential to deliver approximately 600 MW.

PORTFOLIO BUSINESS REVIEW – INFINIS

Damian Darragh, Mike Kinski, Eric Machiels

MANAGEMENT

Eric Machiels

Chief Executive Officer

Eric was appointed permanent CEO in October 2010, having been the acting CEO and a member of the Infinis Board since August 2009. Eric joined Terra Firma as a Business Director in 2007 and was seconded to Infinis as Development Director in 2008. Prior to that, he held executive positions within two portfolio companies of Clayton, Dubilier & Rice, a US private equity firm, and most recently was Managing Director of Sirva Inc.'s Continental European division from 2004 to 2007. Eric worked as an Investment Director at UBS Capital from 1999 to 2002.

Stewart Gibbins

Operations Director

Stewart joined WRG as Director of Operations in 2005, moving to Infinis in 2006. Stewart has over 14 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.

Gordon Boyd

Chief Financial Officer

Gordon joined Infinis as CFO in March 2012. Gordon has held a number of senior positions in the UK electricity sector, most recently as Finance Director of EDF Energy's upstream and downstream businesses in the UK. As Finance Director of Drax Group plc, Gordon led the company's successful restructuring and listing on the London Stock Exchange in 2005.

Steven Hardman

Commercial Director

Steven joined Infinis in 2008 to lead its commercial and legal activities. In early 2009, Steven also assumed responsibility for the onshore wind development and construction business and all other major projects, including mergers and acquisitions. Steven was previously Group Legal Director for WRG where he was responsible for the group's legal affairs. A qualified solicitor, Steven's early career was as a corporate lawyer in the City of London prior to a period with Hanson plc.

Paul Gregson

Human Resources Director

Paul was appointed Human Resources Director of Infinis in October 2010, having held the position of Head of Human Resources since 2006. Paul qualified as a member of the Chartered Institute of Personnel & Development in 1988 whilst employed at the Central Electricity Generating Board. Following a period in a senior HR role with GE Capital (UK), Paul joined Saint-Gobain Building Distribution in 2000, where he was Head of Human Resources for the Jewson group until joining Infinis.

Putting CSR at the heart of the business

Safety is a key pillar of Infinis' CSR strategy

PORTFOLIO BUSINESS REVIEW – INFINIS

As the UK's leading dedicated generator of renewable power, Infinis has always placed a high priority on being a good corporate citizen

Over the years, this commitment has been recognised both by employees (with the company featuring at the top of employee surveys) and by external commentators, such as the Sunday Times.

In June 2012, Infinis became the first Corporate Social Responsibility (CSR) winner in the RenewableUK's Energy Awards. The judges recognised Infinis' integrated approach, its long-term focus on putting CSR at the heart of how the business operates and also the dedication of employees in maintaining CSR best practice.

Eric Machiels, CEO of Infinis, commented, "We are extremely proud to receive an award that celebrates Infinis' clear leadership in, and commitment to, environmental and social responsibility."

Safety is a key pillar of the company's CSR strategy, with Infinis working hard to ensure the safety of its employees and all those affected by its activities. In fact, both the Royal Society for the Prevention of Accidents and the British Safety Council have recognised Infinis' performance in this area in each of the last five years.

An example of how Infinis takes an integrated approach is its innovative policy that links improving safety standards to being a good corporate neighbour. Under this initiative, Infinis makes a donation to charity for each near-miss reported, encouraging staff to report any safety failings. Staff choose the charity, giving the clear message that the company wants lessons to be learned when even minor incidents happen.

Although its core business is inherently sustainable, Infinis is also striving to minimise any adverse impact it has on the environment. Its achievements in this area have been recognised by the Sunday Times Best Green Companies Awards and also when its Glenkerie wind farm became the first renewable energy project to receive an internationally-recognised CEEQUAL award for improving sustainability.

This focus extends to its staff, too. The Infinis SmallSteps programme promotes the message that everyone has a part to play in making a positive impact on the environment and that making minor changes will add up to a big difference. The scheme provides education and incentives to help employees be as environmentally responsible at home as they are at work. This popular programme encourages a range of initiatives, including a switch to low emission vehicles and promoting micro-generation of heat or electricity by employees at home and on the move.

Communication is also important in the drive to be a good corporate neighbour, and Infinis is engaged with individuals and local groups throughout the country. At a national level, the company produces a standalone Corporate Responsibility Report each year that forms a key part of its dialogue with interested stakeholders.

Corporate responsibility has been at the heart of Infinis' business since its formation in 2006 and the company intends to continue to act responsibly, both in word and deed, and to set the benchmark for the renewables industry for years to come.

PORTFOLIO BUSINESS REVIEW

ODEON & UCI IS THE LARGEST FULLY DIGITAL CINEMA OPERATOR IN THE WORLD

2,200

NEARLY 2,200 SCREENS ACROSS EUROPE

PORTFOLIO BUSINESS REVIEW

PORTFOLIO BUSINESS REVIEW – ODEON & UCI

Odeon & UCI is the market-leading cinema operator in the UK and Ireland, Italy and Spain, with operations also in Portugal, Germany and Austria

YEAR END: 31 DECEMBER	2011	2012
Revenue	£697m	£724m
Costs	(£594m)	(£623m)
EBITDA	**£103m**	**£101m**
Bank and bond interest	(£34m)	(£49m)
Capital expenditure	£51m	£42m
Attendance	79m	82m

PORTFOLIO BUSINESS REVIEW – ODEON & UCI

The business has nearly 2,200 screens in over 235 locations which are a combination of freehold, long leasehold and short leasehold sites. It trades under the Odeon brand in the UK and Ireland, the Cinesa brand in Spain and the UCI brand elsewhere.

INVESTMENT RATIONALE

Odeon & UCI operates in the leisure industry, providing an affordable entertainment service to its customers. At acquisition, Odeon & UCI owned the freehold of a number of their prime cinema sites across the UK and in Europe.

The business was acquired simultaneously as two separate companies in late 2004. Odeon had a disparate shareholder base that meant it had historically suffered from a lack of clear strategic direction. UCI, meanwhile, was considered non-core by its previous owners and had gone through a period of under-investment.

CREATING VALUE

TRANSFORMING STRATEGY

The two separate businesses were merged following competition clearance in the UK, generating significant synergies and other cost improvements and creating a platform to accelerate consolidation within the broader European cinema market.

The strategy for the combined business was to improve revenue based on enhancing the customer experience, investing in future digital technology, renegotiating screen advertising contracts and driving synergies to exploit economies of scale from a growing platform.

STRENGTHENING MANAGEMENT

Until UK competition clearance was received, the two businesses were run by interim CEOs seconded from Terra Firma. Thereafter, new senior management, including the CEO and CFO, were brought in to manage the combined business, oversee implementation of the new strategy and introduce clear operational and investment discipline.

DEVELOPING THROUGH CAPITAL EXPENDITURE

Significant investment has been made to enhance the customer experience. Premium seating has been rolled out across all territories. The food and beverage range has been broadened to include pizza, yoghurt and other new products, Costa Coffee franchises, sandwich bars and coffee lounges have been introduced at certain cinemas and the company is now the biggest franchisee of Ben and Jerry's in the world.

The conversion of all screens to digital projection technology was completed in July, giving the company the most digital auditoria in Europe and making it the largest fully digital cinema operator in the world. Digital screens improve the customer experience, reduce distributor costs and should boost advertising revenue. They also enable the projection of 3D films – Odeon & UCI is the largest 3D and IMAX operator in Europe.

950

SCREENS ADDED TO THE PORTFOLIO THROUGH ACQUISITIONS AND NEW SITE OPENINGS

PORTFOLIO BUSINESS REVIEW – ODEON & UCI

As well as acquiring existing chains, the business has invested in expanding and enhancing its portfolio with the addition of 28 new cinemas across Europe and 27 major refurbishments. It has also opened its first upmarket cinema in London, with an in-screen dining experience, under the brand 'The Lounge'.

Approximately £100m of digital assets have been installed, of which approximately £80m was funded by external investors, to be reimbursed by the print fee payment model over time.

BUILDING THROUGH MERGERS AND ACQUISITIONS

Odeon & UCI has taken advantage of industry consolidation within the European cinema market through acquisitions of cinema chains in Spain, Italy, Portugal, Germany, the UK and Ireland. In total, nearly 90 sites and over 950 screens have been added to the company's portfolio through new site openings and acquisitions, making Odeon & UCI the clear market leader and Europe's largest cinema operator. The business continues to monitor further acquisition opportunities, particularly in Continental Europe.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

In May 2007, after two years of improved performance, the business was refinanced and restructured by separating the value of the UK properties from the operational business of screening films. This refinancing lowered the cost of capital for the business and enabled Terra Firma to return funds to its investors.

In May 2011, the company issued bonds to replace its operating company bank finance, enabling it to finance a number of acquisitions and further its growth plans.

CURRENT FINANCIALS

Revenue for 2012 of £724m was 4% ahead of 2011 at constant exchange rates. Market attendance in Odeon & UCI's territories over the year was on average 3% behind 2011 levels, impacted by adverse weather and a weaker film slate earlier in the year as studios scheduled many of 2012's key films later in the year to avoid the EURO 2012 football competition in June, the Olympics in August and the Paralympics in September. However, attendance was ahead of prior year, helped by a full year's contribution from sites acquired in 2011 and the eight sites added in 2012.

On a like-for-like basis average ticket prices were up 1% versus 2011, despite a lower proportion of premium 3D tickets sold as a result of the phenomenal success of the record breaking Bond film, Skyfall, which was released in 2D format only. Retail spend per head was in line with 2011 and up 3% on a like-for-like basis.

Weaker trading particularly in the first and third quarters was offset by a strong fourth quarter which was the most profitable in the company's history. Overall, the EBITDA for the year of £101m was £2m behind 2011.

Direct and indirect costs were tightly controlled in 2012 with cost savings achieved in many areas including staff costs, film hire costs, rents and operating costs.

Capital expenditure activities continued to focus on future growth, including refurbishments and new initiatives in existing cinemas as well as new sites.

PORTFOLIO BUSINESS REVIEW – ODEON & UCI

Rupert Gavin, Jonny Mason

DEVELOPMENT PLAN

In the fourth quarter of 2012, two new sites were opened in the UK, one in Italy and two in Spain. These add to the expansionary initiatives earlier in the year, including the opening of a new site in Dublin, the acquisition and rebranding of a site in Birmingham, and the award of a long-term concession agreement to operate the BFI IMAX cinema in London. There is a strong pipeline of new site openings for future years, which is expected to increase Odeon & UCI's market share.

The business continues to develop new screen and retail initiatives, including the big screen brand 'iSens', the fine dining concept 'The Lounge', the continued roll-out of Costa Coffee outlets in Odeon sites, and other improvements to the retail offering across the estate.

MANAGEMENT

Rupert Gavin
Chief Executive Officer
Rupert was appointed as CEO 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. His earlier roles included Managing Director at BT, where he was responsible for the UK consumer business with total revenue of £6 billion and a team of 30,000.

Jonny Mason
Chief Financial Officer
Jonny joined Odeon & UCI in 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 CFO of a private equity-backed fitness chain and financial management in Hanson and Shell.

Roger Harris
Chief Operating Officer, UK and Ireland
Roger joined UCI in 2002 and on the merger with Odeon became the COO of the combined business in 2004. Under his leadership, Odeon remains the leading cinema brand in the UK, continuing to develop the customer experience with an expanding cinema footprint. Roger has been in the cinema business for over 20 years. He held a number of positions at Famous Players prior to 2002 including Senior Executive Vice President and General Manager.

José Batlle
Chief Operating Officer, Continental Europe
José 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 COO in 2004. José has been responsible for additional acquisitions in Spain, Italy, Germany and Austria.

PORTFOLIO BUSINESS REVIEW – ODEON & UCI

A helping hand for the stars of the future

Odeon has worked with three schools on the Bright Futures project

PORTFOLIO BUSINESS REVIEW – ODEON & UCI

Founded in 2008, Odeon's Bright Futures Project was inspired by a successful placement scheme in the US that engaged disaffected students and encouraged them to raise their career and academic aspirations

Based on the results that had been achieved across the Atlantic, it was decided to trial a similar programme in the UK, and the Bright Futures Project was born. The scheme is unique in offering a placement that delivers real responsibility and accountability, with students spending one day per week in the workplace for a whole academic year. This experience gives young people the opportunity to become part of a team and the chance to develop skills that will set them up for their future careers.

Students started the first placements at Odeon in September 2010, with 12 young people enrolled in a pilot scheme. It quickly became clear that the programme was having a huge impact on their outlook and their sense of achievement.

In the words of one student, "The programme really is a unique experience that every student should have an opportunity to do. You learn a lot, especially about working with adults."

The Odeon project has been so successful, in fact, that it has been used as a showcase for businesses considering similar schemes.

Odeon has now worked with three Manchester schools, giving a great many of their students business experience and a taste of how they could fit into a commercial organisation. They also attend the annual management conference in London and get a behind-the-scenes tour of the Odeon Printworks IMAX cinema in Manchester.

A recent student commented, "I've really enjoyed learning about things that I had no idea about such as accounts and operations. Without these behind the scenes business teams, the whole Odeon company wouldn't work."

The project has now completed its third year and schools are full of praise for the commitment of Odeon employees, their professionalism, mentor support and encouragement. It is widely acknowledged that the experience has helped to raise the aspirations of the students, and in many cases opened their eyes to career paths they might not otherwise have considered.

The Bright Futures project has grown significantly since 2010 – this year there are more than 100 students placed across 15 different organisations, from Cumbria to the West Midlands.

Next year it is hoped that the project will continue to grow and provide opportunities for over 200 students in different business sectors across the UK.

PORTFOLIO BUSINESS REVIEW

PHOENIX OFFERS ITS CUSTOMERS EFFICIENT ENERGY SERVICES AND A CLEANER ALTERNATIVE TO HEATING OIL

150,000

PHOENIX DISTRIBUTES GAS TO MORE THAN 150,000 PROPERTIES

PORTFOLIO BUSINESS REVIEW

PHOENIX ENERGY HOLDINGS

PORTFOLIO BUSINESS REVIEW – PHOENIX GROUP

Phoenix owns and operates over 3,100 km of gas distribution pipeline

YEAR END: 31 DECEMBER	2011	2012
Gross turnover	£128m	£101m
Gas purchases	(£79m)	(£49m)
Gross gas margin	£49m	£52m
Costs including depreciation	(£26m)	(£29m)
EBITA	**£23m**	**£23m**
External interest expense	(£17m)	(£17m)
Capital expenditure	£12m	£13m
Connections	9,700	10,500

These results are unaudited

PORTFOLIO BUSINESS REVIEW – PHOENIX GROUP

INVESTMENT RATIONALE

When Terra Firma acquired East Surrey Holdings, a portfolio of regulated utility businesses, it recognised the growth prospects of Phoenix, the gas business in Northern Ireland (NI). The strong management team was delivering far greater operational and capital investment efficiencies than were being achieved in the mainland businesses.

Although there were significant growth prospects for the business, the instability of the regulatory framework at the time of the acquisition, combined with the relative immaturity of the network, demanded an owner with a strong vision.

CREATING VALUE

TRANSFORMING STRATEGY

In 2006, Terra Firma and Phoenix worked together with the regulatory authorities to agree a mutually satisfactory regulatory framework with transparent and stable gas prices. As many people in NI had no experience of using gas, the stabilised pricing allowed them to feel more comfortable about switching to gas.

Phoenix has attracted new gas customers and expanded its network by offering its consumers efficient energy services and more appealing appliances. The business has achieved a significant increase in natural gas penetration across Greater Belfast and is committed to converting 60% of the properties along its distribution network into connected gas consumers by 2016.

Phoenix has won the Business in the Community UK Big Tick award for corporate social responsibility more times than any other business

Peter Dixon, Michael McKinstry, Lorenzo Levi

DEVELOPING THROUGH CAPITAL EXPENDITURE

The expansion of the network and an increase in customer connections have been driven by accelerating the capital investment programme and setting appropriate returns targets.

Terra Firma has supported a continual programme of capital expenditure which has enabled Phoenix to convert 54% of the potential market in Belfast to natural gas. Investment continues with the aim to make gas available to an additional 23,000 properties by 2016.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

Establishing a more stable regulatory environment following the 2006 agreement served to lower Phoenix's cost of capital and enabled investment decisions to be taken with greater confidence.

In January 2008, Phoenix separated its distribution business from its transmission assets. This facilitated the sale of the transmission division, with the resulting proceeds being used to pay down debt.

In November 2009, Phoenix completed a refinancing which provided the business with eight-year bond financing. In 2011, the business refinanced its working capital and capital expenditure facilities, which extended them by three years to 2014, reflecting the lower debt requirements of the business going forward and reducing the interest margin.

PORTFOLIO BUSINESS REVIEW – PHOENIX GROUP

COMPANY STRUCTURE

To comply with regulatory requirements, the business is split into several independent divisions:

PHOENIX NATURAL GAS LTD (PNG)

PNG is the owner and operator of the licence for the distribution network in the Greater Belfast area and Larne. It is responsible for the development of the pipeline network (including the marketing of new gas connections) and for providing a 24/7 operational and transportation service platform to gas suppliers under the rules of the Companies Network Code. The PNG network currently distributes natural gas throughout the licence area, representing around 50% of the population of NI.

PHOENIX ENERGY SERVICES LTD (PES)

PES is the leading provider of natural gas boiler and appliance servicing, emergency response, gas metering and meter reading services in NI. The company undertakes more than 50,000 service engineering visits and 276,000 meter reading visits annually.

PHOENIX ENERGY LTD (PEL)/ PHOENIX SUPPLY LIMITED (PSL)

In 2012, Phoenix sold both its supply businesses PSL (in NI) & PEL (in the Republic of Ireland) to SSE plc, one of the biggest energy suppliers in the UK and Ireland. Phoenix had operated its supply activities primarily to support orderly development of its 'greenfield' distribution business however with a competitive gas supply environment now in place, future growth of the distribution business was better served with supply in completely separate ownership.

CURRENT FINANCIALS

Phoenix concluded the financial year with gas throughput in line with expectations at 129m therms despite warmer than average weather. Overall, gross turnover was £101m, with EBITA of £23m. Operating costs were impacted by legal and consultancy fees associated with the Competition Commission referral, a portion of which will be reimbursed following the issue of the Competition Commission's final report.

PNG continued to outperform its connections target in the last quarter of 2012 with new connections for the year totalling 10,500, 30% above expectations. Connections were particularly strong in the owner-occupied sector, helped by a relatively high oil price as well as a subdued residential housing market that encouraged a greater degree of home improvement.

10,500

NEW CONNECTIONS IN 2012

PORTFOLIO BUSINESS REVIEW – PHOENIX GROUP

Peter Dixon, Michael McKinstry

DEVELOPMENT PLAN

Phoenix is well-placed to serve Belfast's long-term growth prospects and address the still comparatively low numbers of customers connected to gas across the network (54%) compared with the UK mainland (90%).

In August 2011, UReg published its draft proposal for the next price control period ending 2013, which included a proposal to make a retrospective adjustment to the closing Total Regulated Value at the end of 2011. Phoenix submitted its response to UReg in October 2011 expressing strong disagreement with UReg's proposals. In January 2012, after consultation, UReg issued its final proposal without substantial revision. After Phoenix rejected this determination, UReg referred the matter to the Competition Commission. The Competition Commission's final decision stated that a small adjustment should be made to RAV.

MANAGEMENT

Sir Gerry Loughran KCB

Group Non-Executive Chairman

Sir Gerry's role as the Non-Executive Chairman of the Phoenix Group is a continuation of his work championing economic development in Northern Ireland. Gerry retired from his post as Head of Northern Ireland's Civil Service in 2002, ending a Civil Service career that spanned 36 years. Since 2002, he has served in a number of non executive posts in the private sector. Gerry previously held the post of Permanent Secretary, Department of Economic Development.

Peter Dixon

Group Chief Executive

Peter was appointed to the Phoenix board as CEO in 2000 and joined the East Surrey Holdings board in 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 stand-alone businesses, before joining Phoenix as Commercial Director in 1997.

Michael McKinstry

Group Finance Director

Michael joined Phoenix in 1996 as Finance Director and has been with the company throughout its development, being appointed to the Group board in 2006. He is responsible for all financial matters together with a range of support service functions including business planning, human resources, systems and contracts and procurement. Prior to joining Phoenix, Michael gained extensive financial and management experience across a broad range of business sectors starting in heavy engineering with GEC, then the textiles industry with Ulster Weavers and the energy industry with Premier Power following its purchase by British Gas.

PORTFOLIO BUSINESS REVIEW – PHOENIX GROUP

The Trust that's transforming young lives

Phoenix CEO Peter Dixon helps launch the Energy for Children Charitable Trust

PORTFOLIO BUSINESS REVIEW – PHOENIX GROUP

Since it was set up by Phoenix in 2005, the Energy for Children Charitable Trust has helped to transform the lives of over 6,000 disadvantaged children

The Trust is part of Phoenix's wider Corporate Social Responsibility ('CSR') Programme and focuses on the local communities where the company operates. The Trust is dedicated to supporting those needy causes that are slipping through the net of the more established charity network, and it was founded on the principle that 'all monies raised go directly to local children and young people'.

Recent examples of those who have been helped include a six-year-old girl who suffers from brittle bone disease and scoliosis and is living with the daily threat of bone fractures. The Trust was able to make a difference by providing a specially-made low wheelchair that gives her better access to her toys and better manoeuvrability in general.

Phoenix provides all the administrative support the Trust needs and its staff are widely involved in fundraising efforts alongside peers from across the Northern Ireland gas industry – everyone from merchants, installers and retailers through to distributors, contractors and trade suppliers.

Although the Trust was founded initially by the natural gas industry, it is now supported by a variety of different sectors and organisations locally as it continues to grow. Its membership is made up of three trustees from Phoenix and four independent trustees from outside the energy industry.

The Trust also transcends Northern Ireland's traditional religious divide, often working in inner-city neighbourhoods alongside public representatives to target the areas where its help can be most effective.

A BIG TICK FOR CSR EXCELLENCE

The Trust is part of an award-winning integrated CSR programme called LIFE (Leadership in the marketplace, Investing in our people, Fostering our community and Environmental responsibility). LIFE was developed by the Kellen Group (of which Phoenix is a part) to provide an overarching framework for its range of CSR initiatives.

In 2012, the Group – for the eighth-year running – received national recognition for its efforts when it collected a Business In The Community 'Big Tick' award for CSR excellence. The Group is extremely proud to have now won this award more times than any other organisation in the United Kingdom and Ireland.

BIG TICK 2012 BUSINESS IN THE COMMUNITY

Energy for Children
NI Registered Charity No. XR92281

2

PORTFOLIO BUSINESS REVIEW

RTR IS THE LARGEST SOLAR PV GENERATOR IN EUROPE

117

SOLAR PV PLANTS OWNED AND OPERATED ACROSS ITALY

PORTFOLIO BUSINESS REVIEW

RTR RETE RINNOVABILE

PORTFOLIO BUSINESS REVIEW – RTR

RTR is the market-leading solar PV power generation business in Europe, with a generating capacity of nearly 300 MW

YEAR END: 31 DECEMBER	2011	2012
Revenue	€77m	€131m
Costs	(€11m)	(€15m)
EBITDA	**€66m**	**€116m**
External interest expense	(€21m)	(€40m)
Earnings before depreciation and tax	€46m	€76m
Capital expenditure	€130m	€25m
Generation (GWh)	176	335

These results are unaudited

PORTFOLIO BUSINESS REVIEW – RTR

INVESTMENT RATIONALE

RTR owns and operates a portfolio of 117 high quality power plants situated across the Italian peninsula. By the end of 2012, RTR had the capacity to produce 400 GWh of electricity per year, enough for more than 350,000 people.

Over two-thirds of RTR's revenue is fixed under a 20-year feed-in tariff set by the Italian Government. Government policy for renewable energy underpins future growth in the sector.

In a young and fragmented industry, RTR offers the opportunity to build a market-leading business through consolidation and professional management.

CREATING VALUE

TRANSFORMING STRATEGY

From a group of orphaned assets, RTR is being developed into one of Europe's leading renewable energy businesses through a 'buy and build' strategy. Terra Firma's previous experience, through its Infinis and EverPower investments, has enabled the establishment of best-in-class processes and systems to professionalise operations.

STRENGTHENING MANAGEMENT

This was an asset-only acquisition. Terra Firma put in place staff, systems and corporate headquarters in Rome and recruited a top management team to work with Terra Firma to scale the business quickly and effectively.

DEVELOPING THROUGH CAPITAL EXPENDITURE

During 2012, RTR installed an improved remote monitoring system and central control room to improve information and further optimise its operating assets.

RTR is currently testing various new technologies to improve solar plant productivity on behalf of other hi-tech firms located across the globe. It is also exploring the scale efficiencies offered by insourcing plant operation and maintenance.

BUILDING THROUGH MERGERS AND ACQUISITIONS

In the period since the initial acquisition, RTR has targeted the optimisation and enlargement of its asset base and the installed capacity has been increased from just over 140 MW to nearly 300 MW through four add-on acquisitions. In 2011, two acquisitions were completed: the purchase of 19 MW and 78 MW portfolios of solar PV assets.
In October 2012, RTR completed its third acquisition: 24 MW of generating capacity in the Campania region, equity-funded entirely by cash generated from within the business, and in December 2012, RTR purchased a further 33 MW located in Puglia, Campania and Lazio. This latest add-on was equity-funded both by internally generated cash as well as an additional investment by Terra Firma.

Further growth is offered through an attractive acquisition pipeline. Through its relationship with Terra Firma, RTR has established itself as a key player in the consolidation process of the Italian renewable energy sector.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

Operating risk has been reduced through developing high quality in-house maintenance teams and an 18-year contract with Terna, the Italian national grid operator, for the maintenance of the existing PV installations, including guarantees on equipment and production capacity.

PORTFOLIO BUSINESS REVIEW – RTR

Over two-thirds of RTR's revenues are fixed under a feed-in tariff incentive guaranteed by the Italian Government.

RTR is also being de-risked through growing the scale of its business. RTR has secured long-term (18-year) debt financing at fixed attractive rates.

CURRENT FINANCIALS

RTR performed strongly during 2012, its first full year of operation, and results for the year were ahead of expectations due to good operational performance and better than expected weather conditions. After particularly strong winter and autumn periods, generation for the year was 335 GWh, giving revenue of €131m. Costs were higher than expected largely due to additional staff and higher security costs. EBITDA was €116m, ahead of expectations which included a €1m contribution from the acquisition that completed in October.

Capital expenditure in the year of €25m was 81% lower than in 2011, reflecting the much higher level of plant construction activity in the first year of operations, with only residual construction and systems costs payable in 2012.

CURRENT DEVELOPMENT PLAN

The acquisitions made so far have turned RTR into the largest solar PV energy generating company in Europe, and it continues to evaluate further add-on investments.

RTR has entered into long-term service agreements with third parties (including Terna) for the provision of operations and maintenance and security services, covering the majority of its portfolio. In 2013, the business plans to develop its in-house operational and maintenance capabilities for the remaining sites, as well as integrate the most recent acquisitions into its production management systems.

The business also completed technical studies which will result in adjustments to panel alignment on some sites in 2013 in order to improve output power. There remains additional scope for improvement and RTR will continue to assess further PV panel and site optimisation technologies during 2013.

350,000

RTR PRODUCES ENOUGH ELECTRICITY FOR 350,000 PEOPLE EACH YEAR

PORTFOLIO BUSINESS REVIEW – RTR

Paolo Lugiato, Lorenzo Levi

Armando Tarquini, Damian Darragh, Paolo Lugiato

MANAGEMENT

Paolo Lugiato

Chief Executive Officer

Paolo was appointed CEO in May 2011. Prior to joining, he was CEO of Novapower (Merloni Group), an Italian greenfield investor in renewable energies. Paolo's previous roles include Head of Business Development at Merloni and Consultant in the Milan and Rome offices of McKinsey & Company, serving clients in the telecom, consumer goods and industrial and financial sectors.

Armando Tarquini

Chief Financial Officer

Armando was appointed CFO in October 2012. Before RTR, he served as CFO and member of the Board of Directors in Q-Cells, a leading manufacturer of PV modules and cells. Previously, Armando held senior positions in different European companies such as Arthur Andersen, BASF group, and from 1999, he focused on renewable energy projects with Texas Utilities Europe and ICQ group.

Patrick Monino

Chief Operating Officer

Patrick joined RTR as COO in July 2011. He was previously Business Development Manager at Terna from 2005, where he was initially in charge of international development activities, and from 2008, he was in charge of the development of the PV portfolio that was eventually bought by Terra Firma. Prior to that, Patrick spent six years at Value Partners Consulting.

Donating energy and time

Dynamo Camp is Italy's first Therapeutic Recreation Camp

PORTFOLIO BUSINESS REVIEW – RTR

This year, RTR has started a partnership with Italy's first 'Therapeutic Recreation Camp' that will see the company donate both time and energy to a great cause

Dynamo Camp gives children with serious and chronic illnesses the chance to spend time on summer camp at a beautiful Tuscan estate. It is a safe environment where they can get involved in activities such as climbing, archery, swimming, riding, theatre, art workshops and sleeping under canvas. Above all, it is an opportunity to relax, be themselves and develop their confidence.

As part of the project – called 'Doniamo Energia' (Let's Donate Energy) – RTR is donating all the energy needed to run three nine-day sessions. Each session includes 80 children, 40 volunteers and a staff of about 30, and is spread across all the indoor and outdoor facilities on the estate.

Employees of RTR will also be donating their time. As volunteers, they'll spend time with the children, getting to know them and helping them get the most out of all the activities. Plus they'll be writing blogs on the RTR website describing their experience during the summer camps.

Another initiative will see RTR hold a company 'Community Day' at Dynamo Camp. This will involve hosting meetings and team-building exercises on-site, with a focus on activities that will benefit the estate such as painting buildings and fences, reorganising material for children's activities and tidying pathways.

RTR will also work with Dynamo Camp to assess its energy use and look for ways to optimise energy efficiency for future summer camps.

WHAT IS DYNAMO CAMP?

Dynamo Camp opened its doors in 2007 as a summer camp with 60 children, and each year since the number has grown. Today, it attracts over 1,000 children annually, and healthy siblings and parents can also participate. The Camp offers programmes every month of the year, including special sessions during the Easter and Christmas holidays, weekends for families and international gatherings.

Excellence is one of the core values of Dynamo Camp and this shines through in everything from the programmes offered, food and facilities through to the focus on safety and provision of constant medical care. This commitment to delivering the highest quality service and experience has helped Dynamo Camp to earn certification from both Serious Fun Children's Network (SFCN) and the American Camping Association. SFCN was founded by Paul Newman in 1988 and is now made up of 17 camps worldwide.

RTR employees will devote their time and expertise to Dynamo Camp

PORTFOLIO BUSINESS REVIEW

TANK & RAST HAS PREPARED THE NETWORK FOR THE NEW FUEL DISTRIBUTION ARRANGEMENTS IN 2013

100

THE FUEL SUPPLY SYSTEM IS BEING CHANGED AT OVER 100 FUEL STATIONS

PORTFOLIO BUSINESS REVIEW

TANK & RAST

PORTFOLIO BUSINESS REVIEW – TANK & RAST

Tank & Rast operates c.90% of the concessions on Germany's motorway network, including around 390 restaurants, 350 petrol stations and 50 hotels. The company's key revenue streams are lease income from tenants and fuel supply commissions from the oil companies

YEAR END: 31 DECEMBER	2011	2012
Revenue	€295m	€305m
Costs	(€87m)	(€88m)
Bank interest	(€154m)	(€141m)
Earnings before depreciation and tax	**€54m**	**€76m**
Capital expenditure	€37m	€37m

PORTFOLIO BUSINESS REVIEW – TANK & RAST

INVESTMENT RATIONALE

Tank & Rast has a leading position on Europe's busiest motorway network, the German Autobahn, with its concessions serving around 500 million visitors every year. The highly cash-generative and stable-tenanted operating model is supported by long-term government concessions and a significant fixed revenue component, with revenues diversified across retail, restaurants, toilet facilities and fuel sales.

Traveller penetration, conversion rates and expenditure per km travelled were significantly below other European countries, offering room for Tank & Rast to better utilise the strength of its position on the Autobahn. Terra Firma saw that performance could be enhanced by allowing the most effective tenants to operate more sites.

In addition to the government, Tank & Rast's main business partners are the oil companies – which supply branding and fuel, but do not operate the fuel stations – and the tenants, which run the petrol stations, shops, restaurants and hotels. The oil companies are a mix of global oil companies and 'Mittelstand' German oil companies, whilst the tenants are typically local individuals or small companies complemented by a small number of corporate tenants.

52

SANIFAIR IS NOW IN OPERATION AT 52 THIRD-PARTY SITES

VALUE CREATION

TRANSFORMING STRATEGY

Since acquisition, Tank & Rast has improved the visibility of its service stations and brands on the Autobahn, gaining agreement from the federal and regional governments to signpost up to four brands on the motorway, something which previously had been banned.

The company has also improved its food offering, including a better retail proposition. It introduced the premium Sanifair toilet facilities across its network with great success and they are now being rolled out to third parties in Germany and Europe. Tank & Rast also created a new motorway service station brand called Serways which incorporated the new retail and food offerings and improved the quality of its service and facilities.

Tank & Rast improved its performance through a value-driven commercial approach to capital expenditure. The proportion of sites operated by better performing tenants was increased and supported by further investment from Tank & Rast to help them improve their business performance.

STRENGTHENING MANAGEMENT

Tank & Rast's finance team was significantly strengthened to support the strong CEO, Dr Karl-H. Rolfes, who had joined the business a few years before it was acquired by Terra Firma.

DEVELOPING THROUGH CAPITAL EXPENDITURE

In 2005, Tank & Rast launched a long-term €500m investment programme to finance the construction of new sites, the refurbishment of older sites and the introduction of capex-driven strategic and consumer-focused initiatives.

Tank & Rast carefully managed relations with the government to develop the business, enabling it to introduce Autobahn signage and implement Sanifair to the benefit of its customers.

PORTFOLIO BUSINESS REVIEW – TANK & RAST

BUILDING THROUGH MERGERS AND ACQUISITIONS

Tank & Rast continues to grow by taking over attractive sites and/or management contracts on and off the Autobahn as they become available.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

As a result of the business's strong performance in a challenging economic environment, it was successfully refinanced twice in the infrastructure markets. In 2006, Terra Firma refinanced the business with a hybrid infrastructure loan delivering a significantly reduced margin, with another refinancing occurring in 2007.

CURRENT FINANCIALS

For the financial year to 31 December 2012, Tank & Rast generated revenue of €305m and EBITDA of €217m. Although both were below expectations, mainly due to the adverse impact of relatively high fuel prices on fuel volumes and related gastronomy sales, revenue was €10m ahead of 2011, which can mainly be attributed to the sale of fuel at new sites under self-supply arrangements and a higher number of self-operated sites.

As a result of the relatively high fuel prices, fuel volumes in 2012 were 5.4% behind last year; however, retail sales were slightly ahead of prior year due to new retail initiatives.

Costs for the year, net of other operating income, were €88m incorporating self-supply fuel volumes purchased and ongoing cost control efforts.

Capital expenditure in 2012 was significantly lower than expected due to a continuing cautious approach, with capital expenditure predominantly undertaken on building new service station sites.

CURRENT DEVELOPMENT PLAN

Following the successful fuel tender in 2011, Tank & Rast has worked hard on preparing the network for the start of the new distribution arrangements in 2013. This has included taking over responsibility for the fuel pumps and changing the fuel supply system at over 100 fuel stations. The execution of the new fuel strategy accelerated at the beginning of 2013 and should deliver its full benefits during the first half of the year. This will also be combined with the roll-out of the new liquefied petroleum gas programme.

Tank & Rast has continued extending Sanifair into sites off the German autobahn network, which is now in operation at 52 third-party sites, including shopping centres, railway stations and motorway service stations outside Germany. Currently units are located in the Netherlands, Austria, Hungary and Turkey and there is a strong pipeline of future opportunities both in Germany and elsewhere, with sites in France and Spain due to be opened imminently.

Tank & Rast continues to grow by acquiring attractive autohöfe sites (service stations off the autobahn). In addition to the three existing sites, new agreements for two further sites have been signed.

PORTFOLIO BUSINESS REVIEW – TANK & RAST

Lorenzo Levi, Dr. Karl-H. Rolfes

The business has continued to successfully roll-out the new electronic point of sale system, which is now in operation at 80 sites. This new system is designed to improve tenants' working capital management and logistics processes.

Additionally, Tank & Rast has continued the roll-out of electronic digital screens and illuminated outdoor advertising screens across the network to generate valuable additional advertising revenue.

The company has updated its food offering to incorporate fresher meals and salads, a wider bakery range and alternative restaurant layouts. In addition, a detailed review has been conducted enabling tenants to apply a more consistent pricing policy.

MANAGEMENT

Dr. Karl-H. Rolfes

Group Chief Executive Officer

Karl was appointed CEO of 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.

Dr. Jens Kimmig

Chief Financial Officer

Jens joined Tank & Rast in 2010 as CFO. His previous role was CFO of Plastal Group. Jens' prior roles include various leading functions in the fields of controlling, finance and accounting within GEA Group AG, including CFO of the Strategic Business Field Plastics at Dynamit Nobel Kunststoff GmbH and CFO of the Strategic Business Unit Thermosets at Menzolit-Fibron GmbH.

Peter Markus Löw

Managing Director

Governmental and Legal Affairs/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. Since June 2008, he has held the position of Managing Director. Before he joined Tank & Rast, Peter held various positions in politics. These included 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.

PORTFOLIO BUSINESS REVIEW – TANK & RAST

Working for a safer motorway

"Daddy, drive carefully!"

PORTFOLIO BUSINESS REVIEW – TANK & RAST

As a major presence on Germany's motorways, Tank & Rast understands the importance of promoting safety on the roads. That's why it's been actively involved in the 'Slow down!' campaign (previously called 'No risk') for many years

The campaign aims to increase traffic safety on the country's roads and was initiated by the Federal Ministry of Transport, Building and Urban Development and the safety organisation Deutscher Verkehrssicherheitsrat e.V.

In 2011, the campaign widened its focus from speeding to include other accident causes such as mobile phone usage, dangerous overtaking and driving under the influence of drink and drugs. This latest stage was launched by the Minister of Transport, Dr. Peter Ramsauer, at the Tank & Rast service area Hochfelln Süd.

Tank & Rast has followed up with a number of practical safety initiatives in 2012. Towards the end of the year, for example, the focus was on the dangers of poor visibility during the dark winter months. The message 'Lights on, risks off!' was used on posters and billboards throughout the service areas. Drivers were also warned to de-ice their windscreens and headlights as part of the campaign and Tank & Rast raffled 50 car winter packages including various items to 'winter-proof' cars.

Another key issue has been driver fatigue. Peter Markus Löw, Managing Director at Tank & Rast, has been acting as an ambassador, writing in an online article about the importance of taking regular driving breaks. The article included a number of suggestions on how to minimise the risks of the dangerous 'micro sleep', emphasising that rest is the only true remedy.

As well as on-site advertising, the 2012 safety campaign work has been supported by cinema and radio spots, a teddy motif on truck canvas covers, as well as brochures and a film contest.

The campaign continues to raise awareness of the risk facing drivers on the motorway and, crucially, what they can do to minimise the risks and arrive safely. As a long-time supporter of the Slow Down! campaign, Tank & Rast is delighted with the results so far and is committed to continuing to promote and encourage responsible driving on German motorways.

"Don't use your phone while driving!"

PORTFOLIO BUSINESS REVIEW

THE GARDEN CENTRE GROUP IS THE LARGEST PLANT AND GARDEN-FOCUSED RETAILER IN THE UK

129

SITES ACROSS ENGLAND AND WALES

PORTFOLIO BUSINESS REVIEW

PORTFOLIO BUSINESS REVIEW – THE GARDEN CENTRE GROUP

The Garden Centre Group operates 129 sites across England and Wales under brands including Blooms, Bridgemere, Country Homes and Gardens, Heighley Gate, Jack's Patch, Old Barn, Sanders, Woodlands and Wyevale

YEAR END: 31 DECEMBER	2012
Revenue	£259m
Costs	(£232m)
EBITDA	**£27m**
External interest expense	(£14m)
Earnings before depreciation, amortisation and tax	£13m
Capital expenditure	£13m

PORTFOLIO BUSINESS REVIEW – THE GARDEN CENTRE GROUP

The business generates revenues in three ways: the sale of gardening and associated retail product offerings; revenue from on-site restaurants; and lease income from sub-letting space to third party retailers.

INVESTMENT RATIONALE

The UK gardening products market is worth £5.2 billion[1] and 8 out of 10 UK households have a garden. Gardening is part of the British culture; almost half of all adults participate in gardening, rising to nearly two-thirds of those aged 45 and over[2]. The sector is considerably less volatile than overall consumer spending and is expected to benefit from an ageing population.

When Terra Firma acquired The Garden Centre Group in April 2012, the business had been capital constrained. Terra Firma intends to invest in the garden centres and maximise the value of each property. To the extent that opportunities arise at appropriate prices, the team will look to make further consolidating acquisitions in this very fragmented sector.

CREATING VALUE

TRANSFORMING STRATEGY

The Garden Centre Group offers a unique platform from which to grow the UK's leading retail destination for gardening and garden-related leisure products. The team will utilise the scale of the business to create greater operating efficiencies and will employ a more coordinated approach across the estate to improve performance.

The business will develop and professionalise revenue streams that both enhance the customer experience and are less weather-dependent, for example, through restaurants and third-party retail concessions. A site-by-site estate analysis and segmentation exercise will allow the full potential of each site to be understood and to tailor its customer offering appropriately.

STRENGTHENING MANAGEMENT

Since its acquisition, the business has taken several steps to strengthen the senior management team. Stephen Murphy joined as Chairman, Kevin Bradshaw as CEO and Nils Steinmeyer as CFO.

DEVELOPING THROUGH CAPITAL EXPENDITURE

The business will maximise the value of the estate through the build-out of retail, leisure and/or concession space and the expansion of the restaurant offering across the portfolio, as appropriate.

BUILDING THROUGH MERGERS AND ACQUISITIONS

The plant and garden retail sector in the UK is very fragmented, with the top four garden centre groups representing only 9% of the market. The business will look to acquire smaller groups as well as individual family-run sites to realise benefits of scale from consolidation.

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

The freehold properties within the portfolio offer the potential for refinancing at attractive rates once operational changes begin to produce results.

[1] OC&C 2011
[2] ONS Social Trends: lifestyles and social participation, 2011

PORTFOLIO BUSINESS REVIEW – THE GARDEN CENTRE GROUP

CURRENT FINANCIALS

In 2012, the UK experienced the wettest April to June – the business's main trading period – since records began and weather conditions remained unfavourable throughout the year. This led to 2012 revenue of £259m being below expectations, mainly driven by lower gardening-related sales over the summer months. In a demonstration of the importance of the weather-proofing strategy, restaurant and concession income held up well through the year with revenue close to plan despite the adverse weather.

The business continued to manage its stocks well which, together with some product mix effects, enabled it to achieve a 50% gross margin over the year. This, combined with a focus on overhead costs which generated savings of approximately £10m during the year, resulted in EBITDA of £27m.

CURRENT DEVELOPMENT PLAN

As part of its acquisition plan, the Terra Firma team set up working groups in the business to focus on three key areas. The first is tasked with accelerating the existing pillars of the company's long-term strategy of developing revenue streams that are less susceptible to unfavourable weather than the core gardening products business ('weather-proofing'). Particular initiatives include expanding and improving the restaurant offering as well as growing concession income. A site-by-site analysis of the estate is also under way to determine how to maximise the potential of each site.

The second area of focus is customer and estate segmentation. Here, the aim is to leverage the wealth of data at the business's disposal in order to put the customer and customer insight at the heart of decision making. This is something the business has already started through the development of its Gardening Club, which has more than 2.5 million members.

The final area of focus is to gain operating efficiencies from a more coordinated approach across the business, in particular on pricing and promotions, logistics and supply chain, and process optimisation.

Progress in these key strategic drivers has been encouraging to date, with approximately £10m of cost savings generated in 2012, and work will continue in these areas during 2013.

2.5m

GARDENING CLUB MEMBERS

PORTFOLIO BUSINESS REVIEW – THE GARDEN CENTRE GROUP

Stephen Murphy, Kevin Bradshaw

Kevin Bradshaw, Julie Williamson, Nils Steinmeyer

MANAGEMENT

Steven Murphy

Chairman

Stephen was appointed Chairman in September 2012. Prior to this, Stephen was Group CEO of The Virgin Group from 2005 to 2011, having succeeded the Founder, Sir Richard Branson. He oversaw the worldwide interests of The Virgin Group and was responsible for global strategy. Stephen has previously worked for Mars, Burton Group, Ford Motors and Unilever plc.

Kevin Bradshaw

Chief Executive Officer

Kevin was appointed CEO in November 2012. Most recently, Kevin served as Managing Director of Avis UK and was additionally responsible for technology across Avis Europe Plc. Previously, Kevin served as Managing Director of the Enterprise Information Division at Reuters Plc and grew a number of businesses supplying financial data to the world's leading institutional financial services companies. He started his career at the Kalchas Group, a spin off from McKinsey and Bain & Company.

Nils Steinmeyer

Chief Financial Officer

Prior to joining The Garden Centre Group, Nils was a Finance Director at Terra Firma, which he joined in 2006 as Financial Controller with a remit to align the financial management and reporting standards across the portfolio businesses. Over the past few years, Nils worked closely with several Terra Firma portfolio businesses, including Deutsche Annington, AWAS and Phoenix. Prior to Terra Firma, Nils spent 11 years with General Electric Co. (USA) in a wide range of finance roles across various divisions of the company.

Stephen Pitcher

Purchasing Director

Stephen joined in late 2008 and is responsible for the buying team and strategy of all products sold throughout the group. Stephen has worked in the garden centre sector for many years at Country Gardens and as Head of Buying at Countrywide Country Stores.

PORTFOLIO BUSINESS REVIEW – THE GARDEN CENTRE GROUP

A greener approach for The Garden Centre Group

TGCG is committed to reducing the amount of water it takes from the water mains

PORTFOLIO BUSINESS REVIEW – THE GARDEN CENTRE GROUP

Reducing environmental impact is a key priority for The Garden Centre Group – the business has pioneered a number of initiatives in 2012, with many more planned for 2013 and beyond

One of this year's projects has involved switching over from fluorescent tubes to LED lighting. After a successful trial, the Board approved a capital investment of over £3m to replace all tubes with this more eco-efficient form of lighting. With LED bulbs using 50% to 75% less energy, the switch is significantly reducing the company's carbon footprint across its sites. The LED lights also last up to six times longer, which in turn reduces waste from discarded tubes. A further benefit is that they contain fewer heavy metals, such as mercury, so there is reduced environmental impact when they do reach the end of their life.

The target for this project, which should be completed by early 2013, is for an overall reduction in electricity usage of more than 15%.

Another related initiative this year has seen sensors being installed which automatically switch off lights when natural light reaches an equivalent or greater level. This should put an end to lights being left on unnecessarily and deliver further significant energy savings.

Due to the nature of the Group's business, water usage is another important issue, especially during the summer months. A number of initiatives are being investigated to reduce the company's impact in this area.

Installing water meters facilitates better measurement and management of water consumption. A number of sub meters have been installed over the past year to measure usage across certain sites and identify the causes of high usage. In addition, the use of electronic meters is being investigated, which have the advantage of allowing more efficient remote monitoring and providing a means for detailed analysis to identify opportunities to reduce wastage. These also allow for timely identification and fixing of leaks.

To reduce the amount of water taken from the mains, the company has commenced work at a number of sites for the addition of boreholes. This is a more energy-efficient way to source water – reducing transport and treatment issues.

Drilling has been completed at over 10 sites already, with further sites scheduled for later in 2013 once full appraisals have been completed. These include a review of the full impact on local water sources.

These are just a few of the initiatives that the Group has introduced recently to reduce the impact of its activities on the environment. In the future, the business is continuing to invest heavily, with projects planned that aim to reduce usage and waste throughout its sites, and to tap into more environmentally-friendly energy sources.

LED lighting has been installed across the portfolio

BUSINESS AND FINANCIAL REVIEW
SECTION THREE

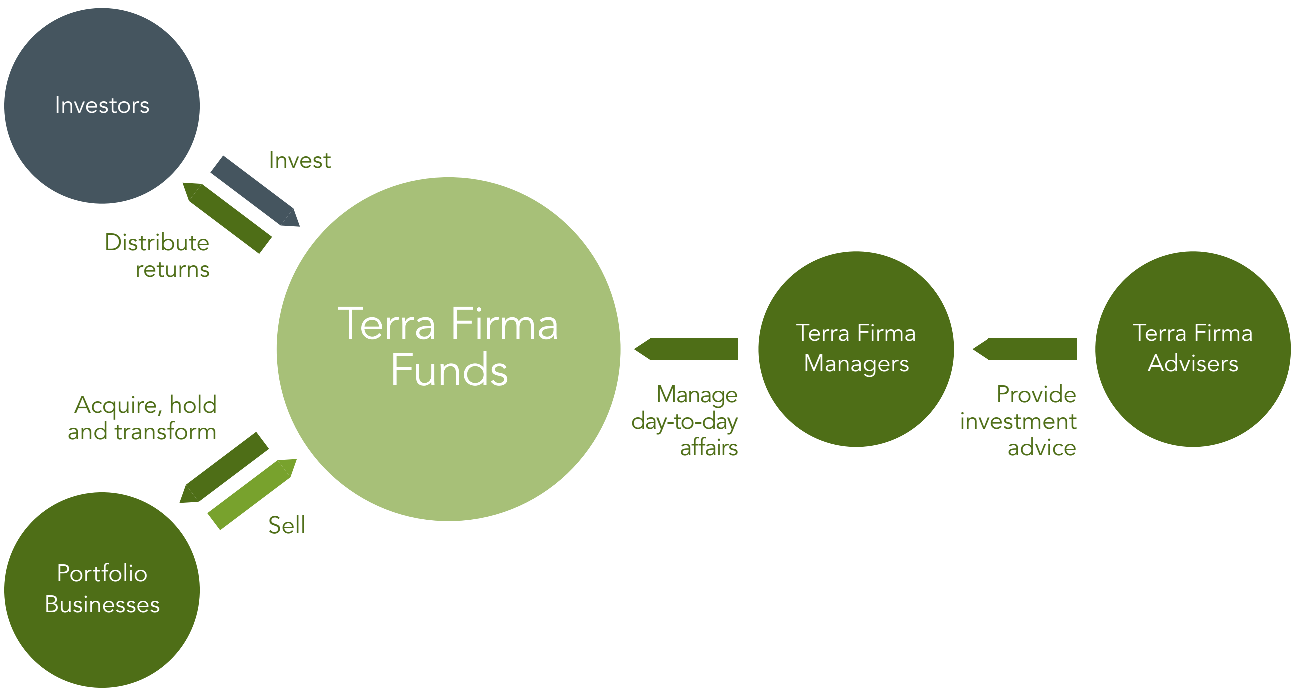
BUSINESS AND FINANCIAL REVIEW

INTRODUCTION

The Terra Firma advisers provide investment advice to the Guernsey-based Terra Firma fund managers, which invest capital provided by investors from around the world.

Since 1994, Terra Firma has advised on investments amounting to nearly €15 billion of equity with an aggregate enterprise value of over €45 billion.

The Terra Firma advisory group consists of TFCPL in London, TFCML in Guernsey, terrafirma Gmbh in Frankfurt and a China representative office in Beijing.



The Terra Firma advisers provide investment advice to the Guernsey-based fund managers

BUSINESS AND FINANCIAL REVIEW

STRATEGY

BUSINESS OBJECTIVE

Since 1994, Terra Firma has had a consistent and distinctive investment strategy of buying asset-rich businesses in essential industries that are in need of fundamental change and transforming them into sustainable, best-in-class businesses.

Terra Firma raises long-term capital from investors such as public and private pension funds, government investment funds, insurance companies, endowments and charitable foundations. This capital is channelled through Terra Firma's funds and used to acquire businesses which are then held by the funds. The funds are managed by the Terra Firma managers with investment advice provided by the Terra Firma advisers.

Terra Firma's objective is to maximise investor returns by unlocking the underlying potential in the businesses it acquires. These transformed companies are later sold, usually after a number of years, to realise a return for the investors in Terra Firma's funds.

Manabu Kurata, Simon Holden

INVESTMENT APPROACH

Our rigorous analysis regularly leads us to develop strategies that are different from the market consensus and to identify opportunities missed by others. Terra Firma has therefore often invested in sectors that have been overlooked or under-valued by the investment community. Whether by coming up with a different approach to the running of a business, finding solutions to problems which others have considered intractable or taking contrarian views on macro issues, Terra Firma has identified hidden value in many businesses.

3

We invest in asset-backed businesses in essential industries that require fundamental change

BUSINESS AND FINANCIAL REVIEW

STRATEGY

INVESTMENT STRATEGY

Our investment identification process starts with our view of what is happening at the macro and global level. We identify how these trends could create opportunities and then look for businesses that we believe are well-positioned to seize them. This approach – from 'macro-to-micro' – is the foundation of Terra Firma's investment strategy. Our recent investments in elderly and specialist healthcare (Four Seasons) and continued investment in renewable energy (EverPower and RTR) demonstrate our continuing commitment to this approach.

There are three key characteristics that we look for in a business which will enable us to capitalise on the potential opportunity we have identified:

ASSET-BACKED

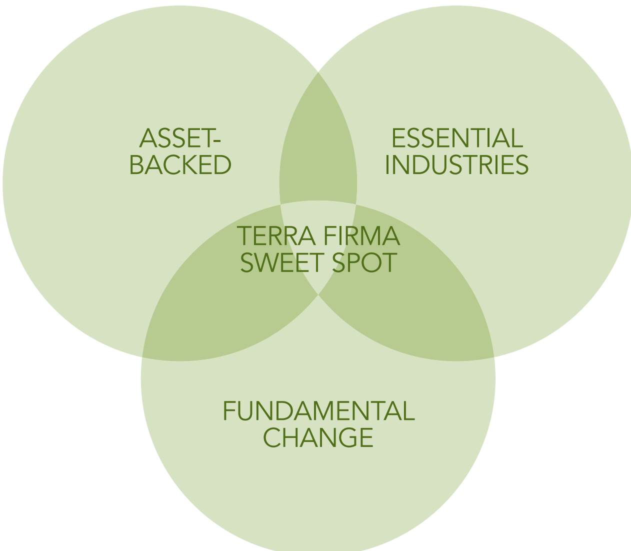
We look for businesses which are rich in assets. This helps protect the value of our investments and provides a stable platform for growth. Assets also offer a wide variety of options to create value in our businesses. Our extensive expertise in asset-backed investments dates back a long way. In the early 1990s, we pioneered the practice of asset-by-asset due diligence within the rail and pub sectors. By breaking down aggregate cash flows, we identified the true potential economic value of each underlying asset. We continue to use this approach today.

ESSENTIAL INDUSTRIES

We only invest in what we call 'essential' industries which are more resilient in downturns and do not depend strongly on technological innovation or branding. These include energy and utilities, infrastructure, affordable housing, leisure, agriculture, healthcare and asset leasing. They are often in regulated sectors where we have considerable experience. We do not have sector specialisms, instead we prefer to be flexible and move between a limited number of sectors, guided by our view of their relative prospects.

REQUIRING FUNDAMENTAL CHANGE

We identify businesses that require fundamental change, perhaps because of past under-management or under-investment or because they can be repositioned to benefit from a trend that we have identified. We have a strong track record of transforming businesses by developing new strategies, making add-on acquisitions, investing significant amounts of capital and dramatically improving operational performance.



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BUSINESS AND FINANCIAL REVIEW

CREATING VALUE

We will only make an investment when we are clear how we will create value. This view is based on our own detailed analysis and research and is often different from the views of the business's existing management team and those of competing buyers. We create value in our portfolio businesses in five ways:

1

TRANSFORMING STRATEGY

Identifying a transformational strategy is central to creating value in a business. A new strategy will frequently be designed to make the most of long-term macro trends identified at an earlier stage in the investment process. This may involve implementing a new business model, repositioning a business within its industry, growing it through acquisitions or diversifying its markets. The intensive overhaul of our businesses' strategies and operations has repeatedly put them at the forefront of developments in their industries. We continue to refine and improve the strategies of our companies throughout our ownership.

2

STRENGTHENING MANAGEMENT

Our aim is to build exceptional management teams in our portfolio businesses. We put in place the necessary capability and incentives to ensure that our strategy and performance improvements are implemented effectively. We typically strengthen management by combining the existing team with our own experts and with new hires, often from outside the sector to bring a fresh perspective.

3

DEVELOPING THROUGH CAPITAL EXPENDITURE

We are ready to invest significantly in our businesses to transform them, and we implement new capital programmes to improve performance and grow our businesses organically. We also develop scalable platforms for expansion, enabling a business to grow more rapidly through acquisitions. All capital expenditure is controlled by Terra Firma using strict return criteria, ensuring that only the highest impact programmes are implemented.

4

BUILDING THROUGH MERGERS AND ACQUISITIONS

We undertake mergers and acquisitions to strengthen our portfolio businesses, aiming to grow the scale and capability of a business and consolidate and improve its position within its industry. Since 1994, Terra Firma has invested in 33 businesses and executed over 45 additional bolt-on acquisitions to develop them.

5

LOWERING THE COST OF CAPITAL TO CREATE EXTRA UPSIDE

We lower the cost of capital within our portfolio businesses by reducing business risks. We do this by diversifying and stabilising cash flows and resolving business and regulatory uncertainties. We also actively manage the businesses' capital structures through refinancings and securitisations.

We create value in our portfolio businesses in five ways

BUSINESS AND FINANCIAL REVIEW

STRATEGY

TRANSFORMING OUR BUSINESSES

MULTI-DISCIPLINARY TEAMS

Our multi-disciplinary capability allows us to manage an investment from the initial identification of an opportunity through the purchase and transformation of a business to its eventual sale.

- Our transaction skills enable us to identify possible strategies, acquisitions, refinancings and exit opportunities. Each deal opportunity is championed and driven forwards by a Financial Managing Director with each transaction team having sector specialisations which reflect the investment experience and knowledge of its members. Our transaction professionals are drawn from a wide variety of backgrounds including investment banking, consultancy, accountancy, law and direct from university.

- Our operational skills enable us to lead improvement programmes and provide strong support for the management of our businesses. Our Operational Managing Directors have been former CEOs of FTSE 250 companies or have run substantial divisions of multi-national businesses and have worked in many different sectors. Working closely with them is a group of Business Directors who have all had line P&L responsibility in a number of areas and have often spent time working as management consultants. They are also supported by a group of Finance Directors who have many years of operational finance experience working in a wide range of industries and in accountancy practices.

Martyn Evans, Dominic Spiri

- Our legal, tax and structuring skills enable us to pursue complex transactions assessing and managing regulatory, contractual, tax and legal risks. Our in-house legal, tax and structuring specialists have all had careers at leading law firms or accountancy practices before joining Terra Firma where they gained substantial experience of transaction work; acquisitions, disposals and complex financings.

All team members, whatever their background, are expected to contribute to the development of the portfolio businesses. We believe that having our own team of in-house specialists, in addition to outside third parties, gives us an advantage in identifying ideas for improvements and changes that can be made in the businesses we acquire.

BUSINESS AND FINANCIAL REVIEW

OPERATIONAL EXPERTISE COMBINED WITH ACTIVE MANAGEMENT

Operational expertise is fundamental to enhancing the long-term value of our businesses and we involve ourselves directly in the businesses that we acquire. Our Operational Managing Directors can act in a number of different capacities in relation to the portfolio businesses for which they have responsibility, including acting as an interim CEO pending the appointment of a permanent CEO.

This gives Terra Firma flexibility when it is making an investment or when it determines that an existing business needs to move in a different direction. It also allows Terra Firma to address short-term management changes whilst the business is transitioned to a longer-term management solution. An Operational Managing Director also acts as a mentor to the portfolio business's senior management.

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.

Ongoing oversight is provided by Terra Firma's portfolio business team which ensures regular contact with different levels of management and continually evaluates the performance of the investment, the management team and the strategy. This approach ensures that the management team has the support it needs on operational matters and receives strategic input from Terra Firma when required.

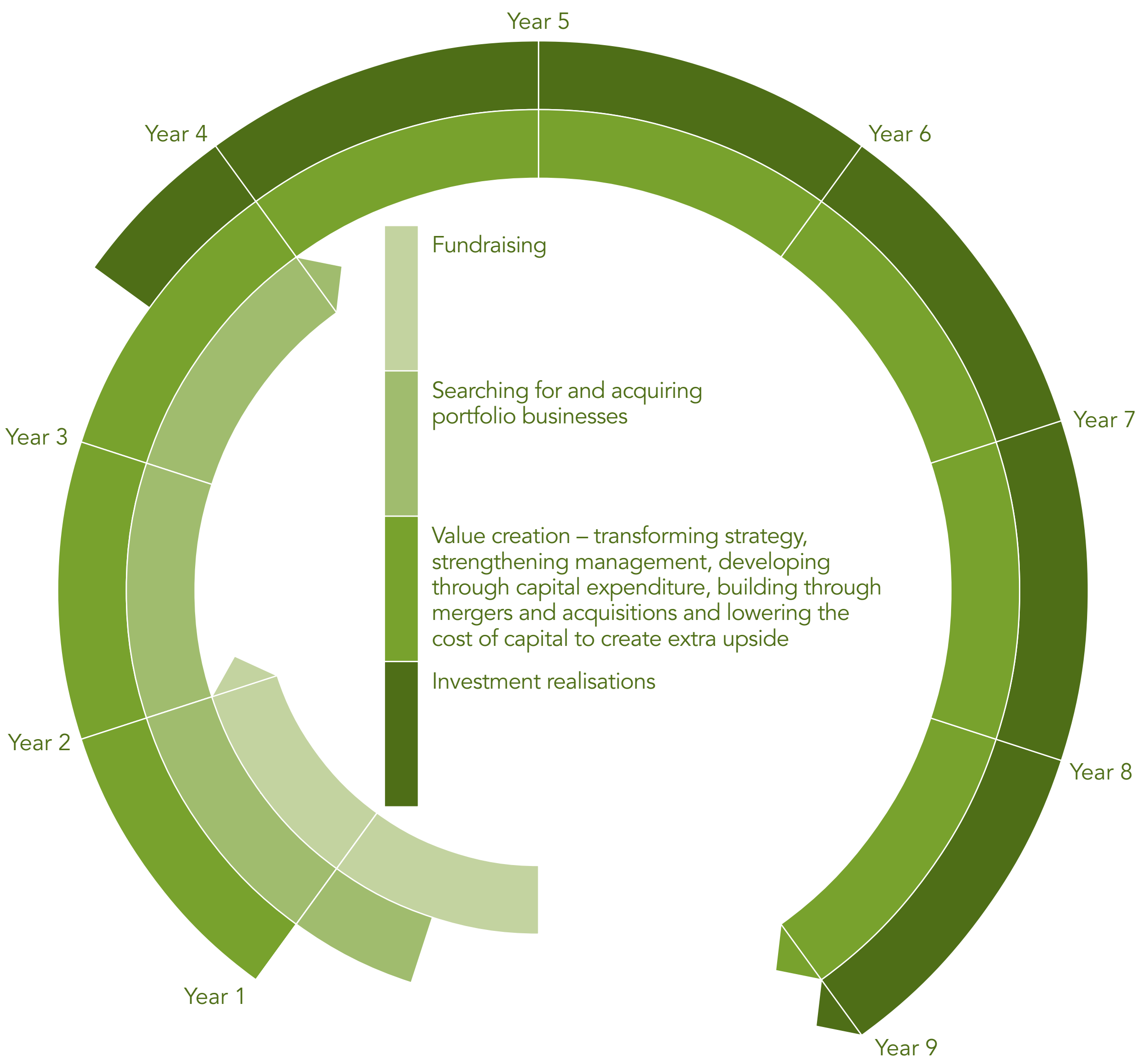
Although the level of direct involvement in a portfolio business is likely to decrease during Terra Firma's ownership, Terra Firma remains integrally involved in the strategic decisions its companies make. In particular, Terra Firma maintains close control of how capital is invested in a business, whether that capital comes from the business's cash flow or from Terra Firma's funds through its corporate governance structure.

Operational expertise is fundamental to enhancing the long-term value of our businesses

BUSINESS AND FINANCIAL REVIEW

STRATEGY

Life cycle of a Terra Firma fund



BUSINESS AND FINANCIAL REVIEW

BUSINESS DESCRIPTION AND ENVIRONMENT

Ryan Macaskill, Robbie Barr

OUR MARKETS

Since inception, we have focused on investing in Western Europe; 28 of the 33 investments Terra Firma has made have had European headquarters. Investing in Europe and driving change in a business requires the ability to work within the European regulatory and cultural environment. At Terra Firma, we have extensive experience of dealing with governments, quasi-governmental organisations and regulated businesses.

Whilst we are particularly interested in pursuing European-based opportunities, we continue to evaluate investment opportunities around the globe. We have reviewed and made investments outside Europe when appropriate opportunities have arisen such as the acquisition of CPC in Australia and EverPower in the US. Within the current portfolio, 14% of the aggregate revenues come from outside Europe, with 54% from outside the UK.

TERRA FIRMA'S DIFFERENCE

Terra Firma's skill is forming an independent view on a sector, understanding how that view affects the sector's individual participants and then using its extensive operational resources to act as change agents on a particular company within that sector. This 'macro-to-micro' approach to identifying investment opportunities underpins Terra Firma's investment approach. We create value for our stakeholders by acquiring, transforming and then selling asset-backed businesses in essential industries.

The shift in a company's strategic and operational direction often places it at the forefront of developments in its industry, as demonstrated by the establishment of best-in-class processes and systems to professionalise operations at RTR and EverPower. Playing such an active role in transforming an industry differentiates Terra Firma from other private equity firms.

We have extensive experience of dealing with governments, quasi-governmental organisations and regulated businesses

BROAD-BASED EXPERTISE

OUR REPUTATION

Terra Firma is one of Europe's leading private equity firms. Since 1994, it has developed a strong reputation in the investment community for independent thought and the ability to make investments that capture value in underperforming industries through strategic and operational change. This has resulted in a robust and high quality pipeline of deals.

Terra Firma works to transform its businesses to best-in-class – Infinis, Odeon & UCI, EverPower and Deutsche Annington are prime examples of how strategic and operational change and sustained investment have created market-leading companies.

OUR PEOPLE

Our greatest strength is the quality of our team. Today, that team comprises more than 85 people of 19 different nationalities speaking 20 languages.

We have built up substantial transactional, operational and analytical expertise in-house. This multi-disciplinary capability allows us to manage an investment from the initial identification of an opportunity through the purchase and transformation of a business to its eventual sale. Throughout the course of our investment, our in-house specialists work together with the management teams to maximise the long-term value of our portfolio businesses.

Milan Pavlovic, Clarissa Beresford

Our ability to create value is directly related to the diversity of our team, and we actively recruit people with varied experiences to strengthen this aspect of our firm. Promotion is based solely on the contribution each individual makes and the value they add.

Our team works in an open manner to ensure that everyone, no matter what their background or seniority, can contribute their ideas, experience and expertise to the development of our businesses. We encourage our people to question accepted ways of doing things in order to unlock new ideas.

BROAD-BASED EXPERTISE

EMPLOYEE TRAINING AND 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. As part of their induction programme, all new staff spend substantial time with the group's senior executives to ensure they have a good understanding of Terra Firma and how it operates.

The nature of the professional training within Terra Firma is broad, depends on the development needs of the individual and can include both technical and soft skills-based training.

Throughout our business, we encourage our people to take responsibility for their own personal and professional development. That development can take many forms such as on-the-job coaching, counselling and job enrichment as well as formal training programmes, courses and professional qualifications. Our sponsorship programme helps those wishing to gain recognised professional qualifications and Terra Firma has a policy of supporting employees in pursuing qualifications that will help their work and career development.

All TFCPL investment professionals up to the level of Associate Director are encouraged to obtain the CFA qualification. The CFA Program® sets the global standard for investment knowledge, standards and ethics. Passing the CFA exam enables the holder to prove that they have mastered a broad range of investment topics and are committed to the highest ethical standards in the profession.

In 2009, TFCPL hired six entrants onto its inaugural two-year Graduate Analyst Training Programme. In 2011, eleven individuals were hired onto the training programme. As a central part of the scheme, individuals learn about all aspects of Terra Firma and complete rotations with Investor Relations, Finance, the Transaction teams, the CIO office and the Portfolio Business teams. This programme continues to be a great success with graduates who have developed a broad base of skills on which to build their careers. In response to this success, TFCPL has extended the scheme to a three year programme and will begin hiring graduates every year, commencing with its 2013 intake of nine people.

Terra Firma also offers internship opportunities to undergraduate and postgraduate students, allowing individuals to gain an insight into life at work. In 2012, Terra Firma made six internships available and plans to do the same in 2013.

In 2011, a mentoring programme was introduced. The programme helps staff maximise their effectiveness by accessing the knowledge and experience of colleagues in the firm through a mentor/mentee relationship.

The Graduate Analyst Training Programme continues to be a great success

BUSINESS AND FINANCIAL REVIEW

OUR GRADUATE ANALYST TRAINING PROGRAMME

We aim to develop not only successful businesses, but also successful employees. This philosophy prompted us to become the only private equity firm with an established graduate programme.

The rotational programme is designed to give graduates a comprehensive and challenging grounding within the business, and a unique perspective on the private equity industry.

> "If you want to work in private equity, it's a really good idea to know not just how your job works, but also how everyone else in the business is working on a daily basis," said Martyn Evans, a 2011 trainee. "That's what this scheme gives you."

In their rotations, graduates are able to get hands-on private equity experience, working alongside senior members of the business to help close deals, grow our businesses and deliver results for investors.

> "You have a voice here and you're encouraged to use it, right from the interview," said Mark Baines, a 2009 trainee who completed the programme in 2011 and went on to join Terra Firma full time.

Terra Firma graduates come from a diverse array of backgrounds, bringing their fresh perspectives to the business. Current participants have studied subjects as wide-ranging as Engineering, Geography and Public Administration and speak a total of eight languages.

SPECIALIST ADVISERS

As well as its in-house specialists, Terra Firma is advised by an array of distinguished professionals from the realms of international politics, economics and business.

These professionals provide Terra Firma with the collective experience of renowned figures who lead their respective fields. They also provide independent views on the portfolio businesses' performance as well as insights into specific business sectors and how changing political landscapes might affect potential investments and opportunities in new markets.

This group consists of: Giovanni Aliboni, Charles Allen, Lord Birt, Ian Bremmer, Fraser Duncan, Prof. Gordon Edge CBE, Chris Evans, Elizabeth Filkin, George Greener, Dr. Michael Kern, Wolfgang König, Sir Gerry Loughran KCB, Prof. Dr. Klaus Rauscher and Dr. Werner Seifert.

The Terra Firma managers are also advised by external professional firms in addition to the Terra Firma advisers. These include: lawyers and accountants to help carry out due diligence, structure and execute transactions; investment banks to provide financial advice; tax specialists to optimise the tax efficiency of investments; environmental consultants; industry specialists; and business change consultants to assist on strategic change programmes within the portfolio businesses.

RESPONSIBILITY

We recognise that our portfolio businesses touch the lives of many people and we are mindful of the social responsibilities that our investments bring. Our responsibility extends to our employees, our portfolio businesses 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.

SOCIAL RESPONSIBILITY

Terra Firma encourages its portfolio businesses to be aware of and to manage material environmental and social risks affecting their businesses and to implement value-creation initiatives that have a positive environmental and social impact.

As a reflection of our commitment to building sustainable businesses, Terra Firma is a signatory of the UN Principles for Responsible Investment ('UN PRI'). The UN PRI promotes the integration of the consideration of environmental, social, and governance ('ESG') issues into investment, due diligence and management processes.

In support of this, we will be implementing more in-depth ESG reporting across the portfolio during 2013. We are also conducting a series of ESG reviews across the businesses, supported by an external sustainability consultant.

Within the UK, our businesses are committed to the CRC Energy Efficiency Scheme and to developing strategies to better manage energy consumption.

EQUAL OPPORTUNITIES

As an employer, Terra Firma 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, age, religion, race, disability, sexual orientation or any other form of discrimination that affects work performance or creates an uncomfortable working environment. Terra Firma adheres to a strict equal opportunities policy and strives to develop a culturally diverse and inclusive team.

INVESTMENT CRITERIA

When advising on potential investments, we take account of ESG issues. Terra Firma invests in companies that respect human rights, comply with industry standards and local regulations and that act in a socially responsible manner.

COMMUNITY ENGAGEMENT

We promote direct engagement with our neighbouring community and encourage equally active engagement on the part of our portfolio businesses.

Our responsibility extends to our employees, our portfolio businesses and the communities in which we work

BUSINESS AND FINANCIAL REVIEW

TFCPL is fully committed to supporting its local community of Southwark in inner-city London. From 2006 to 2008, TFCPL donated 10% of its net annual profits to the Terra Firma Charitable Trust. Since 2009, this donation has been split between the Terra Firma Charitable Trust and the Private Equity Foundation (PEF). These donations have enabled the Trust to make total commitments of over £1.6m to charitable organisations working in and for our local community.

Terra Firma is a founding member of PEF. PEF's core mission is to reduce the number of young people not in education, employment or training, enabling them to reach their full potential. Through a combination of financial donations and pro-bono business expertise, PEF works to break the cycle of intergenerational unemployment by supporting children and young people early on and throughout the critical school years. Since its establishment in 2006, PEF has focused its support on the most disadvantaged young people, supporting them through education and into work. In that time, PEF has worked with over 97,000 young people, raised £30m and donated 39,000 hours of pro-bono work.

TERRA FIRMA CHARITABLE TRUST

We aim to act as a good neighbour and help develop a sense of pride within our community through donations to locally-based charities that support programmes in Southwark. We also support non-locally based charities which have programmes that focus on Southwark to which we can specifically earmark our donations.

The mission of the Terra Firma Charitable Trust, a non-profit charitable fund formed and funded by TFCPL and its employees, is to make charitable investments which will directly benefit the local community in the London Borough of Southwark, where our London office is located. We will principally support programmes that put an emphasis on aiding and educating children and helping the elderly.

The Terra Firma Charitable Trust is proud to support the following charities and initiatives:

ACTION FOR CHILDREN

2-year funding (2011–12)

The Southwark Young Carers project was set up for children who care for a member of their family, usually a parent, with an illness, disability, mental health or substance misuse problem. These young carers are particularly vulnerable as their needs tend to go unrecognised, remaining hidden until a situation reaches crisis point. As 98% of the families the project works with are one-parent families, these children have to cope with the emotional and physical stresses of caring for the parent, as well as taking care of their younger siblings and running a house. The project currently supports 50 children and provides educational and recreational opportunities and critical emotional support.

RESPONSIBILITY

ADDACTION

3-year funding (2011–13)

With over forty years of experience, Addaction's mission is to help transform the lives of people affected by drug and alcohol problems. Its key focus is on relapse prevention through aftercare which helps ex-addicts to rebuild their lives through education, training and employment opportunities. The expected returns are personal, social and financial – a single drug user is estimated to cost the government £44,000 each year through the NHS, criminal justice system and financial dependency on the state.

AGE UK LEWISHAM AND SOUTHWARK

6-year funding (2007–12)

Age UK Lewisham and Southwark (AUKLS) is an independent charity empowering older people to live full and active lives. The only organisation working across the boroughs of Lewisham and Southwark specifically for older people, AUKLS helps people often living in poverty and isolation and suffering from age-related health problems such as heart disease, high blood pressure and mental health conditions. Age UK is dedicated to the promotion of the well-being of all older people and to helping make later life a fulfilling and enjoyable experience.

CHILDREN'S COUNTRY HOLIDAYS FUND

5-year funding (2009–13)

CCHF All About Kids was established in 1884 to take children from London's slums away for holidays in the fresh air and country surroundings. Today, the charity provides a range of residential activity and respite breaks for children aged 7 to 11. It allows children, many of whom suffer poverty, neglect and domestic violence, to escape the traumas of their everyday life and simply 'become children again'. Through various activities such as visits to the seaside and team games, the charity helps children grow in confidence, develop social skills and learn greater independence.

CREATE ARTS

6-year funding (2008–13)

Create uses the power of the creative arts to transform the lives of society's most disadvantaged and vulnerable people by designing and delivering projects that enable them to develop creativity, learning, social skills and self-esteem. Founded in July 2003, Create has run over 4,000 creative arts workshops for nearly 25,000 disadvantaged and vulnerable participants, mainly as part of sustained, life-changing programmes.

DOWNSIDE FISHER

4-year funding (2009–12)

The Downside Fisher Youth Club has supported socially-excluded young people in the Bermondsey area for over 100 years.

3

The Terra Firma Charitable Trust has made total commitments of over £1.6m to charitable organisations working in and for our local community

BUSINESS AND FINANCIAL REVIEW

It was originally established as a boys' club in 1908 and since that time has worked with disadvantaged children, helping them learn from each other and offering challenging experiences and learning opportunities that are not otherwise easily available in Bermondsey.

MANNA SOCIETY

2-year funding (2012–13)

The Manna Centre is a day centre for the homeless based near London Bridge. Founded in 1982, the centre is open every day, and between 150 and 200 people use the Centre for breakfast, lunch or one of the other services provided. As well as providing hot food and a place to rest during the day, the Centre offers showers, clothing, medical services and welfare advice. It also offers basic English and IT training as well as helps to boost self esteem and improve users' ability to find work or manage the welfare system themselves.

PRINCE'S TRUST

7-year funding (2006–12)

The Prince's Trust is a UK charity that helps young people overcome barriers and get their lives on track. Through practical support including training, mentoring and financial assistance, it helps 14 to 30-year-olds realise their potential and transform their lives.

TOMORROW'S PEOPLE

4-year funding (2008–10, 2012)

Tomorrow's People is an innovative national employment charity that is transforming people's lives through work. Since its foundation in 1984, the charity has helped over 440,000 people on the road to employment. It operates a range of programmes focused on tackling the complexities of long-term, structural unemployment including their flagship 'Working It Out' programme, which helps excluded young people from deprived neighbourhoods to improve their lives by gaining meaningful, lasting employment or training or further education. The charity also runs groundbreaking programmes for adults and young people, including working in prisons, GP practices and isolated villages.

VITALISE

4-year funding (2009–12)

Vitalise has been operating since 1963 and provides an alternative to traditional residential respite care. Each Vitalise holiday centre offers short breaks in a relaxed, holiday-style environment with a variety of trips and activities. Guests, including disabled and elderly people who require a high level of care, are supported by volunteers who provide companionship and assistance.

XLP

5-year funding (2008–12)

XLP was founded by Patrick Regan in 1996 after a stabbing in a school playground. Today, XLP serves young people in schools and communities across seven inner-London boroughs working with over 1,000 young people each week on a one-to-one and small group basis, and engaging with over 12,000 young people per year. XLP operates a range of projects designed to help young people gain a raised sense of self-worth, improve educational attainment, address challenging behaviours, and learn to set goals and work hard to achieve them.

RESPONSIBILITY

TFCML is fully committed to supporting its local community in Guernsey and has made donations to the following organisations:

HEADWAY GUERNSEY

6-year funding (2010–15)

Headway Guernsey supports over 50 islanders, and their families, who are living with the long-term effects of a brain injury. The charity provides a wide range of services that bring people together in a supportive and positive environment, as well as running a helpline offering information and advice and providing the opportunity to talk to others who have been through similar experiences.

DYSLEXIA DAY CARE

5-year funding (2011–15)

The Dyslexia Day Centre is a Guernsey-based charity organisation offering tuition, assessments, support and advice to anyone affected by dyslexia. Since the Centre's inception in 1987, it has helped over 2,000 children. Its contribution to the community was recognised when it received the Queen's Award in 2011.

GUERNSEY SQUASH & RACKETBALL ASSOCIATION

2-year funding (2011–12)

Mick Mahy, a local resident, provides racket ball lessons to people with special needs at Beau Sejour in Guernsey. Since starting the scheme in late 2010, he has provided over 1,070 group sessions and 325 one-to-one sessions. The TFCML donations help fund equipment and court hire.

CRIMINAL JUSTICE ALCOHOL SERVICE

5-year funding (2010–14)

The service is a partnership between the Guernsey Alcohol and Drug Abuse Council and the Probation Service, and is funded by the Drug and Alcohol Strategy. It was established to reduce the negative impact alcohol can have on the community, families and individuals. The donations from TFCML will help finance a full-time employee for this valuable service.

We promote direct engagement with our neighbouring community and encourage equally active engagement on the part of our portfolio businesses

RESPONSIBILITY

AGE UK LEWISHAM & SOUTHWARK

Age UK's name may have changed since the charity started over seventy years ago, but its mission has remained the same – to improve the lives of the most vulnerable older people in our society.

The organisation's roots go back to the Second World War when evacuations and family dislocation caused great hardship and deprivation across the country. Older Peoples' Welfare Committees sprang up to deliver aid and support to impoverished and vulnerable older people, and this work continued after the war. The Committees became Age Concern in the 1970s and was recently rebranded as Age UK.

Today, Age UK Lewisham & Southwark is continuing that work and supporting older people in the local community who need it the most. The majority of those who use the charity's services are struggling on low incomes and often without family nearby. Many of the indigenous white older population, for example, were originally part of strong communities based around the docks and industries that have since disappeared. The Black, Asian and Minority Ethnic (BAME) older population, on the other hand, have often had a different life experience of dislocation and settling into a strange and even hostile country.

Whatever their background, these are people who have usually witnessed the decline of their communities and a resulting increase in street crime, leaving them feeling insecure and often scared on the streets. The risk for them of being isolated at home with only the TV for company is very high.

A FRIENDLY, LOCAL HUB

With support from Terra Firma, Age UK runs the very popular Yalding Healthy Living Centre. Located in one of the poorest areas of the borough, the Centre tackles loneliness, isolation and health inequalities, and attracts over 250 socially-excluded older people each week. They come for the lively atmosphere and 'buzz' – it's a place where they can get advice and information and meet and make friends. There's a wide range of activities on offer, including trips out and parties, with a focus on helping people to stay active and useful. The Centre reaches many people from disenfranchised groups, including older people with learning difficulties and from BAME communities. Unusually for such centres, it also has a high proportion (45%) of older men attending regularly.

Age UK
Improving life for older people in Southwark

BUSINESS AND FINANCIAL REVIEW

Importantly, the Centre is led and developed by the people who use the services. There is a committee of ten older people who meet monthly to discuss the service offering, and a strong volunteer base of predominantly older people.

In 2011–2012, the committee members successfully completed a series of sessions to develop their skills and confidence so they could play an even more active part in the decision-making and delivery of activities at the Centre. This included a series of sessions on finance, charity law, charity operation and fundraising, and developing their peer support skills. Subsequently, many of the older people using the service have started contributing to fundraising applications, taking the lead on activities, sharing skills and being supportive to their peers.

GOOD FOOD AND GOOD COMPANY

In addition to maintaining the range of over 40 activities – there really is something for everyone at the Centre – the funding from Terra Firma has made it possible for Age UK to continue to provide over 250 reasonably priced, freshly cooked meals every week. For many of the older people attending this is the only freshly cooked meal they eat, as physical disabilities have meant they are dependent on frozen meals at home. The Centre also opens for breakfast with a core group of often up to twelve older men attending, the majority of them widowers living alone. Many of them report that the Centre provides not only 'proper food', but also a respite from isolation in homes which they often lack the skills to maintain.

Whilst the Centre receives much positive feedback from professionals who visit, perhaps the most important feedback is from the older people who use its services. Sarah (82) and George's (90) story overleaf is just one of many.

age UK

The Centre offers a friendly place to meet

RESPONSIBILITY

SARAH AND GEORGE'S STORY

After having a fall which affected her mobility, Sarah became less able to do some of the things she used to enjoy at home. The Baking Group at the Centre has allowed her to cook again in a supportive environment. At times her wrists do get tired, but having a group of friends around her to help out when necessary makes it possible for her to achieve spectacular results with her baking. "It's lovely that people are so willing to help out when I have trouble with something like rolling out pastry," she says, "and it's so much easier here because I can sit down at a table to do things rather than having to try and stand at the worktop in my own kitchen which I simply can't do anymore."

Sarah recently ran an Apple Pie Masterclass with the group. This gave her renewed confidence and she was able to help them produce a selection of wonderful apple pies which they were happy to take home and share with their friends and families. "It was hard work to get everyone to listen to what I was telling them," she said afterwards, "but it was very satisfying when the pies all

Terra Firma has been an enthusiastic supporter of Age UK's Yalding Healthy Living Centre for five years, playing its part in providing an affordable space where older people can meet and get more out of life came out of the oven and everybody was pleased with what they had made."

Lately it has been becoming increasingly difficult for Sarah to participate in the Baking Group. Her husband George has dementia and, over the last few months, had become very dependent upon her and reluctant to leave her side for any period of time.

At the same time, Harry, the son of one of the longest serving service users, was feeling at a loss after the death of his mother. Harry had been her sole carer and had attended the centre with her every day. Now that she had gone he was feeling aimless and lost.

Making new friends

Since George and Harry were already good friends, staff suggested that Harry take George out a couple of times each week so that Sarah could have some time to herself to do the things she enjoyed, including attending the Baking Group. Harry now takes George to the park or to the shops and they enjoy having a couple of hours of 'man time' together.

Sarah, meanwhile, gets the chance to talk to her friends or get on with her baking without having to worry about George, as she knows he is in safe hands with Harry. And Harry feels that he has gained a new purpose in life and is much happier for it.

Recognising the importance of the work that goes on at the Centre, Terra Firma has been an enthusiastic supporter for five years, playing its part in providing an affordable space where older people can meet and get more out of life. The firm has not only helped to fund services directly but also to attract further funding, both of which have made a huge difference to Age UK's work continuing.

The Centre offers a range of over 40 activities

BUSINESS AND FINANCIAL REVIEW

CORPORATE GOVERNANCE

FRAMEWORK

Terra Firma is committed to the highest standards of corporate governance and TFCPL, TFCML and terrafirma GmbH have well-established and highly effective corporate governance frameworks.

TFCPL

THE BOARDS OF DIRECTORS

TFCPL is managed and controlled in the UK. It has a Board of UK-based directors comprising three Executive Directors – Tim Pryce, Robbie Barr and Chris Barnes – and one Non-Executive Director, Deborah Pluck.

Deborah Pluck is an independent Non-Executive Director and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Deborah started her training with a national audit firm in Bristol before moving back to Oxford where she qualified and subsequently became a Partner in Oxford's longest established accountancy practice. She holds a number of director and trustee roles outside the practice including Chairman of the Governors of an independent school in Oxford. She is a founder member of The Oxfordshire Women's Forum which champions the role of women in local business.

William Burnand is Company Secretary and is a qualified solicitor in England and Wales. William qualified in 1994 and trained at Slaughter and May for seven years, in London and New York, before moving to Nomura International plc in 2000 where he worked for its Principal Finance Group. William joined Terra Firma in 2002 when it spun out from Nomura.

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 Financial Statements, review of anti-money laundering and compliance reports, and appointment of members of sub-committees of the Board.

REMUNERATION COMMITTEE

The Remuneration Committee consists of Tim Pryce, Chris Barnes and Mel Willsmore (Head of Human Resources) and meets as required. It is responsible for all compensation and benefits issues, including Terra Firma's broad policies and principles in this regard and the individual remuneration packages for all TFCPL employees.

Terra Firma is committed to the highest standards of corporate governance

BUSINESS AND FINANCIAL REVIEW

Nigel Carey, John Stares

TFCML

TFCML has a board of Guernsey-based directors comprising two Executive Directors – Guy Hands and Rupert Mackay – and three Non-Executive Directors; Nigel Carey, John Loveridge and John Stares.

Rupert Mackay qualified as a Chartered Accountant in 1995 with Coopers & Lybrand Deloitte and moved to Nomura International plc in 1997, where he worked for its Principal Finance Group from 1998. Rupert joined Terra Firma in 2002 when it spun out from Nomura. He moved to Guernsey in 2012.

Nigel Carey joined Terra Firma in 2002 as a Non-Executive Director of the group's Guernsey-based entities. Nigel is a Guernsey Advocate and was a partner in the firm of Carey Olsen (until March 2003, Carey Langlois) from 1977 until he retired in 2008. During his career as a partner in Carey Olsen, he was a prominent corporate lawyer who regularly advised banks, investment managers and mutual funds. He remains with the firm as a consultant.

Nigel holds a degree in law from the University of Southampton and qualified as a solicitor of the Supreme Court of England and Wales in 1974. He was called to the Guernsey Bar in 1975 and was Chairman of the Guernsey Bar Council from October 1997 to October 1999. He was formerly an Ordinary Member of the Guernsey Financial Services Commission from 1992 to July 2004 and is currently a member of the board of the Guernsey Banking Deposit Compensation Scheme as well as being on the boards of a number of investment funds and other companies associated with the fund business.

John Loveridge joined Terra Firma in 2002 as a Non-Executive Director of the group's Guernsey-based entities. John is a native Guernsey-man and a former Managing Director and Principal Shareholder of Redbridge Offshore Limited following the sale of the company in 2002 to Mourant, the Jersey legal and specialist administration firm. He previously held senior positions with Bridgewater Administration, Guernsey International Fund Managers (Barings) and Butterfield Fund Managers in both Guernsey and in Grand Cayman. He was educated in Guernsey and graduated from Elizabeth College.

During his 40 years' involvement in the offshore banking, finance and fund industries, he has gained extensive experience in the management and administration of a wide range of institutional, private equity and fund of funds investment vehicles for a worldwide client base. He currently sits on the offshore boards of the funds and underlying corporate structures of several major investment groups worldwide.

BUSINESS AND FINANCIAL REVIEW

CORPORATE GOVERNANCE

John Stares joined Terra Firma in 2007 as a Non-Executive Director of the group's Guernsey-based entities. Before moving to Guernsey in 2001, John was with Accenture for 23 years. During that period, he worked as a strategic, financial, change and IT consultant with major clients in most industry sectors, and during his 15-year tenure as a partner held a variety of leadership roles in Accenture's Canadian, European & Global consulting businesses. John is a Non-Executive Director of Jersey Electricity and JT Group (formerly Jersey Telecom). He recently completed a ten-year term as the Managing Director of Guernsey Enterprise Agency and five-year terms as a Non-Executive Director with the Ogier Group and Aurigny Airlines. John is also Chairman of Governors of More House School, a Trustee of the Arts and Islands Foundation and a former President of Rotary Guernesiais.

John is a Fellow of the Institute of Chartered Accountants of England and Wales and a Member of the Worshipful Company of Management Consultants.

TERRAFIRMA GMBH

The Geschäftsführer of terrafirma GmbH is Arjan Breure and the Prokurist is Chris Barnes.

Anne Sheedy, David Sanders

CONFLICTS OF INTEREST

Terra Firma has a Conflicts Policy addressing both personal and corporate conflicts of interest. Most procedures for dealing with conflicts of interest 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 policies are in place to regulate, amongst other things, business or other activities outside TFCPL, entertainment and gifts, personal account dealing and directorships in the portfolio businesses. The entertainment and gifts policy was substantially amended in 2011 in light of the implementation of the UK Bribery Act.

In addition, each of the Terra Firma funds has an Advisory Board composed of representatives of a selection of each fund's investors. The principal purpose of each Advisory Board is to consider and, if thought appropriate, consent to arrangements being entered into when there is a possibility of a conflict arising.

GENERAL ACCOUNTABILITY

AUTHORISED STATUS

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

TFCML is licensed by the Guernsey Financial Services Commission. terrafirma GmbH is mandated to provide TFCPL with investment advice in relation to investment and divestment opportunities in Germany and other countries which TFCPL nominates from time to time.

terrafirma GmbH is not required to be regulated.

COMPLIANCE OFFICERS

David Sanders is the Compliance Officer of TFCPL. The Compliance Officer's function is to, among other things, ensure that the UK-based directors and employees of TFCPL comply with the FCA rules and any other rules and regulations governing the conduct of designated investment business made under the Financial Services and Markets Act 2000.

State Street (Guernsey) Ltd is the Compliance Officer of TFCML. The Compliance Officer's function is to ensure that the Guernsey-based directors and employees of TFCML comply with the rules of the Guernsey Financial Services Commission and other relevant local legislation.

There is no requirement for terrafirma GmbH to have a Compliance Officer.

FINANCIAL STATEMENTS

TFCPL prepares annual audited financial statements. These accounts, which are prepared following UK company law, give a true and fair view of the state of affairs of TFCPL and its subsidiary, terrafirma GmbH. 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 of TFCPL are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of TFCPL and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

TFCML prepares annual audited financial statements. These accounts are prepared following the Companies (Guernsey) Law, 2008 to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. TFCML's year-end is March and its auditor is Deloitte & Touche.

The TFCML directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of TFCML and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of TFCML and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

terrafirma GmbH prepares annual audited financial statements, its year-end is March and its auditor is Deloitte & Touche.

CONTINGENCIES – LITIGATION

TFCPL, TFCML and terrafirma GmbH are not currently involved in, and have no knowledge of, any threatened litigation involving any of them which would have a material adverse impact on their results, operations or financial condition.

OWNERSHIP

Guy Hands is the ultimate beneficial owner of the share capital of TFCPL and its wholly-owned subsidiary terrafirma GmbH.

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

SENIOR TEAM REMUNERATION

REMUNERATION POLICY

The remuneration of our Senior Team is designed to attract, motivate and retain staff of the highest calibre. A high-quality senior team is essential to maintaining our position as one of the leading European private equity firms.

REMUNERATION PACKAGE

The main elements of the remuneration package for our Senior Team are as follows:

ANNUAL SALARY

For 2012, the total cash compensation (annual salary and discretionary bonus) paid to the Senior Team was £24,054,948 and the average for these 14 individuals was £1,924,396. Salaries are reviewed annually 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 businesses do not receive directors' fees.

BENEFITS IN KIND

Medical insurance

All members of the Senior Team are eligible to join one of the company's medical insurance schemes. Each respective employer pays the premium and the respective employee pays tax at source for this benefit via the monthly payroll.

Permanent health insurance

All members of the Senior Team are eligible to join one of the company's permanent health insurance schemes. These policies provide up to 75% of pre-disability income once an individual exceeds six months' continuous sickness absence, subject to a maximum payment of £250,000 per annum.

Pension arrangements

The Senior Team are all eligible to be members of a company personal pension scheme. A range of benefits are provided in the event of death whilst employed by the company:

(i) a lump sum payment up to four times basic annual salary at the date of death;

(ii) a pension will be provided to an individual's spouse, civil partner or dependants at the date of death, equivalent to 25% of Final Pensionable earnings, together with pensions for each of up to four children under the age of 18 (or 23 if in full-time education) equivalent to 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 his or her dependants.

BUSINESS AND FINANCIAL REVIEW

SENIOR TEAM CONTRACTS

It is the company's policy that the Senior Team has contracts with an indefinite term which provide for a minimum of 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 Team members contains restrictive covenants that prohibit the individual for a period of at least three months following the termination of their employment from:

(i) taking up employment with any business that is (or is about to be) in competition with Terra Firma;

(ii) soliciting or canvassing customers or clients of Terra Firma;

(iii) enticing or trying to entice away any member of staff.

Amar Shah, Vinh Pham, Mel Willsmore

BUSINESS AND FINANCIAL REVIEW

ALIGNMENT OF INTEREST

As well as investing capital on behalf of others, Terra Firma and its team have committed more than €880m to the Terra Firma funds. As one of the largest investors, Terra Firma prospers along with its investors by developing and growing successful businesses.

This alignment of interest is fundamental to the way Terra Firma operates. Carried interest is performance-based and only results in Terra Firma's team 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 been repaid their investment and received the majority of their profits.

This type of structure aligns interest to help create value in businesses over the long term and, whilst not perfect, is far superior to the focus on annual results and bonuses that have historically existed in public companies and investment banks.

Alison Smith, Xanthe Hornak

Niels Berl, Radu Gruescu, Lorcan Woods

Alignment of interest is fundamental to the way Terra Firma operates

RISKS AND UNCERTAINTIES

The Terra Firma advisers must provide high-quality investment advice to the Terra Firma fund managers. This advice necessarily provides views on uncertain future conditions and events which may not turn out as expected. The Terra Firma advisers have the appropriate skilled investment professionals, organisational structure and processes to manage the risk inherent in this activity. Where risks are relevant they are taken into account by the Terra Firma fund managers in the risk and return assessment of a potential investment.

RISK MANAGEMENT

In reaching their decisions, the Terra Firma fund managers take into account the advice of the Terra Firma advisers as well as the fund managers' strategy and 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 Terra Firma fund managers bring objective discipline to the review of each investment opportunity.

The ongoing dialogue between the Terra Firma fund managers 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 transaction team.

The advice that the Terra Firma advisers provide 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 their view, the Terra Firma advisers constantly review advice from economic, political, legal, financial, tax and accounting advisory firms.

Terra Firma is advised by an array of distinguished professionals from the realms of international politics, economics and business. 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.

RISKS AND UNCERTAINTIES

CORPORATE RISK

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

LIQUIDITY RISK

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

LEVERAGE RISK

Terra Firma has no current borrowings.

INTEREST RATE RISK

Terra Firma 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.

TFCML has no currency risk.

COMPETITOR RISK

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

Alex Benjamin, Naseem Ansari

KEY MAN RISK

The operations of Terra Firma are highly dependent on a small number of senior personnel, including Guy Hands, being able to perform their roles. Terra Firma 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.

The risks outlined here represent those faced by Terra Firma. The risks faced by the Terra Firma funds are set out in the Notes to the Accounts in Section 4. The portfolio businesses will face risks in their normal course of business and these will be set out in their respective accounts.

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI
SECTION FOUR

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI

TERRA FIRMA FUNDS

AGGREGATED FUND FINANCIAL STATEMENTS

BALANCE SHEET	NOTE	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
FIXED ASSETS			
Investments	3(b), 6	6,421,602	4,792,654
CURRENT ASSETS			
Cash at bank		41,557	47,349
Accounts receivable	7	504	4,749
CURRENT LIABILITIES			
Amounts returnable to Limited Partners	8	–	1,591
Accounts payable	8	413	794
NET ASSETS		**6,463,250**	**4,842,367**
PARTNERS' LOAN AND CAPITAL ACCOUNTS		**6,463,250**	**4,842,367**
Revaluation surplus not included in Net Assets		3,315,834	2,085,672
Estimated Fair Value of Net Assets		**9,779,084**	**6,928,038**

PROFIT AND LOSS STATEMENT	NOTE	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
INCOME AND EXPENDITURE			
Bank interest	3(d)	409	417
Other income		–	7
Foreign exchange gain	3(e)	–	86
Interest on investments	3(d)	1,011	353
Realised gain on investments		45,381	4,426
Partnership expenses		(9,366)	(8,104)
Foreign exchange loss	3(e)	(1,744)	(21)
Auditor's remuneration		(261)	(200)
Bank charges		(22)	(26)
NET RESULT FOR THE YEAR		**35,408**	**(3,062)**

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI

CASH FLOW STATEMENT	NOTE	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
RECONCILIATION OF NET RESULT TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES			
Net result for the financial year		35,408	(3,062)
Decrease in receivables		1,204	28,577
Decrease in payables		(1,937)	(6,288)
Deduct realised gain on investments		(45,381)	(4,426)
Deduct interest on investments		(1,011)	(353)
Add back realised foreign exchange loss on investments		1,641	–
Net Cash (Outflow)/Inflow from Operating Activities		**(10,076)**	**14,448**
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of fixed asset investments		(1,640,027)	(563,167)
Proceeds from sale of investments		56,338	4,745
Proceeds from financial restructuring		–	1,755
Net Cash Outflow from Investment Activities		**(1,583,689)**	**(556,667)**
FINANCING			
Drawdowns on Partners' commitments		1,731,807	647,196
Repayment of Partners' commitments		(12,843)	(12,255)
Advance of General Partners' share		(90,320)	(90,393)
Gross distributions during the year		(40,673)	(34,862)
Net Cash Inflow from Financing Activities		**1,587,971**	**509,686**
Foreign exchange impact	3(e)	2	2
NET DECREASE IN CASH		**(5,792)**	**(32,531)**

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANISATION AND PURPOSE

The financial information presented represents the aggregated financial position and financial performance of the Terra Firma Limited Partnerships described in the following table (the Partnerships). The financial information has not been consolidated. The Partnerships aggregated in the financial information are:

PARTNERSHIP	ESTABLISHMENT DATE	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
TFCP III Co-Investment 2 LP #	29 November 2007	Terra Firma Investments (GP) 3 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
TFCP II Co-Investment 4b LP #	4 August 2008	Terra Firma Investments (GP) 2 Ltd
TFCP III Co-Investment A LP #	4 August 2008	Terra Firma Investments (GP) 3 Ltd
TFCP III Co-Investment B LP #	2 July 2009	Terra Firma Investments (GP) 3 Ltd
TFCP III Co-Investment 2A LP #	24 May 2010	Terra Firma Investments (GP) 3 Ltd
TFCP III Co-Investment C LP #	19 November 2010	Terra Firma Investments (GP) 3 Ltd
Terra Firma Special Opportunities Fund I, L.P. ^	12 March 2012	Terra Firma Investments (Special Opportunities Fund I) Limited

4

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI

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.

The main purpose of the Partnerships is to provide partners with long-term capital appreciation through the acquisition of equity and equity-related investments predominantly in unquoted companies in Western Europe and by making other selective equity and equity-related investments.

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 Partner of the Partnerships marked # is allocated a profit share equal to the lesser of 0.001 per cent of Partnership Profits and €1,000 (£1,000 in the case of TFCP II Co-Investment 1 LP).

The General Partners of the Partnerships marked + are allocated a proportion of all amounts of principal, 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. The General Partners' share is included within the Partners' Capital Accounts. The General Partner of these Partnerships also receive a profit share of 1.0 per cent of committed capital per annum 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 Partner of the Partnership marked ^ receives a profit share of 1.0 per cent of acquisition cost per annum payable semi-annually in advance. Where the 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.

	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
Advance of General Partners' share at 1 January	525,884	437,567
General Partners' shares for the year	90,320	90,393
Allocation of current year profit	(41,813)	(2,076)
TOTAL	**574,391**	**525,884**

4

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI

NOTES TO THE FINANCIAL STATEMENTS

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 statements:

(a) BASIS OF ACCOUNTING

The aggregated financial statements have been prepared in euros since this is the functional currency of the Partnerships (except for TFCP II Co-Investment 1 LP and Terra Firma Special Opportunities Fund I, L.P.) under the historical cost convention and in accordance with the Limited Partnership Agreements.

(b) INVESTMENTS

Investments are carried at cost less any provision for impairment. When there is an indication of impairment, the General Partner conducts an impairment review of the investment based on whether current or future events and circumstances suggest that the recoverable amount may be less than the carrying value. This review includes techniques such as analysing cash flows, discounted using the market rate of return for similar assets.

In accordance with the Limited Partnership Agreements, investments in subsidiaries and associates are held as part of an investment portfolio with a view to the ultimate realisation of capital gains and hence fully consolidated financial statements are not prepared nor are associates equity-accounted.

(c) FAIR VALUE

The General Partner has determined the fair value of all investments in accordance with the IPEV Board's Valuation Guidelines and these are disclosed in aggregate in Note 6 to the financial statements.

(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 and foreign exchange gains and losses on investments are 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 achieved in the transaction. The assets and liabilities of TFCP II Co-Investment 1 LP and Terra Firma Special Opportunities Fund I, L.P. have been translated into euros at the reporting date.

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI

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 Partnerships. Under the terms of the Investment Advisory Agreements, TFCPL and TFCML were appointed to advise the General Partners as to the acquisition, monitoring and realisation of the investments of the Partnerships.

6. INVESTMENTS	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
EQUITY AND EQUITY-RELATED INSTRUMENTS:		
As at 1 January	4,792,654	4,230,711
Additions during the year	1,640,027	563,167
Disposals during the year	(11,587)	(1,722)
Foreign exchange impact	508	498
COST OF INVESTMENTS AT 31 DECEMBER	**6,421,602**	**4,792,654**
ESTIMATE OF FAIR VALUE	**9,737,436**	**6,878,326**

7. ACCOUNTS RECEIVABLE	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
Drawdowns receivable	371	3,412
Recoverable costs receivable	133	1,332
Other debtor	–	5
	504	**4,749**

8. ACCOUNTS PAYABLE	AGGREGATE 2012 €'000	AGGREGATE 2011 €'000
Accrued expenses	266	288
Costs payable	147	471
Other creditors	–	35
Amounts returnable to Limited Partners	–	1,591
	413	**2,385**

NOTES TO THE FINANCIAL STATEMENTS

9. 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 by local authorities where the companies operate. Changes to the regulatory frameworks under which the companies operate are monitored.

The Partnerships operate complex legal and corporate structures across a number of legal jurisdictions. The General Partners of the Partnerships take appropriate professional advice on the suitability of these structures.

MACROECONOMIC RISKS

The Terra Firma Partnerships invest 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 50 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 is affected by market conditions, including the availability of debt finance and the level of activity in the buyouts market. 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.

OUR FUNDS – TFCP II, TFCPIII, TFDA, TFSOFI

CURRENCY RISK

The Partnerships generally report in euros and distribute profits to investors in euros. The Partnerships invest in portfolio companies denominated in euros, US dollars, sterling and Australian dollars and pay expenses in a range of foreign currencies and hence have an exposure to currency movements. The Partnerships hedge foreign exchange exposures in the completion of investment acquisitions and realisations.

INTEREST RATE RISK

Some Terra Firma Partnerships bear short-term borrowings with floating-rate interest and are subject to risk arising from changes in interest rates. As at year-end, none of the partnerships had loans outstanding.

OPERATIONAL AND CREDIT RISKS

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 taking advice from TFCPL and TFCML. Operational oversight of portfolio business companies is maintained and supported by a reporting framework and controls. The maximum credit risk of the Partnerships with regard to an individual portfolio company is their carrying value of their investment in the company.

CONTACT INFORMATION

TERRA FIRMA'S FUNDS

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