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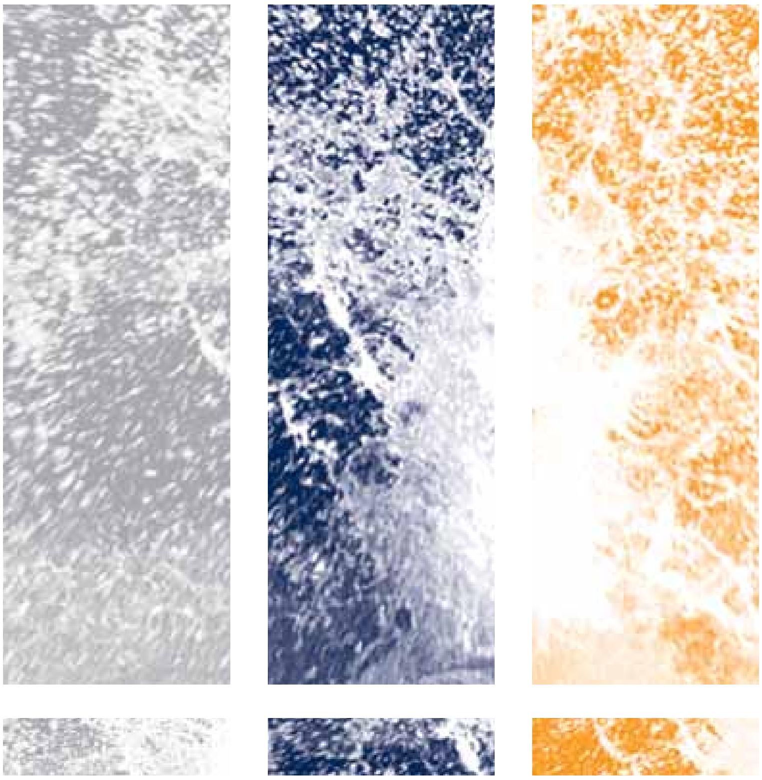

EUROPEAN DISTRESSED DEBT MARKET OUTLOOK 2009

JANUARY 2009

CADWALADER FTI ROTHSCHILD

CONTENTS

FOREWORD

Welcome to the European Distressed Debt Market Outlook 2009, which Debtwire is delighted to present in conjunction with Cadwalader, Wickersham & Taft LLP, FTI Consulting Inc and Rothschild.

Just as global credit markets came to terms with the subprime mortgage market collapse of 2007, Lehman Brothers delivered the ultimate blow in autumn 2008. All remnants of market stability were thrown into complete disarray as investors scrambled to grasp the concept of the bank's demise, a code which will no doubt take years to decipher.

Primary activity in the leveraged loan and high yield bond markets faded into the backdrop in late-2008. Bank credit committees froze in action, and cracks started to show as real liquidity needs gripped European businesses.

As Debtwire's European Distressed Debt Market Outlook enters its fifth year of production, the report findings present detailed results of a survey questioning 100 European and US hedge fund managers, prop desk traders and long-only investors on the outlook for the European distressed debt market in 2009.

With the speed and depth of the global economic downturn taking most market participants by surprise, respondents remain cautious about the prospects of distressed investing in 2009, citing 4Q 2009 as the anticipated peak in financial restructurings.

OTHER KEY FINDINGS FROM THE SURVEY INCLUDE THE FOLLOWING:

- The primary pressure for European businesses is tightening liquidity, driven by the decline in the wider economic framework.
- Property/construction, auto/auto parts and consumer retail sectors will offer the most opportunities for distressed investors in 2009. Financials, chemicals and media businesses will also likely be pressured in the next 12 months.
- Private equity sponsors admit they are unprepared for the next wave of restructurings.
- Covenant resets and capital injections are expected to be the most likely outcome of creditor negotiations in 2009.
- High yield bonds have replaced mezzanine debt as the second most attractive debt instrument for distressed investment.
- Most respondents anticipate a large number of leveraged companies to face debt restructurings in 2009, with a third expecting at least 40% of these businesses to restructure.

Debtwire, Cadwalader, Wickersham & Taft LLP, FTI Consulting Inc and Rothschild would like to thank all the respondents who took time out to contribute to what we believe is the definitive market outlook for distressed players in Europe. Any feedback you may have on this year's research would be welcome, as would comments and suggestions on what you would like to see covered in future editions of the report.

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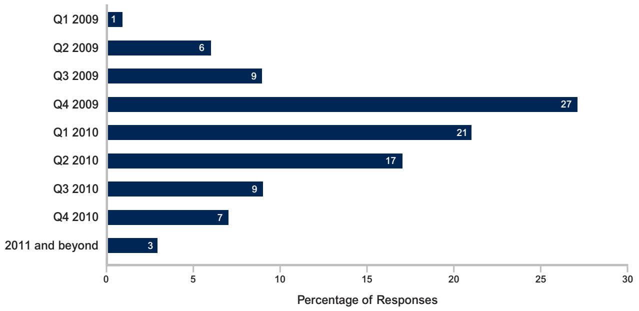
DISTRESSED INVESTOR SURVEY

In December 2008, Debtwire interviewed 56 hedge fund managers and long-only investors and 44 prop desk traders in Europe and the US. Interviewees were questioned about their expectations for the European distressed debt market in 2009 and beyond.

When do you expect the volume of European financial restructurings to reach their peak in the near-term?



- The largest proportion of respondents (27%) do not expect European financial restructurings to peak until the end of 2009, with a further 21% and 17% forecasting a decline in the number of restructurings from Q1 or Q2 2010 respectively.
- According to a number of respondents, the primary pressure for businesses is tightening liquidity. A number of respondents also suggest covenant-lite, long-dated or PIK toggle paper could delay restructurings. Loan documentation with sponsor-friendly equity cure documentation could also postpone a restructuring scenario, respondents said.

"It doesn't feel like the peak volume of European financial restructurings is still nine months away. The volume of financial and operational restructuring activities across Europe is already at a very high level. Based on the responses to this question the latter part of 2009 and 2010 are going to put severe pressure on participants in the restructuring market".

Kevin Hewitt, FTI Consulting Inc

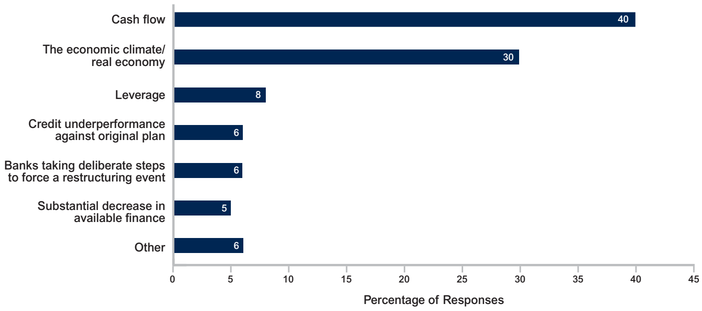
"Investors have waited throughout 2008 to buy into distressed situations, believing prices are going to get cheaper."

Andrew Merrett, Rothschild London

"We have moved beyond infinity - that was the view from a hedge fund on the wrong side of the VW/Porsche deal. It sums up where everyone is at the moment, with the strong hope that there is no black hole at the other end."

Richard Millward, Rothschild London

Which of the following factors will most likely determine the timing of debt restructurings (please select just one)?



- The largest proportion of respondents (40%) identify cash flow as the primary factor prompting debt restructurings, although the economic climate/real economy is ranked the second largest influence (30%). With liquidity driven by performance, the wider economic framework plays a critical role in corporate restructurings, respondents noted.

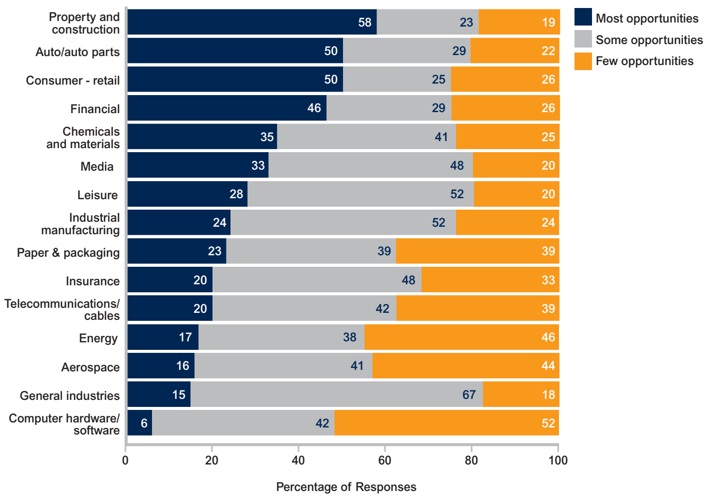
"Recent conventional wisdom - that cov lite structures would forestall defaults - has not held up. Increasingly, companies will need to restructure for a very old fashioned reason: they lack the cash to continue paying interest."

Richard Nevins, Cadwalader

"Of course there are external factors that are testing the resolve of the very best finance teams; however, we are still seeing a regular flow of large corporates with inadequate systems and controls around cash management. For some corporates it may be too late to gain visibility on cash flows resulting in a loss of control over the restructuring process".

Kevin Hewitt, FTI Consulting Inc

Please rate the following sectors to specify the best opportunities for distressed investors in 2009 (rate 1 to 3, 1 = most opportunities, 3 = fewest opportunities).



- Respondents identify property/construction, auto/auto parts and consumer retail as sectors offering the most opportunities for distressed investors in 2009. Financials, chemicals and media businesses will also likely be pressured in the next 12 months, according to responses.
- A large number of respondents (45%) expect highly cyclical industries to be most impacted in 2009. Sectors linked to discretionary spend will also be greatly influenced by the severity of the economic downturn. According to 20% of respondents, the macroeconomic climate will determine which sectors offer most opportunities. Highly levered companies will also find it harder to source new financing, making them prime targets for restructurings, respondents said.
- According to some respondents, it is important to distinguish between particularly vulnerable sectors and those which offer the best returns for investors. Sectors with fewer opportunities may offer better opportunities, respondents said. "I expect a number of companies to be liquidated rather than survive in-/out-of-court restructurings as a going concern. The reason for this is lack of available buyers or available financing," said one.

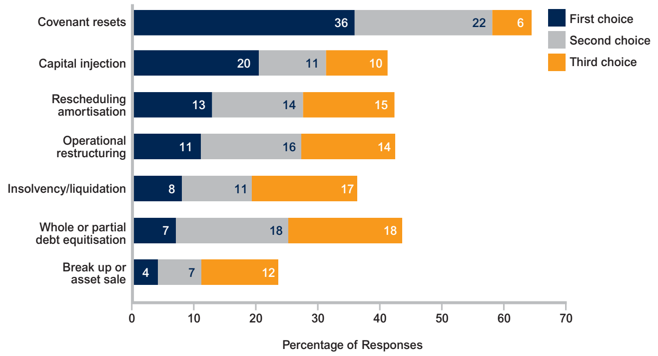
"Distressed investors will continue to take a cautious view on new opportunities for as long as the debate rages on whether we have hit the bottom of the market. With the current instability in the economy, it is safe to conclude that there is still some way to go before appetite will return to the distressed investor community."

Paul Inglis, FTI Consulting Inc

"Sectors are important, but the strength of management teams and resilience of each business will determine what happens in 2009. Most sectors are going to be affected, so each company has to be assessed within each market. You can see this in how each company has performed in badly affected sectors already - finance, building, retailers".

Sophie Javary, Rothschild Paris

Which outcome from creditor negotiations do you expect to be most prevalent in 2009 (please select the top 3)?



- Respondents identify covenant resets (64%) and capital injections (41%) as the most likely outcome of creditor negotiations in 2009. Rescheduling amortising debt and operational restructurings also ranked high in results. Finally, just over a third expect insolvencies/liquidations to be commonplace.
- In some cases, lenders prefer to avoid restructurings, opting to reset covenants instead of calling default. "It would be difficult to find buyers of the asset post-enforcement," noted one respondent.
- "In the case of 22 recent covenant resets, 14 required equity injections to secure creditor approval," one respondent commented.

"The types of restructurings foreseen by participants are heavily weighted towards minimal and timely intervention. Radical restructurings and formal insolvency proceedings should be something of a last resort, although clearly some situations will end up there".

Ian McKim, Cadwalader

"All forms of restructuring will require a reassessment of the management team's competence to deliver the agreed solution to stakeholders. The 'restructuring' of the management team will be as prevalent as the above factors during 2009 to support the implementation of the agreed financial and operational restructuring plan".

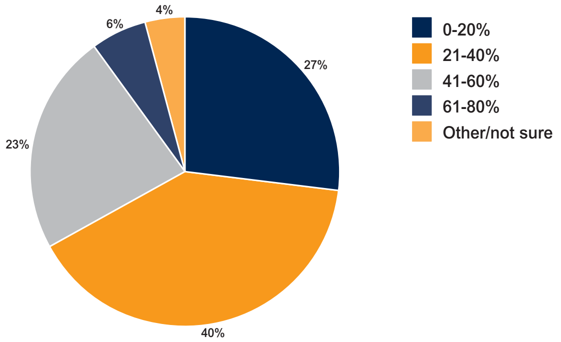
Kevin Hewitt, FTI Consulting Inc

"Refinancing is not a real possibility in most deals at the moment. It's about keeping all the financial creditors in the deal and bridging to a time when new money will be available".

Heinrich Kerstien, Rothschild Frankfurt

DISTRESSED INVESTOR SURVEY

What proportion of leveraged companies do you believe are likely to face restructurings in 2009?



- Unsurprisingly, most respondents anticipate a large number of leveraged companies to face debt restructurings in 2009, with a third expecting at least 40% of these businesses to restructure. Most respondents (40%), however, expect between 21%-40% of leveraged businesses to restructure.
- Respondents point to high leverage, poor cash flow, underperformance against budget, cyclicality and covenant breaches as key triggers for restructurings.

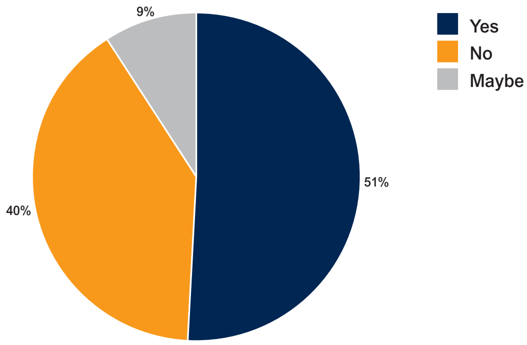
"Market participants appear significantly more pessimistic than the major ratings agencies. Last month, for example, S&P predicted some 20% of European speculative credits could default by 2010, whereas fully one-third of respondents saw 40% or more of credits needing to restructure."

Richard Nevins, Cadwalader

"High leverage is going to have to be readjusted in many deals - business plans were all built on EBITDA growth, to reduce leverage multiples and improve interest cover. That's going to be hard for most businesses to achieve. It will be a case of working with lenders to manage through, but many will need to equitise debt to get better capital structures".

Alessio de Comité, Rothschild Milan

Do you expect more insolvency situations in 2009 over restructurings?



- Respondents are divided on the likely number of insolvency filings in 2009. The downsizing of the economy and high levels of debt will trigger an increase in insolvencies, respondents said. Some noted the volume and complexity of restructurings, and the sheer size of lender syndicates could prevent consensual/out-of-court restructurings.
- Some respondents question the likelihood of an increase in the number of insolvencies outnumbering restructurings. Insolvency is the last resort for owners, creditors and stakeholders, they noted. Respondents also highlight that insolvencies are more likely to occur at the lower end of the scale. Larger businesses could face political pressure to restructure.

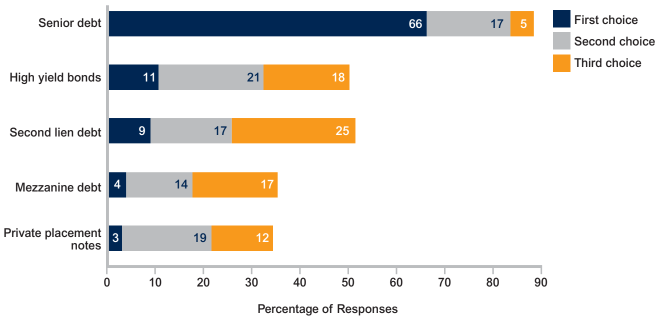
"There is no doubt that the volume of insolvencies will continue to increase throughout 2009, however, insolvency across Europe is rarely a value enhancing solution, and provided lenders and investors are willing to take a more medium term approach the number of restructurings at the larger end of the market is likely to outweigh insolvencies."

Simon Granger, FTI Consulting Inc

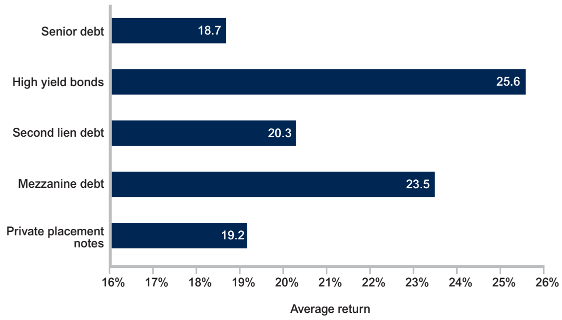
"2009 could be the year the CLOs crack under the weight of defaults. Distressed companies are very quickly having payment defaults after covenant breaches. And this is getting worse as a prolonged downturn erodes what little fat companies had on their backs."

Andrew Merrett, Rothschild London

Please rank the top three instruments which offer the most attractive investment opportunities in 2009.



What returns are you targeting for the following instruments in 2009?



- According to 88% of respondents, senior debt offers the highest return on investment, ranking first choice with 66% of those questioned. "Senior is secured and will drive a [restructuring] process," noted one.
- Half of respondents rate high yield bonds an attractive product, while second lien and mezzanine debt ranks lower in respondents favour. Interestingly, mezzanine debt ranked some way ahead of second lien debt in last year's Debtwire survey, sitting second in line behind senior debt and scoring first place ranking with 9% of respondents.

"Participants foresee more opportunities in senior debt than in recent memory, reflecting the level of distress felt at all levels of the capital structure."

Ian McKim, Cadwalader

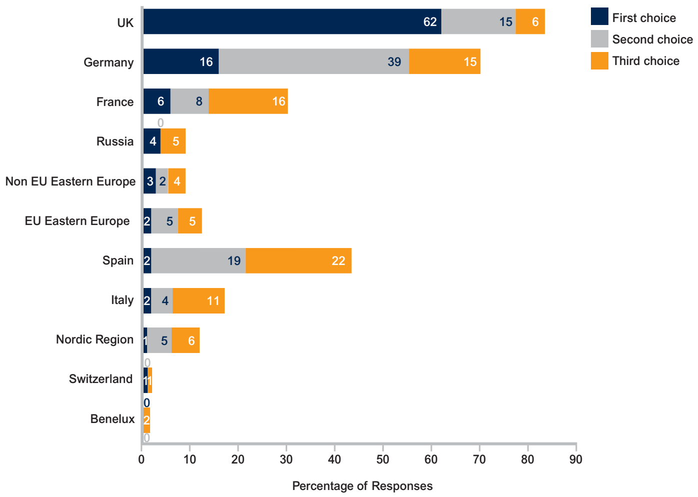
"The role of the senior lender has never been so powerful. In a market where asset values are so depressed and value recovery plans so uncertain it is difficult to see why distressed investors would take the risk of investing elsewhere in the structure until at least they have a foothold in the senior and more visibility".

Paul Inglis, FTI Consulting Inc

- High yield bonds will likely offer the highest returns on investment (ROI) in 2009, 25.6% on average according to respondents. "Both high yield bonds and senior debt trade at levels of 35%+ yields to maturity, but we are unlikely to achieve these theoretical yields due to necessary restructurings that will likely involve some debt forgiveness or debt-for-equity swaps," said one respondent. "A more realistic 25% should be achievable if the right companies are picked," he added.
- Mezzanine debt ranks second, with an average 23.5% targeted return, followed by second lien debt at 20.3%. Senior debt is close behind its subordinated peers, averaging a targeted 18.7% ROI.

DISTRESSED INVESTOR SURVEY

Which European countries do you think offer the greatest opportunities for distressed investment in 2009 (please select your top three)?



- The UK is expected to produce the most distressed opportunities in 2009, with three quarters of respondents ranking it first. Germany also received a high ranking, followed by France and then Russia.
- Respondents were divided on investment prospects in Spain. Identified by a large number of respondents (43%), only 2% rank the Southern European country as the greatest opportunities for distressed investment. "Spain will be [a] huge [restructuring market], but it's hard to see how there will be many going concerns or an open debt market," said one respondent. "It's mostly non-traded bank debt."
- Macroeconomic imbalances prompt a wealth of opportunities in the UK, with its over-stretched economy, tightening liquidity, and a decrease in private consumption, according to respondents. According to one interviewee, the UK was simply "a bubble waiting to burst".
- For many respondents, insolvency regimes and government intervention shape their views, particularly in Western Europe. "Countries with governmental influence offering support for private businesses will be attractive," said one.
- Sector-specific factors will also likely influence opportunities (financials in the UK, automotives in Germany and the construction market in Spain). The size of these economies and the tradability of debt will also sway investor sentiment.

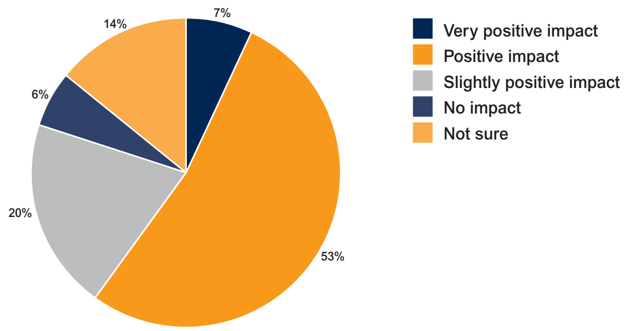
"The most severe problem in Europe is the UK, where banks have been hoarding cash since September 2007. We do not see much let up, given potential provisioning banks will require as the recession hits their corporate loan books".

Alistair Dick, Rothschild London

"Spain has had its fair share of problems, but the Spanish banks remain on the whole well capitalised. 2009 will be the testing time to see if they can remain supportive of many of their borrowers".

Konstantin Sajonia-Coburgo, Rothschild Madrid

How do you expect Central Bank lending to impact liquidity in the market in 2009?

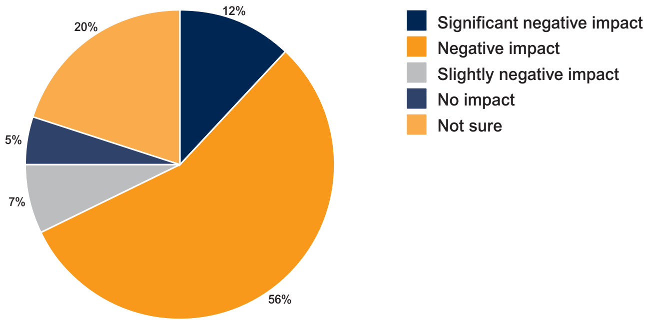


- On the whole, central bank lending is expected to have a positive impact in the market (53%), according to respondents.
- A number of respondents expect the impact of Central Bank lending to filter through in late 2009.
- Others respondents are more sceptical. "There is only so much liquidity that can be pumped in, and all the liquidity in the world can't restore confidence at a whim, so whilst it will help it isn't the sole answer," said one prop desk trader. "It's not about central banks, it's about banks," said another.

"Time will tell whether the UK government's support package announced on 19 January will increase confidence and capacity to lend to small and large companies. It will be interesting to see if the support package is extended to acquire bad assets from the UK banks. This may well be a pre requisite to restore confidence in the balance sheets of the UK banks".

David Morris, FTI Consulting Inc

How do you expect commercial banks' capital constraints to impact liquidity in the market for 2009?

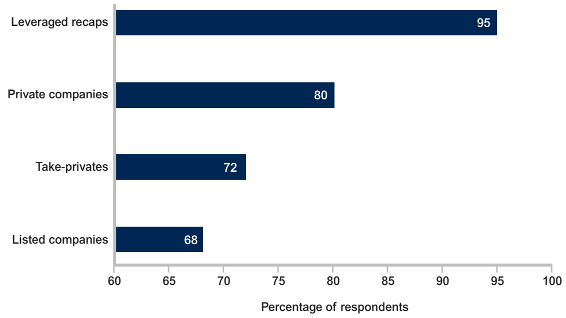


- Three quarters of respondents expect commercial banks' capital constraints to have a negative impact on liquidity in 2009. "It is unlikely that commercial banks will feel better capital-wise in 2009," said one respondent. "If they do, it will only be very late in the year."
- There are no lenders in the market, so it is hard to refinance debt, said another respondent.

"Banks are still able to carry loans on their books at overstated levels under the accounting rules. In restructurings this means they're sending companies back out burdened with too much debt rather than take the hit, sometimes more debt than the company is worth. Because of this many of the restructurings being done now will come back round again in 12-18 months. Meanwhile all the cash flow is being used to pay down debt rather than to develop the business."

David Resnick, Rothschild New York

Which of the following situations will likely mature into restructurings in 2009?



- Almost all respondents agree leveraged recaps will most likely mature into restructurings in 2009. "These [transactions] have by far the highest level of indebtedness," said one respondent.
- Many respondents highlighted more than one situation as most likely to mature into a restructuring in 2009.

"Not only are leveraged recaps the most indebted, such companies have typically already returned substantial cash to their sponsors. That 'pre-paid return' should make it easier for sponsors to justify ceding control in an equitisation."

Richard Nevins, Cadwalader

"There will be very few situations immune from the depths of the current recession. The challenge will be picking the winners from the losers and putting scarce liquidity and resource to work in situations where there is a reasonable prospect of value recovery in the medium term".

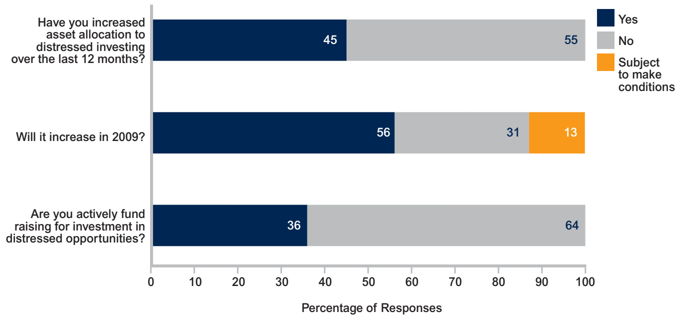
David Morris, FTI Consulting Inc

DISTRESSED INVESTOR SURVEY

Have you increased asset allocation to distressed investing over the last 12 months?

Will it increase in 2009?

Are you actively fundraising for investment in distressed opportunities?

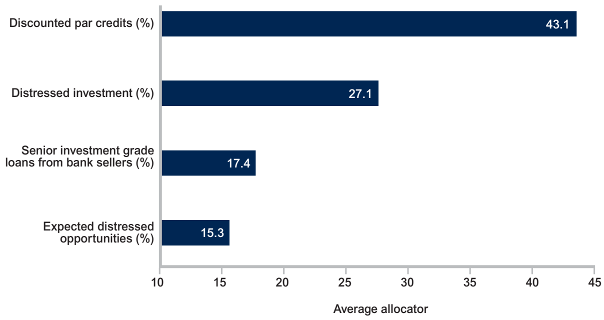


- Respondents are near-equally divided on increased asset allocation to distressed opportunities in 2008. Despite 45% opting to increase exposure, many abstaining respondents said the last 12 months were too early to consider distressed investment.
- Respondents are only slightly more assured of increasing their allocations in 2009, with 56% planning to ramp up exposure to distressed investment. In many cases, respondents perceived existing exposure sufficient.
- A third of respondents are actively fundraising for investment in distressed opportunities.

"There is a large weight of money looking for investment opportunities but the flight to quality is making investors reluctant to increase their allocations to distressed assets in the short term."

Heinrich Kerstien, Rothschild Frankfurt

What proportion of your investments in the past 12 months have you allocated to the following:



- On average, respondents allocated 43% of investment to discounted par credits in the past 12 months. Respondents generally invested 27% of total funds in distressed opportunities, with a further 15% investment in expected distressed scenarios.

Are you actively seeking out stressed scenarios with expected capital injections? If yes, in what form?

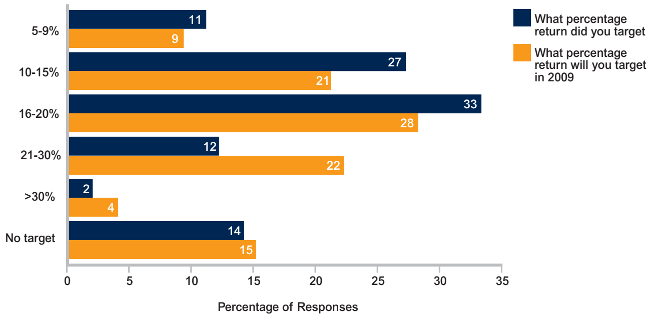
- In total, 62% of respondents invest in debt when a new money injection is deemed likely, with 73% buying senior debt, 16% buying subordinated debt, and 11% buying equity.

Has your appetite for committing fresh cash to a situation to buy out other creditors increased, decreased or remained the same?

- The largest proportion (45%) of respondents' appetite for committing fresh cash to a situation to buy out other creditors has not changed. A total of 36% of respondents said their appetite has decreased while 19% said it has increased.

What percentage return did you target in 2008?

What percentage return will you target in 2009?

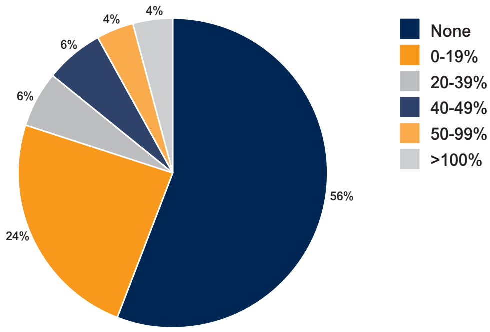


- Despite the wealth of distressed investment opportunities, respondents do not foresee greater returns in 2009 over 2008. In last 12 months, 33% of respondents targeted returns of between 16%-20%, while 27% aimed to achieve returns of 10-15%. In 2009, targeted returns in the same ranges drop to 28% and 21% respectively. Lower expectations are also visible in the 5%-9% range.
- Interestingly, the theme is reversed at the higher end of the scale, with an increased number of respondents targeting returns of between 21-30% and over 30% in 2009. A total of 26% of respondents, foresee greater returns in 2009 than 2008.

"The ongoing uncertainty in the Capital Markets has driven significant increases in debt yields. Investors don't need to lose the safety net of security and convert to get a decent return".

Paul Inglis, FTI Consulting Inc

How much portfolio leverage did you apply to your fund in 2008?



- The majority of respondents (56%) used fund capital to manage their fund in 2008, an increase from last year (52%).
- Of those leveraging their portfolios, the largest proportion applied leverage to between 0%-19%. The number of respondents leveraging more than 50% of their portfolio dropped from 15% last year to 8%.

"Funds are cautious about leverage, given banks themselves are looking to downsize their loan portfolios".

Sophie Javary, Rothschild Paris

DISTRESSED INVESTOR SURVEY

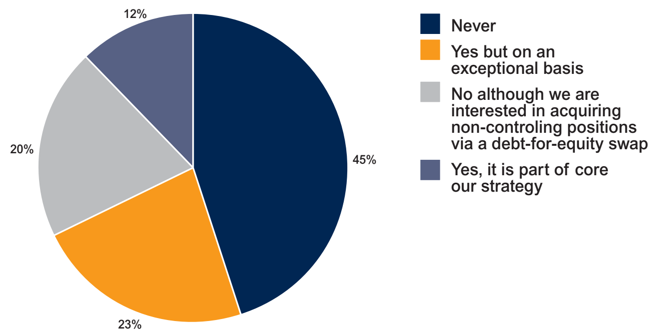
Do you anticipate using leverage in 2009?

- Over three quarters of respondents do not expect to leverage their portfolio in 2009. Of the 23% leveraging their investments, many plan to use less leverage than previous years.

"Investors have made a virtue of necessity, rejecting leverage when there is in fact little to be had."

Richard Nevins, Cadwalader

Do you seek equity control of companies with a 'loan-to-own' strategy?

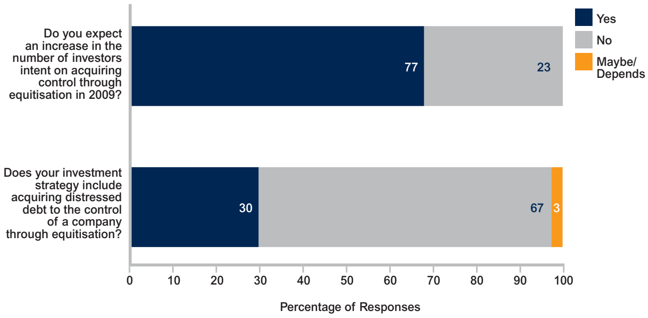


- In total, 35% of respondents actively seek to control companies with a loan-to-own strategy. A third of respondents said securing ownership from buying up debt is part of their core strategy.
- A further 20% of respondents do not seek control of businesses, but try to acquire non-controlling stakes via debt-for-equity swaps.

"Loan to own strategies amongst distressed funds remains relatively low (particularly at the larger end of the market), possibly reflecting the time intensity and capital commitment required to take control of and turnaround a distressed business."

Simon Granger, FTI Consulting Inc

Equitisation

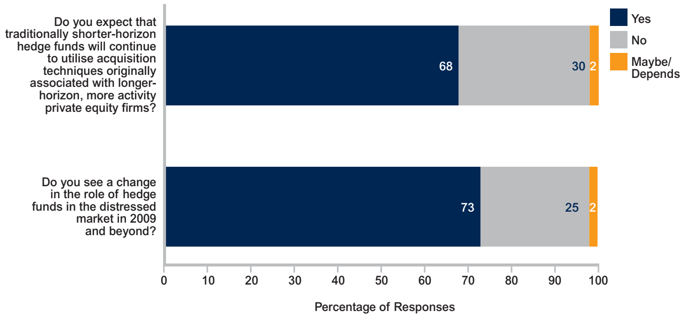


- With more companies expected to enter distressed territory in 2009, 77% of respondents expect more investors' debt to be converted into equity in the coming 12 months.
- More specifically, only 30% of respondents plan to pursue a strategy of acquiring distressed debt with a view to securing company control through equitisation.

"Where stakeholders are prepared to accept the "new world", there is potential for radical restructurings involving equitisation which achieve substantive de-leveraging and avoid the cost and distraction of recurring complex and lengthy restructuring exercises. In an environment where balance sheet strength will be a key source of competitive advantage for corporates, stakeholders should avoid the temptation to allow only "sticking plaster" restructuring solutions that leave excess leverage in place and which are therefore not durable."

Barney Whiter, FTI Consulting Inc

Hedge Funds



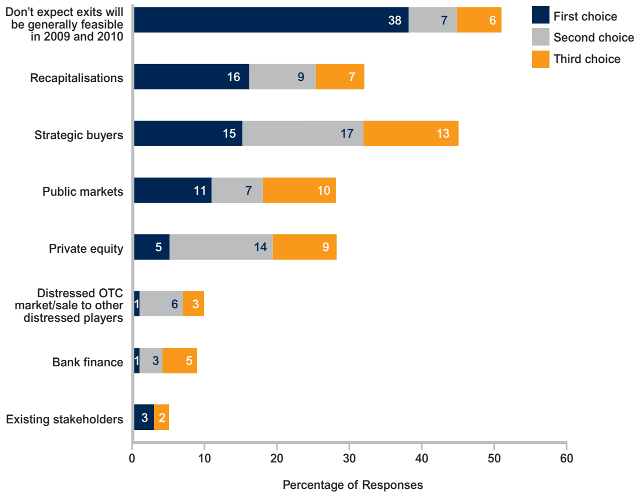
- Hedge funds are expected to continue to use acquisition techniques associated with longer-horizon investors by 68% of respondents. This number is a drop on last year's 76%.
- The role of hedge funds in the distressed market in 2009 will change, according to respondents. Many highlight that hedge funds will suffer in 2009; thus their involvement diminishing as their numbers decline. Some respondents note the ground lost to distressed funds and private equity firms.
- A smaller number of respondents chose to highlight hedge funds' adaptability to the current environment. "Hedge funds are morphing into private equity funds," said one respondent.

"There will be some real winners who emerge from the turmoil - bigger established funds are likely to be in a better position to exploit market opportunities."

Alistair Dick, Rothschild London

DISTRESSED INVESTOR SURVEY

What do you expect to be the primary source of liquidity for long-term exits from your European distressed investments (please choose the top 3)?

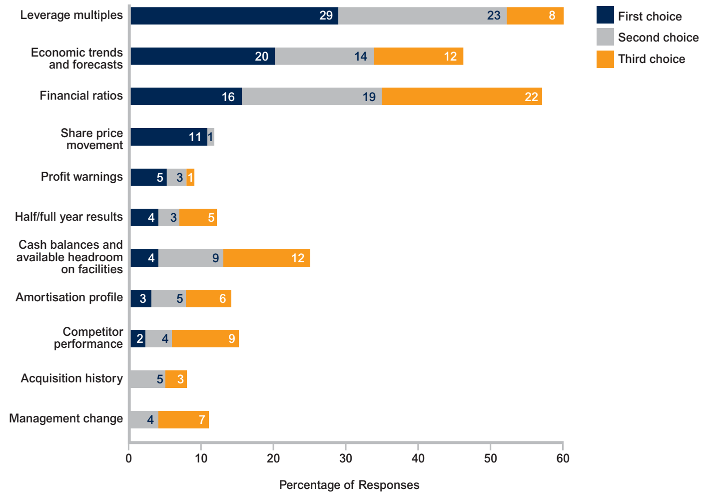


- Half of respondents do not anticipate exits from long-term distressed investments in 2009 and 2010. This was the first response from 38% of those questioned.
- Recaps and exits from strategic buyers rank next in line with respondents, with a 32% and 45% share of responses respectively. The public markets and private equity remain viable options for respondents to exit distressed investments in 2009, but the results indicate these will unlikely be a primary source of liquidity.
- "Exits will be difficult in the next 18-24 months. As stock markets tank even more there is no incentive to sell to the stock exchange or strategic buyers at distressed valuations," said one respondent.

"Funding for buyers will likely remain the key constraint on exits for the remainder of 2009 and into 2010. We would expect to see the use of debt provided by incumbent senior debt providers who will be forced to provide "stapled" financing in order to get exits away, as well as greater use of asset-based lending in asset-rich sectors such as manufacturing and distribution.
We expect to see the return of the strategic buyer in due course as the better capitalised corporate buyers start to pick up distressed assets at prices which will eventually prove irresistible. In this environment, balance sheet strength will be a key source of competitive advantage and there have recently been a number of larger quoted corporates raising further equity to add to their acquisition "power".

Paul Smith, FTI Consulting Inc

What are the key metrics that you are tracking to determine potential investment opportunities (please choose the top 3)?

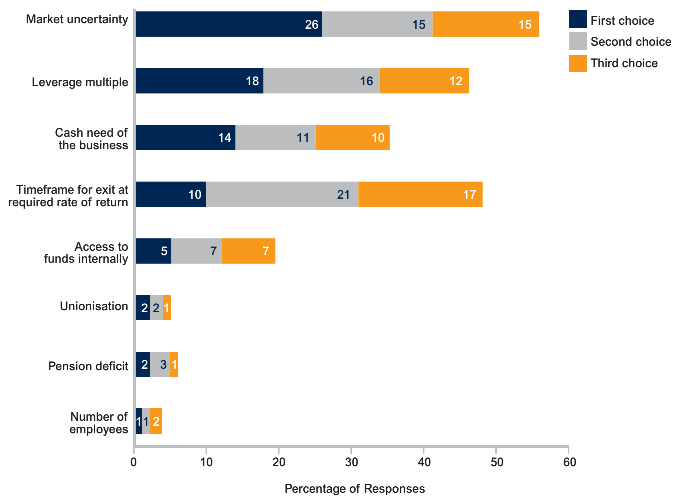


- Respondents use leverage multiples as a key metric to identify potential investment opportunities. Leverage plays a critical role determining investment, chosen by 60% of respondents overall and by 29% in the first instance.
- Respondents also use economic trends and forecasts in their evaluations. Financial ratios are ranked well overall ("underlying company performance is key," said one respondent), chosen by 56% of those questioned, while share price movements are the first choice for just 11% of respondents.
- "I think there will be a need to strike a balance between qualitative and quantitative metrics this year," said one respondent. "It will not be easy to realise where the more interesting opportunities lie - companies could still be posting double digit growth during these harsh times, but there is a real need to look deeper at all factors before making cautious investments," he noted.

"At the heart of the problem is the lack of liquidity in the market. Even if Distressed Investors have cash allocated for distressed situations they are being very cautious and may not be able to find debt funding to support their transactions".

David Morris, FTI Consulting Inc

What are the main issues that will prevent your investment in distressed businesses (Please choose the top 3)?



- Market uncertainty is most likely to prevent investment in distressed opportunities by respondents, with 55% choosing it overall, and 26% as their first choice. "In current times, it is increasingly difficult to come up with reasonable projections for a business going forward," said one.
- Leverage multiple and the cash needs of a business also influence the decision-making process for 46% and 35% of respondents respectively. Finally, situations with no clear exit timeframe did not appeal to respondents, with a 48% share of responses.

"What is causing everyone the biggest challenge is the volatility and unpredictability of every market. It's difficult to make decisions, until some normality returns."

Andrew Merrett, Rothschild London

ROTHSCHILD

Rothschild Restructuring

Selected 2008 transactions

McCarthy & Stone plc	Alitalia S.p.A.	Conergy AG	Sea Containers
Adviser to Company	Adviser to Commissioner	Adviser on restructuring of existing €730m credit facilities and €240m new bridge financing	Adviser to Sea Containers (in Chapter 11) on valuation and expert testimony
Current	2008	2008	2008

Seat Pagine Gialle S.p.A.	IMO Carwash	Autodistribution S.A.	BST Safety Textiles
Adviser to Company	Adviser to Company	Adviser to Company on €530m LBO	Adviser to Lenders
Current	Current	Current	2008

Amtel Vredestein N.V.	Akerys	Promociones Habitat S.A.	SkyePharma
Adviser to Company on financial restructuring and strategic options	Advisor to the ad-hoc bondholder committee €300m	Adviser to Company	Adviser on the renegotiation of the 2024 and 2025 convertible bonds
Current	Current	Current	2008

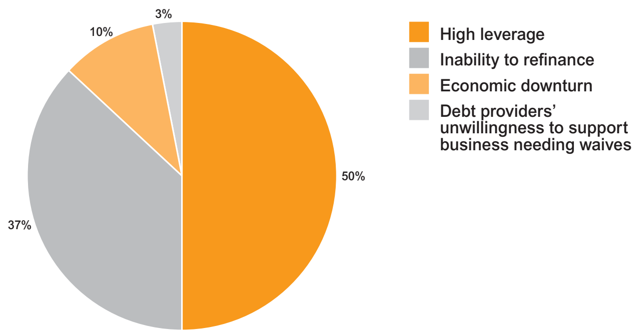
European coverage
Company and creditor representation
Restructuring, distressed M&A, new money

Frankfurt London Madrid Milan Mumbai New York Paris Singapore

PRIVATE EQUITY SURVEY

In December 2008 Debtwire spoke to 30 different European private equity investors to gauge some sponsor views on restructurings. Interviews were conducted over the telephone, with respondents guaranteed anonymity.

What do you expect to be the largest contributing factor in triggering restructurings for private equity portfolio companies?



- Private equity respondents identify two factors as the most likely to trigger restructurings for portfolio companies: high leverage (50%) and the inability to refinance (37%). In addition, most respondents said the economic downturn will play a part in exacerbating the need to restructure.

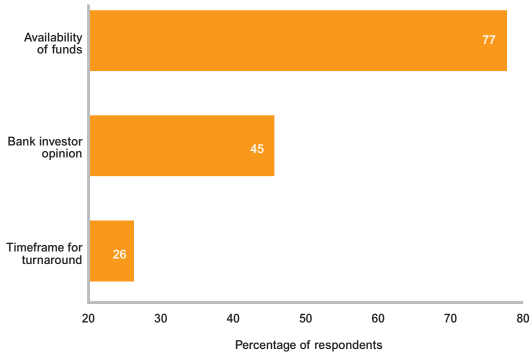
"Against the backdrop of falling asset values, those companies that have over leveraged will get themselves into extreme difficulties. There is no room for error, requests for covenant waivers need to be well thought through and balanced with a full understanding of the private equity funds appetite to support the portfolio company going forward."

Nick Crossfield, FTI Consulting Inc

"PEHs will take active roles in working with their investee companies to make sure operational measures are implemented and real financial rigour employed."

Sophie Javary, Rothschild Paris

What are the greatest challenges to achieve corporate restructurings?



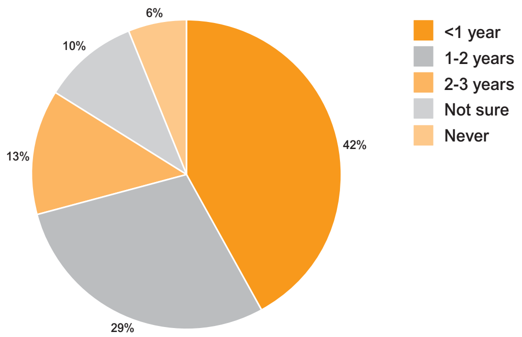
- The majority of respondents point to the availability of funds as the greatest challenge in restructuring. In addition to liquidity, 45% also highlight the importance of bank investor opinion to effect restructurings.

"This highlights the need for corporates undergoing a restructuring to be focussed on cash, to conserve current resources and to ensure visibility over future requirements. With lenders putting limited new money to work, much of the responsibility for cash generation will lie with the corporate, to optimise its working capital position and liquidate non critical assets"

Nick Crossfield, FTI Consulting Inc

PRIVATE EQUITY SURVEY

When do you expect normality to return to credit markets?



- The largest proportion of respondents (42%) are confident the credit markets will become more favorable within a year.
- Remaining respondents are less optimistic, with 29% and 13% expecting normality in 1-2 years and 2-3 years respectively. “There is still too much distrust and uncertainty that balance sheets are clean,” said one respondent.
- According to a number of respondents, the public sector should remain cautious regarding intervention. “The market should be given the opportunity to correct itself for there to be long-term and sustainable recovery,” commented one respondent.
- “What is the definition of normal? I think it will never return to the level prior to the crisis,” said one respondent.

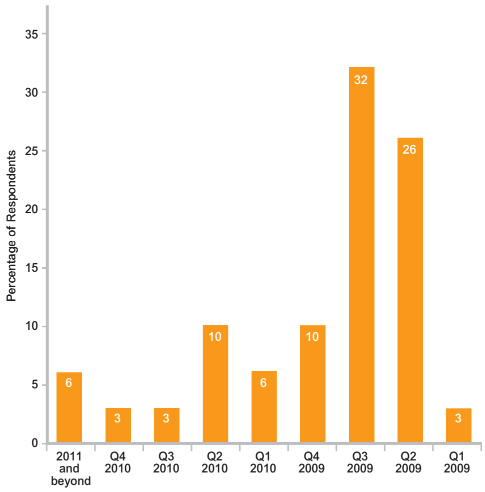
“It seems to me that a return to normality in the credit markets within the next 12 months is at the optimistic end of the most optimistic forecasts. With banks seeking to de-leverage their exposures and insisting on far greater equity participation, we are unlikely to ever see credit markets return to the approach adopted in the last three years.”

Mark Dewar, FTI Consulting Inc

“Is it a question of “when” or “if”? It’s going to take a long time for banks to have the capital strength and risk appetite to approach higher levels of leverage again.”

Richard Millward, Rothschild London

When do you expect the volume of European financial restructurings to reach their peak in the coming three years?

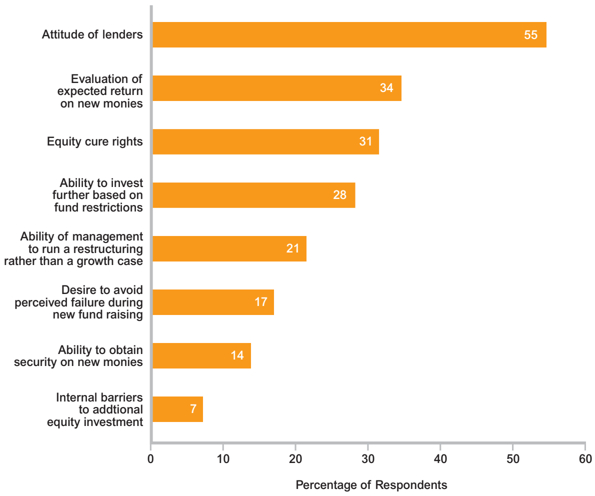


- Private equity respondents are more positive than their trading counterparts, predicting an improvement in the restructuring market after a peak in Q2 (26%) or Q3 (32%) 2009. This contrasts sharply with most hedge funds and prop desk traders, who expect restructurings to peak in Q4 2009 or 2010.

“You would like to think that the private equity houses have their portfolio companies under close watch at this time and should therefore provide us with a more accurate picture of the defaults that might be around the corner. The Q2 and Q3 predictions give little time for equity sponsors to take action to improve underlying business performance and avoid the need to restructure balance sheets.’

Mark Dewar, FTI Consulting Inc

What are the main considerations for investment of new funds in portfolio companies following a covenant breach?



- Respondents highlight a number of key factors when considering investment of new funds following a covenant breach. Foremost, is the attitude of lenders, chosen by 55% of those questioned. As one respondent notes, "panic, fear and a lack of liquidity are making banks very cautious". "It's different and better with private lenders," said another.
- The evaluation of expected returns on new monies ranks high for 34% of respondents, and equity cure documentation for 31%. Accompanying these responses, however, are caveats around the valuation of existing investments and preparation of a new business plan.

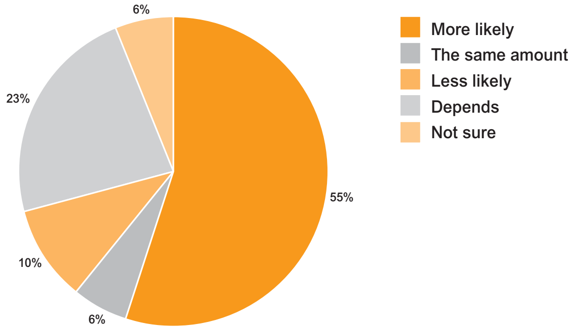
"In evaluating the expected return on new funds invested in portfolio companies, private equity houses will increasingly look at the value and strategic importance of debt buy backs. There would appear to be a renewed focus on partnering with other stakeholders who may be able to offer a new money or asset management solution in the right circumstances".

Nick Crossfield, FTI Consulting Inc

"Any new money is going to be considered on the back of a cautious business plan and faith in the management."

Heinrich Kerstien, Rothschild Frankfurt

Has the change in market conditions made you more likely or less likely to consider injecting additional equity into your own portfolio companies?



- Injecting additional equity into portfolio companies appears is higher on the agenda in 2009. While 23% highlight an equity injection as a possibility subject to additional factors over and above market conditions (idiosyncrasies of the company, sector, absolute necessity), 55% view it as the most likely outcome given the financing constraints of banks.

"The injection of additional equity needs to come with a change in the mindset to drive the restructuring solution through to a conclusion. Private equity houses who are investing in additional skilled financial and operational resource to achieve this will be the ones who survive this recession relatively unscathed".

Nick Crossfield, FTI Consulting Inc

PRIVATE EQUITY SURVEY

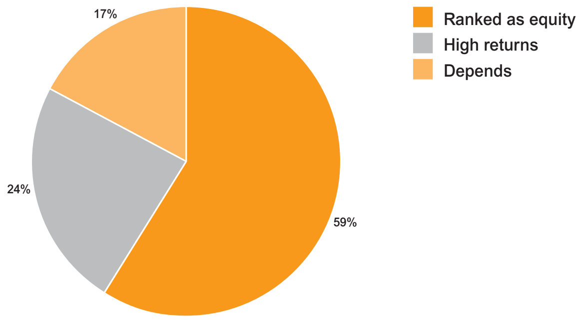
What do you ask of lenders in return for new money?

- Respondents are broadly in two camps. On the one hand, private equity firms request a degree of ongoing flexibility and reasonable terms on conditions. On the other hand, respondents doubt their ability to increase demands given the positioning of many private equity firms. “The only requirement would be to start doing business with us again,” said one private equity firm.

“These responses all seem quite confusing. This confirms the need for private equity portfolio companies to set out a logical request to their lenders which reflects a realistic sharing of the pain and upside potential”.

Martin Kellett, FTI Consulting Inc

Will you expect high returns on new money or rank the injection as equity behind existing debt in the capital structure?

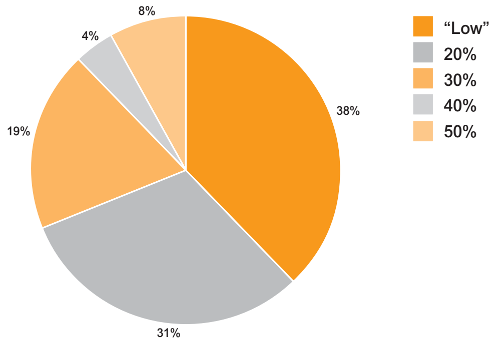


- While a quarter of respondents expect high returns on new money, the majority expect it to sit pari passu with existing equity.

“New money will come at a high price - investors are seeking a full return on new investments, not just as a way of protecting their existing equity”.

Alessio de Comité, Rothschild Italy

What level do you expect to see leverage levels returning to in 2009/2010, and will that be sustainable?



- The majority of respondents expect leverage to remain low in 2009/2010, with 31% expecting debt to make up around 20% of the capital structure.
- Most respondents underline the conservatism that will characterise the market from now on. Leverage is not expected to return to previously levels, respondents said.
- This cautious approach on the part of lenders will make the market more sustainable, according to respondents.

"Leverage will be reviewed against cautious growth in the business plan and only after 2 to 3 years of static performance at best. That means lenders will be reluctant to use higher multiples."

David Resnick, Rothschild New York

How do you see banks financing appetite impacting private equity-owned businesses in the next 12 months?

- Respondents are unanimous in their assessment that banks appetite to finance businesses will remain low for the next 12 months. This will negatively impact deal flow as lenders are restrictive and more selective, respondents said. In particular, larger private equity-owned businesses will be less attractive to banks, as they look at businesses with a better risk/return ratio.

PRIVATE EQUITY SURVEY

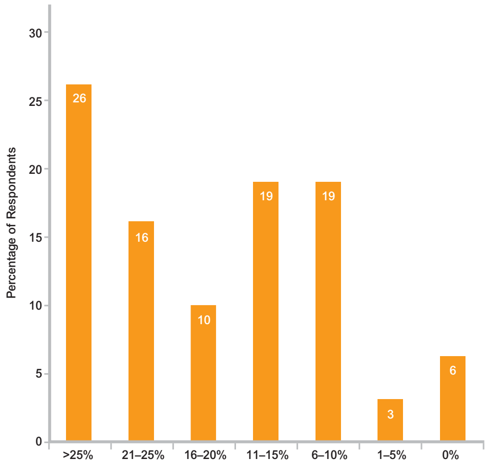
Do you think banks will look to prioritise more conventional deals rather than LBOs and private equity-backed businesses?

- Almost all respondents agree that banks will look to prioritise conventional deals in 2009, while the door to LBO financings remains firmly shut. They point to mid-market deals, helped in part by political pressure to lend to this strata of companies, as well smaller MBOs.

"There is a clear priority growing in banks - to assist core clients, whose business fundamentals are convincing. There will be a much smaller pot for the rest."

Richard Millward, Rothschild London

In a "typical" private equity portfolio, what proportion of investments might be hit by covenant amendments and/or debt restructurings in the next three years?

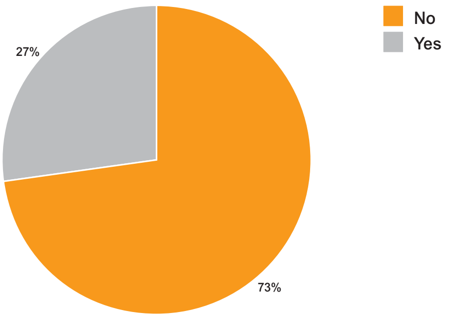


- While a third of respondents are relatively confident private equity investments will face covenant amendments and/or debt restructurings in the next three years, 42% anticipate at least a fifth of their portfolio will be affected.

"It would not be a surprise if this recession caused a much higher proportion of "typical" private equity companies to be hit by covenant amendments and/or debt restructurings (than is suggested by these respondents). There will also be a significant number of mid market private equity portfolio companies failing during the next 3 years".

Martin Kellett, FTI Consulting Inc

Do you expect to play an active role in restructuring non-portfolio companies in 2009?

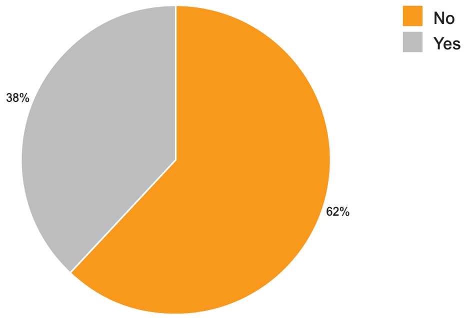


- Only a quarter of our respondents expect to play an active role in restructuring non-portfolio companies in 2009. They identify the UK, Germany, Southern and Eastern Europe as the countries they expect to inhabit, while renewables and general industries will likely be core investment sectors.
- "There are definitely cheap prices and sales; the downturn will push M&A, and non core assets will be divested," commented one respondent.

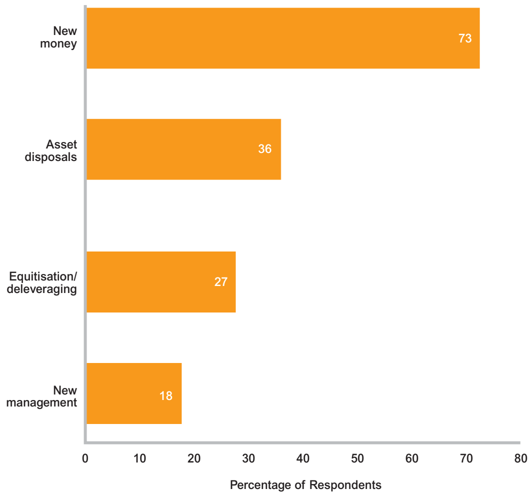
"PEHs will be expected by the banks to play an active role in managing borrowers - otherwise their rationale and share of returns may be questioned."

Andrew Merrett, Rothschild London

Do you expect you may need to restructure one or more of your portfolio companies in the next 12 months?



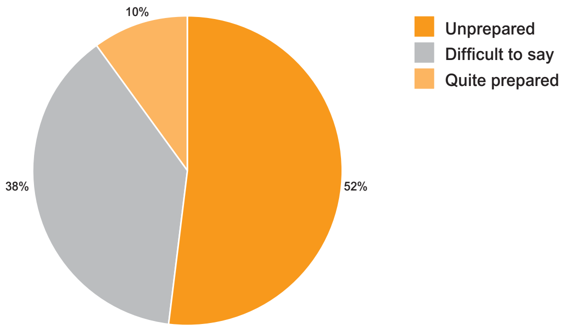
If yes, in what way?



- Almost two-fifths of respondents expect to restructure one of their portfolio companies in 2009, mostly by new money injections. Respondents also anticipate assets disposals and deleveraging manoeuvres to restructure portfolio companies.

PRIVATE EQUITY SURVEY

How prepared do you believe the private equity industry is for the wave of restructurings to come in 2009, and what remedies might you recommend to ensure the greatest returns?



- Many respondents say it is difficult to predict how prepared the private equity industry is for the wave of restructurings in 2009. Strategically conservative or cost conscious investors, or those able to adapt quickly will cope well, say respendents. The majority believe the industry lacks operational experience to carry out effective restructurings.
- Respondents indicate a real need to apply less leverage to businesses, become more risk averse, and retain strong operational management skills.
- "Most private equity firms are not prepared, and neither are the banks, for that matter," said one respondent. "It's new territory for everybody, and we'll have to learn by doing deals, being more careful, and by trying to find people with more experience."

"It is clear from the respondents that the private equity industry is 'unprepared' for the wave of restructurings during 2009. Whilst the remedies may be difficult to predict in this volatile market, what is clear is the need to address issues decisively and seek to influence restructuring strategies rather than have them imposed by the banks".

Martin Kellett, FTI Consulting Inc

What opportunities do you envisage for your firm in the current environment?

- Respondents foresee distressed assets and sellers (46%) and undervalued businesses (31%) as core investment opportunities. Mid-market deals, alternative investments, counter-cyclical acquisitions and listed businesses are all identified as key areas for investment by respondents.

"The fact that these numbers are not higher highlights the challenges currently facing private equity players. With valuations of unlisted businesses likely to hit cyclical lows, there should be many potentially attractive opportunities available. With less than half of the respondents indicating that they intend to consider investment in distressed businesses, there should be major opportunities for those firms that can operate in the distressed space and have the right operational and financial restructuring skills to benefit."

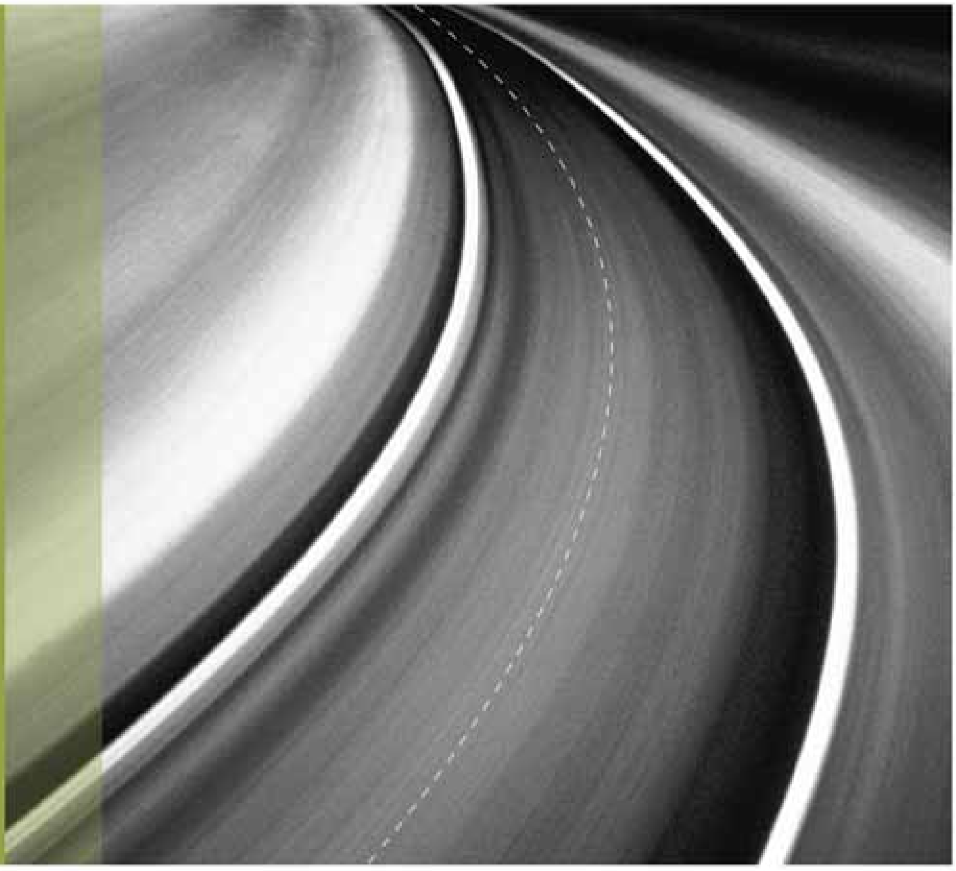
Barney Whiter, FTI Consulting Inc

Are you looking to grow your portfolio through investing in distressed businesses/bolt-on acquisitions in the same sector?

- In total, 53% of respondents plan to invest in bolt-on acquisitions, while 46% propose investments in standalone distressed acquisitions.

"There is a need in PEHs for a new set of skills. Shareholders now need to manage cashflow and debt liabilities. Its about survival to get to growth".

Alistair Dick, Rothschild London



COMPANIES SURVEY

In December 2008 Rothschild and FTI spoke to seven European corporates that have been through a restructuring within the past year. Interviews were conducted over the telephone, with respondents guaranteed anonymity.

What were the key successes and difficulties during and post restructuring?

A number of success stories emerge from the restructurings our respondents were involved in. The strength of the relationships and consensus with the various banks and credit providers is mentioned by a number of respondents, along with the newfound understanding those creditors now have of the business.

Some respondents were surprised by how confidence in the company could be quickly restored, in one case "quickly allowing the company to outperform the business plan". Shareholder involvement appears key to this – by moving quickly; by demonstrating support with the injection of new money when appropriate, and by taking an active role in the restructuring.

Speed of action appears to be another common factor in success, with a number of respondents praising situations and stakeholders that allowed the process to complete quickly, and thus permitting management to get back to running the business. Similarly respondents criticised protracted negotiations and creditors who stalled.

As touched on above, a major difficulty our respondents found was the fact restructuring is a time consuming process that obviously distracts attention from running the business. This can be followed by the challenge of channelling the management team's energy post restructuring. As one respondent noted: "the calm after the storm is welcome, but it brings with it a backlog of tasks and priorities which were sidelined during the transaction".

Other difficulties mentioned by respondents included communication, brought about by the uncertainty of what stakeholders wanted to achieve. This also led to nervousness on the part of management.

Finally, a number of respondents highlighted the difficulties post restructuring of managing the business with more challenging operational restrictions, and of dealing with the costs of restructuring (for example, fees).

How did you find the approach and objective during the restructuring process of different creditor types?

Almost all of our respondents found the approach of the cornerstone relationship banks supportive during their restructuring, and key to a successful outcome. Some were surprised by the lack of aggression shown during negotiations, and noted that most were keen to ensure a deal got done.

Distressed investors and hedge funds, whilst not branded as obstructive or overly aggressive, were more obviously self interested in the eyes of our respondents. One respondent noted that these creditors made it harder and more expensive for their company, as they were "much more prepared to hold out for the best deal right to the wire compared to relationship lenders". Another mentions that hedge funds were "purely focused on maximizing their percentage of the equity."

Which other operational stakeholders played a key role?

Of the operational stakeholders mentioned by respondents, bonding and credit insurers were generally noted as being important for maintaining stability during the restructuring. However, while there was praise for the support shown on the bonding side, credit insurers drew some criticism for using "any excuse to reduce exposure and cut credit as a principle".

Suppliers were not mentioned as playing a key role in negotiations, while one respondent noted that the lack of involvement by the Unions significantly reduced the complexity of negotiations.

What role did the shareholders play? What expectations did management have on injection of new money and/or expertise? How active were shareholders in the restructuring?

Shareholders, perhaps unsurprisingly, were identified by the majority of respondents as being vital to and active in their restructurings, and their actions generally drew praise from the management we spoke to.

Most importantly, shareholders' injection of new capital appears to underpin the supportive behaviour of the other stakeholders during the restructuring, indicating confidence in the business and the management.

The timing of the support from shareholders also appears to be important, with a number of respondents suspecting that if their cash or expertise had been more evident sooner, the negotiations would have been shortened.

Where shareholders took a more hands-on role in the restructuring, there appears to be most praise. One respondent was impressed that his shareholders were actively involved in all discussions with creditors, while another explained that the shareholders' decision to put a new management team in provided "credibility and confidence in the business plan".

However, shareholders drew criticism from two respondents. One would have liked his shareholders to put up more new cash to encourage lenders, while another noted that "had [they] spent more time during the good times understanding the business then they would have been better placed to deal with the issues when difficulties arose".

In most cases, the role of the shareholders has appeared to diminish post restructuring.

Who do you think has the most responsibility to put up new money?

While most respondents believe that it is the shareholders' responsibility to put new money into the business "if they still believed in the strategy", one respondent remarked that "all are responsible for ensuring the business is fully funded".

Do you think that the role of Chief Restructuring Officer is a critical appointment, and in which cases?

Respondents are divided on the necessity of appointing a CRO. If management has sufficient capacity, expertise or experience of restructuring and turnaround situations, the role is not deemed critical. One such respondent went on to distinguish between operational and financial restructurings, arguing that the latter is less likely to require a CRO function.

Respondents were conscious, however, of the impact a restructuring has on the CFO and finance functions, and note that if a CRO is not to be appointed, external accounting/controlling staff might be brought in to free up the CFO's time.

Respondents in favour of a CRO highlighted the role as 'ringmaster' and an independent voice during heated negotiations.

Did you pursue raising alternative finance to repay existing creditors?

Only one of our respondents pursued raising alternative finance to repay existing creditors, but the attempt was unsuccessful. That company tried a rights issue to pay bond holders, but it failed.

"The lender community at the moment is a patchwork quilt of attitudes and preferences. Lenders want different things between the mark-to-market US banks, the re-capped European banks, the non-recapped European banks, the CLOs, mezz funds - building consensus is extremely difficult. This is opening the door to debt buybacks, getting around the logjam traditional collective bargaining by the banks is creating".

Andrew Merrett, Rothschild London

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