

PRIVATE & CONFIDENTIAL

An Update on the European Leveraged Debt Market



24 March 2008

Overall market environment

Market is suffering from liquidity crisis, not yet a credit crisis with near-term rebound unlikely

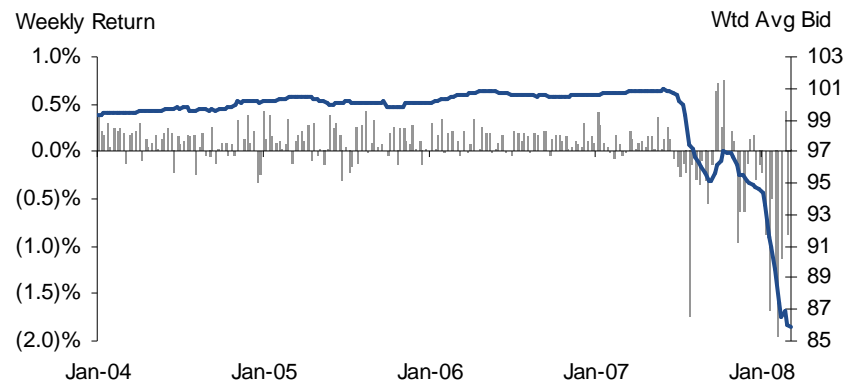
Over €100 billion of European leveraged debt is trading at over 12% yield

- c2/3 of is performing senior secured debt
- c1/3 is subordinated debt

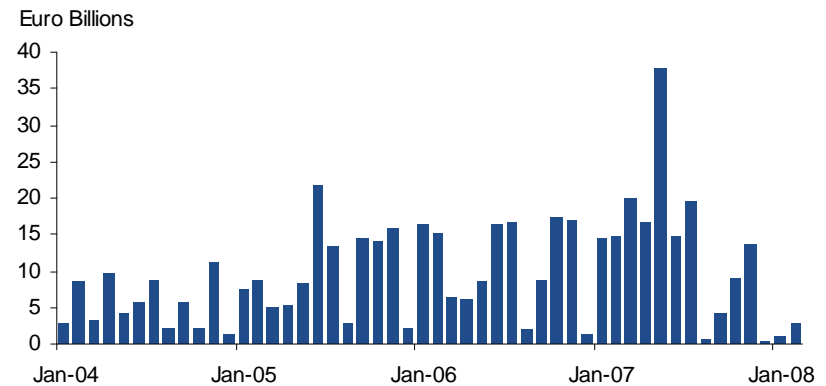
Outlook remains weak, with market digesting unprecedented leverage unwind

- Further reduction anticipated with increasing fragility of finance system
- Significant overhang of lowly valued/high yielding secondary supply
- Weak technicals have yet to feed through to credit issues
- Deals continue to get done but as clubs with minimal syndication

European Snr Sec Loans Weekly Return & Bid



Monthly European Senior Secured Issuance



Note average interest income is +11 bps per week
Source: S&P LCD issuance data through Feb-08 and ELLI through to 13-Mar-08

HY markets continues to weaken

HY market expected to remain shut through late summer of 2008

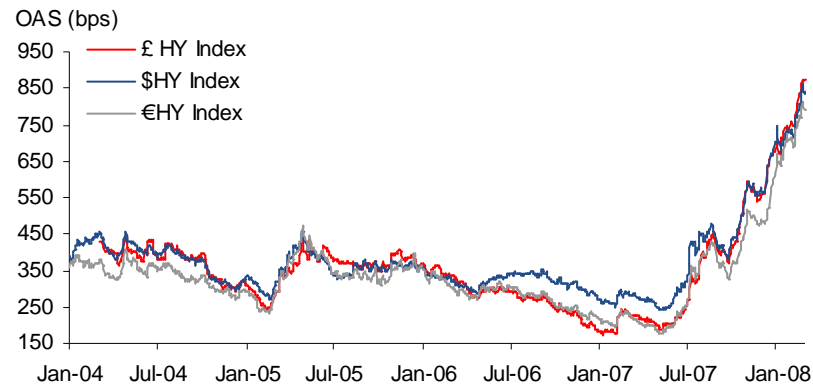
The high yield bond markets continues to weaken

- Pricing across all HY markets continues to widen
- Market driven by technical unwinding of leverage
- Sellers continue to outweigh buyers, little to no differentiation by credit

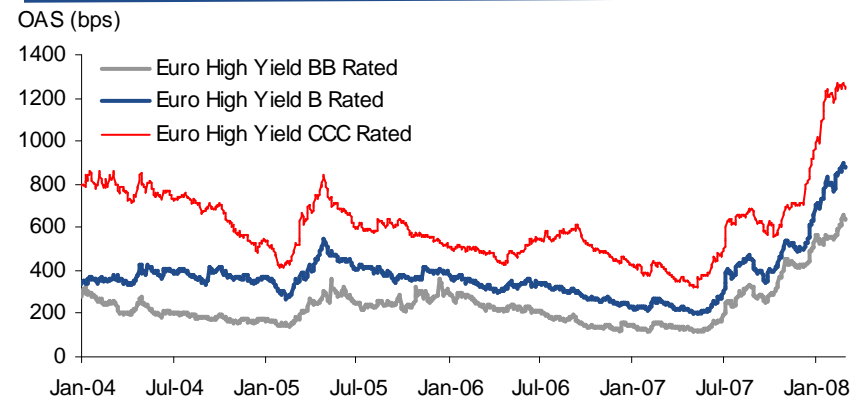
There have been no new issues in Europe since Jul-07 (Interagen)

- The European market remains firmly shut
- New issuance is instead being sold into private mezz market

Euro, Sterling and Dollar HY Indices*



Euro HY Yield by Rating*



* OAS = Option adjusted spread over government bonds in bps
Source: Merrill Lynch indices through 20-Mar-08

Mezz market



Mezz market remains open and active, 2nd Lien more difficult

Mezz market shows some resilience

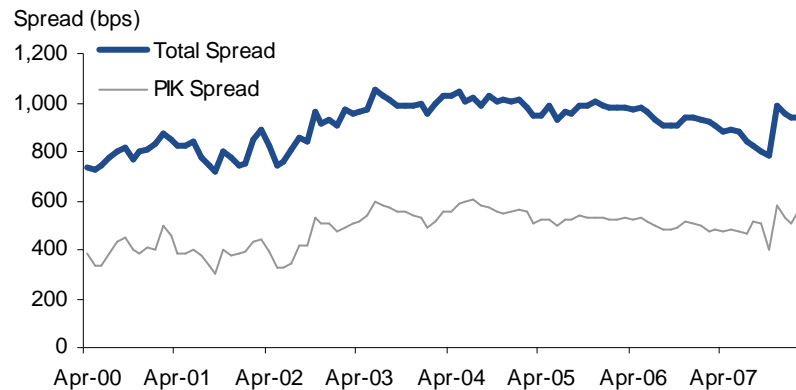
- Investor base generally used little leverage with locked-in longer-term funding
- Specialist mezz investors have recently been collecting more money*
- With lower deal flow, investors still look to primary to get diversification

Second Lien much weaker as more dependent on leveraged fund investors

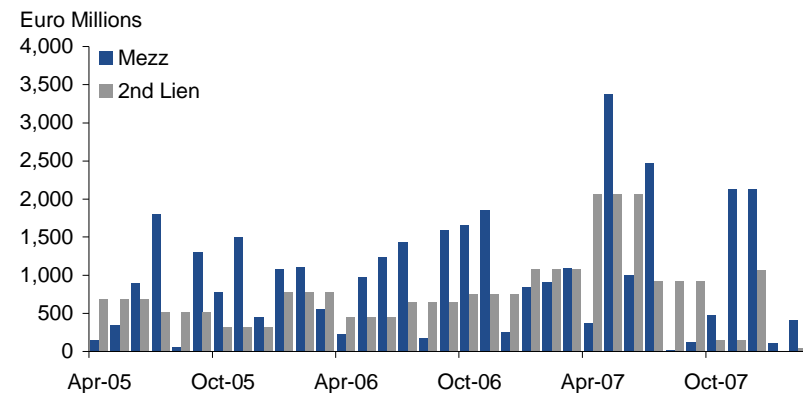
Pricing

- 2nd Lien has now widened to E+5-6, with mezz out to E+10-12
- Mezz warrants/equity slices again more common for “difficult” deals

Average European Mezz Margins over Euribor



European Second Lien and Mezz Issuance



Spreads are rolling 3 month averages and Second Lien monthly volume is averaged for the quarter
Source: S&P LCD survey data through Feb-08

* eg: Feb-08 £175m rights issue by Intermediate Capital Group plc

Recent deal benchmarks

Senior leverage is now increasingly closer to 3.0x than 3.5x

Total leverage is now 4-5x

Stork NV – Dutch manufacturing LBO, allocated Mar-08

- Candover P2P, bought at c10x EBITDA with 55% equity contribution
- 7-9Y €622m senior E+275-350 sold at par with 100-125 bps fee
- 9.5Y €291m mezz E+1075, NC1, 104,103,102,101 call sold at par
- Senior leverage 3.1x, dropping to 2.4x post disposal of food systems
- Junior leverage 4.3x, dropping to 3.7x post disposal of food systems
- Essentially a club deal with big MLA group including Dutch relationship banks

Firth Rixon – a well seasoned and liked UK manufacturing LBO, allocated Dec-07

- Oak Hill Capital Partners secondary LBO with 40% equity contribution
- €650m drawn senior E+275-350 sold at 99.5, with additional fees of 60-75 bps
- €250m mezz sold at 99.5 but undisclosed pricing believed at “just inside E+1000”
- Senior leverage 3.9x, junior leverage 5.6x

Augusta & Co contacts

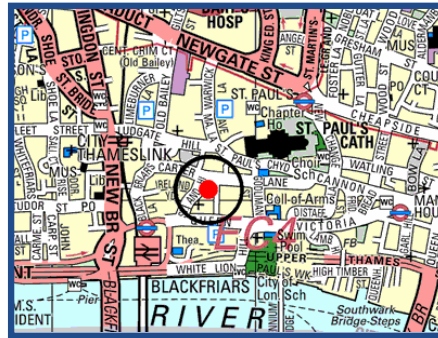


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